

SOUTH AUSTRALIA

Report
of the
Auditor-General
for the
Year ended 30 June 2005

Tabled in the House of Assembly and ordered to be published, 17 October 2005

Fourth Session, Fiftieth Parliament

PART B
Volume IV

By Authority: G. K. Parker, Acting Government Printer, South Australia

2005

Report of the Auditor-General 2004-05

TABLE OF CONTENTS TO VOLUMES I, II, III, IV AND V

Page

VOLUME I

Accounts of Public Authorities	1
Adelaide Convention Centre Corporation	3
Adelaide Entertainments Corporation	18
Adelaide Festival Centre Trust.....	32
Adelaide Festival Corporation	51
Department for Administrative and Information Services.....	61
Government Workers Rehabilitation and Compensation Fund	114
Art Gallery Board	121
Attorney-General's Department.....	141
Residential Tenancies Fund	184
Public Trustee	193
Auditor-General's Department.....	234
Construction Industry Training Board	248
Department for Correctional Services.....	261
Country Fire Service Board	288
Courts Administration Authority	307

VOLUME II

Department of Education and Children's Services	335
Emergency Services Administrative Unit.....	391
Department for Environment and Heritage	408
Environment Protection Authority	459
Department for Families and Communities	485
Flinders University of South Australia.....	523
Department of Further Education, Employment, Science and Technology	568
Department of Health	590
History Trust of South Australia.....	635

VOLUME III

HomeStart Finance	655
Judges' Pensions Scheme	678
Land Management Corporation.....	687
Legal Services Commission.....	714
Libraries Board of South Australia.....	732
Local Government Finance Authority of South Australia.....	754
Lotteries Commission of South Australia.....	771
Motor Accident Commission	793

Report of the Auditor-General 2004-05

TABLE OF CONTENTS TO VOLUMES I, II, III, IV AND V

	Page
Museum Board	818
Parliamentary Superannuation Scheme.....	836
Police Department.....	847
Police Superannuation Scheme	875
Department of the Premier and Cabinet	890
Targeted Voluntary Separation Package Schemes	917
Department of Primary Industries and Resources.....	922

VOLUME IV

SA St John Ambulance Service Inc	969
South Australian Aboriginal Housing Authority	990
South Australian Asset Management Corporation	1009
South Australian Community Housing Authority	1026
South Australian Film Corporation	1049
South Australian Forestry Corporation	1065
South Australian Government Captive Insurance Corporation	1087
South Australian Government Financing Authority.....	1122
South Australian Housing Trust.....	1145
South Australian Metropolitan Fire Service	1147
South Australian Motor Sport Board	1165
South Australian Superannuation Board.....	1180
South Australian Superannuation Scheme	1185
Southern State Superannuation Scheme.....	1204
South Australian Tourism Commission	1220
South Australian Water Corporation	1238
State Electoral Office	1272
State Opera of South Australia	1290

VOLUME V

Superannuation Funds Management Corporation of South Australia	1303
Department of Trade and Economic Development	1336
TransAdelaide.....	1364
Department for Transport, Energy and Infrastructure	1389
Department of Treasury and Finance	1443
University of Adelaide.....	1476
University of South Australia	1516
Department of Water, Land and Biodiversity Conservation	1554

Appendix

Treasurer's Financial Statements (Statements A-L)	
---	--

VOLUMES I, II, III, IV AND V

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.

Agency	Matter	Page
Adelaide Festival Centre Trust	Control Environment.....	34
	Review of Computing Environment and Operations.....	35
	Solvency - Current Assets and Liabilities.....	37
Administrative and Information Services — Department for	CaseMan (Forensic Branch).....	70
	Changes to Functions and Structure.....	62
	Complete Human Resource Management System (CHRIS).....	71
	Contract Management.....	65
	Facilities Asset Management Information System (FAMIS).....	66
	Governance and Risk Management.....	64
	Motor Vehicle Fleet Finance Lease.....	72
	Qualified Audit Opinion.....	63
	SACREDD DNA Database System (Forensic Science).....	70
	Telecommunication Services Agreement.....	68
	Attorney-General's Department	Classification of Expenditure.....
Classification of Revenue Recoveries.....		143
Crown Solicitor's Trust Account.....		143
Correctional Services — Department for	Institutional Rostering System.....	267
	Review of Corporate Governance and Risk Management.....	262
	Review of General Control Environment.....	266
Courts Administration Authority	E-Lodgement Facility.....	309
Education and Children's Services — Department of	Bank Reconciliations.....	339
	Computer Information Systems and Environment - Management and Control.....	344
	Employee Attendance Records.....	337
	Qualified Audit Opinion.....	337
Emergency Services Administrative Unit	Changes to Functions and Structure.....	392
	<i>Fire and Emergency Services Act 2005</i>	392
	Overall Comment on the Results of the Audit.....	393
Environment and Heritage — Department for	Accounting for Crown Land.....	410
	Computer Information Systems (CIS) Environment.....	411
	Crown Lands.....	415
	Fire Management Program.....	415
	Qualified Audit Opinion.....	409

Agency	Matter	Page
Environment Protection Authority	Changes to Functions and Structure	460
Families and Communities — Department for	Administration of Concessions.....	490
for	Assets and Liabilities Transferred to the Department.....	493
	Budget and Financial Management Consultancy.....	488
	Financial Operations of Child, Youth and Family Services (CYFS).....	491
	Funding to Non-Government Organisations.....	488
Health — Department of	Budget and Financial Management Consultancy.....	592
	Changes to Functions and Structure	590
	Commentary on Computer Information Systems (CIS) Environments	596
HomeStart Finance	Asset Quality - Provision for Doubtful Debts.....	659
	Distributions to Government	660
	Loans and Advances	659
	Net Cash Flows	661
	Net Interest Revenue.....	657
Land Management Corporation	Industrial Commercial Properties.....	695
	Mawson Lakes Government Infrastructure Project	694
	Port Adelaide Waterfront Redevelopment	694
Libraries Board of South Australia	Net Result from Ordinary Activities	736
Lotteries Commission of South Australia	Computer Processing Environment	772
	Distributions to Government	775
	Sales Revenue	774
Motor Accident Commission	Investment Result	797
	Operating Result	797
	Outstanding Claims	798
	Solvency Level.....	799
	Underwriting Result	796
Parliamentary Superannuation Scheme	Transfer to Consolidated Account and Other Schemes.....	838
Police Department	Capture Adjudication and Reporting System (CARS)	849
Premier and Cabinet — Department of the	Department Restructure.....	890
	Matters Raised with the Department.....	891
	Targeted Voluntary Separation Package Schemes.....	917
Primary Industries and Resources — Department of	Cash at Bank Reconciliation Methodology	924
	Completeness of the General Ledger.....	924
	Development of Policies and Procedures.....	925
	Financial Systems and Processes Review.....	930
	Review of Accounts Payable Processing.....	926
SA St John Ambulance Service Inc	Ambulance Cover Scheme	975
	Withdrawal of the Priority in Australia of the Order of St John.....	975
South Australian Community Housing Authority	Capital Funding to Community Housing Organisations.....	1033
	Capital Program Expenditure.....	1028
	Housing Reform	1029
South Australian Forestry Corporation	Distributions to Government	1070
	Internal Control Framework.....	1067
	Qualified Audit Opinion.....	1067
	Valuation of Forest Assets	1068

Agency	Matter	Page
South Australian Government Captive Insurance Corporation	Investment Revenue/Expenses	1091
	Net Claims Incurred.....	1090
	Outstanding Claims	1092, 1094
South Australian Government Financing Authority	Capital and Distributions	1126
	Common Public Sector Interest Rate (CPSIR).....	1127
South Australian Housing Trust	Inventory and Fixed Asset Work in Progress	1146
	Status of Financial Statements.....	1145
South Australian Metropolitan Fire Service	<i>Fire and Emergency Services Act 2005</i>	1148
South Australian Motor Sport Board	Qualified Audit Opinion.....	1167
South Australian Superannuation Board	Governance and Risk Management	1182
South Australian Superannuation Scheme	Funding of Benefit Payments.....	1188
South Australian Water Corporation	Acquisition of Land at Victor Harbor	1241
	Contract Management and Procurement.....	1240
	Contributions to the State Government	1245
	Revenues from Ordinary Activities	1242
Southern State Superannuation Scheme	Contribution Revenue	1206
State Opera of South Australia	The Ring	1292
Superannuation Funds Management Corporation of South Australia	Asset Classes.....	1308
	Income from Investments	1306
	Return Performance by Asset Class.....	1310
	Return Performance by Product.....	1310
Trade and Economic Development — Department of	Defence Unit – Air Warship Destroyers.....	1343
	Transfer of Administration of Industry Assistance Contracts.....	1343
TransAdelaide	Cessation of Operations - Austrics	1372
	Contract Income - Financial Dependence.....	1369
	Contract to provide Passenger Transport Services	1364
	Corporate Governance and Risk Management	1366
	Joint Venture Relationship	1372
	Procurement Review	1367
Transport, Energy and Infrastructure — Department for	Changes to Functions and Structure.....	1389
	DRIVERS Review	1393
	Matters Raised with the Department.....	1391
Treasury and Finance - Department of	Government Accounting and Reporting Branch.....	1446
University of South Australia	Qualified Audit Opinion.....	1518
Water, Land and Biodiversity Conservation — Department of	Control Environment.....	1557
	Fixed Assets – Asset Management	1558
	<i>Natural Resources Management Act 2004</i>	1564
	Review of Corporate Governance and Risk Management.....	1556
	Save the River Murray Fund.....	1564
	Water Information Licensing Management Application.....	1558

SA ST JOHN AMBULANCE SERVICE INC

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

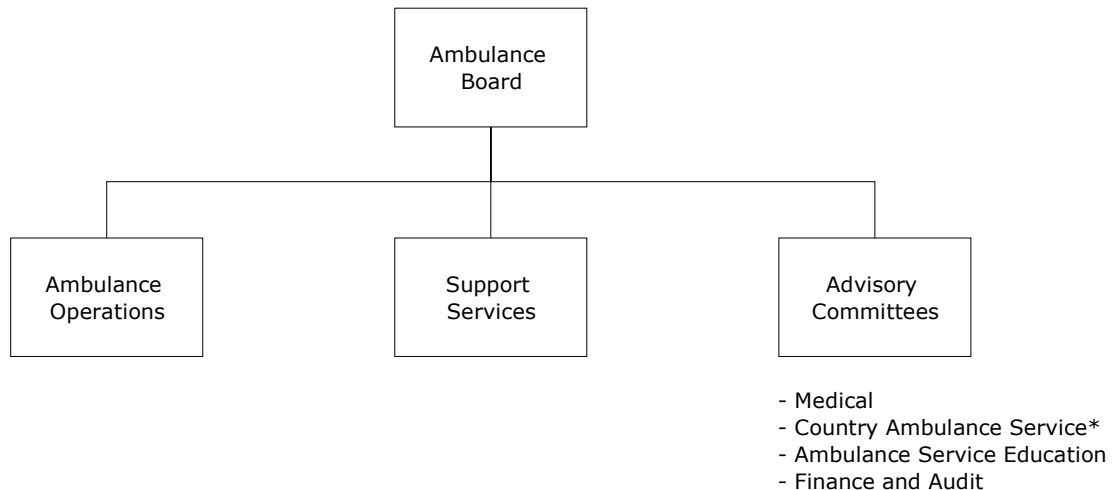
SA St John Ambulance Service Inc (the Ambulance Service), is an incorporated association established pursuant to section 11 of the *Ambulance Services Act 1992* (the Act) as a result of a joint venture agreement between the Priory in Australia of the Order of St John and the South Australian Minister for Health. In January 1999 the Priory's authority to nominate and appoint directors to the Ambulance Board was delegated to the Minister for Health.

Functions

The functions of the Ambulance Service are to provide pre-hospital patient care and ambulance transport as part of the State's health and emergency services.

Structure

The structure of the Ambulance Service is illustrated in the following organisation chart.



* A requirement under the *Ambulance Services Act 1992*.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 14(2) of the *Ambulance Services Act 1992* provides for the Auditor-General to audit the accounts of the Ambulance Service in respect of each financial year. Furthermore, subsection 14(3) of the Act provides for the application of Part III of the *Public Finance and Audit Act 1987* (ie Audit Provisions) to the Ambulance Service, as if it were a public authority within the meaning of the Act. Subsection 14(4) of the Act provides that Division II (Accounts and Audit of Prescribed Associations) of Part IV of the *Associations Incorporation Act 1985* does not apply to the Ambulance Service.

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 Ambulance Service 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 2004-05, specific areas of audit attention included:

- budgetary control and management reporting
- accounts payable
- payroll
- ambulance transport revenue
- Ambulance Cover revenue
- general ledger processing.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the SA St John Ambulance Service Inc as at 30 June 2005, 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 SA St John Ambulance Service Inc 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 bank reconciliations and leave processing as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the SA St John Ambulance Service Inc have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. Major matters raised and the related responses are considered herein.

Bank Reconciliations

In June 2005 Audit noted that the Ambulance Service had not adequately reconciled the SAAS Operating Account during 2005. Significant variances between the monthly bank statement and the cash balance recorded in the general ledger for August and December 2004 remained unexplained.

The Audit findings were communicated to the Ambulance Service who conducted a comprehensive review of reconciliation procedures. The review established that satisfactory completion of the final bank reconciliation was dependent upon the reconciliation of clearing and holding accounts. It established that prior to the review, the reconciliations of the clearing and holding accounts were not completed before the final bank reconciliation was prepared. As a consequence reconciling items in the final bank reconciliation, which related to the clearing and holding accounts, could not be substantiated.

The Ambulance Service has subsequently developed a reconciliation procedure which identifies all prerequisite reconciliations required to be completed prior to the preparation of the monthly bank reconciliation. The SAAS Operating Account was successfully reconciled as of 30 June 2005.

Leave Processing

Audit observed that the Ambulance Service does not have an effective control in place to check that leave taken by non-operational and country operational staff is reflected in the CHRIS payroll system. Non-operational and country operational staff represent approximately 50 percent of all Ambulance Service employees.

The Ambulance Service advised that action would be taken to ensure that leave taken by all staff is completely and accurately reflected in the payroll system, including assurance that timesheets are reviewed and certified by responsible supervisors. Further, the Ambulance Service advised that a new rostering system will be implemented during 2006 which will allow improved monitoring of operational staff.

Expenditure Authorisation

Audit noted that officers with delegated authority to approve expenditure did not provide their staff identification number when approving expenditure to enable a check by accounts clerks that expenditure has been authorised in accordance with delegations.

The Ambulance Service responded that managers would be reminded of their obligation to provide their staff identification number when authorising expenditure.

Strategic Asset Management Plan

Audit noted that the Ambulance Service had not established a Strategic Asset Management Plan to identify its capital requirements and prioritise future capital expenditure.

The Ambulance Service responded that a Strategic Asset Management Plan has been initiated for ambulance stations and that this plan would be expanded in scope during 2005-06 in conjunction with the Department of Health.

SA Ambulance Service Computer Processing Environment Review

In November 2004, Audit completed a review of the Ambulance Revenue and Subscription/HP Inventory Systems/Comcen CAD Ambulance Dispatch application systems and the related computer processing environment (CPE). The review scope included coverage of the following matters:

- Information access security and integrity for the application systems and information and CPE.
- Applications systems implementation and maintenance arrangements.
- Information systems operations, including business recovery arrangements; database implementation and support, network support, and systems software support.

Audit identified a number of matters which were conveyed in writing to the Ambulance Service. In particular Audit noted:

- the absence of procedures for recording and monitoring user access and reviewing access privileges;
- potential segregation of duty conflicts for developers in the Ambulance Service database development and operational areas;
- the need for confirmation of procedures with EDS for the disposal of obsolete equipment and the extent of monitoring of operating system and network logs;
- opportunities to improve the level of documentation of policies and procedures.

Audit also noted that the Ambulance Service Business Continuity Plan (BCP) was in draft form and incomplete.

In response the Ambulance Service advised Audit of proposed actions to address these matters including:

- development of documentation relating to user access approval and modification processes and periodic review of access levels for all staff;
- implementation of a hybrid software development lifecycle model that provides a level of segregation of duties for database developers;
- ensuring obsolete infrastructure equipment disposal procedures are obtained from EDS and included in the 'Agency Procedures Manual';
- development of additional policies and procedures;
- developing and testing an IT service continuity plan which is a sub-plan of a broader BCP.

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

	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Government grants	49.9	43.9	14
Ambulance transport fees	36.1	32.8	10
Ambulance cover	15.5	15.2	2
Other	5.0	3.3	52
Total Operating Revenue	106.5	95.2	12
OPERATING EXPENDITURE			
Employment expenses	67.6	59.9	13
Goods and services	26.8	24.3	10
Depreciation and other expenses	8.2	8.1	1
Total Operating Expenses	102.6	92.3	11
Surplus (Deficit)	3.9	2.9	34
Net Cash Flows from Operations	7.8	12.5	(38)
ASSETS			
Current assets	32.1	31.9	1
Non-current assets	38.8	33.5	16
Total Assets	70.9	65.4	8
LIABILITIES			
Current liabilities	12.1	12.0	1
Non-current liabilities	11.3	9.8	15
Total Liabilities	23.4	21.8	7
EQUITY	47.5	43.6	9

Statement of Financial Performance**Operating Revenues**

Government revenues are approximately 46 percent of operating revenues consistent with the previous four years which demonstrates the dependency of the Ambulance Service on government funding.

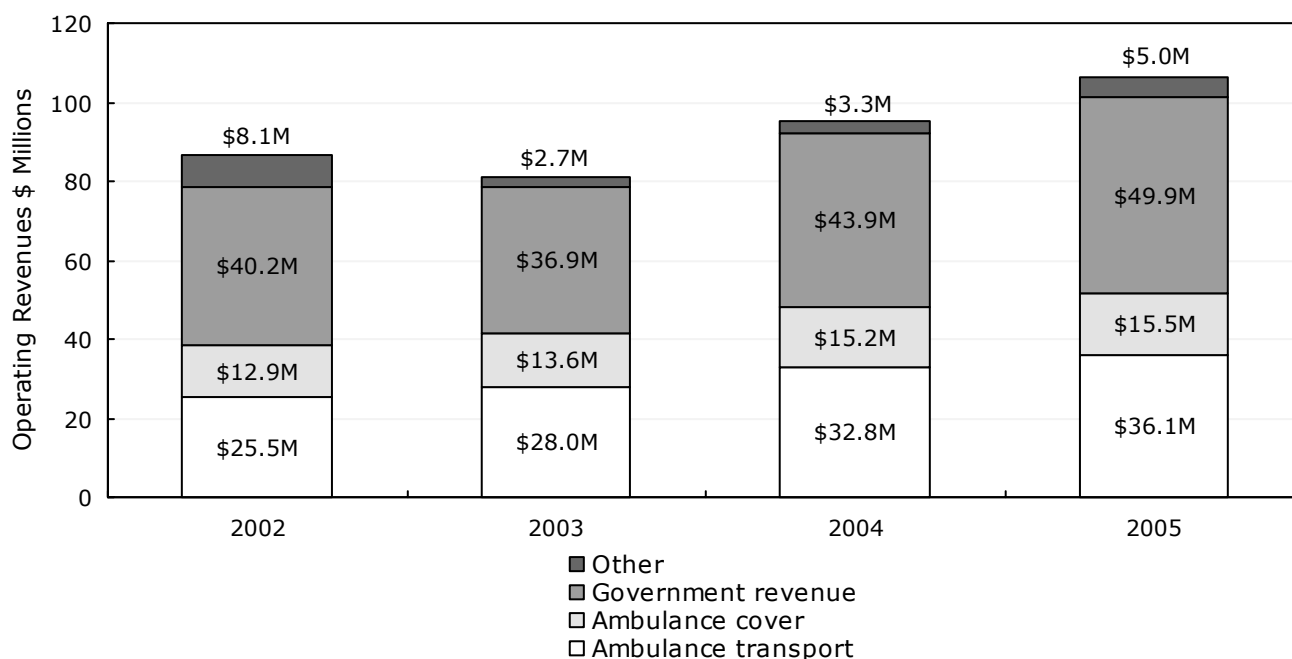
Government revenue increased by \$6.0 million in 2005 due mainly to a once off transfer of Audio Management System (AMS) assets with a value of \$3.9 million from the Attorney-General's Department. The AMS project was administered by the Attorney-General's Department and encompassed the replacement of the telephone call-handling and radio dispatch systems for the Ambulance Service, SA Police Department and South Australian Metropolitan Fire Service.

The decrease in government revenue in 2003 was due mainly to a one-off increase of \$4.2 million in the previous year to fund expenditure associated with the South Australian Government Radio Network.

Ambulance transport revenue for 2005 increased by 10 percent to \$36.1 million mainly as a result of a 4 percent increase in both the volume of chargeable ambulance usage and rates for ambulance services.

Other revenues increased in 2002 due mainly to a one-off transfer of \$5.9 million in properties from St John to the Ambulance Service.

A structural analysis of operating revenues for the Ambulance Service in the four years to 2005 is presented in the following chart.



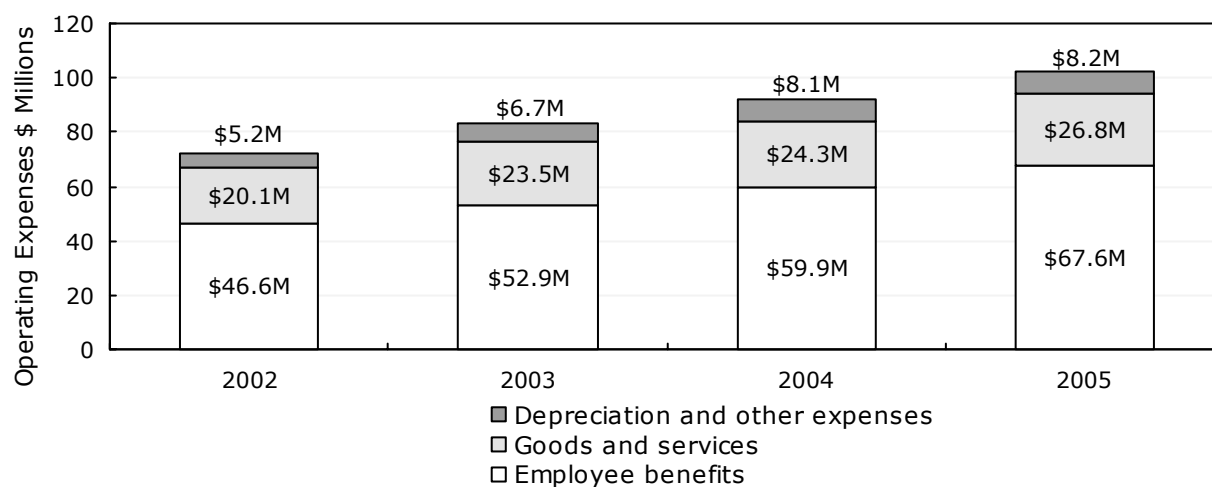
Operating Expenses

Employee benefit expenses have ranged between 64 to 67 percent of total operating expenses each year for the last four years.

During 2005 employee benefit expenses increased by 13 percent to \$67.6 million due partly to a 3.5 percent pay rise, an increase in the Ambulance Services' rate of employer contributions to the SA Ambulance Service Superannuation Fund and an increase in employee leave provisions.

Goods and services expenses increased by 10 percent to \$26.8 million due mainly to a \$1.1 million increase in bad and doubtful debts written off. The increase in debts written off was due to the writing off of specific balances outstanding at 30 June 2004 and increased write-offs attributable to increased activity levels and higher charges in the current year.

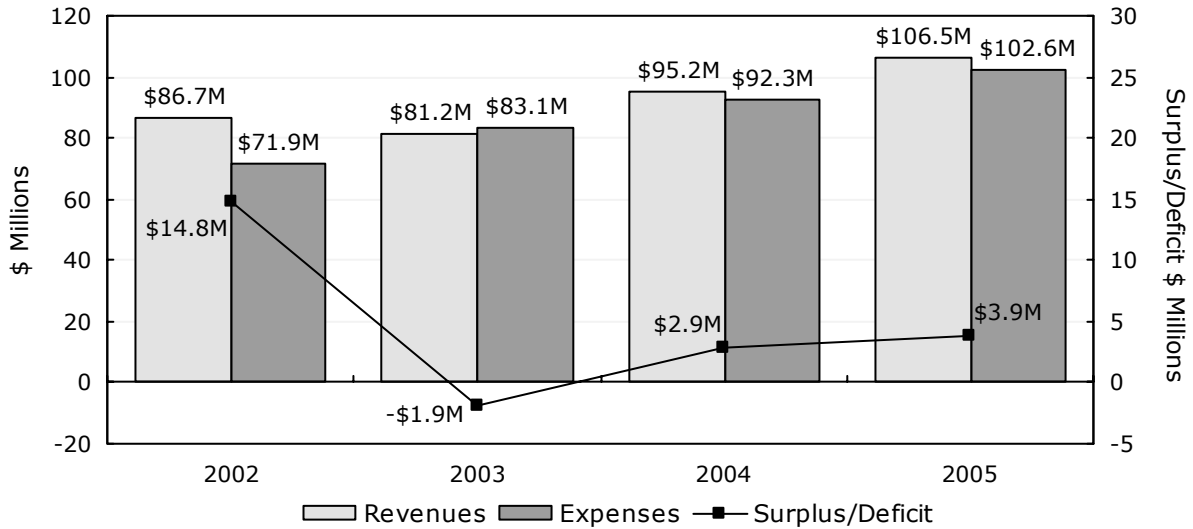
For the four years to 2005, a structural analysis of the main operating expense items for the Ambulance Service is shown in the following chart.



Operating Result

The large fluctuation in the Ambulance Service’s operating result during 2002 and 2003 was due primarily to the one-off transfer of properties from St John of \$5.9 million in 2002 and advanced funding received in 2002 of \$4.2 million for the purchase of communication equipment for the Government Radio Network in 2003.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2005.

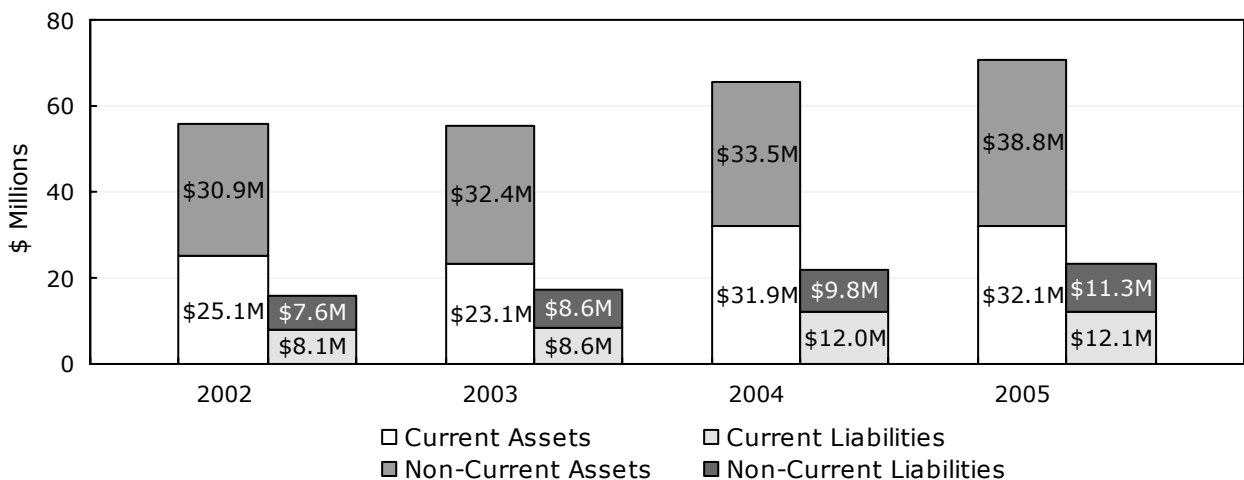


Statement of Financial Position

Total assets increased by \$5.5 million due mainly to a \$5.4 million increase in property, plant and equipment following the transfer of \$3.9 million worth of Audio Management System (AMS) assets to the Ambulance Service from the Attorney-General’s Department.

Receivables represent 23 percent of the Ambulance Service’s current assets. The balance of receivables includes a provision for the value of debts considered doubtful as at 30 June. Consistent with the previous four years, the Ambulance Service estimated that 25 percent of outstanding debtors as at 30 June 2005 were unlikely to be collected.

For the four years to 2005, a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	7.8	12.5	6.4	13.5
Investing	(8.6)	(6.0)	(8.3)	(6.6)
Change in Cash	(0.8)	6.5	(1.9)	6.9
Cash at 30 June	23.0	23.8	17.3	19.2

The analysis of cash flows shows that cash decreased marginally by \$0.8 million to \$23.0 million during 2004-05. The Ambulance Service has developed a capital investment program which has identified \$19.2 million of planned capital expenditure for 2005-06.

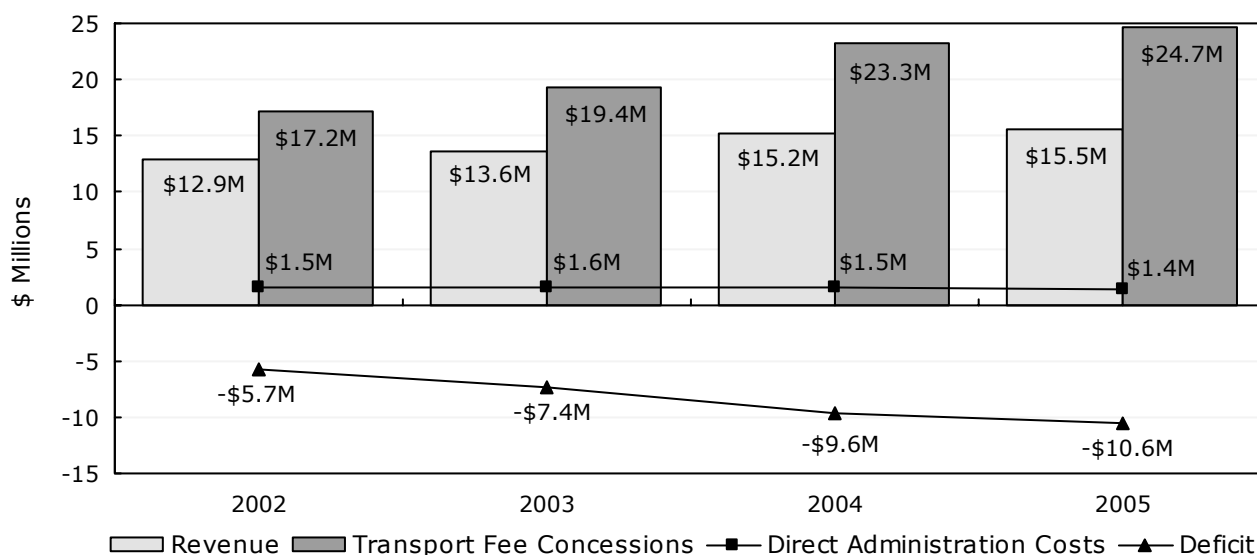
FURTHER COMMENTARY ON OPERATIONS

Ambulance Cover Scheme

The Ambulance Cover Scheme has a significant impact on the Ambulance Service's operating result as premiums charged do not cover the cost of transport concessions provided to subscribers.

Premiums received for 2004-05 of \$15.5 million increased by \$300 000 while concessions provided to subscribers increased by \$1.5 million to \$24.7 million.

The following chart reflects the movement in revenues, expenses and deficit of the Ambulance Cover Scheme over the past four years and underlines the increasing trend in Transport Fee Concessions.



Withdrawal of the Priory in Australia of the Order of St John (the Priory)

Previous reports have noted the intention of the Priory to withdraw from the provision of ambulance services in South Australia. The *Ambulance Services (SA Ambulance Service Inc) Amendment Act 2005* (the Act) was assented to by the Governor on 14 July 2005. The Act will come into operation on a day to be fixed by proclamation, at which point the Priory's role in the provision of ambulance services in South Australia will end.

Part III of the Act provides for the continued existence of the SA St John Ambulance Service Inc under the name 'SA Ambulance Service Inc (SAAS)'. Management of the affairs of the SA Ambulance Service Inc is to be vested in a committee to be known as the Ambulance Board. The Ambulance Board is to consist of 10 members appointed by the Minister.

Review of Ambulance Service

As commented in past Reports, the State Government commissioned a review during 2002-03 of the efficiency and effectiveness of the Ambulance Service, including the appropriateness of its governance systems. The review recommended a reconfiguration of the current governance arrangements with a preference for the Ambulance Service to be established as an administrative unit pursuant to the *Public Sector Management Act 1995*. Discussions between the Minister for Health, the Department of Health and the Ambulance Service are continuing in regard to this issue.

**Statement of Financial Performance
for the year ended 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Operating Revenues:			
Sales of goods and services:			
Ambulance transport	3	36 068	32 822
Ambulance Cover	4	15 516	15 168
Call Direct		1 677	1 525
Other operating revenues	5	2 953	1 494
Total Operating Revenues		56 214	51 009
Revenues from government	1(k), 6	49 866	43 868
Non-operating revenues		448	370
Total Revenues from Ordinary Activities		106 528	95 247
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits expense	7	67 573	59 950
Goods and services	8	26 829	24 279
Depreciation	10	7 059	6 473
Other expenses	11	1 150	1 605
Total Expenses from Ordinary Activities		102 611	92 307
SURPLUS FROM ORDINARY ACTIVITIES		3 917	2 940
NET INCREASE IN ASSET REVALUATION RESERVE		-	2 370
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	17(c)	3 917	5 310

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
ASSETS:			
CURRENT ASSETS:			
Cash assets	1(j), 21(a)	5 073	13 868
Investments	1(j), 21(a)	18 000	10 000
Receivables	12	7 479	7 298
Inventories		221	307
Other	13	1 293	474
Total Current Assets		32 066	31 947
NON-CURRENT ASSETS:			
Property, plant and equipment	14	38 840	33 461
Total Non-Current Assets		38 840	33 461
Total Assets		70 906	65 408
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	15(a)	3 543	5 161
Provision for employee benefits	16(a)	8 551	6 855
Total Current Liabilities		12 094	12 016
NON-CURRENT LIABILITIES			
Payables	15(b)	652	422
Provision for employee benefits	16(b)	10 614	9 341
Total Non-Current Liabilities		11 266	9 763
Total Liabilities		23 360	21 779
NET ASSETS		47 546	43 629
EQUITY:			
Capital		6 298	6 298
Reserves	17(a)	12 211	12 065
Accumulated surplus	17(b)	29 037	25 266
TOTAL EQUITY	17(c)	47 546	43 629
Commitments	19		
Contingent Liabilities	20		

**Statement of Cash Flows
for the year ended 30 June 2005**

	Note	2005 Inflows (Outflows) \$'000	2004 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Payments to suppliers		(29 825)	(22 420)
Payments to employees		(58 436)	(52 521)
GST payments on purchases		(2 952)	(2 441)
GST remitted to Australian Taxation Office		(5 262)	(5 430)
Total Outflows from Operating Activities		(96 475)	(82 812)
CASH INFLOWS:			
Receipts from government		47 667	41 975
Fees and charges		46 836	44 177
Interest received		1 372	1 042
GST receipts on sales		5 555	5 548
GST input tax credits		2 835	2 565
Total Inflows from Operating Activities		104 265	95 307
Net Cash Inflows from Operating Activities	21(b)	7 790	12 495
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Payments for property, plant and equipment		(9 977)	(7 175)
Total Outflows from Investing Activities		(9 977)	(7 175)
CASH INFLOWS:			
Proceeds from sale of plant and equipment		1 392	1 208
Total Inflows from Investing Activities		1 392	1 208
Net Cash Outflows from Investing Activities		(8 585)	(5 967)
NET (DECREASE) INCREASE IN CASH HELD		(795)	6 528
CASH AT 1 JULY		23 868	17 340
CASH AT 30 JUNE	21(a)	23 073	23 868

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

The significant accounting policies adopted in the preparation of this financial report are detailed below:

(a) Entity Definition

SA St John Ambulance Service Inc. (trading as SA Ambulance Service) is an incorporated association formed by the Minister for Health for the Government of South Australia and the Priory in Australia of the Order of St John (Priory) under the *Associations Incorporation Act 1985 (SA)*. SA Ambulance Service operates in accordance with the *Ambulance Services Act 1992* and under a licence issued on 1 March 1993 by the Minister for Health, Family and Community Services.

In January 1999 Priory's authority to nominate and appoint directors to the Ambulance Board was delegated to the responsible Minister.

The registered office is located at 216 Greenhill Road, Eastwood, South Australia.

The principal activities of SA Ambulance Service are the provision of high-quality pre-hospital care and patient transport.

(b) Basis of Preparation

The financial report is a general-purpose financial report that has been drawn up in accordance with applicable Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, other mandatory professional reporting requirements, Department of Treasury and Finance Accounting Policy Statements, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987*, and the *Associations Incorporation Act 1985 (SA)*. The financial report has been prepared on an accrual basis of accounting and is in accordance with the historical cost convention except for certain assets that have been revalued.

(c) Revenue Recognition

Ambulance Transport Revenue

Ambulance transport revenue comprises revenue earned, net of discounts and allowances from the provision of patient transport, and is recognised when the service is provided or when the fee in respect of services provided is receivable.

Ambulance Cover Revenue

SA Ambulance Service operates an Ambulance Cover scheme whereby members pay a premium to cover themselves against the cost of ambulance transport. Ambulance Cover revenue is recognised upon receipt of the premium.

Call Direct Revenue

Call Direct revenue comprises the sale of alarm monitoring units and accessories, and monitoring income. Units and accessories revenue are recognised at point of sale. Monitoring income is brought to account when accrued.

Other Operating Revenues

Other operating revenues include interest received and donations. Donations are recognised when received, and interest when accrued.

Revenues from Government

Revenues from the State Government comprise contributions to meet the costs of Government's community service obligations, for which services are provided by SA Ambulance Service, and funds for a motor vehicle replacement program. Government revenues are recognised on receipt.

Non-Operating Revenues

Non-operating revenues represent rental, commissions and discounts received, and sundry revenue.

(d) Taxation

SA Ambulance Service is a public ambulance service and is endorsed to receive deductible gifts pursuant to the *Income Tax Assessment Act 1997* (Cwlth). SA Ambulance Service is exempted under the *Fringe Benefits Tax Assessment Act 1986* (Cwlth) for up to \$17 000 of grossed-up taxable value per employee and for remote housing benefit.

(e) Inventories

Inventories are carried at the lower of cost and net realisable value.

(f) Non-Current Assets

All items of non-current assets, with the exception of land, have a limited useful life, which is reviewed annually.

These are systematically depreciated in a manner that reflects the consumption of service potential.

The major asset categories are subject to straight-line depreciation over the following estimated useful lives:

	Years
Buildings and leasehold improvements	2 to 40
Motor vehicles	1 to 8
Medical equipment	4 to 5
Plant and equipment*	1 to 25
Communication equipment	3 to 32

* Comprises information technology, office furniture and equipment, fixtures and fittings and training equipment.

Refer to Note 14 for the basis of valuation for each major asset category.

(g) Operating Leases

Operating lease assets are not capitalised, and lease payments are charged as operating expenses in the period in which they are incurred.

(h) Employee Benefits

Provision has been made in the financial report for SA Ambulance Service's liability for employee benefits for services rendered to balance date.

In determining the liability for employee benefits, consideration has been given to negotiated and possible increases in wage and salary rates and SA Ambulance Service's experience with staff attrition.

Annual Leave

The provision for employee benefits for annual leave is based on legal contractual benefits at balance date. The rates of pay expected to be paid when the leave is taken have been used in calculating the provision.

Sick Leave

No provision has been made for sick leave because entitlements are non-vesting and it is considered that sick leave is taken from the current year's entitlements.

Accrued Days Off

The provision for employee benefits for accrued days off is based on legal contractual benefits at balance date. The rates of pay expected to be paid when the leave is taken have been used in calculating the provision.

Long Service Leave

The liability for employee benefits for long service leave represents the amount SA Ambulance Service has a present obligation to pay resulting from employees' services provided up to the balance date.

The provision has been calculated in accordance with the shorthand method using a benchmark number of seven years service as advised by the Department of Treasury and Finance. The calculation is consistent with the Ambulance Services' experience of employee retention and leave taken.

Workers Compensation

SA Ambulance Service is recognised as an exempt employer under section 61 of the *Workers Rehabilitation and Compensation Act 1986* (SA). The liability for employee benefits for workers compensation is based upon an actuarial assessment conducted by Taylor Fry Consulting Actuaries at 30 June 2005. The valuation has been performed across the whole of government and apportioned to each agency based on actuarial methodology and specific economic assumptions.

Superannuation Funds

SA Ambulance Service contributes to superannuation funds for the benefit of its employees. Contributions are charged as expenditure as they are made. There is no liability for payments to beneficiaries, as this is the responsibility of the superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation schemes. Further information is set out in Note 18.

(i) Reserves

The amounts recorded as reserves, excluding asset revaluation, are represented by actual funds set aside for express purposes as follows:

Country Branch Reserves

These reserves are under the control of country branch committees in accordance with the provisions of SA Ambulance Service Country Branch Regulations and are applied to meet branch requirements.

Country Capital Reserve Fund

This Fund is specifically applied for the purchase of capital items deemed necessary for the effective operation of country branches. Allocations from this Fund are administered by the Country Ambulance Services Advisory Committee (CASAC). Revenues are received from transfers from the Country Operating Reserve Fund, interest earnings, and transfers from Country Branch Reserves towards capital projects.

Country Operating Reserve Fund

The Country Operating Reserve Fund (CORF) was established to meet operating costs that relate to the operations of country branches. Allocations from the Fund are administered by CASAC. Revenues are received from volunteer branch operating surpluses as defined in the SA Ambulance Service Country Branch Regulations.

(j) Financial Instruments

All financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates net fair value.

SA Ambulance Service's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2005, are as follows:

Financial Assets

Cash assets are comprised mainly of deposits at call with the Commonwealth Bank of Australia (CBA). The interest rate prevailing on deposits totalling \$5.1 million (\$13.9 million) with the CBA at 30 June 2005 varied from 5 percent to 5.25 percent (4.5 percent to 5 percent).

Investments totalling \$18 million (\$10 million) constitute term deposits with the CBA. As at 30 June 2005 the average prevailing interest rate was 5.52 percent (5.35 percent).

Receivables are recognised when the service is provided and are reported at amounts due that are net of discounts and doubtful debts.

Financial Liabilities

Payables are raised for amounts billed or billable but unpaid and are normally paid within trading terms.

(k) Economic Dependency

A significant proportion of revenue is derived from the South Australian government, without which SA Ambulance Service would not be able to provide community service obligations. Revenue from the South Australian government was \$49.6 million in 2005 (\$43.9 million).

(l) Accounting for the Goods and Services Tax (GST)

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

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

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

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

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

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

In accordance with requirements of AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards', SA Ambulance Service has identified the following information about the impacts on the financial report had it been prepared using the AIFRS. It has been concluded that the quantifiable impact on the reports as a result of the adoption of the AIFRS is immaterial.

AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'

Revenue totalling \$883 000 was received in 2003-04 but not recognised until 2004-05. AASB 108 requires errors to be corrected retrospectively by restating comparative amounts for the period in which an error occurred. As a result SA Ambulance Service will derecognise revenue resulting from the correction of errors included in the Statement of Financial Performance for 2004-05 of \$883 000 (refer Note 5).

AASB 119 'Employee Benefits'

SA Ambulance Service will adjust employee benefits payable later than 12 months currently measured at nominal amounts to present value. The effect of this change is not reliably estimable but is not expected to be material.

The SA Ambulance Service will recognise the net assets of the SA Ambulance Service Superannuation Fund (the Fund) in the Statement of Financial Position for 2005-06. The net assets of the Fund are actuarially determined every three years. The outcome of the review performed as at 30 June 2005 was not available at reporting date. As a result information concerning the financial impact on the financial report for 2004-05 is not known.

3. Ambulance Transport	2005	2004
	\$'000	\$'000
Fees raised	78 156	71 969
Less: Concessions - Ambulance Cover	24 752	23 264
- Pensioners	17 336	15 883
	36 068	32 822
4. Ambulance Cover		
Ambulance Cover revenue	15 516	15 168
Less: Transport fee concessions	24 752	23 264
Direct administration costs	1 374	1 499
Ambulance Cover Deficit	(10 610)	(9 595)
5. Other Operating Revenues		
Interest	1 349	1 099
Net revenue resulting from correction of error*	883	-
Bad debt recoveries	346	234
Donations	216	111
Other	159	50
	2 953	1 494

* The financial report for SA Ambulance Service for the year ended 30 June 2004 excluded Ambulance Transport income received from the Motor Accident Commission. This error had the effect of understating both revenue and receivables by \$883 000. In accordance with Australian Accounting Standard AASB 1018 'Statement of Financial Performance' correction of this error gives rise to a revenue for 2004-05.

6. Revenues from Government	2005	2004
Funding was received from the State Government for:	\$'000	\$'000
Operations ⁽¹⁾	40 861	38 132
South Australian Government Radio Network ⁽²⁾	1 071	1 071
Capital works ⁽³⁾	7 661	4 665
	49 593	43 868
Funding was received from the Federal Government for:		
Operations ⁽⁴⁾	273	-
	273	-
	49 866	43 868
1. Includes \$843 000 (\$822 000) from the Community Emergency Services Fund.		
2. Includes \$209 000 (\$209 000) from the Community Emergency Services Fund.		
3. Includes \$3.944 million (\$nil) of AMS project assets transferred at nil consideration from the Attorney-General's Department.		
4. Grant from the Australian Taxation Office to fund the additional Fringe Benefits Tax impact on SAAS as a result of the loss of the PBI status.		
7. Employee Benefits Expense	2005	2004
	\$'000	\$'000
Salaries and wages, annual and sick leave	57 676	51 872
Superannuation	5 375	3 641
Workers compensation	3 244	3 631
Long service leave	1 278	806
	67 573	59 950
8. Goods and Services		
Bad and doubtful debts	6 023	4 918
Professional and administrative expenses	3 923	3 871
Training, travel, uniforms and other staff expenses	3 714	3 171
Medical	2 803	2 385
Communication	2 654	2 897
Vehicle operating	2 217	1 937
Occupancy	2 067	1 889
Information technology	1 603	1 483
Marketing	732	662
Discounts on ambulance transports	477	434
Consultancies	161	133
Other	455	499
	26 829	24 279
9. Auditors' Remuneration		
Amounts paid and payable to the auditors for auditing the financial report	58	55
The auditors provided no other services.		
10. Depreciation		
Buildings	482	515
Leasehold improvements	156	158
Motor vehicles	4 918	4 242
Medical equipment	546	533
Plant and equipment	700	734
Communication equipment	257	291
	7 059	6 473
11. Other Expenses		
Asset Disposals:		
Revenue from the disposal of assets	1 349	1 228
Less: Written-down value of disposed assets	1 568	1 731
Net Expense from Disposal of Assets	219	503
Decrement on revaluation of non-current assets	-	346
Grant to Department of Health	931	756
	1 150	1 605
12. Receivables		
Debtors	9 950	9 516
Less: Provision for doubtful debts	2 471	2 218
	7 479	7 298
13. Other Current Assets		
Prepayments	1 218	319
Accrued revenue	75	155
	1 293	474

14. Property, Plant and Equipment	2005	2004
Land:	\$'000	\$'000
Opening balance	5 721	2 793
Additions	6	-
Disposals	-	(4)
Revaluation increment	-	2 932
Closing Balance	5 727	5 721
Net Book Value ⁽¹⁾	5 727	5 721
Buildings:		
Opening balance	7 249	18 285
Additions	979	1 472
Disposals	-	(57)
Revaluation write-back	-	(11 495)
Revaluation decrement	-	(956)
Closing Balance	8 228	7 249
Accumulated Depreciation:		
Opening balance	-	11 012
Depreciation for the year	482	515
Disposals	-	(32)
Revaluation write-back	-	(11 495)
Closing Balance	482	-
Net Book Value ⁽¹⁾	7 746	7 249
Leasehold Improvements:		
Opening balance	3 849	6 006
Additions	484	265
Disposals	-	(86)
Revaluation write-back	-	(2 384)
Revaluation increment	-	48
Closing Balance	4 333	3 849
Accumulated Depreciation:		
Opening balance	-	2 271
Depreciation for the year	156	158
Disposals	-	(45)
Revaluation write-back	-	(2 384)
Closing Balance	156	-
Net Book Value ⁽¹⁾	4 177	3 849
Motor Vehicles:		
Opening balance	26 924	25 862
Additions	6 031	4 566
Disposals	(4 508)	(3 504)
Closing Balance	28 447	26 924
Accumulated Depreciation:		
Opening balance	13 162	10 872
Depreciation for the year	4 918	4 242
Disposals	(2 955)	(1 952)
Closing Balance	15 125	13 162
Net Book Value ⁽²⁾	13 322	13 762
Medical Equipment:		
Opening balance	5 523	5 370
Additions	631	153
Disposals	(422)	-
Closing Balance	5 732	5 523
Accumulated Depreciation:		
Opening balance	4 483	3 950
Depreciation for the year	546	533
Disposals	(421)	-
Closing Balance	4 608	4 483
Net Book Value ⁽²⁾	1 124	1 040
Plant and Equipment:		
Opening balance	4 594	4 625
Additions	708	635
Disposals	(274)	(666)
Closing Balance	5 028	4 594
Accumulated Depreciation:		
Opening balance	3 148	2 971
Depreciation for the year	700	734
Disposals	(263)	(557)
Closing Balance	3 585	3 148
Net Book Value ⁽²⁾	1 443	1 446

14. Property, Plant and Equipment (continued)	2005	2004
Communication Equipment:	\$'000	\$'000
Opening balance	3 891	3 813
Additions	5 166	87
Disposals	(249)	(9)
Closing Balance	8 808	3 891
Accumulated Depreciation:		
Opening balance	3 497	3 215
Depreciation for the year	257	291
Disposals	(247)	(9)
Closing Balance	3 507	3 497
Net Book Value ⁽³⁾	5 301	394
Total Net Book Value	38 840	33 461
<p>1. Land, buildings and leasehold improvements were independently revalued on a fair value basis at 30 June 2004 by Liquid Pacific Holdings Pty Ltd.</p> <p>2. Motor vehicles, medical equipment, and plant and equipment are recorded at cost.</p> <p>3. Communication equipment was revalued on a deprival basis at 30 June 2001 by Ambulance Service Management. It is considered that this equates fair value.</p>		
15. Payables	2005	2004
(a) Current:	\$'000	\$'000
Trade creditors	2 775	4 589
Employment on-costs	565	374
Other creditors	203	198
	3 543	5 161
(b) Non-Current:		
Employment on-costs	652	422
	4 195	5 583
16. Provision for Employee Benefits		
(a) Current:		
Accrued days off	1 407	1 317
Accrued salaries and wages	1 784	539
Annual leave	3 806	3 428
Long service leave	320	298
Workers compensation	1 234	1 273
	8 551	6 855
(b) Non-Current:		
Accrued days off	797	653
Annual leave	2 478	2 202
Long service leave	4 545	3 879
Workers compensation	2 794	2 607
	10 614	9 341
Total Provision for Employee Benefits	19 165	16 196
(c) Employee Benefits and Related On-Cost Liabilities		
Annual Leave:		
Included in current payables (Note 15(a))	399	261
Provision for employee benefits - Current (Note 16(a))	3 806	3 428
Total liability for current annual leave benefit	4 205	3 689
Included in non-current payables (Note 15(b))	269	175
Provision for employee benefits - Non-current (Note 16(b))	2 478	2 202
Total liability for non-current annual leave benefit	2 747	2 377
Accrued Days Off:		
Included in current payables (Note 15(a))	145	98
Provision for employee benefits - Current (Note 16(a))	1 407	1 317
Total liability for current accrued days off benefit	1 552	1 415
Included in non-current payables (Note 15(b))	82	49
Provision for employee benefits - Non-current (Note 16(b))	797	653
Total liability for non-current accrued days off benefit	879	702
Long Service Leave:		
Included in current payables (Note 15(a))	21	15
Provision for employee benefits - Current (Note 16(a))	320	298
Total liability for current long service leave benefit	341	313
Included in non-current payables (Note 15(b))	301	198
Provision for employee benefits - Non-current (Note 16(b))	4 545	3 879
Total liability for non-current long service leave benefit	4 846	4 077

17. Movement in Equity	2005	2004
(a) Reserves	\$'000	\$'000
Asset Revaluation Reserve:		
Balance at 1 July	5 645	3 275
Revaluation increment	-	2 370
Balance at 30 June	5 645	5 645
Country Branch Reserves:		
Balance at 1 July	684	690
Transfers from accumulated surplus	59	13
Transfers to Country Capital Reserve Fund	(4)	(19)
Balance at 30 June	739	684
Country Capital Reserve Fund:		
Balance at 1 July	5 736	4 494
Transfers to accumulated surplus	(1 971)	(1 055)
Transfers from Country Branch Reserves	4	19
Transfer from Country Operating Reserve Fund	2 058	2 278
Balance at 30 June	5 827	5 736
Country Operating Reserve Fund:		
Balance at 1 July	-	-
Transfers from accumulated surplus	2 058	2 278
Transfer to Country Capital Reserve Fund	(2 058)	(2 278)
Balance at 30 June	-	-
Total Reserves	12 211	12 065
(b) Accumulated Surplus		
Balance at 1 July	25 266	23 562
Surplus from ordinary activities	3 917	2 940
Transfers from reserves to accumulated surplus	1 971	1 055
Transfers to reserves from accumulated surplus	(2 117)	(2 291)
Balance at 30 June	29 037	25 266
(c) Total Equity		
Balance at 1 July	43 629	38 319
Surplus from ordinary activities	3 917	2 940
Revaluation increment	-	2 370
Balance at 30 June	47 546	43 629

18. Superannuation Funds**(a) SA Ambulance Service Superannuation Fund**

A significant majority of the SA Ambulance Service's employees are members of the SA Ambulance Service Superannuation Fund (the Fund). These employees are eligible to receive a benefit from the Fund. A benefit is payable on retirement, death, disablement or leaving SA Ambulance Service, in accordance with the Fund's trust deed and rules. The Fund is a resident regulated superannuation fund that complies with superannuation laws.

The Fund provides lump-sum benefits for contributory and non-contributory members. For contributory members the retirement, death and disablement benefits are calculated either on a defined-benefit basis or on an accumulation basis, if higher. In contrast, the resignation benefit is calculated on an accumulation basis. Defined benefits reflect a member's period of Fund membership and final average salary. Contributory members of the Fund make mandatory contributions at a rate of 5 percent of salary. SA Ambulance Service may make additional contributions at the rate of 5.9 percent of salary in lieu of these contributions. Non-contributory members benefits are calculated on an accumulation basis.

SA Ambulance Service contributes towards the Fund's defined benefits in accordance with the recommendation of the actuary. For all but a small proportion of the membership, it also contributes to the Fund in accordance with the relevant employee award to comply with superannuation guarantee legislation. Contributions are charged as expenditure as they are made.

Mercer Human Resource Consulting Pty Ltd carried out the most recent actuarial investigation of the Fund as at 30 June 2002. The investigation confirmed that the Fund's assets were sufficient for it to meet the benefits that would have been vested under it in the event of its termination or on the voluntary or compulsory termination of the employment of each member.

Mercer Human Resource Consulting Pty Ltd also conduct an annual assessment of the Fund. Assessments since the last actuarial investigation revealed a deficit of Fund assets compared to vested benefits. As a result SA Ambulance Service increased its contribution to the Fund from 6.9 percent to 10.5 percent effective from 1 July 2004.

(a) SA Ambulance Service Superannuation Fund (continued)

	\$'000
Net market value of Fund's assets as at 30 June 2002	55 559
Value of accrued benefits as at 30 June 2002	54 451
Excess of net market value of Fund assets over value of accrued benefits as at 30 June 2002	<u>1 108</u>
Net market value of Fund's assets as at 30 June 2004	65 527
Total of vested benefits as at 30 June 2004	65 997
Shortfall of net market value of Fund assets over value of vested benefits as at 30 June 2004	<u>(450)</u>

(b) Other Superannuation Funds

For a small proportion of the workforce, SA Ambulance Service pays its contributions in accordance with the relevant employee award or contract of employment to other nominated superannuation funds in compliance with the superannuation guarantee legislation. Contributions are charged as expenditure as they are made. Members are not required to make contributions to these funds.

19. Commitments**(a) Lease Commitments (excludes GST)**

	2005	2004
	\$'000	\$'000
Operating lease expenditure contracted for is payable as follows:		
Not later than one year	150	163
Later than one year but not later than five years	230	308
Later than five years	286	217
	<u>666</u>	<u>688</u>

SA Ambulance Service has operating lease arrangements for the use of properties at Ashford Hospital, Camden Park, Eastwood and Murray Bridge. Total rental expenditure for 2004-05 was \$353 000 (\$259 000). Future operating lease commitments represent the present value of future cash outflows to be made as per the lease agreements. Terms of renewal are as mutually agreed by SA Ambulance Service and the lessor.

SA Ambulance Service has a number of other operating leases for the use of property. The value of these leases is immaterial.

(b) Capital Commitments (excludes GST)

	2005	2004
	\$'000	\$'000
Agreements outstanding as at 30 June 2005:		
Purchase of ambulances at estimated cost less payments made:		
Not later than one year	971	1 456
Construction and fitout of buildings at estimated cost less payments made:		
Not later than one year	1 596	304
	<u>2 567</u>	<u>1 760</u>

20. Contingent Liabilities

The nature of operations is such that potential exposures to litigation and other incidents giving rise to financial liability is considered by SA Ambulance Service to be less than likely. Following a consideration of all relevant factors it has been determined that there are no contingent liabilities.

21. Notes to the Statement of Cash Flows**(a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand, at bank and investments. Cash at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005	2004
	\$'000	\$'000
Cash assets	5 073	13 868
Investments	18 000	10 000
	<u>23 073</u>	<u>23 868</u>

(b) Reconciliation of Surplus from Ordinary Activities to Net Cash Inflows from Operating Activities

Surplus from Ordinary Activities	3 917	2 940
Less: Items classified as investing activities:		
Net expense on the sale of non-current assets	219	503
Add: Non-cash items:		
Depreciation	7 059	6 473
Decrement on revaluation of non-current assets	-	346
Acquisition of non-current assets for nil consideration	(3 972)	-
Net Cash Inflows From Operating Activities before change in Assets and Liabilities	<u>7 223</u>	<u>10 262</u>

(b) Reconciliation of Surplus from Ordinary Activities to Net Cash Inflows from Operating Activities (continued)	2005	2004
	\$'000	\$'000
Change in assets and liabilities affecting the Statement of Financial Performance during the financial year:		
(Increase) in receivables	(181)	(2 522)
Decrease in inventory	86	34
(Increase) Decrease in other current assets	(819)	150
(Decrease) Increase in accrued revenue for non-current assets disposals	(43)	20
(Decrease) Increase payables	(1 388)	2 389
(Increase) in payables for non-current asset purchases	(57)	(3)
Increase in provision for employee benefits	2 969	2 165
Net Cash inflows from Operating Activities	7 790	12 495

22. Remuneration of Employees

The number of employees whose remuneration, inclusive of superannuation and other benefits, from SA Ambulance Service fell within the following bands was:

	2005	2004
	Number of Employees	Number of Employees
\$100 001 - \$110 000	22	18
\$110 001 - \$120 000	17	5
\$120 001 - \$130 000	6	1
\$140 001 - \$150 000	-	1
\$150 001 - \$160 000	-	-
\$160 001 - \$170 000	1	1
\$170 001 - \$180 000	-	-
\$180 001 - \$190 000	2	-
	48	26

All amounts provided by SA Ambulance Service to related parties are provided on arms-length terms.

The table above includes all employees 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 (over exempt threshold) and any other salary sacrifice benefits, but excludes leave entitlements on termination.

The figures comprise the following categories of employees:

	2005	2004
	Number of Employees	Number of Employees
Executive and administration	11	10
Operational	37	16
	48	26

	2005	2004
	\$'000	\$'000
Total remuneration received, or due and receivable, from SA Ambulance Service by the employees whose remuneration exceeded \$100 000 was:	5 569	2 871

Average Number of Employees during the Reporting Period

On average, SA Ambulance Service employed 827 (828) full time equivalent (FTEs) throughout the reporting period.

23. Remuneration of Directors of the Board

The directors of the Ambulance Board during the period were:

Ms R Pak-Poy (Chairman)	Mr G Hockley
Mr D Hawking	Ms L Reed
Mr P Palmer	Dr C Baggoley
Mr M Scott	Dr S Cole
Mr L Gregurke	Mr D O'Shea

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

All persons served for the entire period unless otherwise indicated. During the year, a total of \$102 000 (\$102 000) in directors' fees and other benefits, and \$10 000 (\$9 000) in superannuation benefits were payable.

The number of Directors whose remuneration paid or payable by the SA Ambulance Service within the following bands was:

	2005	2004
	Number of Directors	Number of Directors
\$1 - \$10 000	5	5
\$10 001 - \$20 000	5	5

24. Transactions with SA Government

In accordance with the requirements of Accounting Policy Statement APS 13 'Form and Content of General Purpose Financial Reports', the SA Ambulance Service has disclosed details of revenues, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government in the following table. A threshold of \$100 000 has been applied in determining these amounts in accordance with section 18 of APS 13.

	2005	2004
	\$'000	\$'000
(a) Revenue		
Ambulance transport	15 449	12 990
Government funding	49 593	43 868
	65 042	56 858
(b) Expenses		
Goods and services	2 388	2 399
Other expenses	487	585
	2 875	2 984
(c) Receivables	2 336	2 096
(d) Payables	120	1 917

SOUTH AUSTRALIAN ABORIGINAL HOUSING AUTHORITY

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Aboriginal Housing Authority (the Authority) was established in October 1998 as a statutory corporation under the *Housing and Urban Development (Administrative Arrangements) Act 1995*.

Functions

The functions of the Authority are:

- the development of strategies, policies and guidelines for the provision, management and maintenance of appropriate housing for Aboriginal people;
- to liaise with other agencies providing assistance to Aboriginal people to achieve a coordinated response to problems and issues facing Aboriginal people;
- to receive and allocate resources for Aboriginal housing programs;
- to provide and manage or facilitate the provision and management of appropriate housing for Aboriginal people in the State;
- to provide a single point of contact for Aboriginal people seeking housing assistance.

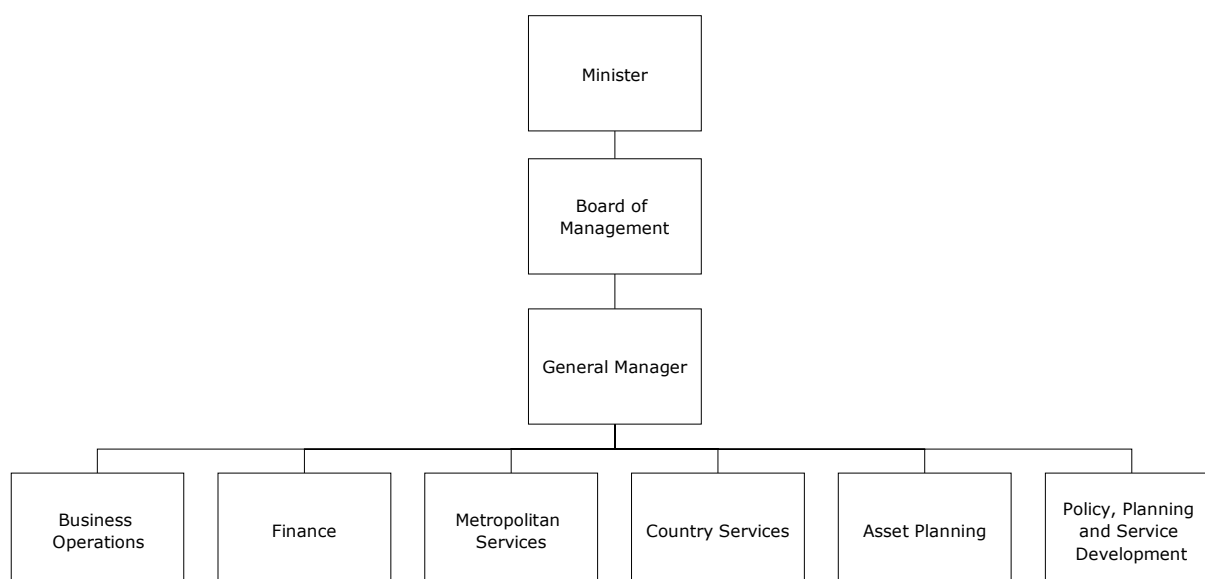
The Authority provides these functions through the rental of State Government owned housing to Aboriginal people and the provision of grants to fund housing owned by Aboriginal communities.

Structure

The Authority is established with a Board of Management comprising members and deputy members. All members and their deputies must be Aboriginal people and were appointed by the Governor with five members, including the presiding member, nominated by the Minister and four nominated by the Aboriginal and Torres Strait Islander Commission.

The staff of the Authority are employees of the Department for Families and Communities (the Department) assigned to work for the Authority. The Department and the South Australian Housing Trust (the Trust) provide management, accounting and systems services to the Authority. The Authority uses the Trust's systems to record and account for assets, raise and follow up rents and other charges, to manage the maintenance of properties and to control costs associated with properties.

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



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 27 of the *Housing and Urban Development (Administrative Arrangements) Act 1995* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the 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 Aboriginal Housing 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 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 2004-05, specific areas of audit attention included:

- budgetary control and management reporting
- raising and recovery of rent and other tenant charges
- grant expenditure for the Community Housing Program
- capital expenditure
- repairs and maintenance of rental housing properties.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the position of the South Australian Aboriginal Housing Authority as at 30 June 2005, 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 Aboriginal Housing Authority 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 Authorisation of Expenditure, Management Reporting and Community Housing Program Reporting, as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Aboriginal Housing Authority have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the General Manager. Major matters raised with the Authority and the related responses are considered herein.

Authorisation of Expenditure

The South Australian Housing Trust (SAHT) provides management, accounting and systems services to the Authority. Payments approved by AHA staff are provided to SAHT accounts payable staff for processing and disbursement.

Following the identification by AHA personnel of a number of inappropriately authorised payments, the AHA was advised by SAHT in April 2005 that SAHT accounts payable staff do not check all AHA payments to ensure that they have been approved in accordance with delegations of authority.

Since April 2005 the AHA has implemented a check by AHA personnel designed to ensure that payments are approved in accordance with delegations of authority prior to transfer to SAHT for processing.

Duplicate Payments

Audit identified duplicate payments worth \$109 494 processed during 2004-05. Audit recommended that the Authority take immediate action to obtain reimbursement from the identified vendors and that the AHA ask the SA Housing Trust to explore the feasibility of implementing a system control which warns system users when a transaction with the same invoice number and amount has already been processed.

The authority has so far recovered \$107 204 of the identified duplicate payments and has begun a process to recover the remaining amount.

Management Reporting

Last year Audit concluded that the Authority had not developed and implemented mechanisms which support effective financial reporting of project to date expenditure against budget for:

- capital upgrade projects;
- the major maintenance categories of responsive, programmed and vacancy maintenance.

A follow up audit in August 2005 concluded that the Authority had developed and implemented reporting to assist management monitor monthly maintenance expenditure against budget but significant opportunities exist to improve the effectiveness of this reporting.

The Authority has identified a target date of October 2005 to:

- develop management reports that identify the financial performance of individual capital projects;
- improve existing reporting on maintenance activities.

Community Housing Program Reporting

A review of the controls adopted by the Authority for the management of the Community Housing Program (CHP) concluded that the Authority had not developed and implemented procedures to ensure that financial reporting of project to date expenditure against budget is reliable.

The Authority responded that it would develop and implement procedures to improve the reliability of the CHP financial reporting.

Relationship with Key Service Providers

Audit noted that the Authority does not have a documented contractual relationship with its key service providers for the provision of services associated with the maintenance program.

Further, Audit observed that the Authority does not have a documented, structured approach to review the performance of key service providers to ensure that work is performed in accordance with expectations.

Key services include:

- issue of maintenance orders;
- monitoring of work performed to ensure that it has been performed in accordance with the order;
- approval and processing of disbursements to maintenance sub-contractors.

The Authority has acknowledged the need to strengthen its contractual relationships with its key service providers. Further, the Authority has advised Audit that it will investigate and document a structured approach to review the performance of its key service providers.

Strategic Asset Management Plan

Audit observed that although an assessment of the condition of each AHA property was substantially completed in 2002-03, the Authority has not established a Strategic Asset Management Plan for the maintenance, upgrade, acquisition and disposal of houses.

The Authority has advised Audit that a draft Strategic Asset Management Plan will be reviewed by the Board in November 2005.

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

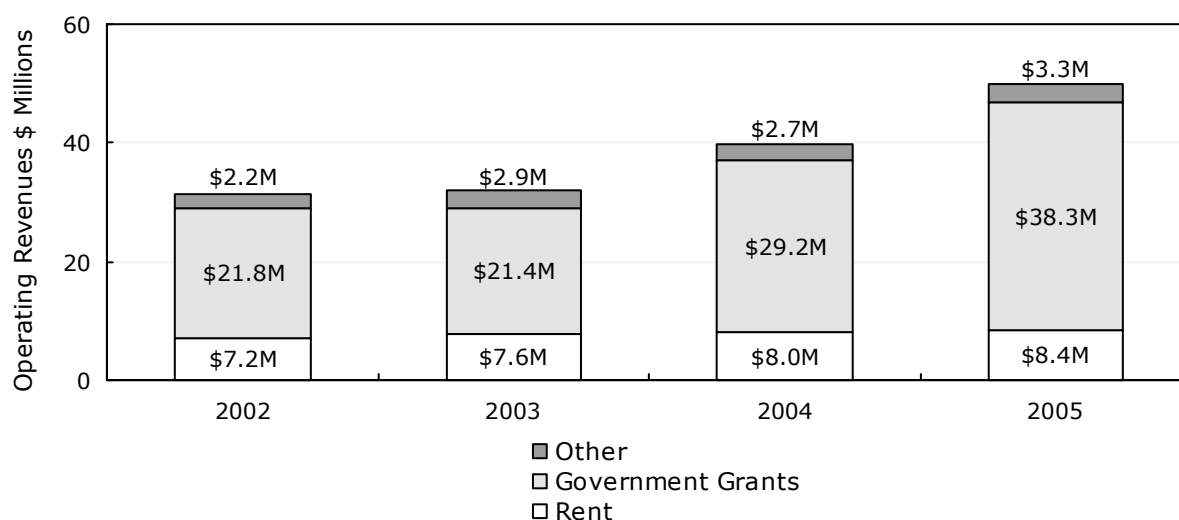
	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Government revenues	38.3	29.2	31
Other	11.7	10.7	10
Total Operating Revenue	50.0	39.9	25
OPERATING EXPENDITURE			
Rental House Ownership Costs	10.2	10.3	(1)
Grants	8.0	7.7	4
Staffing Costs	5.2	4.9	6
Other expenses	5.9	5.8	2
Total Operating Expenses	29.3	28.7	2
Surplus	20.7	11.2	85
Net Cash Flows from Operations	22.0	13.8	59
ASSETS			
Current assets	23.7	11.8	101
Non-current assets	280.2	217.6	29
Total Assets	303.9	229.4	32
LIABILITIES			
Current liabilities	3.3	2.7	22
Non-current liabilities	0.6	0.5	20
Total Liabilities	3.9	3.2	22
EQUITY	300.0	226.2	33

Statement of Financial Performance**Operating Revenues**

Government grants represent 77 percent of the Authority's revenue which reflects the dependency of the Authority on this source of revenue. Government grants increased by \$9.1 million due mainly to additional funding from the Department for Families and Communities for activities associated with the State Housing Plan. Funding for that Plan of \$7.3 million received in 2005 is to be applied to the construction and upgrade of Aboriginal community managed housing in rural and remote areas.

Rent from tenants represent 17 percent of the Authority's revenue in 2005, an increase of 5 percent.

A structural analysis of operating revenues for the Authority in the four years to 2005 is presented in the following chart.

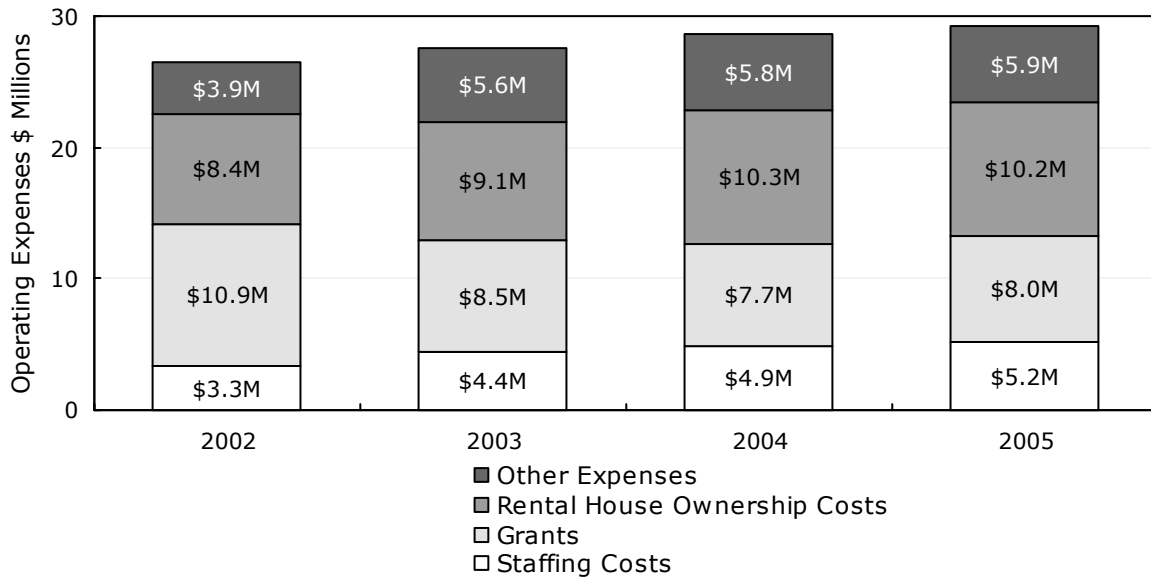


Operating Expenses

Staffing costs have increased by \$331 000 (7 percent) in 2005.

Grants represent community housing program grants provided by the Authority to fund the acquisition and maintenance of housing on behalf of Aboriginal communities.

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

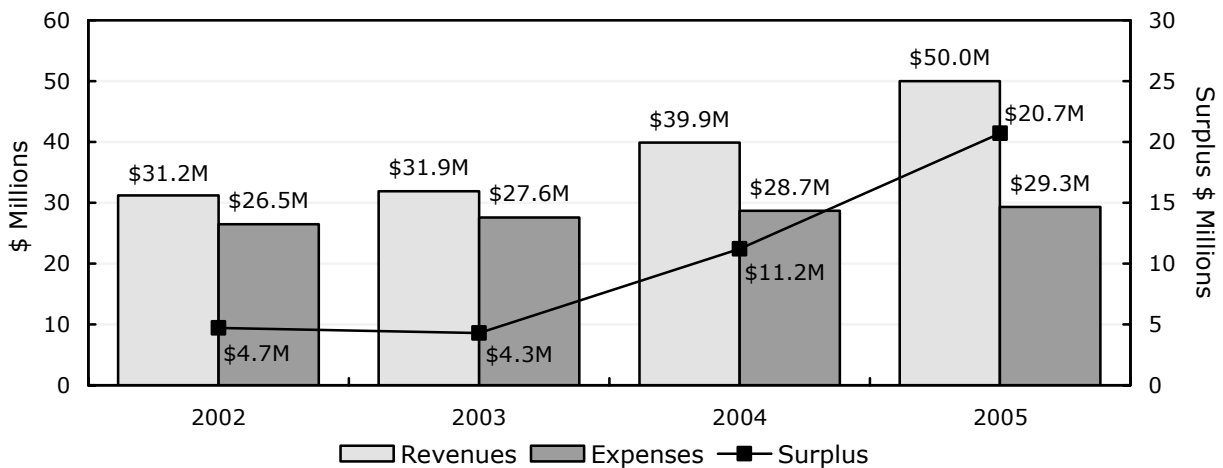


Rental house ownership costs include maintenance, council and water rates, depreciation and insurance.

Operating Result

The operating surplus increased by \$9.5 million in 2005 due mainly to the increase in government revenue received for activities associated with the State Housing Plan.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2005.

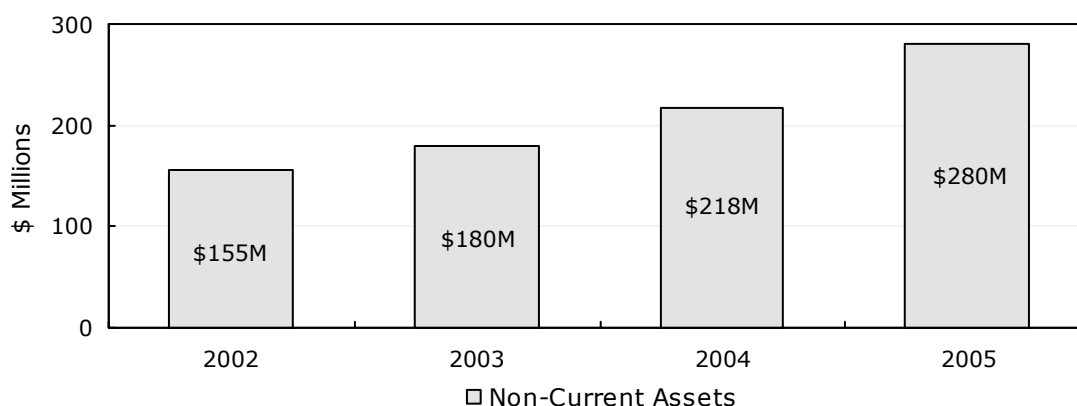


Statement of Financial Position

The operations of the Authority are capital intensive as is reflected in the investment in non-current assets which principally reflect rental properties. The Authority’s rental properties were transferred to it from the Housing Trust on the Authority’s establishment or were acquired subsequently using funds from operations.

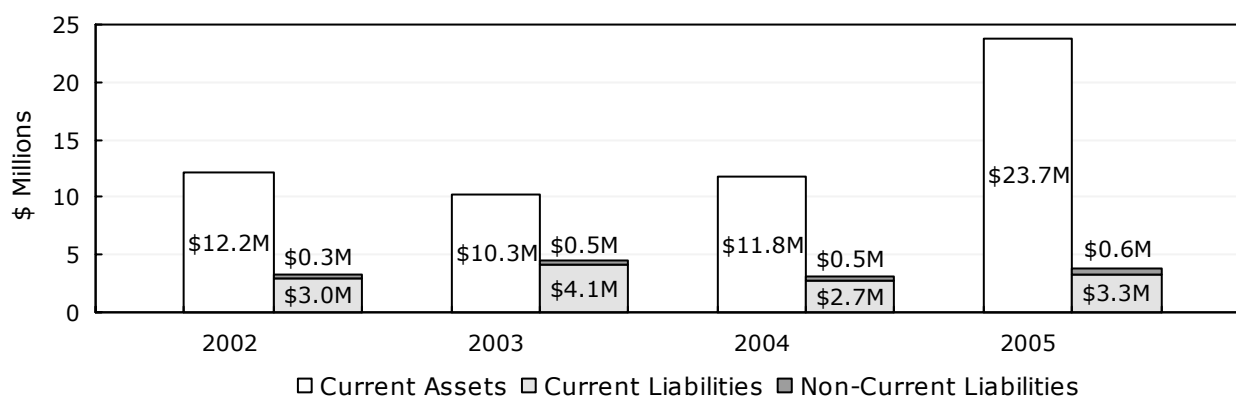
The increase in non-current assets is due to the Authority’s investment in new properties and increment on revaluation of \$53.1 million.

Analysis of non-current assets for the four years to 2005 is shown in the following chart.



Current assets increased in 2005 due mainly to funding received from the Department for Families and Communities for activities associated with the State Housing Plan.

A structural analysis of current assets and both current and non-current liabilities for the four years to 2005 is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005 \$'million	2004 \$'million	2003 \$'million	2002 \$'million
Net Cash Flows				
Operations	22.0	13.7	7.9	10.2
Investing	(11.9)	(11.2)	(9.5)	(7.4)
Change in Cash	10.1	2.5	(1.6)	2.8
Cash at 30 June	18.3	8.2	5.7	7.3

The analysis of cash flows for the three years to 2004 reflects the impact of grant funding, recognised as an operating cash flow, being applied to meet investing cash flows associated with the purchase, construction and upgrade of rental houses.

The large build up of cash during 2005 reflects funding received from government in advance of future community housing program projects.

At 30 June 2005 the Authority had recurrent and capital expenditure commitments of \$7.6 million.

FURTHER COMMENTARY ON OPERATIONS

State Government Owned Housing

At 30 June 2005 there were 1872 lettable houses owned by the State Government and controlled by the Authority for rental to Aboriginal people. The Authority is responsible for the acquisition and maintenance of these properties and obtains funding for this purpose through Government grants, sale of properties and collection of rents from tenants.

Rent Revenue

Tenants meeting specified criteria, for instance those with low household income, are provided with a rebate and charged a reduced rent. Rent charged to tenants was \$8.4 million (\$8.0 million) and the rental rebates were \$5.8 million (\$5.3 million).

The number of tenancies at 30 June 2005 was 1772 (1772). The percentage of tenancies receiving rebates at 30 June 2005 was 79 percent (78 percent).

Community Owned Housing

Community housing grants provided by the Authority fund the acquisition of housing for Aboriginal communities. Ownership of the housing is transferred to the Aboriginal communities, who are responsible for the repair and maintenance of the properties. Community housing grants are also provided to assist in funding repairs and maintenance. Refer to Note 3(b) to the Financial Statements.

**Statement of Financial Performance
for the year ended 30 June 2005**

		2005	2004
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:	Note		
Rent	4(a)	8 415	7 991
Recoveries	4(b)	2 029	2 061
Interest		398	77
Net revenue from disposal of non-current assets	4(c)	809	132
Other revenue		110	424
Total Revenues from Ordinary Activities		11 761	10 685
CONTRIBUTIONS FROM GOVERNMENT:			
Grant programs	4(d)	38 274	29 271
Total Contributions from Government		38 274	29 271
Total Revenues		50 035	39 956
EXPENSES FROM ORDINARY ACTIVITIES:			
Grants		7 995	7 745
Maintenance		4 655	5 631
Staffing costs	5(a)	5 194	4 863
Depreciation	5(b)	2 685	2 362
Council and water rates		2 600	2 255
Business services fees		1 222	1 229
Bad and doubtful debts	5(c)	221	1 075
Buildings written off		399	713
Rent		513	406
Insurance		206	98
Other	5(d)	3 575	2 360
Total Expenses from Ordinary Activities		29 265	28 737
Surplus from Ordinary Activities		20 770	11 219
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Net increase in asset revaluation reserve		51 565	29 715
Total Revenues, Expenses and Valuation Adjustments Recognised directly in Equity		51 565	29 715
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		72 335	40 934

**Statement of Financial Position
as at 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash assets	12(a)	18 329	8 219
Receivables	6	5 336	3 572
Inventories	7	13	25
Total Current Assets		23 678	11 816
NON-CURRENT ASSETS:			
Property, plant and equipment	8	280 256	217 571
Total Non-Current Assets		280 256	217 571
Total Assets		303 934	229 387
CURRENT LIABILITIES:			
Payables	9	2 972	2 376
Other	10	366	323
Total Current Liabilities		3 338	2 699
NON-CURRENT LIABILITIES:			
Payables	9	564	511
Total Non-Current Liabilities		564	511
Total Liabilities		3 902	3 210
NET ASSETS		300 032	226 177
EQUITY:			
Accumulated surplus	14	190 292	168 002
Asset revaluation reserve	14	109 740	58 175
TOTAL EQUITY		300 032	226 177
Commitments	11		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
PAYMENTS:			
Supplies and services		(11 964)	(13 661)
Staffing costs		(4 922)	(4 789)
Grants		(7 995)	(7 745)
Goods and Services Tax remitted to Department of Health		(1 756)	(791)
Goods and Services Tax paid to suppliers		(904)	(867)
RECEIPTS:			
Receipts from customers		8 649	10 433
Goods and Services Tax received from Department of Health		824	890
Goods and Services Tax received from customers		1 381	945
Cash flows from Government		38 274	29 271
Interest received		398	77
Net Cash provided by Operating Activities	12(b)	21 985	13 763
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(16 100)	(12 580)
Proceeds from sale of property, plant and equipment		4 225	1 334
Net Cash used in Investing Activities		(11 875)	(11 246)
NET INCREASE IN CASH HELD		10 110	2 517
CASH AT 1 JULY		8 219	5 702
CASH AT 30 JUNE	12(a)	18 329	8 219

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The South Australian Aboriginal Housing Authority (AHA) is the State's Aboriginal public housing authority. The AHA's strategic goals are to enhance the quality of life and safeguard the health and well being of South Australian Aboriginal people through the provision of housing and housing related services to customers in need. The AHA principal sources of funds include grants from the Commonwealth and State Governments, rent and other payments from tenants, and the proceeds from the sale of houses and other assets.

The AHA objectives are to:

- promote self determination and self management;
- expand the level of housing provision;
- analyse and develop a program that is responsive to Aboriginal housing needs;
- expand training and employment opportunities for Aboriginal people in the housing sector;
- improve housing management in the rural and remote areas;
- integrate the provision of Aboriginal housing;
- improve access to home ownership for Aboriginal people;
- maintain and improve efficiency of Aboriginal housing administration.

2. Summary of Significant Accounting Policies

The significant policies which have been adopted in the preparation of these financial statements are:

(a) Basis of Preparation of the Financial Statements

The AHA's financial statements are a general purpose financial report which have been prepared on an accrual basis and in accordance with applicable Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

In the absence of a specific Accounting Standard, other authoritative pronouncements of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in Accounting Standard AASB 1001 'Accounting Policies' is considered.

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

(b) Revenue Recognition

Rental Income

Residential rents are recognised as revenue and charged to tenants weekly, in advance.

Market rents are set for each property, however assistance by way of a rental rebate is offered to low income tenants.

Disposal of Non-Current Assets

The proceeds of real property asset sales are included as revenue of the AHA when settlements are completed.

Recoveries

Recoveries for costs on-charged by the AHA are included in revenue.

Grants

Grants for all purposes have been recognised as revenue when received.

(c) Property, Plant and Equipment

The Statement of Financial Position includes all land, buildings, plant and equipment controlled by the AHA.

The AHA has set a policy that all land and buildings are to be revalued annually at each respective 31 October. This policy complies with the Department of Treasury and Finance Accounting Policy Statement APS 3 'Valuation of Non-Current Assets'.

Plant, equipment and leasehold improvements not revalued as at 30 June 2005 are reflected at replacement cost (or historic cost where replacement cost is not available) less a deduction to reflect the portion of service potential which has been consumed since the asset was acquired, that is, written down replacement cost (or depreciated historic cost).

All land, buildings, plant and equipment acquired since the last revaluation of a class of non-current asset are accounted for at cost.

(i) Rental Properties

All land and buildings have been revalued to reflect the Valuer-General's values (for rating purposes) as at 30 June 2004.

- (ii) **Vacant Land**
All vacant land, which is held for future development and AHA use, has been revalued to reflect the Valuer-General's values (for rating purposes) as at 30 June 2004.

Items of plant and equipment with an individual value of less than \$5 000 are expensed at the time they are acquired.

(d) Inventories

The AHA has a policy that annually at 31 October the carrying amount of real property inventories other than those subject to development as capital work in progress are compared with an independent valuation and where the carrying amount exceeds the independent valuation, the carrying amount is adjusted to reflect the independent valuation.

Inventories of Stores are carried at cost.

(e) Depreciation

Property, plant and equipment are depreciated from the date of acquisition or in respect of internally developed assets, from the time an asset is completed and held ready for use.

The AHA's property, plant and equipment are depreciated over their estimated useful life using the straight line basis.

Major depreciation periods are:	Years
Rental properties (dwellings)*	50
Administrative buildings	25
Plant and equipment	3-10
Computer equipment	3

* An estimated useful life of 50 years is assumed for rental dwelling 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 Authority's and ensures consistency and comparability between these authorities.

(f) Leased Property, Plant and Equipment

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred. These leases are identified in Note 11.

(g) Employee Benefits as Staffing Costs

Employees of the Department for Families and Communities are assigned to staff the AHA. The accruing entitlement of Department for Families and Communities' employees assigned to the AHA has been recognised in the Statement of Financial Position as an amount payable by the AHA to the Department for Families and Communities.

The amount payable for annual leave and long service leave represents the amount which the AHA has a present obligation to pay resulting from employee's services provided up to the reporting date. The liability for long service leave was determined through an actuarial assessment undertaken by William Mercer Pty Ltd in accordance with Accounting Standard AASB 1028 'Employee Benefits'. A payable has been recognised for the unused component of annual leave as at balance date, calculated using pay rates expected to apply at the time of settlement. Accruing employee entitlements for long service and annual leave were charged to the Statement of Financial Performance as they were incurred.

The AHA has accrued the cost of payroll tax on accrued employee entitlements for annual leave, long service leave and the employer's superannuation contributions thereon. This provision, relating to employee entitlements of Department for Families and Communities employees assigned to the AHA, has been recognised in the Statement of Financial Position as an amount payable by the AHA to the Department for Families and Communities.

(h) Superannuation

The accruing on-costs relating to employee entitlements of the Department for Families and Communities employees assigned to the AHA have been recognised in the Statement of Financial Position as an amount payable by the AHA to the Department for Families and Communities.

During the year the AHA has provided for employer superannuation contributions, at an average rate of 10 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 45 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.

Contributions are made by the AHA to several superannuation schemes operated by the South Australian 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. Any liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes, and such amounts will be treated as a payable not an employee related entitlement.

(i) Insurance

The AHA has an agency agreement with South Australian Government Captive Insurance Corporation (SAICORP) in which the Treasurer indemnifies the AHA against damage suffered to the AHA's property or claims made against the AHA. The AHA pays a contribution to SAICORP for this cover which, in the case of rental properties, is without limit. The AHA assumes part of the risk through accepting deductibles in each category of cover.

The Statement of Financial Performance expense item 'Insurance' reflects the cost of the contribution to SAICORP.

(j) Provisions

Doubtful Debts

Specific provision has been made for any doubtful debts identified. In addition, a general provision based on the profile of the AHA's debt and its debt write-off history has also been raised.

(k) Unearned Revenue

Lump sums received for leases assigned on AHA properties are progressively brought to account as income on a straight line basis over the term of their respective agreements.

(l) Receivables

Receivables are recognised and carried at the original invoiced amount less a provision for any doubtful debts identified. Bad debts are written off as incurred.

(m) Payables

Payables include creditors and accrued staffing benefits. Creditors represent amounts owing for goods and services received prior to 30 June that are unpaid. Accrued staffing benefits represent benefits owing to staff assigned to the Authority for services provided up to 30 June that remain unpaid.

(n) Tax Status

The activities of the AHA are exempt from Commonwealth income tax but other Commonwealth taxes such as Fringe Benefits Tax, Goods and Services Tax (GST) and other State taxes including payroll tax are applicable.

(o) Accounting for Goods and Services Tax (GST)

The AHA is part of a GST group. The nominated representative (Department of Health) of the GST group is responsible to pay GST and is entitled to claim input tax credits.

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

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

The net GST receivable/payable to the Department of Health has been recognised as a receivable/payable in the Statement of Financial Position.

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

(p) Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Authority in accordance with Accounting Standard AASB 1 'First Time Adoption of Australian Equivalents to International Reporting Standards' will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

In accordance with the requirements of AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards', the Authority has assessed the impacts on the financial report for the year ended 30 June 2005 had it been prepared using the Australian Equivalents to IFRS. This assessment has concluded that the impacts will not be significant.

3. Report by Major Activities

(a) Tenant/Client Services Public Rental

Statewide AHA program incorporating the management of public rental housing.

General administrative activities have been apportioned suitably between Tenant/Client Services Public Rental and Community Housing Program.

(b) Community Housing Program

The Community Housing Program provides funding support to Indigenous Community Housing Organisations across South Australia, for new housing, housing upgrades, insurance, community administration assistance and repairs and maintenance subsidies.

General administrative activities have been apportioned suitably between Tenant/Client Services Public Rental and Community Housing Program.

(b) Community Housing Program (continued)

	Tenant/Client Services Public Rental		Community Housing Program		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenues from Ordinary Activities:						
Rent	8 415	7 991	-	-	8 415	7 991
Recoveries	1 555	1 591	474	470	2 029	2 061
Interest	198	40	200	37	398	77
Net revenue from disposal of non-current assets	809	132	-	-	809	132
Other revenue	55	224	55	200	110	424
Total Ordinary Revenues	11 032	9 978	729	707	11 761	10 685
Contributions from Government:						
Grant Programs	17 447	13 369	20 827	15 902	38 274	29 271
Total Contributions from Government	17 447	13 369	20 827	15 902	38 274	29 271
Total Revenues	28 479	23 347	21 556	16 609	50 035	39 956
Expenses from Ordinary Activities:						
Grants	-	-	7 995	7 745	7 995	7 745
Maintenance	4 655	5 617	-	14	4 655	5 631
Staffing costs	2 581	2 519	2 613	2 344	5 194	4 863
Depreciation	2 620	2 299	65	63	2 685	2 362
Council and water rates	2 600	2 255	-	-	2 600	2 255
Business services fees	607	639	615	590	1 222	1 229
Bad and doubtful debts	221	1 075	-	-	221	1 075
Buildings Written Off	399	713	-	-	399	713
Rent	255	211	258	195	513	406
Insurance	102	51	104	47	206	98
Other	1 706	1 061	1 869	1 299	3 575	2 360
Total Ordinary Expenses	15 746	16 440	13 519	12 297	29 265	28 737
Surplus from Ordinary Activities	12 733	6 907	8 037	4 312	20 770	11 219
Transfers to Accumulated Surplus						
Increment on sale of properties	1 520	251	-	-	1 520	251
OPENING ACCUMULATED SURPLUS	161 473	154 315	6 529	2 217	168 002	156 532
CLOSING ACCUMULATED SURPLUS	175 726	161 473	14 566	6 529	190 292	168 002
Outstanding Commitments	3 131	2 981	4 444	2 037	7 575	5 018

4. Revenues from Ordinary Activities

(a) Rent	2005	2004
	\$'000	\$'000
Gross rent	14 192	13 249
Rental rebates	(5 777)	(5 258)
	8 415	7 991
(b) Recoveries		
Maintenance	552	551
Water charges	254	234
Bad debts	159	192
Salary and wages	56	116
Other recoveries	1 008	968
	2 029	2 061
(c) Net Revenue from Disposal of Non-Current Assets		
Proceeds from disposal of non-current assets	4 225	1 334
Less: Cost of sales	3 416	1 202
	809	132
(d) Grant Programs		
Commonwealth State Housing Agreement	19 281	20 190
Family and Community Services	10 929	-
Aboriginal and Torres Strait Islander Services	-	7 835
State Housing Plan	7 300	-
Fixing Homes for Better Health	731	1 054
Other	33	192
	38 274	29 271

5. Expenses from Ordinary Activities	2005	2004
(a) Staffing Costs	\$'000	\$'000
Salaries and wages	3 846	3 753
Superannuation	428	402
Annual leave	389	350
Payroll tax	315	297
Long service leave	173	67
Workers compensation	43	(6)
	5 194	4 863
(b) Depreciation		
Freehold buildings	2 555	2 233
Leasehold improvements	89	89
General plant and equipment	21	21
Administration buildings	5	10
Computing equipment	15	9
	2 685	2 362
(c) Bad and Doubtful Debts		
Bad debts written off	695	908
Doubtful debts expense	(474)	167
	221	1075
(d) Other		
Accommodation and travel	389	421
Communication and computing	326	380
Contractors fees	936	378
Vehicle expenses	450	374
Printing, stationery, postage and periodicals	186	220
Occupancy expenses	238	175
Training	95	101
Audit remuneration*	68	58
Minor equipment	429	37
Consultancies	63	37
Other expenses	395	179
	3 575	2 360
* Includes remuneration of \$55 000 paid or payable to the Auditor-General's Department for the audit of the financial report of the AHA for the year ending 30 June 2005. No other services were provided by the auditors.		
6. Receivables	2005	2004
	\$'000	\$'000
Debtors	5 772	4 567
GST recoverable from Department of Health	134	53
Excess water	27	23
Provision for doubtful debts	(597)	(1 071)
	5 336	3 572
7. Inventories		
Vacant land	13	23
Stores	-	2
	13	25
8. Property, Plant and Equipment		
Freehold land and buildings (At valuation)	271 317	211 571
Accumulated depreciation	(1 797)	(1 590)
	269 520	209 981
Vacant land (At cost)	2 095	2 041
Leasehold improvements (At cost)	1 242	887
Accumulated depreciation	(553)	(464)
	689	423
Administration Land and Buildings (At cost)	142	442
Accumulated depreciation	(1)	(9)
	141	433
Capital works in progress	7 503	4 513

8. Property, Plant and Equipment (continued)

	2005	2004
	\$'000	\$'000
General plant and equipment (At cost)	269	209
Accumulated depreciation	(88)	(67)
	181	142
Computing equipment (At cost)	771	667
Accumulated depreciation	(644)	(629)
	127	38
Total Property, Plant and Equipment	280 256	217 571

Reconciliation

Reconciliations of the carrying amount of each class of land, buildings, leasehold improvements and capital works in progress at the beginning and end of the current financial year are displayed in the table below:	2005			
	Freehold Land and Buildings \$'000	Vacant Land \$'000	Leasehold Improvements \$'000	Administration Land and Buildings \$'000
Carrying amount at 1 July	209 981	2 041	423	433
Additions	12 156	566	355	-
Disposals/scrapped	(3 153)	(794)	-	-
Transfers to completed works	-	-	-	-
Net revaluation increment less revaluation decrements	53 091	282	-	(287)
Depreciation expense	(2 555)	-	(89)	(5)
Carrying Amount at 30 June	269 520	2095	689	141

Reconciliations of the carrying amount of each class of land, buildings, leasehold improvements and capital works in progress at the beginning and end of the current financial year are displayed in the table below:	2005			2005
	Capital Works in Progress \$'000	General Plant and Equipment \$'000	Computing Equipment \$'000	Total \$'000
Carrying amount at 1 July	4 513	142	38	217 571
Additions	12 413	60	104	25 654
Disposals/scrapped	-	-	-	(3 947)
Transfers to completed works	(9 423)	-	-	(9 423)
Net revaluation increment less revaluation decrements	-	-	-	53 086
Depreciation expense	-	(21)	(15)	(2 685)
Carrying Amount at 30 June	7 503	181	127	280 256

9. Payables

	2005	2004
	\$'000	\$'000
Current Payables:		
Creditors	2 179	1 436
Staffing benefits	646	427
Council and water rates	74	65
GST payable to the Department of Health	73	448
	2 972	2 376
Non-Current Payables:		
Staffing benefits	564	511
	564	511

10. Other Liabilities

	2005	2004
	\$'000	\$'000
Current Liabilities:		
Insurance provisions	218	209
Unearned revenue	148	114
	366	323

11. Commitments**Capital Expenditure**

The total value of outstanding capital projects inclusive of GST as at the end of the reporting period for specific projects are detailed below. These amounts have not been brought to account in the financial statements.

	2005	2004
	\$'000	\$'000
Not later than one year	2 413	2 294

Recurrent Expenditure

The total value of outstanding recurrent expenditure inclusive of GST commitments as at the end of the reporting period. These amounts have not been brought to account in the financial statements:

Not later than one year	4 715	2 031
-------------------------	--------------	-------

Operating Lease Commitments

	2005	2004
	\$'000	\$'000
Future non-cancellable operating lease rentals not provided for and payable inclusive of GST:		
Not later than one year	360	416
Later than one year but not later than five years	87	277
	447	693

All leases are for office accommodation and are non-cancellable with rental paid monthly in advance. Minimum lease payments are reviewed annually and indexed in accordance with inflation. Options exist to renew the lease at the end of the lease term.

12. Notes to the Statement of Cash Flows**(a) Reconciliation of Cash Assets**

For the purposes of the Statement of Cash Flows, cash assets includes cash on hand and cash at bank. Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash held in deposit account	18 326	8 214
Cash on hand	3	5
	18 329	8 219

(b) Reconciliation of Net Cash Provided by Operating Activities to Surplus from Ordinary Activities

Net Cash provided by Operating Activities

Depreciation	21 985	13 763
Buildings written off	(2 685)	(2 362)
Net revenue from disposal of non-current assets	(399)	(713)
	809	132
	19 710	10 820

Change in Assets and Liabilities:

Increase (Decrease) in receivables excluding receivables from asset sales	1 764	(1 019)
Decrease in inventories	(12)	(4)
(Increase) Decrease in payables	(649)	1 450
Increase in other liabilities	(43)	(28)
	1 060	399
	20 770	11 219

Surplus from Ordinary Activities**13. Remuneration of Board Members and Employees****(a) Board Members' Remuneration**

The AHA Board of Management comprises nine members and eight Deputy Members. Board Members nominated by the Aboriginal and Torres Strait Islander Commission (ATSIC), or their deputies when acting for the Board Members, are paid attendance fees by ATSIC and remuneration from ATSIC is not reflected in the following table. The fees paid to Board Members are set by Executive Council in accordance with approved procedures.

Board Members of the AHA during the financial year were:

Mr Elliot McNamara (Chairperson)	
Ms Shereen Rankine	Mr Yami Lester OAM
Mr Henry Rankine OAM	Ms Keren Larkins
Mr Klynton Wanganeen	Mr Tauto Sansbury
Mr Harry Miller	Mr Alwyn McKenzie

The number of Board Members whose remuneration from the AHA falls within the following bands:

	2005	2004
	Number of	Number of
	Members	Members
\$nil	3	4
\$1 - \$10 000	2	1
\$10 001 - \$20 000	4	5
	9	10

Total remuneration received, or due and receivable by the Board Members of the AHA

2005	2004
\$'000	\$'000
54	57

In addition, Deputy Board Members were paid a total of \$nil (\$10 000).

Board Members and Deputy Members of the AHA have declared the following interest in the following community organisations which have received funding from the AHA. The Board Members have no other pecuniary interest direct or indirect in any Firm, Trust or Company with which the AHA had entered into transactions during the year.

(a) Board Members' Remuneration (continued)

Mr H Miller declared his interest in Port Lincoln Aboriginal Community Council.
Grant Expenditure 2004-05: \$65 000
Contract Expenditure 2004-05: \$28 000

Mr J Scott (Deputy to H Miller) declared his interest in Scotdesco Inc. and Scoabar Consulting Services Pty Ltd.

Contract Expenditure 2004-05 (Scoabar): \$719 000
Grant Expenditure 2004-05 (Scotdesco): \$29 000

Mr A McKenzie declared his interest in Davenport Community Council and Viliwarinha Yura Aboriginal Corporation.

Grant Expenditure 2004-05 (Davenport): \$322 000
Grant Expenditure 2004-05 (Viliwarinha): \$30 100

Ms G Miller (Deputy to Y Lester) declared her interest in Yarilena Homelands.
Grant Expenditure 2004-05: \$23 500

Ms C Lennon (Deputy to H Rankine) declared her interest in Dunjiba Community.
Grant Expenditure 2004-05: \$102 800

Mr V Wilson (Deputy to S Rankine) declared his interest in Kalparrin Community.
Grant Expenditure 2004-05: \$87 100

(b) Employees' Remuneration

The number of employees whose normal remuneration was over \$100 000 was:
\$170 000 - \$179 999

2005	2004
Number of	Number of
Employees	Employees
1	1

2005	2004
\$'000	\$'000
172	172

Total value of remunerations in excess of \$100 000 were

During 2004-05 the General Manager assigned to the AHA by the Department for Families and Communities was replaced. The figures provided above represent the remuneration paid in total to both officers in 2004-05.

Remuneration includes salary, employer's superannuation costs, use of motor vehicle in accordance with prescribed conditions and associated Fringe Benefits Tax.

14. Equity

Equity represents the residual interest in the net assets of the AHA. The State Government holds the equity interest in the AHA on behalf of the South Australian community. The asset revaluation reserve represents that portion of equity resulting from the revaluation of non-current assets.

	Accumulated	Asset	2005		Asset	2004
	Surplus	Revaluation	Total	Accumulated	Revaluation	Total
	\$'000	Reserve	Equity	Surplus	Reserve	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	168 002	58 175	226 177	156 532	28 711	185 243
Changes in equity:						
Surplus from ordinary activities	20 770	-	20 770	11 219	-	11 219
Increments related to the revaluation of:						
Rental properties	-	51 565	51 565	-	29 715	29 715
Transfers to accumulated surplus:						
Increments on sale of properties	1 520	-	1 520	251	(251)	-
Balance as at 30 June	190 292	109 740	300 032	168 002	58 175	226 177

15. Additional Financial Instruments Disclosure**(a) Credit Risk**

The AHA is exposed to credit risk associated with the amounts due to it from tenants for rent and other charges. The AHA manages credit risk associated with its tenants by establishment of a Credit Policy which is communicated to AHA staff and tenants.

(b) Interest Rate Risk Exposure

The AHA is not exposed to any interest rate risk exposure, there are no fixed interest assets or liabilities. The only interest bearing component of the AHA is that of the floating interest rate for Cash and Deposits which was deemed to be 5.35 percent as at 30 June 2005.

(c) Net Fair Value of Financial Instruments

The net fair value of cash and equivalents and non-interest bearing monetary financial assets and financial liabilities of the Authority approximates their carrying value.

16. Transactions with SA Government

In accordance with the requirements of Accounting Policy Statement APS 13 ` Form and Content of General Purpose Financial Reports', the Authority has disclosed details of revenues, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government in the following table. A threshold of \$100 000 has been applied in determining these amounts in accordance with section 18 of APS 13.

	2005	2004
	\$'000	\$'000
Revenues from Ordinary Activities:		
Recoveries	630	914
Interest	398	77
	1 028	991
Contributions from Government:		
Grant programs	26 614	20 382
Expenses from Ordinary Activities:		
Council and water rates	1 296	1 069
Business services fees	1 222	1 229
Insurance	206	98
Other	348	290
	3 072	2 686
Financial Assets:		
Cash assets	18 326	8 214
Receivables	1 933	279
	20 259	8 493
Financial Liabilities:		
Payables	2 259	2 221
Insurance provisions	218	209
	2 477	2 430

SOUTH AUSTRALIAN ASSET MANAGEMENT CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

The *State Bank of South Australia Act 1983* (as amended) provides for the South Australian Asset Management Corporation (SAAMC), formerly known as the State Bank of South Australia to '... manage, realise and otherwise deal with its remaining assets and liabilities and, with the approval of the Treasurer, other assets and liabilities of the Crown or an instrumentally of the Crown, to the best advantage of the State'. The Act also provides for the Board of Directors of SAAMC to be subject to the control and direction of the Treasurer.

SAAMC and its controlled entities (ie former subsidiary and associated entities of the former State Bank of South Australia) commenced operations on 1 July 1994 with consolidated assets and liabilities of \$8.3 billion and \$8.2 billion respectively. At 30 June 2005 assets and liabilities of SAAMC stood at \$68 million and \$7 million respectively.

At 30 June 2005 SAAMC staffing consisted of a part time Chief Executive Officer and one temporary employee. SAAMC treasury operation is managed by the South Australian Government Financing Authority (SAFA) under a formal agreement between SAAMC and SAFA.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the South Australian Asset Management Corporation for each financial year.

Assessment of Controls

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

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

Scope of Audit

Consistent with the approach taken in prior years the 2004-05 statutory audit of SAAMC is undertaken by a private sector auditing firm under sub-contract arrangement to the Auditor-General.

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 2004-05, specific areas of audit attention included:

- asset reviews - valuation/provisioning/realisations and recoveries
- Treasury operations
- investments
- cash and cash at bank
- borrowings and other liabilities
- operating expenses
- financial accounting systems, including reconciliation processes
- financial statements verification.

AUDIT FINDINGS AND COMMENTS**Audit Opinions****Audit of Financial Statements**

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, the *Corporations Act 2001*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of SAAMC as at 30 June 2005, 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 Asset Management 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 Asset Management Corporation have been conducted properly and in accordance with law.

Audit Communications to Management

SAAMC's financial controls operating in relation to the auditable areas of review (including financial statements) were determined as satisfactory. There were no matters identified during the course of the audit that necessitated communication in the form of a management letter to SAAMC. Matters that were raised with SAAMC management during the audit process were not material in nature and were addressed in a positive manner.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

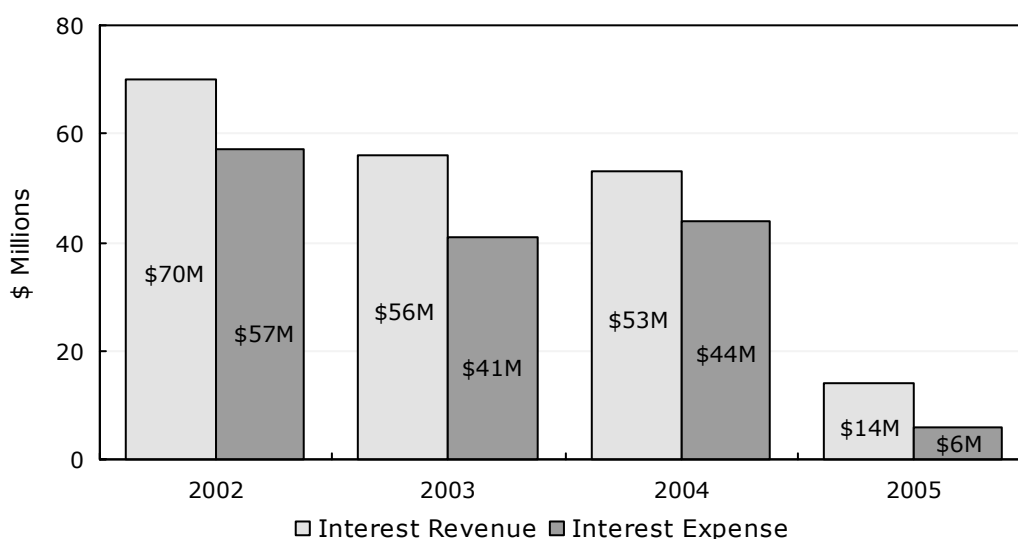
The major objectives of SAAMC involve the management of the divesting of assets and repayment of liabilities rather than holding for long term operations and profit generation.

Highlights of Financial Statements

	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Interest revenue	14	53	(74)
Non-interest income	2	2	-
Recoveries of debts	2	3	(33)
Total Revenue and Recoveries	18	58	(69)
OPERATING EXPENDITURE			
Interest expense	6	44	(86)
Other expenses	1	1	-
Total Expenses	7	45	(84)
Net Profit	11	13	(15)
Net Cash Flows from Operations	7	10	(30)
ASSETS	68	786	(91)
LIABILITIES	7	665	(99)
EQUITY	61	121	(50)

Statement of Financial Performance**Operating Revenues and Expenses**

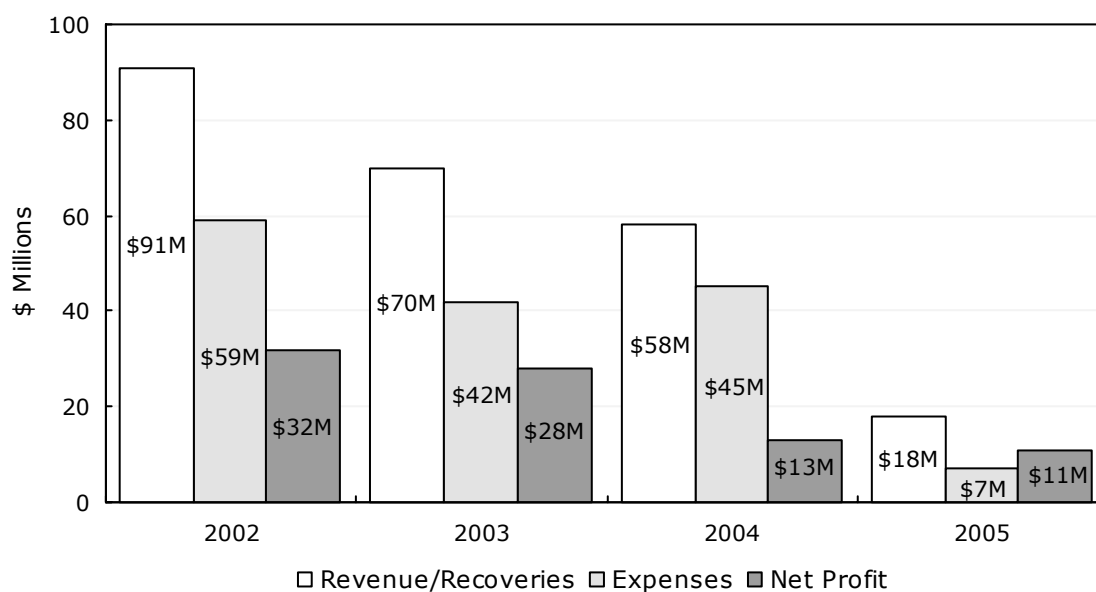
Interest revenue and interest expense constitute the main components of SAAMC's annual revenue and expense flows. The chart below compares the interest income and expense flows over the four years to 2005. The trend in both flows since 2002 reflects the continuation in the downsizing of SAAMC's balance sheet, involving the realisation of income earning assets and subsequent discharging of interest incurring liabilities. The reduced level of interest revenue and interest expense in 2005 when compared to previous years, results from the sale of securities during the year for purposes of discharging significant interest bearing liabilities in the year (refer to Notes 9 and 12).



The main expense items other than interest expense in 2005 were expenses of \$560 000 (\$50 000) relating to the investment property (refer to Note 4(b)) and the service fee of \$205 000 (\$512 000) payable to SAFA for management of the SAAMC Treasury portfolio (refer to Note 4(b)).

Operating Result

The following chart shows the revenues/recoveries, expenses and net profits for the four years to 2005. Net profits achieved over the four year period have ranged between \$11 million in 2005 and \$32 million in 2002.



Statement of Financial Position

The table below presents a broad analysis of the assets and liabilities and equity position of SAAMC for the four years to 2005. The table shows a trend reduction in assets and liabilities.

As mentioned previously, the value of securities and interest bearing liabilities reduced significantly. In 2005 fund receipts from the sale of securities were applied to the discharge of SAAMC's interest bearing liabilities of \$655.9 million and were also used towards payment of a dividend of \$73.2 million (\$58.5 million) to the Consolidated Account on direction of the Treasurer pursuant to section 22 of the *State Bank of South Australia Act 1983* (as amended). At 30 June 2005 retained profits of SAAMC stood at \$3.1 million.

	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million
ASSETS				
Securities	34	599	765	1 189
Other	34	187	170	242
Total Assets	68	786	935	1 431
LIABILITIES				
Interest bearing liabilities	-	656	758	1 060
Other	7	9	9	5
Total Liabilities	7	665	767	1 065
EQUITY				
Retained Profits	3	59	106	310
Other	58	62	62	56
TOTAL EQUITY	61	121	168	366

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	7	10	33	34
Investing	696	152	483	198
Financing	(705)	(161)	(517)	(233)
Change in Cash	(2)	1	(1)	(1)
Cash at 30 June	3	5	4	5

Cash flows predominately result from investing and financing activities. The cash flows from SAAMC's investing activities result mainly from receipts from the sale of securities (refer to Note 9). These receipts are used to make repayments associated with the discharge of SAAMC's interest bearing liabilities (refer to Note 12) and distribution of capital and/or retained profits to the Consolidated Account. As mentioned earlier, SAAMC's interest bearing liabilities of \$655.9 million were repaid and a dividend payment of \$73.2 million was made to the Consolidated Account in the current year.

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
Interest revenue	3	13 872	53 242
Interest expense	4(a)	(6 115)	(43 705)
Net Interest Revenue		7 757	9 537
Non-interest income	3	2 327	1 831
Credit for bad and doubtful debts	5	2 158	3 255
Other expenses from ordinary activities	4(b)	(1 520)	(1 524)
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EXPENSE		10 722	13 099
Income tax expense relating to ordinary activities	6	-	-
NET PROFIT		10 722	13 099
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Increase (Decrease) in asset revaluation reserve - Fair value adjustment	16	2 006	(997)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		12 728	12 102

**Statement of Financial Position
as at 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
ASSETS:			
Cash on hand and at bank		3 151	5 016
Loans, advances and receivables	8	5 179	16 717
Securities	9	34 000	598 804
Property, plant and equipment	10	13 500	11 000
Other assets	11	12 355	154 984
Total Assets		68 185	786 521
LIABILITIES:			
Interest bearing liabilities	12	-	655 864
Payables	14	4 056	5 768
Provisions	13	3 425	3 712
Total Liabilities		7 481	665 344
NET ASSETS		60 704	121 177
SHAREHOLDERS' EQUITY:			
Share capital	15	52 716	52 716
Reserves	16	4 864	9 286
Retained profits	17	3 124	59 175
TOTAL SHAREHOLDERS' EQUITY		60 704	121 177
Commitments	18		
Contingent Liabilities	19		

Statement of Cash Flows for the year ended 30 June 2005

		2005	2004
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
Interest received		36 225	50 806
Interest paid		(30 196)	(43 132)
Other income received		256	344
Recovery of bad debts written off in previous years		2 119	3 094
Payments to trade creditors, other creditors and employees		(1 826)	(1 171)
Net Cash Flows provided by Operating Activities	21(b)	6 578	9 941
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net receipts from loans, advances and receivables		11 472	18 641
Net receipts from trading securities		685 068	133 236
Net Cash Flows provided by Investing Activities		696 540	151 877
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid		(73 200)	(58 500)
Net receipts from (repayments of) borrowings		(492 954)	(127 512)
Net receipts from (repayments of) deposits		(138 829)	25 150
Net Cash Flows used in Financing Activities		(704 983)	(160 862)
NET (DECREASE) INCREASE IN CASH HELD		(1 865)	956
CASH AT 1 JULY		5 016	4 060
CASH AT 30 JUNE	21(a)	3 151	5 016

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The significant policies that have been adopted in the preparation of these financial statements are:

(a) Basis of Preparation

South Australian Asset Management Corporation (SAAMC - referred to as the 'Corporation') is incorporated under the *State Bank of South Australia Act 1983* (as amended). On 1 July 1994, the Corporation changed its name from State Bank of South Australia to South Australian Asset Management Corporation, as provided for in the *State Bank of South Australia Act 1983* (as amended). The financial statements of the Corporation are prepared as if it were a prescribed corporation, as defined under section 409 of the *Corporations Act 2001*.

The general purpose financial report of the Corporation has been prepared in accordance with applicable Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* so far as they are applicable to Australian banking operations, and with the *Public Finance and Audit Act 1987*. The accounting policies are consistent with those of the previous financial year, unless otherwise stated.

The Corporation vested the majority of its Australian banking operations to Bank of South Australia Limited (BankSA) on 1 July 1994. The vesting was facilitated by legislation passed in South Australia, the Commonwealth and other mainland State Parliaments. The Corporation retained certain Australian assets (that were excluded from the operations of BankSA), the majority of the wholesale funding liabilities as well as the overseas operations.

The Corporation's functions are to manage, realise and otherwise deal with its remaining assets and liabilities, and (with the approval of the Crown), other assets and liabilities of the Crown, or an instrumentality of the Crown, to the best advantage of the State of South Australia. For the purpose of performing its functions, the Corporation may carry on the general business of banking.

With the exception of assets referred to in Notes 9(b) and 10 all the assets of the Corporation are marked-to-market and treated as current. Certain liabilities of the Corporation extend beyond 30 June 2005 and are detailed in Notes 13 and 14.

(b) Asset Valuation Basis*Financial Assets*

Some of the assets of the Corporation are financial. With the exception of the bonds referred to in Note 9(b) they have been marked-to-market. The carrying amounts of these assets are revalued on an ongoing basis so that their fair market value is reflected on the entity's Statement of Financial Position with changes in fair value being recognised in the Statement of Financial Performance.

Land and Buildings

Land and buildings are measured at fair value. Revaluations of land and buildings were carried out with sufficient regularity to ensure the carrying amount of each asset does not differ materially from the fair value at reporting date. Independent valuations were obtained on 30 June 2005. Revaluation increments are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense. In this instance the revaluation increment is recognised as revenue. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

(c) Goods and Services Tax

Revenues, 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 Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the 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 a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to the ATO are classified as operating cash flows.

(d) Bad and Doubtful Debts

The Corporation's assets include liquid and trading securities and a property held for investment.

The Corporation has a policy of investing in securities rated A- or better and it has an active monitoring process in place, which ensures that assets downgraded below the approved limit are disposed of in the open market.

Due to their nature these assets have a minimum credit risk attached to them and they are continuously monitored and individually valued. Any changes to the market values of these assets are immediately taken through the profit and loss account and therefore provisioning for bad and doubtful debts is not required.

(e) Derivative Financial Instruments

The Corporation is exposed to changes in interest rates and was also exposed to changes in foreign exchange rates in the past from its activities. Prior to the 30 June 1994, the Corporation conducted a trading Treasury. When the banking operations were vested to BankSA, the Corporation retained all the significant Treasury exposures. The Corporation no longer trades in derivatives, though some minor positions are maintained. The Corporation had financial instruments, including interest rate and currency swaps, forward rate agreements, futures and options, which arose as part of the former trading activities. It also had financial instruments to hedge non-trading assets, liabilities and commitments of the Corporation. Instruments entered into as part of old trading activities continued to be marked-to-market with gains and losses, whether realised or unrealised, being recognised immediately in the Statement of Financial Performance. Gains and losses on instruments that were designated as hedges and were effective as hedges are accounted for on the same basis as the underlying instrument. The face values of such instruments were not recorded as assets and liabilities in the Statement of Financial Position. Any amounts receivable or payable in relation to these instruments were recorded as other assets or other liabilities. In April 2005 the Corporation closed off all its positions in the Derivatives Markets with the exception of a very minor proportion of derivative transactions relating to financial assets held for investment. Details of these financial instruments are disclosed in Note 20 'Financial Instruments', to the financial statements.

(f) Leased Assets as Lessor*Operating Leases*

Operating leases for leased assets where the Corporation is the lessor are included in property, plant and equipment in the Statement of Financial Position. Rental income is brought to account in the period in which it is earned over the effective lease term.

The Corporation owns a property, which is leased to the Department for Administrative and Information Services. A long term lease covers the property, which was purchased in October 1999 and it is included in the Statement of Financial Position at its fair value. Rental income is brought to account in the period in which it is earned. There are no depreciation charges against the asset as it is an investment property.

(g) Foreign Currency

All amounts are expressed in Australian currency at the exchange rate applying at balance date. Profits and losses resulting from offshore transactions are translated at average exchange rates for the year. Offshore monetary assets and liabilities are translated at mid-point rates of exchange ruling at balance date. There were no non-monetary assets and liabilities offshore at balance date.

Forward exchange contracts are translated at the forward rate applicable at balance date. The unrealised gains and losses arising from these revaluations are discounted to their present value using the mid-rate of the appropriate yield curve and included in the Statement of Financial Performance. It is policy to maintain a substantially matched position in foreign currency assets and liabilities and, accordingly, the Corporation's foreign currency exposure in this respect is not material.

(h) Taxation

The Corporation applies tax effect accounting using the liability method, where the income tax expense is matched to the accounting profit after permanent differences between taxable and accounting income, irrespective of when the income tax was payable.

The tax effect of timing differences, which arise from the recognition of revenue and expenses in different periods to those in which they are assessable or deductible for income tax purposes, is shown in the Statement of Financial Position and included in other assets and in other liabilities. Future income tax benefits, including tax losses, are not carried forward as an asset of the Corporation unless the benefit is virtually certain of being realised.

(i) Employee Entitlements

Employee entitlements as shown in Note 13 to the financial statements have been reported in accordance with AASB 1028 'Accounting for Employee Entitlements'. The value of commitments to employees is based on planned departure dates of staff and is calculated on the estimated cash entitlement at the time of the expected departure. Provisions required for employee entitlements are not discounted to present value, as the effect of discounting is not material.

Wages, Salaries, Annual Leave, Sick Leave and Long Service Leave

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent the amount that the Corporation has a present obligation to pay, resulting from employees' services provided up to balance date. The provision has been calculated at nominal amounts, based on current wage and salary rates, and includes related on costs.

The Corporation's future obligations for long service leave entitlements, although immaterial, have been fully provided.

Superannuation Funds

The Corporation contributes the prescribed Employer Contribution to the Triple S scheme administered by Super SA and a privately held fund chosen by an employee. Contributions are charged against income as they are made. Refer to Note 18, Superannuation Commitments.

(j) Securities

Securities represent public and other debt instruments that are purchased with the intention of investing excess liquidity prior to the repayment to the South Australian Government, or as part of the liquidity management function of the Corporation. Such securities are recorded on a mark-to-market valuation basis with the exception of one security, which is recorded on a cost basis. The Corporation changed to the cost basis of recording for this security in 2003-04, as it is considered that this particular structured investment would be held until its maturity in 2008. Gains and losses realised from the sale of these securities and unrealised gains and losses on revaluation are reflected in the Statement of Financial Performance.

(k) Rounding

Unless otherwise indicated, all amounts have been rounded to the nearest thousand (\$'000) dollars.

(l) Impact of Adopting Australian Equivalents to International Financial Reporting Standards

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

The assets and liabilities under the management of the Corporation will continue to reduce during the reporting period ending 30 June 2006.

Management assessed the significance of the adoption of these standards for the purpose of their implementation and is of the opinion that no significant changes to accounting policy will arise as a consequence of the downsizing of the Corporation's assets and liabilities and as a result of the adoption of IFRS.

As IFRS are required to be applied as if they had always applied to the Corporation's financial report for the year ending 30 June 2006, the Corporation completed preparatory work in relation to certain disclosure amounts for 2005 that are required to be restated on the IFRS basis for purposes of their inclusion in the 2005-06 financial report as comparative figures. The financial impact of the restatement will be a reclassification of \$2.858 million from Reserves to Retained Profits and a \$0.567 million increase in Other Assets with a corresponding increase in Retained Profits as at 1 July 2005.

2. Directions of the Treasurer

Section 22 of the *State Bank of South Australia Act 1983* (as amended), provides that any surplus of funds remaining after the costs of the Bank have been met in any financial year, must be paid into the Consolidated Account or otherwise dealt with as the Treasurer of South Australia may determine.

The Treasurer of South Australia has directed that \$73.2 million (\$58.5 million) be paid into the Consolidated Account from the Corporation's accumulated retained profits. The payment was made on 30 June 2005.

3. Revenue from Ordinary Activities	2005	2004
Profit from Ordinary Activities before related income tax expense	\$'000	\$'000
has been determined after crediting as revenue		
Interest Income:		
South Australian Government Financing Authority	231	235
Other interest income	13 641	53 007
Total Interest Income	13 872	53 242
Non-interest Income:		
Rental	2 255	1 696
Foreign exchange income	(37)	10
Mark-to-market gain (loss)	6	1 458
Decrement in value of security (Note 1(j))	-	(1 727)
Other sundry income	103	394
Total Non-Interest Income	2 327	1 831
4. (a) Interest Expense		
Profit from Ordinary Activities before related income tax expense		
has been determined after debiting as expense:		
Interest Expense	6 115	43 705
(b) Other Expenses from Ordinary Activities		
Profit from Ordinary Activities before related income tax expense		
has been determined after charging as expense the following:		
Fringe Benefits Tax	5	5
Salaries and wages	142	125
Superannuation and retiring allowances	21	19
Other staff expenses	16	8
Staff Costs	184	157
Property Expenses:		
Investment property expenses	560	50
Property Expenses	560	50
Amounts due or received for audit services by:		
Auditor-General of South Australia	85	69
Insurance	21	10
Management and service fees paid to SAFA	205	512
Legal fees	98	52
Other professional fees (European Banking Clearing)	103	139
Hellenic Cadastre Consult expenses	197	468
Telephones	2	3
Travel	6	3
Other expenses	59	61
Administration and General Costs	776	1 317
Total Other Expenses	1 520	1 524
5. Bad and Doubtful Debts		
Profit from Ordinary Activities before related income tax expense has been		
determined after charging as an expense (Note 1(d)):		
Net (credit) for bad debts written off:		
Recoveries net of recovery costs	(2 119)	(3 094)
Net Recoveries Received	(2 119)	(3 094)
Charge for provision for doubtful debts:		
Specific provision for doubtful debts (Note 9)	(39)	(161)
(Credit) for Provision for Doubtful Debts	(39)	(161)
(Credit) for Bad and Doubtful Debts	(2 158)	(3 255)

6. Income Tax		2005	2004
The amount provided in respect of income tax differs from the amount prima facie payable on operating profit:		\$'000	\$'000
Prima facie income tax expense calculated at 30 percent (30 percent) on profit		3 216	3 930
Decrease in income tax expense due to non-tax assessable items:			
Tax exempt income - SAAMC		3 216	3 930
Income tax expense (benefit) on profit adjusted for permanent differences:			
Income tax under (over) provided in prior year		-	-
Tax rate differential on overseas income		-	-
Future income tax benefit not brought to account		-	-
Total Income Tax Expense (Benefit)		-	-
7. Segmental Reporting			
Geographic Segments			
Revenue:			
Australia		16 199	55 073
Total Revenue		16 199	55 073
Profit after Tax:			
Australia		10 722	13 099
Total Profit After Tax		10 722	13 099
Total Assets:			
Australia		68 185	786 521
Total Assets		68 185	786 521
Industry Segments			
The Corporation has operated predominantly in the financial services industry during the course of the year comprising investing, recovery of outstanding debts and management of treasury risks.			
8. Loans, Advances and Receivables			
South Australian Government Financing Authority		4 260	4 169
Other term lending		919	12 548
Total Loans, Advances and Receivables (Gross)		5 179	16 717
Less: Specific provision for doubtful debts		-	-
Total Loans, Advances and Receivables (Net)		5 179	16 717
9. Securities			
(a) Unlisted Liquid and Trading Securities			
Interbank, corporate and other securities (Gross)		21 500	586 343
Less: Specific provision for doubtful debts		-	(39)
Total Unlisted (Net)		21 500	586 304
Total Liquid and Trading Securities		21 500	586 304
(b) Unlisted Securities at Cost			
Fixed coupon bonds		12 500	12 500
Total Securities		34 000	598 804
Specific Provision:			
Balance at 1 July		39	200
Charged (credited) against profit (Notes 1d, 5)		(39)	(161)
Specific Provision at 30 June		-	39
10. Property, Plant and Equipment			
Land and building (investment property):			
At fair value		13 500	11 000
Total Land and Building		13 500	11 000

An independent valuation of the Corporation's freehold land and building was carried out as at 30 June 2005 by Tim Trnovsky AAPI, a Certified Practising Valuer from Savills (SA) Pty Ltd on the basis of open market value for existing use. This resulted in a valuation of land of \$2 950 000 and a valuation of building of \$10 550 000.

Additions were made to the building during the year amounting to \$495 000. The Directors have determined to record the land and building at \$13 500 000 consistent with the independent valuation undertaken as at 30 June 2005.

The valuation was brought to account with the difference between the cost and market values recorded in the asset revaluation reserve.

10. Property, Plant and Equipment (continued)				
Reconciliation			2005	2004
			\$'000	\$'000
Opening written down value			11 000	11 000
Additions			495	997
Revaluation June 2005			2 500	-
Revaluation adjustment			(495)	(997)
Closing Written Down Value			13 500	11 000
11. Other Assets				
Receivables on swap or hedge transactions			12 355	154 984
Total Other Assets			12 355	154 984
12. Interest Bearing Liabilities				
Deposits			-	162 888
Capital markets raisings			-	492 976
Total Borrowings			-	655 864
Capital market raisings represented private note placements by the Corporation. The major placements were:				
	Currency	Original Face Value	Description	
	JPY	20 billion	8.125% notes due 2005	- 267 142
	JPY	15 billion	9.375% notes due 2005	- 200 356
Exchange Rates				
The Australian dollar values of the above note issues were determined using the following exchange rates:				
			2005	2004
	Australian Dollars (AUD)		-	1.00000
	Japanese Yen (JPY)		-	74.86658
13. Provisions			2005	2004
			\$'000	\$'000
Mortgage guarantee insurance and workers compensation claims provision			3 372	3 763
Employee entitlements, including on-costs			53	39
Total Provisions			3 425	3 712
14. Payables				
Sundry creditors and accruals			4 056	5 768
Total Other Liabilities			4 056	5 768
15. Capital				
Subscribed by the South Australian Government:				
Balance at 1 July			52 716	52 716
Transfer from (to) reserves			-	-
Balance at 30 June			52 716	52 716
Total Subscribed Capital			52 716	52 716
16. Reserves				
Property:				
Balance at 1 July			6 428	5 062
Transferred (to) from retained profits and revaluation adjustment (refer Note 17)			(6 428)	1 366
Balance at 30 June			-	6 428
Asset revaluation reserve:				
Balance at 1 July			2 858	3 855
Adjustment to revaluation reserve			2 006	(997)
Balance at 30 June			4 864	2 858
Total Reserves			4 864	9 286

Property Reserve

As detailed in Note 19 'Contingent Liabilities', the Corporation entered into a property put option in 1993-94 as part of the sale of the Australis property, now known as SA Water House. If the purchaser of the property exercises the put option in 2008, the Corporation will be required to purchase the property for \$39.5 million.

Should this event occur, the Corporation would be required to fund the full acquisition cost of \$39.5 million. In the event that the property is subsequently sold at a price lower than the acquisition cost, the Corporation might need to fund the difference between \$39.5 million and the net proceeds from the sale of the property.

Property Reserve (continued)

In recognition of these financial management considerations, the Directors had in the past resolved to transfer a portion of retained profits to a Property Reserve as part of a strategy to build up a reserve could have been required to fund either the partial or full acquisition of the Australis property in 2008.

An independent valuation of the property completed on 30 June 2005 valued it at \$40 million. If the put option is exercised, the Corporation as the owner would have the property fully leased to a new mixture of government and other commercial tenants and either sell it or keep it as an investment. In either case it is unlikely that the value of the building will decrease based on present day cash flows.

On the basis of these considerations, the Directors resolved not to maintain the reserve. As such the reserve has been reclassified as retained Profits in the current year.

Asset Revaluation Reserve

At 30 June 2005, the Corporation revalued its sole investment property, being the land and office building at 30 Wakefield Street, Adelaide and booked a gain of \$2.006 million in the revaluation reserve. During 2005 additions were made to the building amounting to \$495 000. Refer to Note 10 regarding the movement in the valuation of the asset.

17. Retained Profits	2005	2004
	\$'000	\$'000
Retained profits at 1 July	59 175	105 942
Net Profit attributable to the Corporation	10 722	13 099
Transfer from (to) property reserve (refer Note 16)	6 428	(1 366)
Dividend paid (refer Note 2)	(73 200)	(58 500)
Retained Profits at 30 June	3 124	59 175

18. Commitments**Superannuation Commitments**

The Corporation contributes to an accumulation benefit employee fund, which is administered by Super SA and a privately held superannuation fund as elected by one of the employees. Employer contributions to the funds are made in accordance with the funds requirements.

The Corporation had one-part time and one temporary employee as at balance date. There was one part time and one temporary employee at the same period last year.

Operating Lease Commitments

	2005	2004
	\$'000	\$'000
Concurrent leases payable or contracted for at balance date but not provided for in the financial statements:		
Not later than one year	3 782	3 663
Later than one year but not later than five years	9 999	13 781
Later than five years	-	-
	13 781	17 444

These commitments are offset by lease payments to be received, which are estimated to be \$13 800 000. (The 2004 estimate for recoveries was \$17 500 000 as compared to commitments of \$17 444 000. However historical results and changes in the real estate market conditions necessitate a re-evaluation of both future commitments and offsets, which result in a reduction in both estimates).

19. Contingent Liabilities**Claims against the Corporation**

In the ordinary course of business, the Corporation is involved in litigation, which at the date of adoption of these financial statements has not been resolved. Acting on legal advice, the Directors are of the opinion that no material losses are likely to arise other than the amounts provided for in the financial statements.

Treasurer's Indemnity

By a Deed dated 1 July 1994, the indemnity provided by the Treasurer of South Australia to South Australian Asset Management Corporation (SAAMC) was revoked, with both parties acknowledging that no claims were outstanding. The effect of the Deed was to terminate the South Australian Treasurer's obligation to grant indemnity in respect of losses that had not yet been claimed as at 1 July 1994.

Hellenic Cadastre Consult (HCC)

In late 1996 SAGRIC, a State owned company, acted as trustee for the Crown in relation to a joint venture with two international companies to provide services to a Greek Government owned company. The joint venture is known as Hellenic Cadastre Consult (HCC). The State's share of the residual net liabilities in HCC were vested to SAAMC by the dissolution of Edisco (the successor of SAGRIC) by proclamation in June 2004. There could be future litigation relating to certain contractual arrangements involving HCC and the Greek Government.

Put Option

A property put option was entered into in 1993-94 as part of the sale arrangements of the Australis property, now known as SA Water House.

At the time of sale, Group Asset Management Division (GAMD) (as head lessee) entered into a 15 year lease with the purchaser in relation to a substantial portion of the building, which was backed in cash flow terms against a pre-existing 15 year lease between GAMD and the then Minister for Public Infrastructure (as sub lessee) over the same portion of the building. In addition, GAMD undertook to purchase the building for \$39.5 million in 2008, at the current purchaser's option, if the value of the building at the time is lower than the agreed \$39.5 million.

The risk that the value of the building in 2008 will be less than \$39.5 million is considered low on the basis of an assessment of the property by Savills (SA) Pty Ltd on 30 June 2005. Refer to Note 16, Property Reserve.

20. Financial Instruments

	2005	2004
	\$'000	\$'000
Foreign Exchange, interest rate and other market related transactions (Notional Principal)	-	1 828 315

These were transactions in which the Corporation and other parties agreed to exchange a stream of cash flows based on notional principal amounts totalling \$1 828 315 000 in 2004 where one stream is calculated with reference to a rate or index (eg floating interest rate) and the other stream is calculated based on a different rate or index (eg fixed rate). Derivatives were mainly used to hedge risk. They allowed the entity to manage various degrees and types of risk, the most significant being market, credit and liquidity risk. All these deals were closed off as the investments and obligations and the risks associated with them were crystallized in 2005 in accordance with the Corporation's strategic objectives.

Market Risk

Market risk is the risk associated with changes in the streams of cash flows from one party to another due to changes in the market value of the asset which the derivative is used to protect.

Mark-to-Market

Until April 2005 the Corporation had a portfolio of underlying assets where mark-to-market accounting was used. This portfolio was a trading portfolio prior to 30 June 1994.

All positions, including derivatives held in the mark-to-market portfolio, were revalued on a daily basis to reflect market movements, with gains and losses, whether realised or unrealised, being recognised immediately in the Statement of Financial Performance.

In April 2005 all the interest bearing liabilities of the Corporation were extinguished. The residual financial assets continue to be held in the mark-to-market portfolio with the exception of a \$12.5 million security, which is accounted on an accrual basis. This security will be transferred to the mark-to-market portfolio in 2006.

The following table summarises the notional value of derivatives as at 30 June 2004, which are accounted for on a mark-to-market basis. The 2005 values were nil. The amounts disclosed for 2004 are notional contract amounts only, which do not represent amounts exchanged by the parties (except in the case of cross-currency swaps and forward exchange contracts) and, as such, are not a measure of the exposure of the Corporation through its use of derivatives.

	2005	2004
	\$'000	\$'000
Interest rate swaps and forward rate agreements	-	1 309 192
Cross-currency swaps	-	519 123
	-	1 828 315

The Corporation held derivatives for hedging purposes. Cross-currency swaps and forward rate agreements were used to hedge foreign currency bond issues and deposits.

In the financial statements of the Corporation the revaluation of the cross-currency swaps has been netted against the borrowings, as the purpose of these swaps is to hedge the foreign currency borrowings.

Credit Risk

Credit risk arises on derivative financial instruments because of the possibility that the counterparty to the derivative contract will be unable to settle when it is due.

Derivative transactions, such as futures and exchange traded options where the trades are booked through a recognised futures exchange, are considered to have minimal credit risk.

For other derivative transactions, credit risk is monitored by marking-to-market both the exchange rate and the interest rates against predetermined Board approved limits.

Credit Risk (continued)

The Corporation in the past assessed the credit risk of derivatives on a market replacement risk basis using a formula that took into account the interest rate or exchange rate movements over the life of the derivative. As a condition of a novation of a large proportion of the Corporation's swaps entered into during the year ended 30 June 1997, a Bilateral Security Agreement was entered into which allowed the Corporation to limit its credit exposure on certain transactions. This agreement, which expired in April 2005, ensured that credit exposures on the transactions subject to this agreement were kept within pre agreed mark-to-market parameters through a margining procedure.

The Corporation had a number of credit exposures to several counter parties, including government and semi-government instrumentalities. The exposures have now been reduced to mainly SAFA and one deal with UBS.

Interest Rate Risk Management

The Corporation entered into various types of interest rate contracts in managing its interest rate risk as indicated in the following table. The amounts disclosed are notional contract amounts only which did not represent amounts exchanged by the transaction and were not a measure of the exposure of the Corporation through its use of derivatives. These contracts expired in April 2005.

	2005	2004
	\$'000	\$'000
Interest rate swaps	-	1 309 192

Interest Rate Risk Exposures

The tables below show the interest rate exposure of financial assets and liabilities net of interest rate swaps. Interest rate swaps are used to manage interest rate risk exposure. The maturity profile of the Corporation's swaps is shown later on in this Note.

The Board has set limits and the Corporation uses derivatives to manage its interest rate risks within those limits on the dollar-per-point exposure within set maturity pools. Basis risk is also managed within limits set by the Board.

	Note	Floating Interest Rate \$'000	2005 Fixed Interest Maturing In			Non- Interest Bearing \$'000	Total \$'000
			One year or Less \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash		3 151	-	-	-	-	3 151
Loans, advances and receivables	8	4 540	639	-	-	-	5 179
Securities	9	34 000	-	-	-	-	34 000
Other financial assets:							
Net swap receivables	11	-	-	-	-	12 355	12 355
		41 691	639	-	-	12 355	54 685
Weighted average interest rate percent		5.60	5.60				
Financial Liabilities:							
Borrowings:							
Deposits	12	-	-	-	-	-	-
Capital markets raisings	12	-	-	-	-	-	-
Other financial liabilities	13, 14	-	-	-	-	7 428	7 428
		-	-	-	-	7 428	7 428
Weighted average interest rate percent		4.07					

	Note	Floating Interest Rate \$'000	2004 Fixed Interest Maturing In			Non- Interest Bearing \$'000	Total \$'000
			One year or Less \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash		5 016	-	-	-	-	5 016
Loans, advances and receivables	8	15 575	1 142	-	-	-	16 717
Securities	9	598 804	-	-	-	-	598 804
Other financial assets:							
Net swap receivables	11	-	-	-	-	154 984	154 984
		619 395	1 142	-	-	154 984	775 521
Weighted average interest rate percent		5.65	5.60				
Financial Liabilities:							
Borrowings:							
Deposits	12	162 888	-	-	-	-	162 888
Capital markets raisings	12	492 976	-	-	-	-	492 976
Other financial liabilities	13, 14	-	-	-	-	9 441	9 441
		655 864	-	-	-	9 441	665 305
Weighted average interest rate percent		4.41					

Foreign Exchange Risk Management

The Corporation entered into cross-currency swaps and forward exchange contracts to hedge foreign currency borrowings, principally Japanese Yen, as the following table indicates. These amounts were converted at the 2004 balance date exchange rates. All the outstanding cross-currency swaps were settled in April 2005.

	2005	2004
	\$'000	\$'000
Cross-currency swaps	-	519 123

The Corporation borrowed in a number of currencies in the past and it used cross-currency swaps and forward foreign exchange contracts to hedge principal and interest.

The Corporation's foreign currency borrowings in Australian dollar equivalent as at 30 June:

Japanese Yen (YEN)	-	467 498
--------------------	---	---------

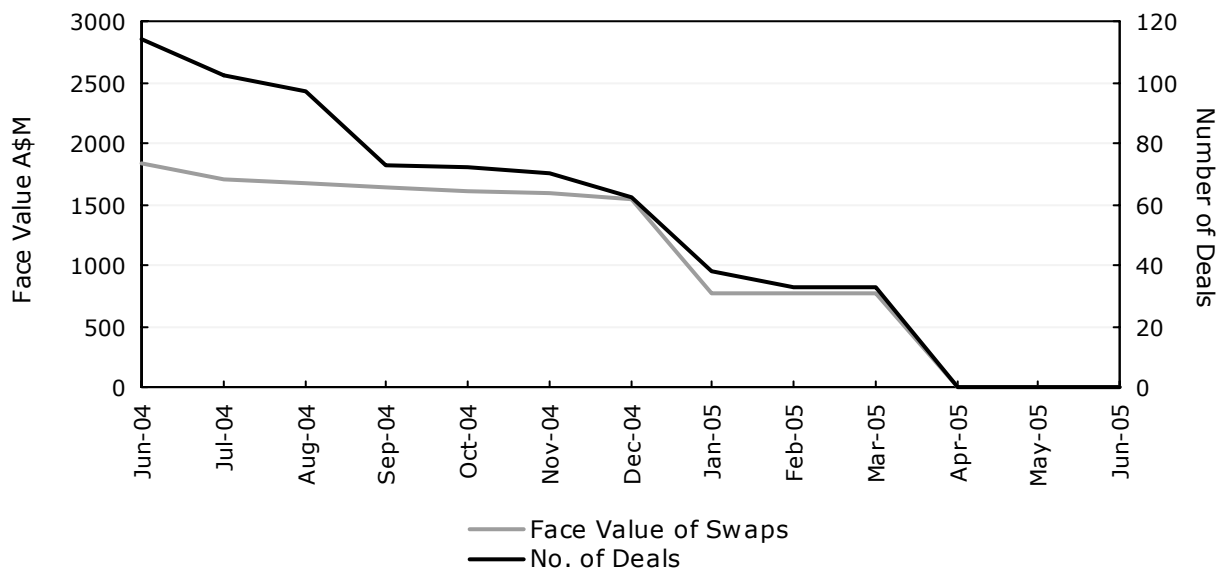
Liquidity Risk

Liquidity risk arises from the possibility that the Corporation could, theoretically some time in the future either be forced to sell a financial position at a value that is below its underlying worth, or that it may be unable to exit the position at all. The Corporation however manages the risks on a continuous basis using the services of SAFA.

In order to counter such risk, the Corporation has concentrated its remaining investments to highly liquid instruments and a fully leased property. Any residual derivative activities are now restricted to a very small number of deals, which are continuously monitored by SAFA.

Maturity Profile of Swaps

Interest rate and cross-currency swaps were responsible for 100 percent of the off-balance sheet exposures up to April 2005. The following graph summarises the run off of swaps by number and by value.

**Net Fair Value of Financial Instruments**

The Corporation recorded in the past cross-currency swaps, interest rate swaps and other derivatives at a net fair value (mark-to-market) in the financial statements. Net fair value was defined as the amount at which the instrument could be exchanged in a market transaction between willing parties. For those derivatives where market prices were unavailable, the cash flows were discounted using the mid rate of the appropriate yield curve to arrive at a net fair value, as at 5 April 2005.

21. Notes to the Statements of Cash Flows**(a) Reconciliation of Cash**

Cash as at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash on hand and at bank	3 151	5 016
	3 151	5 016

(b) Reconciliation of Net Cash flows from Operating Activities to Profit after Income Tax	2005	2004
	\$'000	\$'000
Net profit	10 722	13 099
Add (Less): Non-cash items:		
Bad debts (credit)	(39)	(161)
Non-cash effect of mark-to market adjustments	-	-
Net Cash provided by Operating Activities before change in Assets and Liabilities	10 683	12 938
Changes in assets and liabilities:		
(Increase) Decrease in other sundry debtors	-	-
Decrease in net interest accrued	(1 728)	(1 863)
Decrease in sundry creditors and accruals	(2 394)	(1 140)
Increase in employee entitlements	17	6
Net Cash Flows provided by Operating Activities	6 578	9 941

22. Directors' Remuneration	2005	2004
The number of directors on the Corporation's board whose income (including superannuation but excluding other employee entitlements) from the Corporation falls within the following bands:	Number of Directors	Number of Directors
\$80 000 - \$89 999	1	1

Director's income relates to the Chief Executive Officer, who is also a Director of the Corporation.

Total income paid or payable, or otherwise made available to the Director from the Corporation	2005	2004
	\$'000	\$'000
	89	84

23. Executives' Remuneration	2005	2004
The number of Executive Officers of the Corporation whose income (including superannuation, but excluding accrued long service leave and annual leave) from the Corporation or related entities falls within the following bands:	Number of Executive Officers	Number of Executive Officers
\$80 000 - \$89 999	1	1

24. Related Party Disclosures
Directors

The names of each person holding the position of Director of South Australian Asset Management Corporation (SAAMC) during the financial year ended 30 June 2005 are as follows:

Mr Brett G Rowse	Ms Kathryn A Moore
Mr Terence C Evans	Mr Andrew G Anastasiades
Ms Nicolle S Rantanen (from 1 October 2004)	Mr Joseph J Ullianich (to 30 September 2004)

Directors' Transactions

No transactions took place between the directors of SAAMC and related entities and their related parties, including director related entities.

South Australian Government Financing Authority (SAFA)

Related party transactions with SAFA are disclosed in Note 3, Revenue from Ordinary Activities and Note 8, Loans, Advances and Receivables. In addition, the Corporation and SAFA participate in the same financial markets and enter into transactions on market terms and conditions.

25. Specific Financial Report Disclosure

In accordance with Accounting Policy 13 'Form and Content of General Purpose Financial Reports' issued pursuant to the *Public Finance and Audit Act 1987*, the following discloses details of revenues, expenses financial assets and financial liabilities according to whether the transactions are with entities internal or external to the SA Government.

Disclosure Item	SA Government		Non-SA Government	
	2005	2004	2005	2004
Revenues:	\$'000	\$'000	\$'000	\$'000
Interest income	231	235	13 641	53 007
Non-interest income:				
Rental	2 255	1 696	-	-
Other	-	-	72	135
Expenses:				
Interest expense	-	-	6 115	43 705
Staff costs	179	152	5	5
Property expenses	560	50	-	-
Management and service fees to SAFA	205	512	-	-
Audit fees payable to Auditor-General	85	69	-	-
Legal fees	5	10	93	42
Other	21	20	367	664

25. Specific Financial Report Disclosure (continued)

	SA Government		Non-SA Government	
	2005	2004	2005	2004
Financial Assets:	\$'000	\$'000	\$'000	\$'000
Cash on hand and at bank	3 151	5 016	-	-
Loans, advances and receivables	4 260	4 169	919	12 548
Securities	-	-	34 000	598 804
Other financial assets	-	-	12 355	154 984
Financial Liabilities:				
Interest bearing liabilities	-	-	-	655 864
Payables	65	55	3 991	5 713
Provisions	-	-	3 372	3 673

26. Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any items, transactions or events of a material and unusual nature likely in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation, in subsequent financial years.

SOUTH AUSTRALIAN COMMUNITY HOUSING AUTHORITY

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Community Housing Authority (the 'Authority' or 'SACHA') is established pursuant to the *South Australian Co-operative and Community Housing Act 1991* (the Act).

Functions

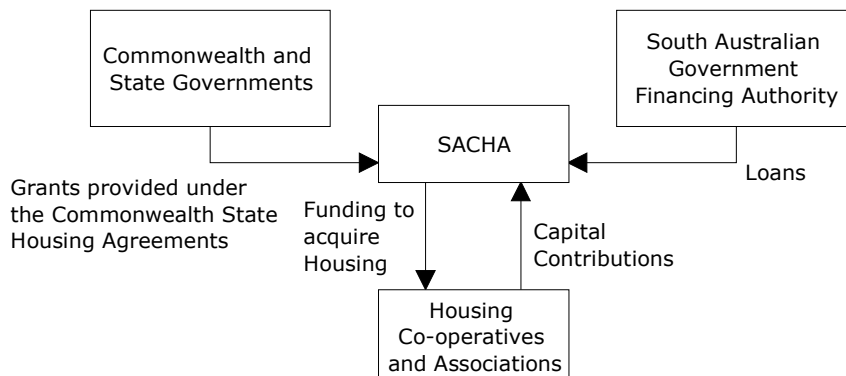
The Authority has a broad range of functions covering the development, promotion and administration of community housing in South Australia. In performing these functions the Authority has the following main roles:

- The provision of advice to the Minister for Housing.
- The registration of housing co-operatives and associations as provided for under the Act.
- Ensuring the full and proper accountability of community housing organisations which receive funds or other support from the Authority or other public sector agencies.
- The provision of administrative and other support services to community housing organisations.

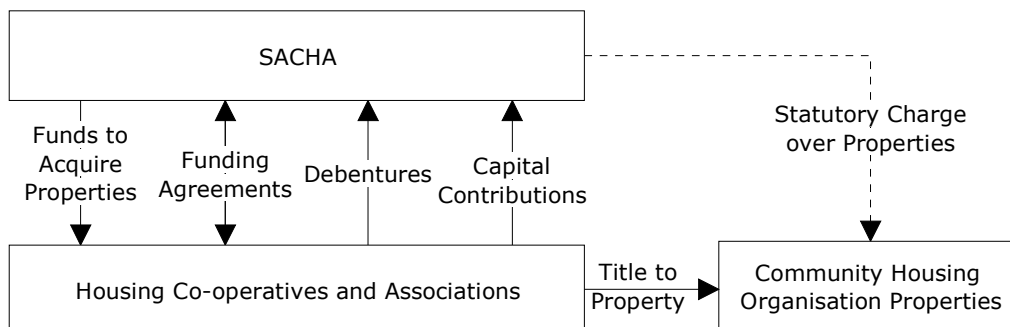
Financial Arrangements and Structure

The following charts illustrate the relationship between SACHA and the agencies which provide funding to it on one hand and the community housing organisations (CHOs) which receive funds from it on the other.

The first chart documents the overview of the relationships.

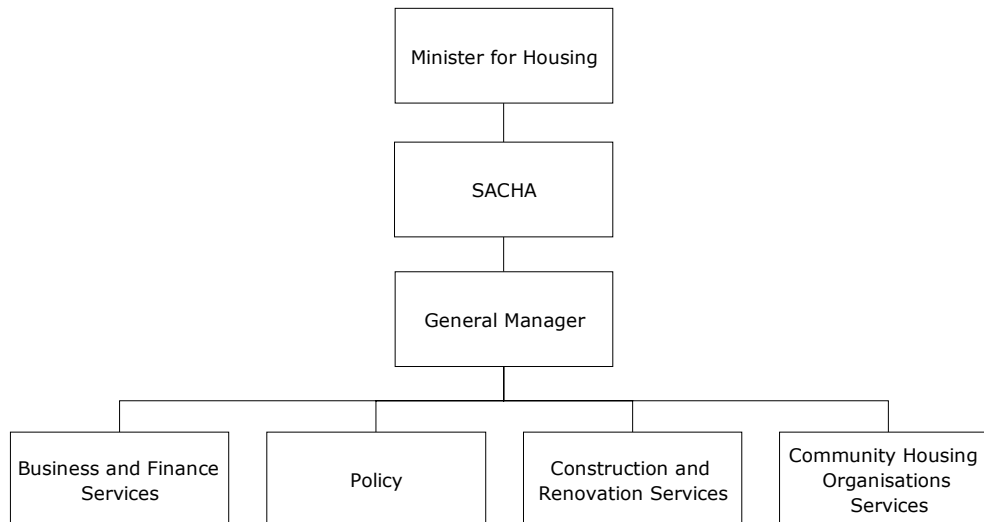


The second chart documents in more detail the relationship between the Authority and CHOs.



Structure

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



Audit Committee

The Authority has an Audit Committee which comprises three Authority members appointed by the Board. The Audit Committee meets on at least a quarterly basis and reports to the Board on the effectiveness of controls over the operations of the Authority. Representatives of the Auditor-General's Department attend meetings of the Audit Committee as observers.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 19(2) of the *South Australian Co-operative and Community Housing Act 1991* requires the Auditor-General to audit the financial statements of the Authority.

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 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 all major financial systems and was directed primarily towards obtaining sufficient evidence to enable an audit opinion to be formed on the financial statements and internal control.

During 2004-05, specific areas of audit attention included:

- budgetary control
- expenditure (both operating and capital)
- revenue
- payroll
- non-current assets (including debentures and property and equipment).

The 2004-05 audit also included a follow up review of SACHA's progress in addressing outstanding matters regarding the implementation of the Housing Reform.

The work done by SACHA's internal audit function was considered in designing the audit programs. Reliance was placed on the work of the internal audit in assessing the effectiveness of the Authority's internal controls. The main area in which reliance was placed on internal audit work was capital expenditure.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Authority as at 30 June 2005, 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 Authority 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; capital program expenditure; monitoring of community housing organisations; delegations; and policies and procedures as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the Authority 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 Chair of the Authority. Responses to the management letter were generally considered to be satisfactory. Matters raised with the Authority and the related responses are considered herein.

Capital Program Expenditure

The Authority's capital program expenditure for 2004-05 was \$22.4 million. During 2004-05 the Authority's internal audit function reported a number of control weaknesses which need to be addressed.

The issues raised in the internal audit report included the need to:

- review the tender and evaluation methodology utilised;
- develop an appropriately detailed risk register addressing the risks and controls of the capital program;
- improve the reporting structure to include adequate reporting of operational risks, contractor performance and capital program expenditure against budget;
- define and monitor key performance indicators to be included in each third party contract;
- ensure appropriate performance and evidencing of key controls over tendering and contracting;
- formalise documented policies and procedures associated with the capital programme tendering and contract management.

Given the nature of these findings, Audit sought direct clarification from the Authority on how these matters would be addressed.

The Authority has indicated an intent to address these findings as a matter of priority.

Monitoring of Community Housing Organisations

Current arrangements between the Authority and CHO's require CHO's to submit audited financial statements for the preceding financial year by 30 of September of each year. Once received, the audited financial statements are used by the Authority to verify compliance with the funding agreement including confirmation

of the completeness of capital contribution revenue. Audit's 2004-05 review noted that a significant number of CHO's had not submitted, or were late to submit, audited statements for the 2003-04 financial year. Further, Audit noted a lack of formal policy and procedures detailing the management, collection and proper follow up of the requirement of a CHO to submit timely audited financial statements. Audit raised the Authority's ability to detect aspects of non-compliance with the funding agreement and to adequately monitor each CHO's financial position. Audit recommended the establishment of a formal policy and procedures covering the management, collection and follow up of outstanding CHO audited financial statements.

The Authority has accepted audit recommendations.

Delegations

Audit review of the Authority's expenditure delegation documents revealed that they reflected an obsolete organisation structure and therefore were in need of updating. Further, audit testing revealed instances where expenditure authorisation was not in accordance with the delegation documents.

Audit raised the need to review each delegations document to ensure that the documents are in accordance with existing positions. Further, Audit recommended that all expenditure be authorised in accordance with the Authority's approved delegations.

The Authority has accepted audit recommendations.

Policies and Procedures

Documented policies and procedures are an integral element of an agency's control environment. Such policies and procedures outline the acceptable behaviour and requirements in achieving organisational objectives while mitigating the risk of adverse business practices.

In past years Audit has commented on a lack of documented policies and procedures for major processes. Audit noted that the Authority has acted during 2004-05 to progressively develop policy and procedures and created a register of current documented policies and procedures.

Notwithstanding this progress, Audit noted a number of major activities where policies and procedures were not documented. Audit recommended the completion and updating of policies and procedures for all major activities.

The Authority has accepted audit recommendations.

Housing Reform

On 15 February 1999, Cabinet approved the adoption of the Housing Reforms in South Australia which covered the eligibility criteria, waiting list management and tenure arrangements for both public and community housing. Cabinet noted that further work was required for community housing (such as segmented waiting lists and a central access register) as the existing funding agreements (between SACHA and the CHOs) had to be reviewed and amended accordingly.

SACHA, in recent years, has aimed to address some of the reform matters, including the development of a:

- new funding agreement between SACHA and CHOs;
- strategic asset management framework/plan;
- new application system.

Follow-up of SACHA's progress towards developing and implementing a revised funding agreement revealed that work had been undertaken in the past 12 months including the development of a draft funding agreement and the conduct of an information and consultative process with CHOs. The Authority has indicated its intention to implement new funding agreements in October 2005.

During 2004-05 the Authority finalised a overall strategic asset framework. Further, the Authority has indicated its intention to undertake a sector wide property inspection to form the basis for new eight year asset management plans to be developed for each CHO.

At the time of completing this report a new application system had yet to be finalised.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

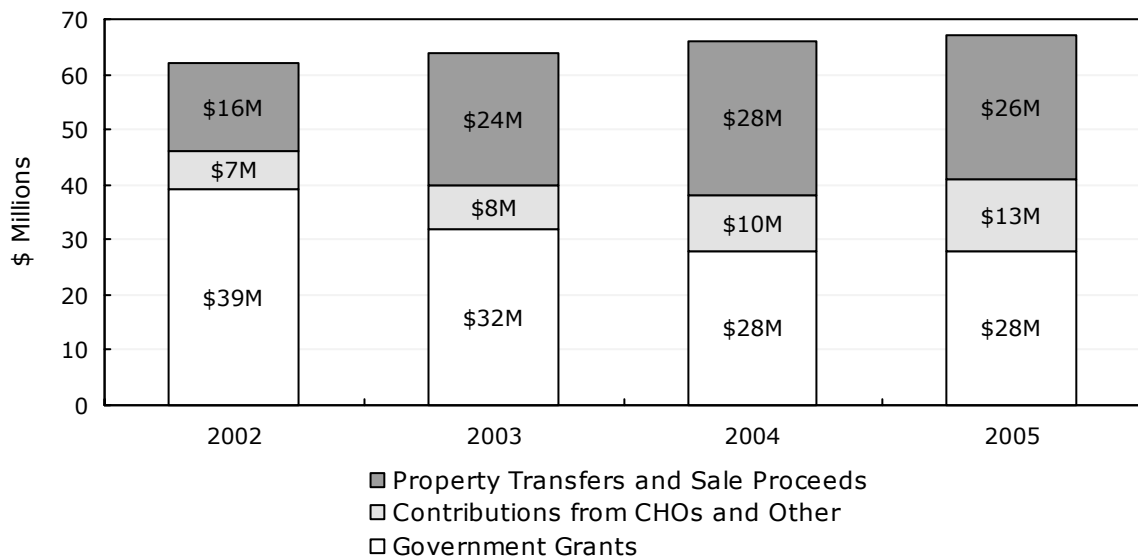
Highlights of Financial Statements

	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Government grants	28	28	-
Property transfer and sales proceeds	26	28	(7)
Other revenue	13	10	30
Total Operating Revenue	67	66	2
OPERATING EXPENDITURE			
Borrowing costs	9	8	13
Net book value of transfers and properties sold	26	28	(7)
Other expenses	7	6	17
Total Operating Expenses	42	42	-
Net Surplus from Ordinary Activities	25	24	4
Net Cash Flows from Operations	11	12	(8)
Net Cash Flows used in Investing Activities	(21)	(15)	40
ASSETS			
Current assets	9	20	(55)
Non-current assets	680	591	15
Total Assets	689	611	13
LIABILITIES			
Current liabilities	3	2	50
Non-current liabilities	120	120	-
Total Liabilities	123	122	1
EQUITY	566	489	16

Statement of Financial Performance

Operating Revenues

A structural analysis of operating revenues of the Authority for the four years to 2005 is presented in the following chart.



The above chart indicates the extent to which the Authority is reliant on Government grants and the consistency of other sources of revenue. The increase in Contribution from CHOs and Other revenue principally reflects an increase in contributed assets of \$3.5 million.

Government Grants

Government grants (reflecting funding for both recurrent and capital purposes) remained consistent with the prior year. Included within Government Grants are grants specifically provided for the purpose of acquiring South Australian Housing Trust properties of \$10.9 million (\$10.1 million). These grants are received as a property transfer from the South Australian Housing Trust at market value and therefore are not a cash inflow within the cash flow statement.

Property Transfer and Sales Proceeds

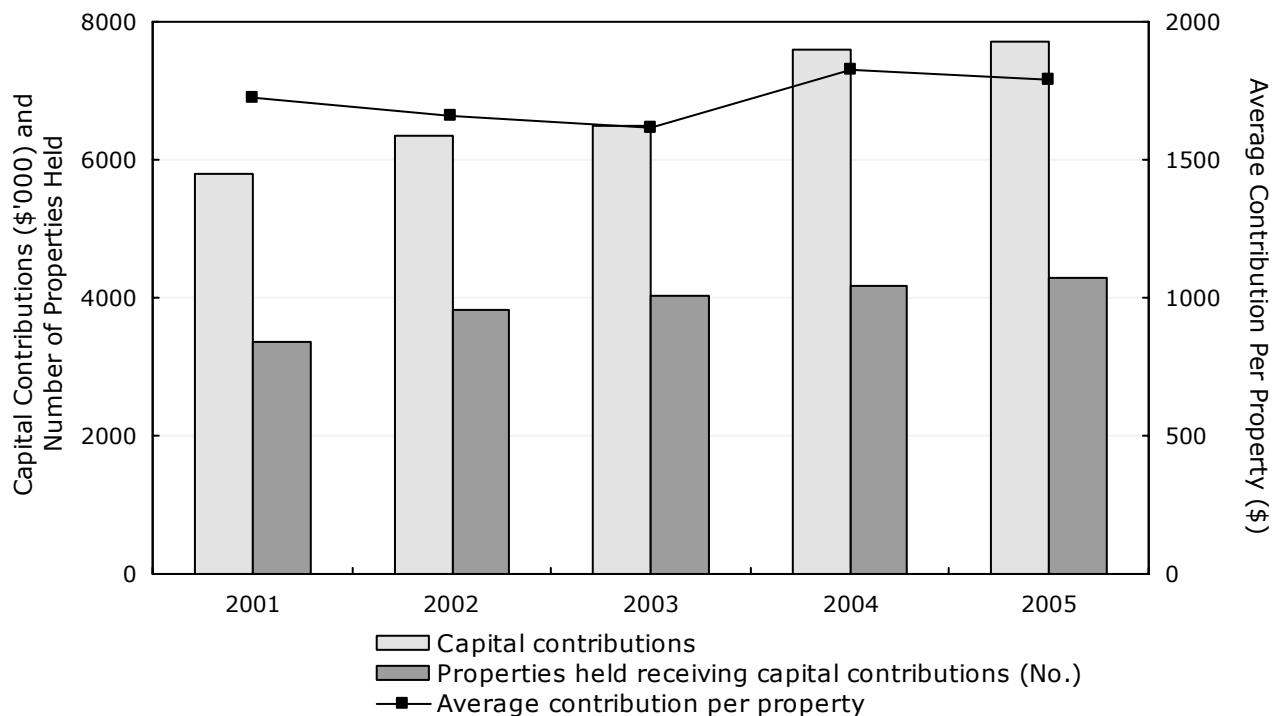
The increase in property transfer and sales proceeds since 2002 relates to changes in practices as a result of the introduction of the GST whereby the Authority developed properties in its own name. As a result, properties completed and transferred from Work in Progress to CHOs are now reflected as a sales revenue in the Statement of Financial Performance. Further details are provided under Operating Expenses.

Contributions from Community Housing Organisations

During 2004-05 capital contributions from the CHOs (excluding insurance premiums recharged to CHOs) were \$7.7 million (\$7.6 million). The level of capital contributions is determined as part of the process of assessing the rents payable by CHOs' tenants and is subject to income tests. After allowing for rental subsidies, the capital contributions were insufficient to meet the Authority's borrowing costs, which totalled \$8.5 million (\$8.4 million).

Note 20(a) to the financial statements provides details of the weighted average interest rate return on capital funding to housing organisations, calculated as total capital contributions received divided by total funding to housing organisations. The weighted average interest rate decreased to 1.18 percent in 2004-05 from 1.32 percent. This decrease was due predominantly to higher property values relating to funding provided to housing organisations.

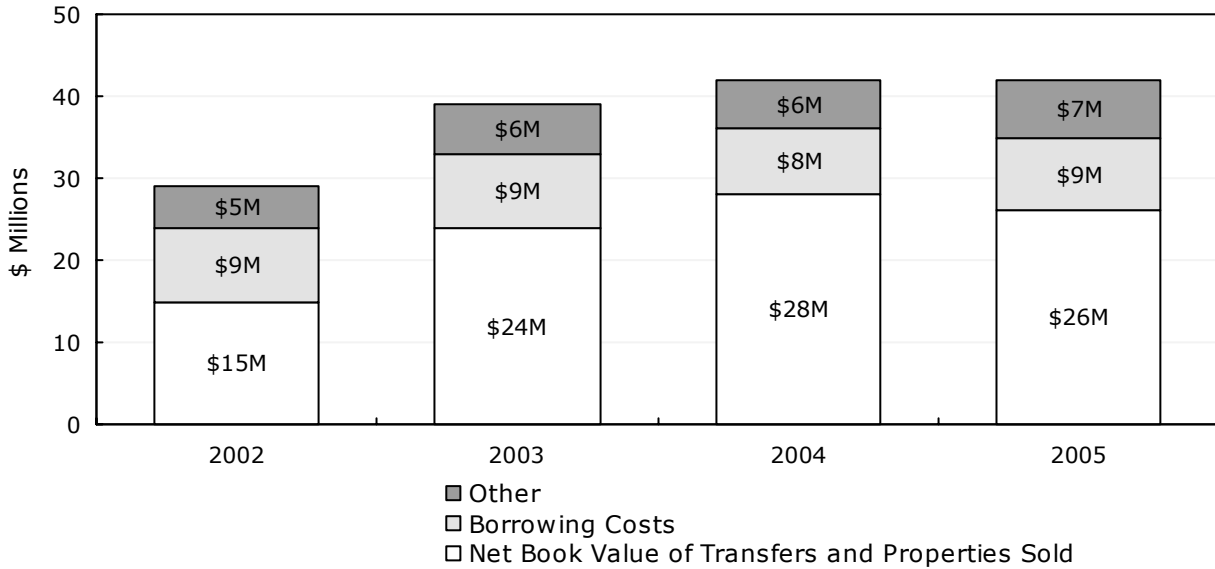
The following chart shows the trend of capital contributions from CHOs over the past five years.



The chart highlights that the total contributions received from CHOs have increased over the period of review, however, they have remained relatively constant between 2004 and 2005.

Operating Expenses

For the four years to 2005, a structural analysis of the main operating expense items for the Authority is shown in the following chart.



The chart highlights that over the period of review the Authority’s borrowing costs and other expenses have remained relatively constant.

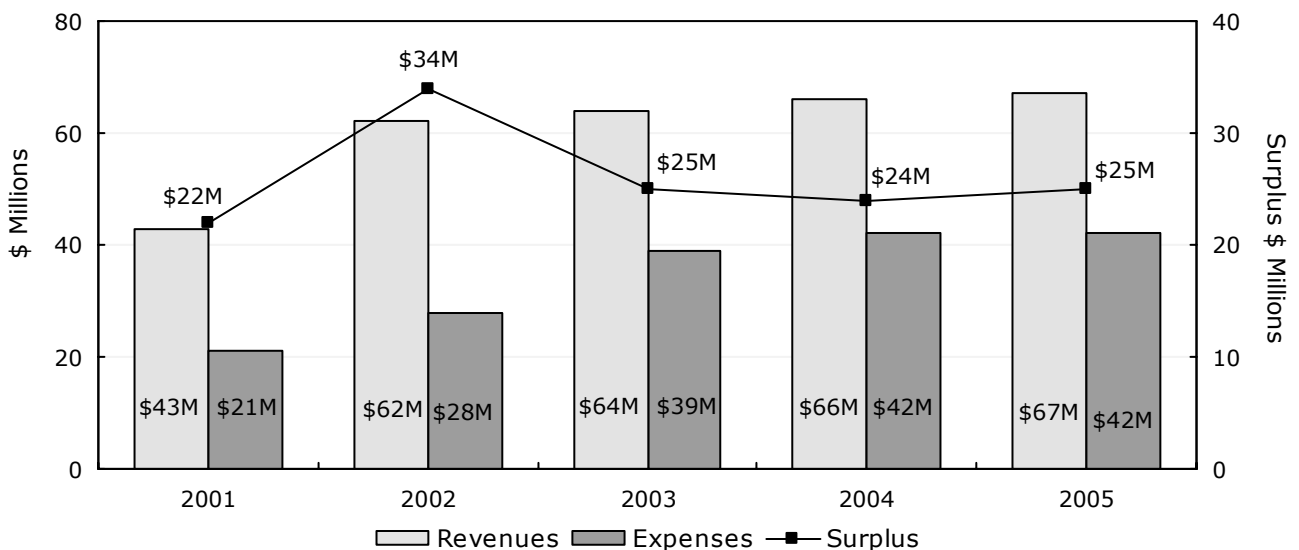
Net Book Value of Transfer and Properties Sold

For GST purposes, the Authority decided to develop properties in their own name and then on completion transfer the property to the CHOs. This practice is reflected in the Statement of Financial Performance as a sales transaction where transfer proceeds are shown as revenue and the net book value of transfers are shown as an expense. This arrangement commenced from 1 January 2002 and accounts for the increase in expense since 2002.

Operating Result

For 2004-05 the Net Surplus from Ordinary Activities increased by \$1.1 million from \$24.1 million to \$25.2 million. The increase in the main reflects a \$1 million increase in Revenues from Ordinary Activities.

The following chart shows the operating revenues, operating expenses and surpluses for the five years to 2005.

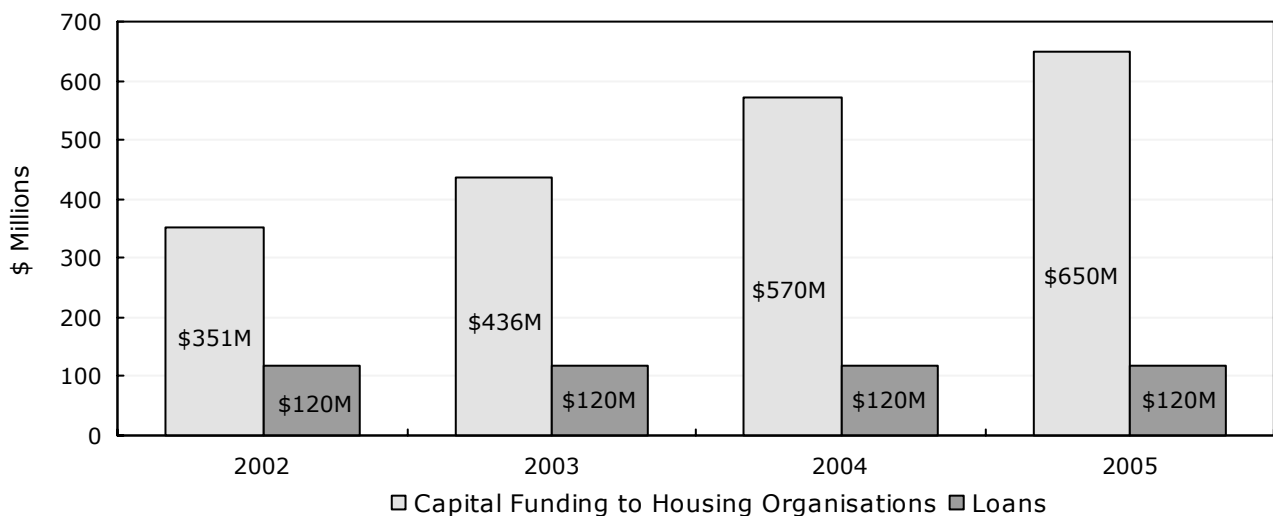


Over the past four years, the surplus has been consistently large. This is due primarily to operating revenue including Government grants of a capital nature, the expenditure of which is reflected in the Statement of Financial Position as Capital Funding to Housing Organisations. The Capital Funding to Housing Organisations is also supplemented by borrowings the Authority has with the South Australian Government Financing Authority. The consistency of the Authority's surplus is reflected in the equity section of the Statement of Financial Position where accumulated surplus amounted to \$288.7 million at 30 June 2005. The equity section also reflects the regular valuation to market of the debentures of the Authority (refer to Note 16 for further details).

Statement of Financial Position

The Statement of Financial Position contains one dominant item of assets (Capital Funding to Housing Organisations) and one dominant item of liabilities (Loans), both of which are non-current. Current assets and current liabilities are less significant and have remained relatively stable over a number of years.

For the four years to 2005 a structural analysis of Capital Funding to Housing Organisations and Loans is shown in the following chart.



Capital Funding to Community Housing Organisations

The number of CHOs that have received funding from the Authority up to 2004-05 was 121 (121). The Authority has earned capital contributions totalling \$7.7 million (\$7.6 million) from the following properties:

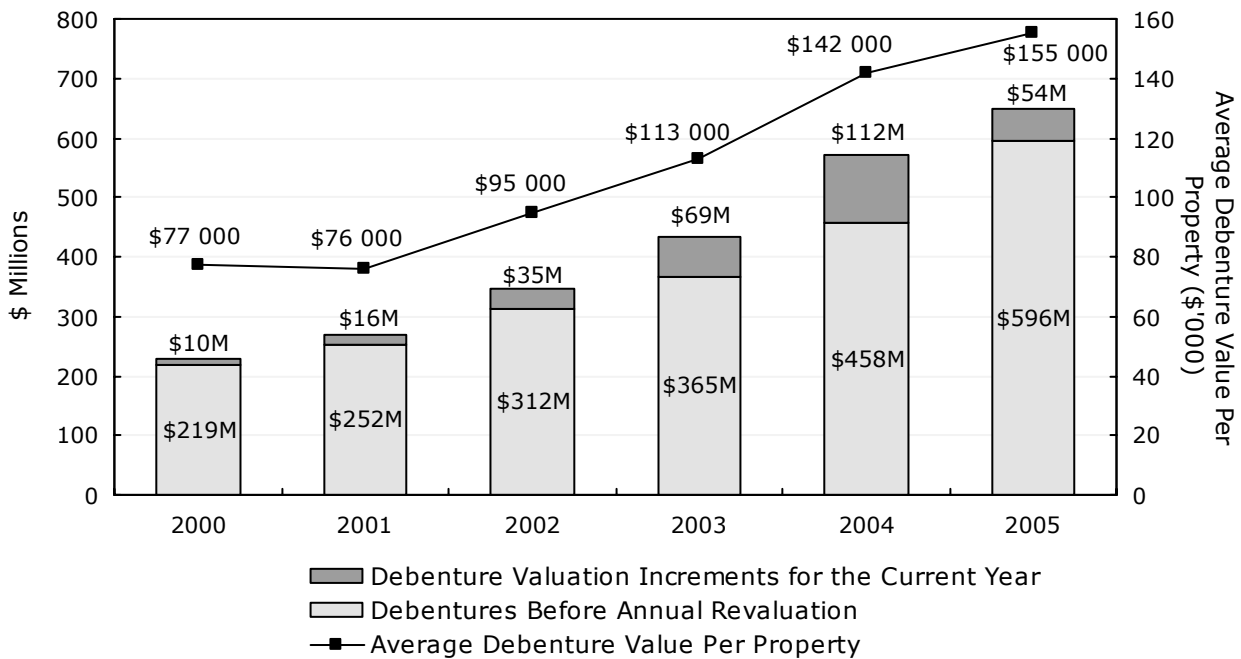
Property Type	2005	2004
	Number	Number
Debentured properties	4 179	4 012
Mortgaged properties	-	21
Properties leased from SAHT and sub-lease back to CHO's	93	97
Properties directly leased to CHOs	32	40
Total	4 304	4 170

In addition to the above properties, a total of 18 (21) properties were leased back to the South Australian Housing Trust (SAHT), 107 (132) properties were included in work in progress and 92 (25) properties were held by the Authority.

The value of debentures issued to CHOs at 30 June 2005 was \$649.9 million (\$569.8 million), an increase of \$80.1 million reflecting, in the main:

- owned properties and WIP debentured during the year \$28.3 million;
- contributed assets debentured during the year \$3.2 million;
- revaluation increase in the underlying properties of \$53.7 million;
- offset by transfers to owned properties and disposals of \$5.1 million.

The following chart shows the growth in the value of debentures issued to CHOs over the past six years.



The chart shows that annual debenture revaluation increments have been significant for the past three years. The revaluation increment in 2004-05 was \$53.7 million, which represented an increase of 9 percent in the value of properties debentured from 2003-04. Since 2001, the value of debentures has increased by 143 percent and the number of debentured properties has increased by 18 percent. The valuation increments reflect the continued strength of the property market at this point in time. Equally, any weakening in the property market can be expected to be reflected in downward movements in the value of debentures.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005 \$'million	2004 \$'million	2003 \$'million	2002 \$'million
Net Cash Flows				
Operations	10.8	12.2	14.4	24.2
Investing	(21.4)	(15.0)	(10.5)	(17.9)
Change in Cash	(10.6)	(2.8)	3.9	6.3
Cash at 30 June	7.3	17.9	20.7	16.8

Net Cash Provided by Operating Activities decreased by \$1.4 million resulting mainly from decreased cash flows received from Government (ie a decrease of \$0.7 million from \$17.6 million to \$16.9 million) and a decrease in receipts from housing organisations (ie a decrease of \$0.6 million from \$8.3 million to \$7.7 million).

The cash balance decreased significantly during 2004-05 resulting mainly from large investing outflows relating to SACHA's capital program. Net Cash Used in Investing Activities increased by \$6.4 million resulting mainly from an increase in cash outflows from funding to housing organisations of \$4.1 million to \$22.9 million and a decrease in cash inflows from property sales of \$2.4 million to \$1.4 million. Cash outflows of funding to housing organisations relate principally to capital expenditure on community housing work in progress projects. These expenditures are also reflected in Note 18(c) as additions to community housing work in progress projects of \$33.7 million which also include non-cash property additions of \$10.9 million being properties transferred from South Australian Housing Trust as grants (refer also Note 3).

As at 30 June 2005, obligations under approved new-build and spot purchase projects in progress totalled \$6.5 million (\$12.6 million). Cash at Treasury and on hand totalled \$7.3 million (\$17.9 million).

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005 \$'000	2004 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Government grants	2.2, 3	27 816	27 780
Contributions received and receivable from Community Housing Organisations	2.2, 4	8 476	8 221
Interest and sundry income	5	857	875
Lease receipts from SA Housing Trust	2.14	95	116
Contributed assets	6	3 967	172
Property transfer and sale proceeds	7	26 072	27 996
Capital project recoveries	2.4	301	355
Net increment on revaluation of property	2.8	-	767
Total Revenues from Ordinary Activities		67 584	66 282
EXPENSES FROM ORDINARY ACTIVITIES:			
Staffing and related costs	2.11	2 709	2 393
Net book value of transfers and properties sold	7	26 229	27 754
Rental expenses	2.3	285	279
Office expenses		190	178
Other expenses	8	857	891
Community Housing Organisations costs	9	1 385	348
Grants to Community Housing Organisations	10	1 698	1 346
Borrowing costs (SA Government)		8 504	8 412
Lease payments to SA Housing Trust	2.14	535	565
Total Expenses from Ordinary Activities		42 392	42 166
NET SURPLUS FROM ORDINARY ACTIVITIES			
		25 192	24 116
Net increase in asset revaluation reserve	11	2 176	1 029
Net increase in debenture indexation reserve	12	50 289	110 049
TOTAL VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY			
		52 465	111 078
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		77 657	135 194

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
ASSETS:			
CURRENT ASSETS:			
Cash at Treasury and on hand	13	7 292	17 977
Receivables	14	1 943	1 744
Prepayments		434	127
Total Current Assets		9 669	19 848
NON-CURRENT ASSETS:			
Capital funding to Community Housing Organisations	2.7, 16	649 902	569 830
Property and equipment	2.8, 18	29 913	21 354
Total Non-Current Assets		679 815	591 184
Total Assets		689 484	611 032
LIABILITIES:			
CURRENT LIABILITIES:			
Trade creditors and accrued expenses	15	2 535	1 815
Hot water service warranty provision	2.13, 17	173	173
Total Current Liabilities		2 708	1 988
NON-CURRENT LIABILITIES:			
Trade creditors and accrued expenses	15	395	320
Loans	19	119 927	119 927
Total Non-Current Liabilities		120 322	120 247
Total Liabilities		123 030	122 235
NET ASSETS		566 454	488 797
EQUITY:			
Accumulated surplus	22	288 761	262 902
Asset revaluation reserve	11	3 044	965
Debenture indexation reserve	12	274 649	224 930
TOTAL EQUITY		566 454	488 797
Capital Commitments	23		
Contingent Liabilities	26		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
PAYMENTS:			
Payments to suppliers and employees		(6 438)	(5 657)
Borrowing costs		(8 434)	(8 473)
Lease payments to SA Housing Trust		(535)	(565)
GST payments on to Department of Health		(293)	(478)
GST Payments on purchases		(1 420)	(1 364)
RECEIPTS:			
Receipts from Housing Organisations		8 381	8 341
Interest received		753	828
Lease receipts from SA Housing Trust		95	116
GST receipts from Department of Health		571	493
GST receipts on revenue		1 235	1 321
GOVERNMENT RECEIPTS:			
Cash flows from government		16 875	17 632
Net Cash provided by Operating Activities	21	10 790	12 194
CASH FLOWS FROM INVESTING ACTIVITIES:			
Funding to Housing Organisations		(22 889)	(18 792)
Proceeds from sales of property		1 439	3 887
Purchase of office and computer equipment		(25)	(51)
Net Cash used in Investing Activities		(21 475)	(14 956)
NET DECREASE IN CASH HELD		(10 685)	(2 762)
CASH AT 1 JULY		17 977	20 739
CASH AT 30 JUNE	13	7 292	17 977

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. **Objectives and Funding**
The South Australian Community Housing Authority (SACHA or the Authority) co-ordinates and provides administrative support and funding to Community Housing Organisations to enable them to acquire housing. Funding for SACHA is derived from Commonwealth and State Government grants, rents, sale of properties and other payments from tenant members. The Authority has borrowed funds from the South Australian Government Financing Authority (SAFA) to fund non-current assets.
2. **Statement of Accounting Policies**
 - 2.1 **Basis of Accounting**
The financial report is a general purpose financial report which has been prepared in accordance with the Statements of Accounting Concepts, Australian Accounting Standards, Urgent Issues Group Consensus Views, the Accounting Policy Statements issued by the Department of Treasury and Finance and requirements of the Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987*.

The financial report has been prepared on the accrual basis of accounting and accounting policies have been consistently applied. The financial report has been prepared in accordance with the historical cost convention, except where stated.
 - 2.2 **Revenue Recognition**
Government grants
The Authority recognises grant funds as income when monies are received and controlled or when all conditions under which funding is provided have been fulfilled by the Authority.

Contributions Received and Receivable from Community Housing Organisations

The Authority recognises these contributions when cash is received throughout the period. An estimate of the June amount receivable is accrued.

Other Revenue

Other revenue is recognised by the Authority when there is a legal entitlement, the amount is reliably measured and it is collectible.

2.3 Rental Expenses

The Authority is invoiced by the Department of Families and Community on a monthly basis for the cost of building occupancy and vehicle use. As such, the Authority has no lease liabilities under these arrangements.

2.4 Capital Project Recoveries

Technical services are provided to assist Community Housing Organisations with capital projects. Salaries and related costs for this service are recouped as a fixed fee of \$1 750 per house, which is added to the loans provided to individual Community Housing Organisations.

2.5 Insurance

SACHA has implemented master insurance policies that cover the dwellings and commercial public liability of Community Housing Organisations. In addition, the minimum insurance standards have been amended to incorporate a Financial Insurance Package. SACHA has assumed responsibility for the administration and recharging of insurance premiums to Community Housing Organisations.

2.6 Accounting for Equity Shares

The *South Australian Co-operative and Community Housing Act, 1991* provides for members of Housing Co-operatives to acquire equity in the properties they occupy by the Co-operative issuing equity shares to members. The equity shares reflect a proportional interest in the value of a specific Co-operative property. Holders of equity shares obtain a proportional reduction in the capital contributions they are required to pay as tenants. The Authority is obliged to repurchase the equity shares from holders who leave relevant Co-operatives at a value reflecting their proportion of the current value of the property at the time the equity shares are redeemed.

The value of debentures for properties with associated equity shares reflects the value of the property less the proportionate interest in the property associated with the equity share.

2.7 Debentures

Debentures issued by Community Housing Organisations with respect to tenable housing are revalued at balance date to reflect the current value of the property. Current values are determined using the Valuer-General's capital values for rating purposes.

Revaluation increments or decrements have been reflected in the Debenture Indexation Reserve.

2.8 Property and Equipment

Property owned by the Authority has been revalued at balance date to reflect the Valuer-General's capital value for rating purposes. Net revaluation increments for this class of asset have been accounted for by crediting the Asset Revaluation Reserve, except to the extent that the increment reverses a decrement that was previously recognised as an expense in net surplus from operating activities in respect of the same class of assets, in which case the increment is recognised as revenue in net surplus from operating activities. Net revaluation decrements have been charged against any credit balance in the Asset Revaluation Reserve with any decrement in excess of the credit balance of the Asset Revaluation Reserve being charged to the Statement of Financial Performance as Decrement on Revaluation of Property.

Work in Progress reflects properties under construction and is valued at cost.

Items of office and computer equipment acquired at a cost of \$1 000 and above are capitalised.

2.9 Depreciation

Office and computer equipment are carried at cost and is depreciated over its estimated useful life using the straight-line basis. For computer equipment the depreciation period is 3 years whilst general office equipment is depreciated over a 10 year period.

Property is not depreciated as it is held awaiting sale or transfer to Community Housing Organisations, and on transfer, the underlying debenture asset is not subject to depreciation requirements.

2.10 Accounting for Goods and Services Tax (GST)

SACHA is part of a GST group. The nominated representative of the GST group (the Department of Health) is responsible to pay GST and is entitled to claim input tax credits. Administrative arrangements between members of the GST group provide for the reimbursement of the GST consequences earned by SACHA. The reimbursement receivable from the nominated representative of the GST group has been recognised as a receivable in the Statement of Financial Position.

To meet statutory obligations, SACHA raised tax invoices against Community Housing Organisations to record the GST liability on the transfer of certain properties developed by SACHA.

2.10 Accounting for Goods and Services Tax (GST) (continued)

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

2.11 Staffing and Related Costs

The staff of the Authority are employees of the Department for Families and Community who have been assigned by the Department's Chief Executive to work at the Authority. The Authority meets the full cost of employment for the Department's employees assigned to work at the Authority including salary payments, accruing leave entitlements, superannuation contributions and related on-costs.

The balance of the employees' entitlement to accrued leave as at the date the employees were transferred to the Department is recognised in the accounts of the Department. The accrued liability which has arisen from employment since that date is recognised by the Authority as a liability of the Authority to the Department. The amount is reflected in Trade Creditors and Accrued Expenses (see Note 15).

2.12 Provision for Doubtful Debts

An assessment has been made of the extent to which outstanding debts are recoverable. Specific provision has been made for any doubtful debts identified.

2.13 Hot Water Service Warranty Provision

SACHA introduced a new Hot Water Service Replacement Policy during 1997-98, resulting in the establishment of a provision to cover future expenditure. Properties acquired by Community Housing Organisations which have hot water services older than five years are issued with a reducing scale warranty certificate by SACHA to cover the unit from the date of key handover.

The reducing scale warranty applies to the replacement cost of a new hot water service should any of these units fail during the subsequent five year period of operation on a sliding scale from 100 to 20 percent of replacement cost.

During 1999-2000 SACHA extended the Hot Water Service Warranty Scheme whereby Community Housing Organisations joining Comhouse Co-operative Ltd. (a co-operative facilitating the management of major maintenance on behalf of other Community Housing Organisations) and subject to a five year no-draw down period can claim under this provision the cost of replacing hot water service units that have failed.

A provision of \$173 000 has been recognised as SACHA's present obligation for estimated warranty claims in respect of the Hot Water Service Replacement Policy.

2.14 Lease Arrangements with the SA Housing Trust

SACHA leases a number of properties from the SA Housing Trust to support ongoing demand for housing within the community housing sector. Lease arrangements in respect of these properties are cancellable with three months notice, and as such no lease commitment is required to be disclosed, consistent with the requirements of the Australian Accounting Standard AASB 1008 'Leases'.

Under reciprocal arrangements with the SA Housing Trust, SACHA leases properties to the SA Housing Trust which are also cancellable with three months notice.

2.15 Comparative Figures

The previous year's figures are provided in the financial report for comparative purposes. Where applicable, figures have been adjusted to conform with changes in presentation and classification in the current year.

2.16 Impact of Adopting Australian Equivalents to International Financial Reporting Standards

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

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', SACHA will ensure that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). SACHA has examined the Australian Equivalents to International Financial Reporting Standards issued by the AASB and has determined that debenture valuations will require expert opinion as to their treatment under AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement'. SACHA will appoint a professional accounting body to provide technical advice in relation to SACHA's financial instruments and other areas of SACHA's operations. The engagement will be conducted with reference to Australian and IFRS Generally Accepted Accounting Principles (GAAP) as at the time of engagement, and will take into account future changes in GAAP.

SACHA will continue to monitor changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) by attending Department of Treasury and Finance information forums and training workshops organised by professional accounting bodies.

Expected Differences in Accounting Policies

It is unclear at this time whether SACHA's accounting policy on the treatment of Debenture Assets will change as a result of the introduction of AASB 132 and AASB 139. As a result, the impact is not known or reliably estimable.

It is not expected that there will be any other difference in accounting policies than that which is referred to above.

3. Government Grants	2005	2004
	\$'000	\$'000
CSHA - Commonwealth ⁽ⁱ⁾	5 894	5 941
CSHA - State matching ⁽ⁱ⁾	2 885	4 213
CSHA grants - SAHT transfers ⁽ⁱⁱⁱ⁾	10 941	10 148
CHP grants ⁽ⁱⁱⁱ⁾	4 956	4 930
Other State grants	3 140	2 548
	27 816	27 780
(i) Refers to the Commonwealth/State Housing Agreement.		
(ii) Refers to Commonwealth/State Housing Agreement grants specifically provided to the Authority for the purpose of acquiring South Australian Housing Trust (SAHT) properties at non-cash market value.		
(iii) Refers to a tied program (entitled the Community Housing Program) under the Commonwealth/State Housing Agreement.		
4. Contributions Received and Receivable from Community Housing Organisations	2005	2004
	\$'000	\$'000
Capital contributions	7 643	7 501
Major maintenance contributions	38	56
Insurance premiums re-charged to CHOs	742	664
Other CHOs fund dispersements	53	-
	8 476	8 221
5. Interest and Sundry Income	2005	2004
	\$'000	\$'000
Interest (SA Government)	752	793
Sundry income	105	82
	857	875
6. Contributed Assets		
During 2004-05 the Intellectual Disability Services Council (IDSC) agreed to transfer two properties to SACHA as a contribution towards a Joint Venture undertaken with Community Accommodation and Respite Agency (CARA).		
Bedford Industries Housing Association agreed to transfer 21 properties to SACHA		
In the past, grants have been provided to some non-government organisations under arrangements which did not require them to issue debentures to the Authority. These grants had been expensed as advanced.		
7. Surplus/Deficit on Sale of Properties	2005	2004
	\$'000	\$'000
Transfers to Community Housing Organisations:		
Transfer proceeds	24 633	24 109
Net book value of transfers	(24 859)	(24 216)
	(226)	(107)
Sales to other parties:		
Sale proceeds	1 439	3 887
Net book value of properties sold	(1 370)	(3 538)
	69	349
Total	(157)	242
8. Other Expenses	2005	2004
	\$'000	\$'000
Auditors remuneration ⁽ⁱ⁾	58	58
Bad and doubtful debts	1	54
Blocked GST input credits - Department of Health	9	10
Board fees	56	51
Brokerage and valuation fees	105	55
Business Plan projects ⁽ⁱⁱ⁾	106	153
Computing costs	3	27
Depreciation	31	31
Fringe benefits tax	29	18
Insurance	11	10
Lease back to SAHT expenses	22	22
Legal fees	44	45
Product development	52	10
Property holding costs - SACHA	90	69
Service fees - Department for Families and Communities and Department of Health	89	186
Sundry expenses	77	23
Training	74	69
Total Other Expenses	857	891

8. Other Expenses (continued)	2005	2004
Government/Non-Government:	\$'000	\$'000
SA Government entities:		
Auditors remuneration ⁽ⁱ⁾	58	58
Blocked GST input credits - Department of Health	9	10
Board fees	56	51
Lease back to SAHT expenses	7	6
Product development	2	-
Property holding costs - SACHA	31	22
Service fees - Department for Families and Communities and Department of Health	89	186
Sundry expenses	1	3
Training	8	6
Total Other Expenses - SA Government Entities	261	342
Non-SA Government entities:		
Bad and doubtful debts	1	54
Brokerage and valuation fees	105	55
Business Plan projects ⁽ⁱⁱ⁾	106	153
Computing costs	3	27
Depreciation	31	31
Fringe benefits tax	29	18
Insurance	11	10
Lease back to SAHT expenses	15	16
Legal fees	44	45
Product development	50	10
Property holding costs - SACHA	59	47
Sundry expenses	76	20
Training	66	63
Total Other Expenses - Non-SA Government Entities	596	549
Total Other Expenses	857	891
(i) Auditors remuneration relates directly to auditing the accounts. The auditors provided no other services and received no other benefits.		
(ii) Includes payments to consultants totalling \$6 000 (\$15 000).		
9. Community Housing Organisation Costs		
Provision adjustments Hot Water Service Warranty (see Note 2.13)	166	(374)
Insurance payments (see Note 2.5)	782	681
Insurance excess claims	437	41
	1 385	348
10. Grants and Contributions to Community Housing Organisations		
Community Housing Council of South Australia (CHCSA) ⁽ⁱ⁾	289	263
Large Community Housing Organisations: ⁽ⁱⁱ⁾		
Developing Alternative Solutions to Housing	74	72
Homelife Housing Association	54	53
Housing Spectrum Inc.	90	99
Intellectual Disability Accommodation Association	10	10
Lutherans Community Housing Associations	91	89
Multi Agency Community Housing Association	85	83
Northern Suburbs Housing Co-operative	54	53
Portway Housing Association	95	92
Red Shield Housing Association	75	73
Roofs South Australian Housing Association	12	12
The Women's Housing Association	179	174
Westside Housing Association	37	36
Wheelchair Accessible Community Housing Association	49	48
National Community Housing Forum	21	14
Community housing sector training through external service providers	131	124
Non-cash contributions to Community Housing Organisations ⁽ⁱⁱⁱ⁾	348	45
Country Community Housing Organisations travel reimbursements	4	6
	1 698	1 346

(i) The Authority is responsible for allocating funding to the Community Housing Council of South Australia Inc (CHCSA).

10. Grants and Contributions to Community Housing Organisations (continued)

- (ii) During the year the Authority held negotiations with the Large Community Housing Organisations to determine the level of future funding on the basis of services provided. Funding is provided to assist these organisations with the administrative costs associated with increases in housing stock managed and tenant complexity and is conditional on performance measures outlined in their funding agreements. This is an extension to the original three year agreement.
- (iii) During the year the Authority made non-cash contributions to CHOs where properties had been relinquished for transfer to another CHO and the level of repairs are extensive in nature. It also made non-cash contributions where disability modifications were less than \$5 000.

11. Asset Revaluation Reserve

	2005	2004
	\$'000	\$'000
Opening Asset Revaluation Reserve	965	-
Movements during the year:		
Increments arising from the transfer of properties (held at Valuer-General's capital values) between SACHA and Community Housing Organisations	860	456
Increments arising from revaluation of properties based upon the Valuer-General's capital values as at 30 June 2005	1 316	573
Net Increase in the movement of the Asset Revaluation Reserve arising from revaluation	2 176	1 029
Transfer to Accumulated Surplus on sale of properties	(97)	(64)
Closing Asset Revaluation Reserve	3 044	965

12. Debenture Indexation Reserve

Opening Debenture Indexation Reserve	224 930	115 581
Movements during the year:		
Decrements arising from the difference between the debentures face value and the cost of acquiring or developing properties at the time of their transfer	(2 972)	(2 125)
Increments arising from revaluation of debentures based upon the Valuer-General's capital values as at 30 June 2005	53 261	112 174
Net Increase in movement of Debenture Indexation Reserve arising from revaluation	50 289	110 049
Transfer to Accumulated Surplus on sale of properties	(570)	(700)
Closing Debenture Indexation Reserve	274 649	224 930

13. Cash at Treasury and on Hand

For the purpose of the Statement of Cash Flows, cash is represented by cash at bank, being monies held in the Authority's bank accounts and cash on hand and is represented in the Statement of Financial Position as follows:

	2005	2004
	\$'000	\$'000
Cash held in SA Community Housing Development Fund	1 291	11 976
Cash held in SAFA Cash Management Fund	6 000	6 000
Cash on hand	1	1
	7 292	17 977

14. Receivables

Trade debtors	400	214
Accrued income ⁽ⁱ⁾	783	920
GST recoverable on property transfers to Community Housing Organisations	882	748
	2 065	1 882
Less: Provision for doubtful debts	122	138
Total Receivables	1 943	1 744

Government/Non-Government:

SA Government entities:

Trade debtors	6	65
Accrued income ⁽ⁱ⁾	46	122
Total Receivables - SA Government Entities	52	187

Non-SA Government entities:

Trade debtors	394	149
Accrued income ⁽ⁱ⁾	737	798
GST recoverable on property transfers to Community Housing Organisations	882	748
Less: Provision for doubtful debts	122	138
Total Receivables - Non-SA Government Entities	1 891	1 557
Total Receivables	1 943	1 744

- (i) Accrued income includes capital contributions from Community Housing Organisations relating to June 2005 and payable in July 2005, arrears in capital contributions and accrued bank interest and sales income from other parties contracted but not received.

15. Trade Creditors and Accrued Expenses	2005	2004
	\$'000	\$'000
Current:		
Trade creditors	645	435
Amount payable to the Department for Families and Communities relating to staff leave provisions and on-costs ⁽ⁱ⁾	132	95
Accrued interest payable to SA Government Financing Authority	1 165	1 095
GST payable ⁽ⁱⁱ⁾	107	14
Accrued insurance claims	337	41
Other expenses accrued	149	135
Total Current Trade Creditors and Accrued Expenses	2 535	1 815
Non-Current:		
Amount payable to the Department for Families and Communities relating to staff leave provisions and on-costs ⁽ⁱ⁾	395	320
Total Non-Current Trade Creditors and Accrued Expenses	395	320
Total Trade Creditors and Accrued Expenses	2 930	2 135
Government/Non-Government:		
SA Government entities:		
Creditors	10	213
Amount payable to the Department for Families and Communities relating to staff leave provisions and on-costs ⁽ⁱ⁾	527	415
Accrued interest payable to SA Government Financing Authority	1 165	1 095
Accrued expenses	144	91
Total Trade Creditors and Accrued Expenses - SA Government Entities	1 846	1 814
Non-SA Government entities:		
Creditors	635	222
GST payable ⁽ⁱⁱ⁾	107	14
Accrued insurance claims	337	41
Accrued expenses	5	44
Total Trade Creditors and Accrued Expenses - Non-SA Government Entities	1 084	321
Total Trade Creditors and Accrued Expenses	2 930	2 135
(i)	This amount represents accrued salaries and staff leave provisions for the period from 25 April 1998 when staff of the Authority were transferred to the Department for Families and Communities.	
(ii)	This amount represents SACHA's liability to the Australian Taxation Office in respect of properties developed by SACHA and debentured to Community Housing Organisations during the financial year.	
16. Capital Funding to Community Housing Organisations	2005	2004
Debentures with Community Housing Organisations (at Valuer-General's capital values) ⁽ⁱ⁾	\$'000	\$'000
	650 975	570 844
Less: Equity shares (refer Note 2.6)	1 073	1 073
Net debentures	649 902	569 771
Housing Association mortgages ⁽ⁱⁱⁱ⁾	-	59
	649 902	569 830

Assets of the Authority are not held to generate income but to provide housing for Community Housing Organisation members and as such their value does not reflect the yield to the Authority from those assets.

- (i) *Debentures*
On completion and tenanting of their properties, individual Community Housing Organisations are required to issue a debenture to the Authority reflecting where available the Valuer-General's capital value for rating purposes.

The Authority recognises that the debentures issued by Community Housing Organisations in conjunction with the Authority's funding of community housing are not held by the Authority to generate income, but rather, to facilitate the provision of housing by the community housing sector. Consequently the value of the Authority's assets do not reflect the market yield on those securities.

The Authority recognises that non-current assets are required to be carried at no greater than their recoverable amount. Further, the Authority is aware that debentures are unlikely to be repaid except in cases of default by individual Community Housing Organisations or upon the sale of a property. Nevertheless the Authority has adopted the view for accounting purposes that should a case of default arise it would be entitled to sell and recover its investments from the net proceeds of sale of individual community housing properties. The Authority is of the view that the Valuer-General's property values provide a reasonable expectation of recoverable amounts to discharge Community Housing Organisations' debentures.

- a) **New Debentures**
When the acquisition and/or construction of new properties is complete the Authority transfers to the Debenture Indexation Reserve net increments/decrements arising from differences between historical loan amounts and the value of the debentures issued in substitution for those loans. The value of new debentures is determined using the Valuer-General's rateable capital value, and in a small number of cases where this is not available, independent market valuation or total project cost is used.
- b) **Discharge of Debentures**
When properties are sold the debentures are cancelled and the balance of the Debenture Indexation Reserve for the property concerned is appropriated to the Accumulated Surplus. The difference between the sale value (less selling costs) and the debenture value is recognised as profit or loss on sale of properties.

(ii) *Housing Association Mortgages*

The Authority had a mortgage over the properties of a Housing Association but they were debentured during 2004-05.

17. Hot Water Service Warranty Provision	2005	2004
	\$'000	\$'000
Opening hot water service warranty provision	173	671
Movements during the year:		
(Decrements) Increments arising from transfers from and to the provision (refer Note 2.13)	166	(374)
Decrements arising from actual claims against the provision	(166)	(124)
	173	173
18. Property and Equipment		
(a) SACHA Owned Property		
Owned Property (at valuation) ⁽ⁱ⁾	13 530	4 402
Property leased to Community Housing Organisations (at valuation) ⁽ⁱⁱ⁾	3 181	3 312
Property leased back to South Australian Housing Trust (at valuation) ⁽ⁱⁱⁱ⁾	1 476	1 695
Community Housing work-in-progress projects (at cost) ^(iv)	11 619	11 833
	29 806	21 242
(b) Office and Computer Equipment		
Office and computer equipment (at cost)	284	291
Accumulated depreciation	(177)	(179)
Written down value	107	112
Total Property and Equipment	29 913	21 354

- (i) Houses formerly belonging to Community Housing Organisations (at Valuer-General's capital values) but surplus to their requirements, awaiting to be disposed or redeveloped.
- (ii) The Authority has acquired a number of multi unit properties from the South Australian Housing Trust that are as yet not subdivided and therefore not debentured. These have been leased to Community Housing Organisations.
- (iii) The Authority holds a number of properties which were acquired from the South Australian Housing Trust for the purpose of community housing but are still tenanted by public housing tenants in the short term. These properties will be transferred to Community Housing Organisations once these tenants have vacated.
- (iv) This balance recognises the value of work in progress with respect to projects where title is held by SACHA until completion. On completion properties are allocated to Community Housing Organisations.

Property and Equipment Movement Reconciliation

(c) SACHA Owned Property	2005				
	Owned Property	Property Leased to CHOs	Property Leased Back to SAHT	Community Housing Work in Progress Projects	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July	4 402	3 312	1 695	11 833	21 242
Additions	480	-	-	33 681	34 161
Disposals	(259)	-	-	(24 859)	(25 118)
Transfers between classes	5 975	1 255	(255)	(7 066)	(91)
Transfers from debentures	3 666	92	-	81	3 839
Transfers to debentures	(1 733)	(1 678)	(81)	-	(3 492)
Work in progress not capitalised	-	-	-	(2 051)	(2 051)
Property revaluation	999	200	117	-	1 316
Carrying Amount at 30 June	13 530	3 181	1 476	11 619	29 806

(c) SACHA Owned Property (continued)	2004				Total
	Owned Property \$'000	Property Leased to CHOs \$'000	Property Leased Back to SAHT \$'000	Community Housing Work in Progress Projects \$'000	
Carrying amount at 1 July	2 329	3 515	1 577	10 658	18 079
Additions	-	-	-	28 101	28 101
Disposals	(177)	-	-	(24 924)	(25 101)
Transfers	1 793	(799)	(169)	(2 002)	(1 177)
Property revaluation	457	596	287	-	1 340
Carrying Amount at 30 June	4 402	3 312	1 695	11 833	21 242

(d) Office and Computer Equipment	2005		
	Office Equipment \$'000	Computer Equipment \$'000	Total \$'000
Carrying amount at 1 July	53	59	112
Additions	2	24	26
Disposals	-	-	-
Depreciation expense	(9)	(22)	(31)
Carrying Amount at 30 June	46	61	107

	2004		
	Office Equipment \$'000	Computer Equipment \$'000	Total \$'000
Carrying amount at 1 July	62	30	92
Additions	-	51	51
Disposals	-	-	-
Depreciation expense	(9)	(22)	(31)
Carrying Amount at 30 June	53	59	112

19. Loans Loans from the South Australian Government Financing Authority (SAFA)	Interest Rates Percent	30 June 2005		30 June 2004	
		Book Value \$'000	Fair Value ⁽ⁱ⁾ \$'000	Book Value \$'000	Fair Value ⁽ⁱ⁾ \$'000
<i>Maturity Date</i>					
Short Term Interest Only Debt					
No fixed term	5.630	15 100	15 170	15 100	15 167
Medium to Long Term Interest Only Debt					
15 September 2006	7.545	10 000	10 265	10 000	10 412
15 October 2007	6.205	7 000	7 204	7 000	7 168
28 October 2007	6.535	10 000	10 375	10 000	10 359
15 September 2008	5.845	15 000	15 414	15 000	15 182
15 September 2009	7.025	14 217	15 099	14 217	14 895
15 March 2010	7.295	10 000	10 793	10 000	10 629
20 December 2010	6.080	10 000	10 306	10 000	10 001
15 September 2011	6.000	15 000	15 637	15 000	15 087
15 September 2012	6.045	13 610	14 255	13 610	13 674
Average Weighted Cost/Total	6.36	119 927	124 518	119 927	122 574
Plus Treasury Guarantee Fee	0.75				
Total Weighted Cost⁽ⁱⁱ⁾	7.11				

(i) The fair value of loans to the Authority from SAFA reflect the present value of cash flows associated with the Authority's loans discounted at market yield for loans of the equivalent maturity.

(ii) Weighted Average Effective Interest Rate.

20. Additional Financial Instruments Disclosure

(a) Interest Rate Risk

The Authority has certainty with respect to the interest expense arising from the fixed rate loans from SAFA that comprise the major part of the Authority's debt. Funding arrangements relevant to interest rate risk are set out in Note 19. The Authority's exposure to interest rate risk and the weighted average interest rates for classes of financial assets and liabilities is as follows.

(a) Interest Rate Risk (continued)

	Weighted Average Interest Rate Percent	Floating Interest Rate \$'000	2005 Fixed Interest Maturing in			Non- Interest Bearing \$'000	Total \$'000
			Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash	5.28	7 291	-	-	-	1	7 292
Receivables	-	-	-	-	-	1 943	1 943
Capital funding to housing organisations	1.18	649 902	-	-	-	-	649 902
		<u>657 193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 944</u>	659 137
Financial Liabilities:							
Loans from SAFA	7.11	15 100	-	66 217	38 610	-	119 927
Trade creditors	-	-	-	-	-	2 930	2 930
		<u>15 100</u>	<u>-</u>	<u>66 217</u>	<u>38 610</u>	<u>2 930</u>	122 857

	Weighted Average Interest Rate Percent	Floating Interest Rate \$'000	2004 Fixed Interest Maturing in			Non- Interest Bearing \$'000	Total \$'000
			Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash	4.97	17 976	-	-	-	1	17 977
Receivables	-	-	-	-	-	1 744	1 744
Capital funding to housing organisations	1.32	569 830	-	-	-	-	569 830
		<u>587 806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 745</u>	589 551
Financial Liabilities:							
Loans from SAFA	7.09	15 100	-	42 000	62 827	-	119 927
Trade creditors	-	-	-	-	-	2 135	2 135
		<u>15 100</u>	<u>-</u>	<u>42 000</u>	<u>62 827</u>	<u>2 135</u>	122 062

(b) Credit Risk

The Authority is exposed to credit risk associated with amounts due to it from Community Housing Organisations as agreed. The credit risk on financial assets is recognised in the Statement of Financial Position as the carrying amount, net of any provisions for doubtful debts.

(c) Net Fair Value of Financial Instruments

Analysis of the net fair value of financial instruments is set out below.

See also Note 19 in relation to Loans. The fair value of other financial assets and liabilities, which are subject to normal trade terms, is considered to be face value.

	2005		2004	
	Carrying Value \$'000	Fair Value ⁽ⁱ⁾ \$'000	Carrying Value \$'000	Fair Value ⁽ⁱ⁾ \$'000
Financial Assets:				
Cash	7 292	7 292	17 977	17 977
Receivables	1 943	1 943	1 744	1 744
Capital funding to housing organisations	649 902	649 902	569 830	569 830
	659 137	659 137	589 551	589 551
Financial Liabilities:				
Loans from SAFA	119 927	124 518	119 927	122 574
Trade creditors	2 930	2 930	2 135	2 135
	122 857	127 448	122 062	124 709

(i) The fair value of loans from the South Australian Government Financing Authority has been determined by discounting back the future cash flows on loan repayments to market interest rates.

21. Reconciliation of Net Cash provided by Operating Activities to Net Surplus from Ordinary Activities	2005 \$'000	2004 \$'000
Net Cash Provided by Operating Activities	10 790	12 194
Adjustments:		
Government grants	10 941	10 148
Depreciation	(31)	(31)
Net Increment (Decrement) on revaluation of property	-	767
Provision adjustment hot water service warranty	-	374
Housing Association mortgage discharge	59	-
Provision for doubtful debts	(1)	(54)
Capital project recoveries	301	355
Surplus (Deficit) on sale of properties	(157)	242
Contributed assets	3 967	172

21. Reconciliation of Net Cash provided by Operating Activities to Net Surplus from Ordinary Activities (continued)	2005	2004
	\$'000	\$'000
Change in assets and liabilities:		
Increase in receivables - Trade and other debtors	199	1
Increase in prepayments	-	127
Decrease in trade creditors and accruals	(758)	(179)
Net Surplus from Ordinary Activities	25 192	24 116
22. Accumulated Surplus		
Opening balance	262 902	238 022
Transfers from asset revaluation reserve	97	64
Transfers from debenture indexation reserve	570	700
Surplus for the year	25 192	24 116
Closing Balance	288 761	262 902
23. Capital Commitments		
Loans for Capital Expenditure Projects:		
Obligations under approved new-build and spot purchase projects in progress:		
Payable not later than one year	6 453	12 411
Payable later than one year and not later than five years	-	164
Total Capital Commitments	6 453	12 575
24. Executive Remuneration	2005	2004
The number of employees whose remuneration from the Authority falls within the following bands:	Number of	Number of
\$100 000 - \$109 999	Employees	Employees
\$110 000 - \$119 999	1	1
\$120 000 - \$129 999	-	-
\$130 000 - \$139 999	-	1
	1	-
	2	2
Total remuneration received, due or receivable, by employees whose remuneration exceeds \$100 000	2005	2004
	\$'000	\$'000
	233	229

The table discloses the number of staff and the value of their remuneration where the remuneration exceeded \$100 000 for staff who were employed by the Department for Families and Communities and subsequently assigned to the Authority.

The remuneration includes salaries and related payments, superannuation and motor vehicle benefits.

25. Remuneration of Board Members and Related Party Transactions

The Board of the Authority comprises seven Members. These Members are:

E H Ramsay, Chairperson	
C M Davidson	
G J Gow	Appointed 19 January 2005
C D Halsey	Appointed 5 August 2004
D R Lee	Appointed 5 August 2004
E H McCarthy	Appointed 19 January 2005
D J Sczesny	Retired 9 July 2004 on completion of appointment
M Woodward	

The number of Board Members whose remuneration from the Authority falls within the following bands were:	2005	2004
\$nil	Number of	Number of
\$1 - \$9 999	Members	Members
\$10 000 - \$19 999	-	1
	7	8
	1	-
	8	9
Total remuneration received, due or receivable, by the Board Members from the Authority	2005	2004
	\$'000	\$'000
	56	51

No member of the Authority had a pecuniary interest in any party which had any transaction with the Authority in the current year with the following exceptions:

- (i) A Board Member was an employee of an organisation (Multi Agency Community Housing Association Inc.) which received grant funding from the Authority.
- (ii) Two Board Members were contracted by Community Housing Council of SA (CHCSA) to deliver training. CHCSA received grant funding from the Authority.
- (iii) A Board Member was an employee of Southern Junction Youth Services.

26. Contingent Liabilities

During the years 2003-04 and 2004-05, the Authority entered into insurance arrangements in respect of properties held by the CHOs and the Authority. Under these insurance arrangements the Authority has agreed to pay all claims over \$500, until a total amount of \$250 000 per year had been paid for all claims lodged. For 2004-05 \$122 000 (\$41 000), had been expensed as paid, leaving a contingent liability of \$337 000 (\$459 000).

SOUTH AUSTRALIAN FILM CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Film Corporation (the Corporation) was established pursuant to the *South Australian Film Corporation Act 1972*.

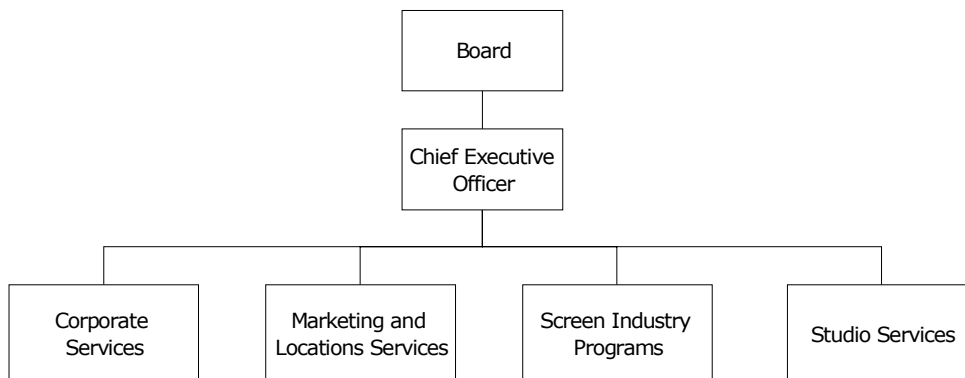
Functions

The functions of the Corporation are as follows:

- Foster the creation and delivery of critically acclaimed and commercially successful ideas, moving images and sound for any viewing medium.
- Support the South Australian screen industry.
- Optimise opportunities for production and post-production in South Australia.
- Provide financial assistance by way of grants, loans and equity investments.

Structure

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



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(2) of the *South Australian Film Corporation Act 1972* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the South Australian Film Corporation for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

During 2004-05, specific areas of audit attention included:

- Board and Finance and Audit Committee minutes
- budgetary control and management reporting
- expenditure
- payroll
- revenue, including studio hire, cash receipting and banking
- grants, loans and investments for film producers
- property, plant and equipment
- general ledger
- risk management
- procurement.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, the *South Australian Film Corporation Act 1972*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Film Corporation as at 30 June 2005, and the results of operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian Film Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters of Board members and prepayment of a 'make good' provision as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Film Corporation have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. Responses to the management letter were generally considered to be satisfactory. Matters raised with the Corporation and the related responses are considered herein.

Board Members

Audit noted that in accordance with section 5(4) of the *South Australian Film Corporation Act 1972*, the Corporation is to consist of not less than 8 and not more than 10 members appointed by the Governor. During the financial year there were only 7 board members. Audit also noted that there have been discussions with the Minister regarding this matter.

The Corporation has advised Audit that 2 new members were appointed in August 2005.

Prepayment of a 'Make good' Provision

As part of the deed of extension of the lease of their premise, the Corporation paid a 'make good' provision without the Treasurer's approval (refer Note 16). This payment was in contravention of Treasurer's Instruction 11 'Payment of Accounts' as prepayments outside the normal course of business are not to be made without the express approval of the Treasurer; unless that prepayment is a deposit of a value equal to or less than 10 percent of the total value of goods or services.

The Corporation is now aware of this legal compliance requirement.

Policies and Procedures

Following Audit's recommendation in 2002-03, Audit noted the Corporation engaged the services of a consultant to assist in drafting a revised Policies and Procedures manual. It is noted that many advancements have been made in the quality of the manual. Audit notes however, that there are some areas where further improvements can be made.

Audit recommended that:

- a chapter be included outlining procurement guidelines in accordance with the *State Supply Act 1985* and the State Supply Board's policies;
- a chapter be included on the capitalisation and amortisation of investments and project development;
- a section within the Studio Services policies and procedures specifically regarding the generating of invoices, issuance of credit notes and, the information that should be contained within the Studio Booking Agreements.

In addition, as was the case last year, a more detailed Policies and Procedures needs to be implemented in regards to the accounting treatment of Fixed Assets.

The Corporation has advised that changes to the Manual are being finalised and it is being included in stages on the Corporation's intranet site for staff access.

Investments, Loans and Grants

Audit recommended the Corporation consider implementing a formalised record management system for the tracking of the location of key documents and contracts.

The Corporation accepted the recommendation.

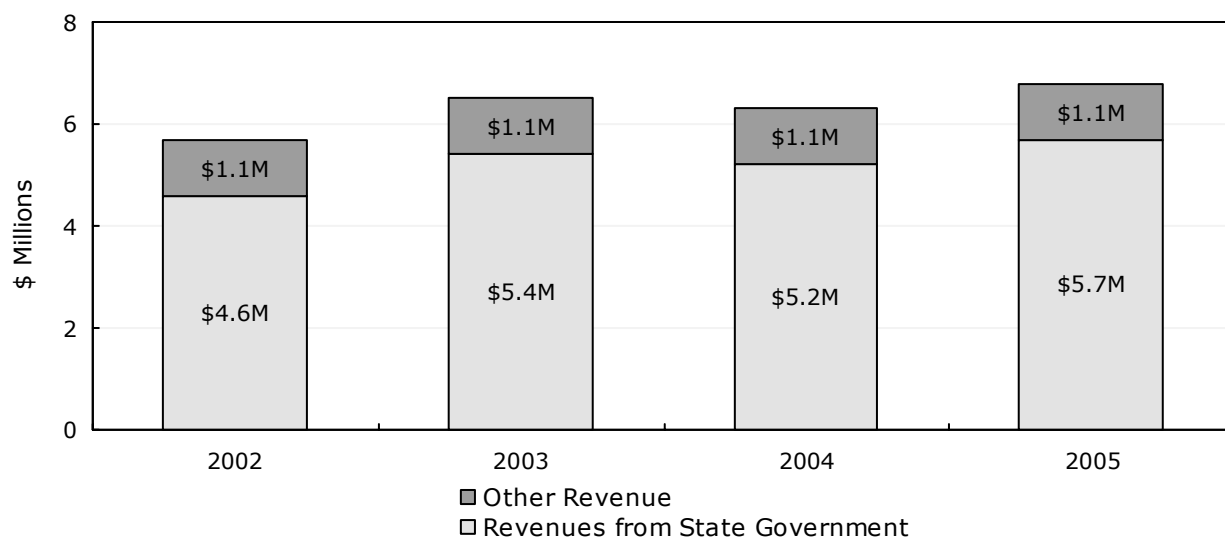
INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Statement of Financial Performance

Operating Revenues

Revenues from the State Government comprise 84 percent of operating revenue and increased by \$534 000 to \$5.7 million. Refer to Note 10.

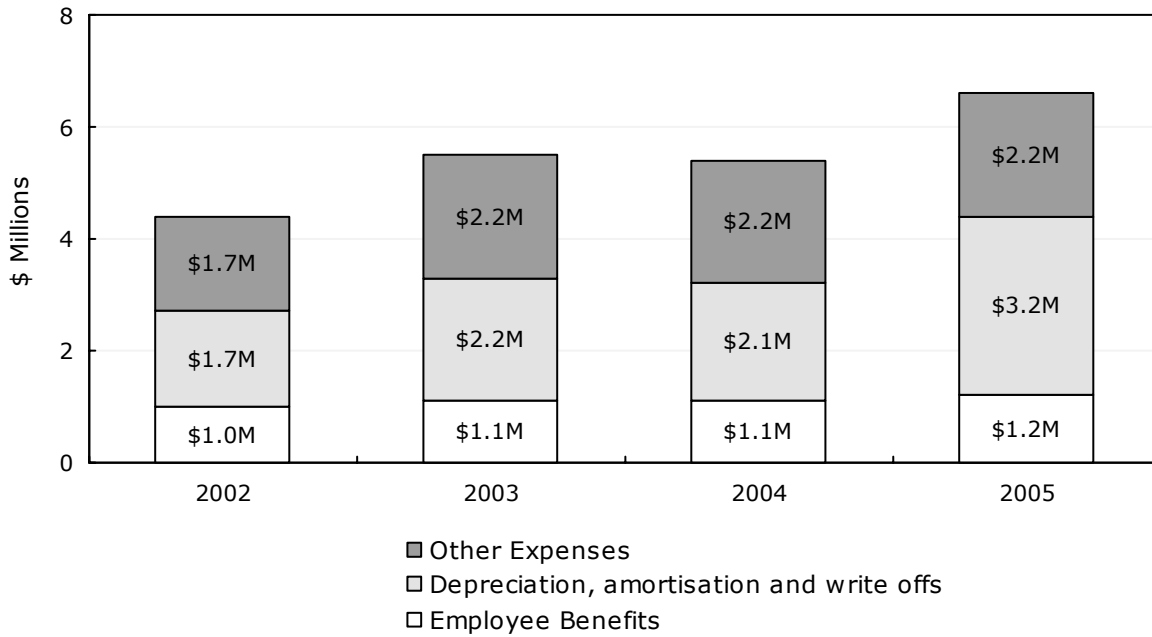
A structural analysis of operating revenues for the Corporation in the four years to 2005 is presented in the following chart.



Operating Expenses

Amortisation write offs expense on film investments and loans comprises 44 percent of operating expenses.

For the four years to 2005, a structural analysis of the main operating expense items for the Corporation is shown in the following chart.



Amortisation Expense

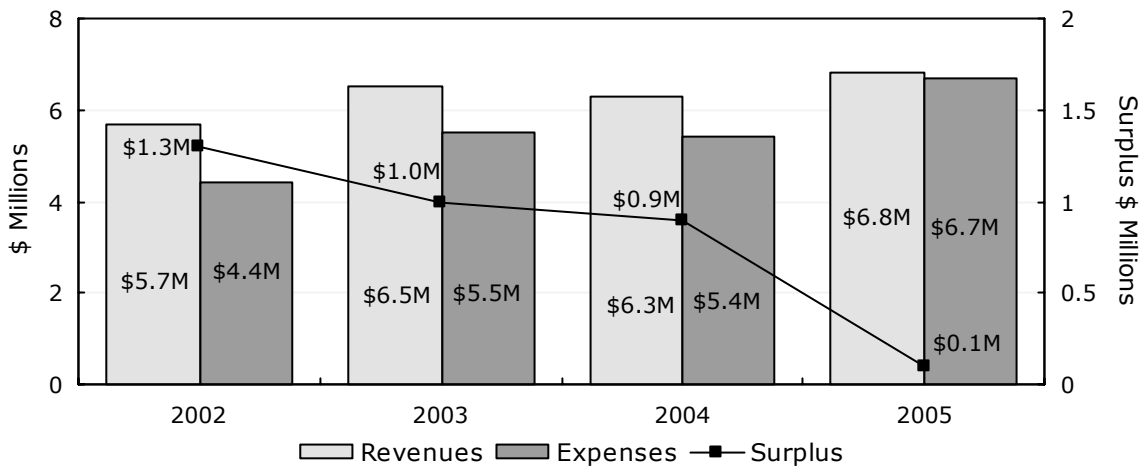
The Corporation invests in film and television productions and receives back an investment return after their release to the market. The Corporation also provides project development funding in return for principal repayments upon the projects going into production.

In recognition of the prospect that projects may not go into production or succeed in the market, and consequently that proceeds may not eventuate, the Corporation amortises its production investments and project development. This amortisation is reflected as an expense within the Statement of Financial Performance. Amortisation expense on Film Investments, Project Development and Loans in 2004-05 increased by \$1.1 million to \$2.4 million.

Operating Result

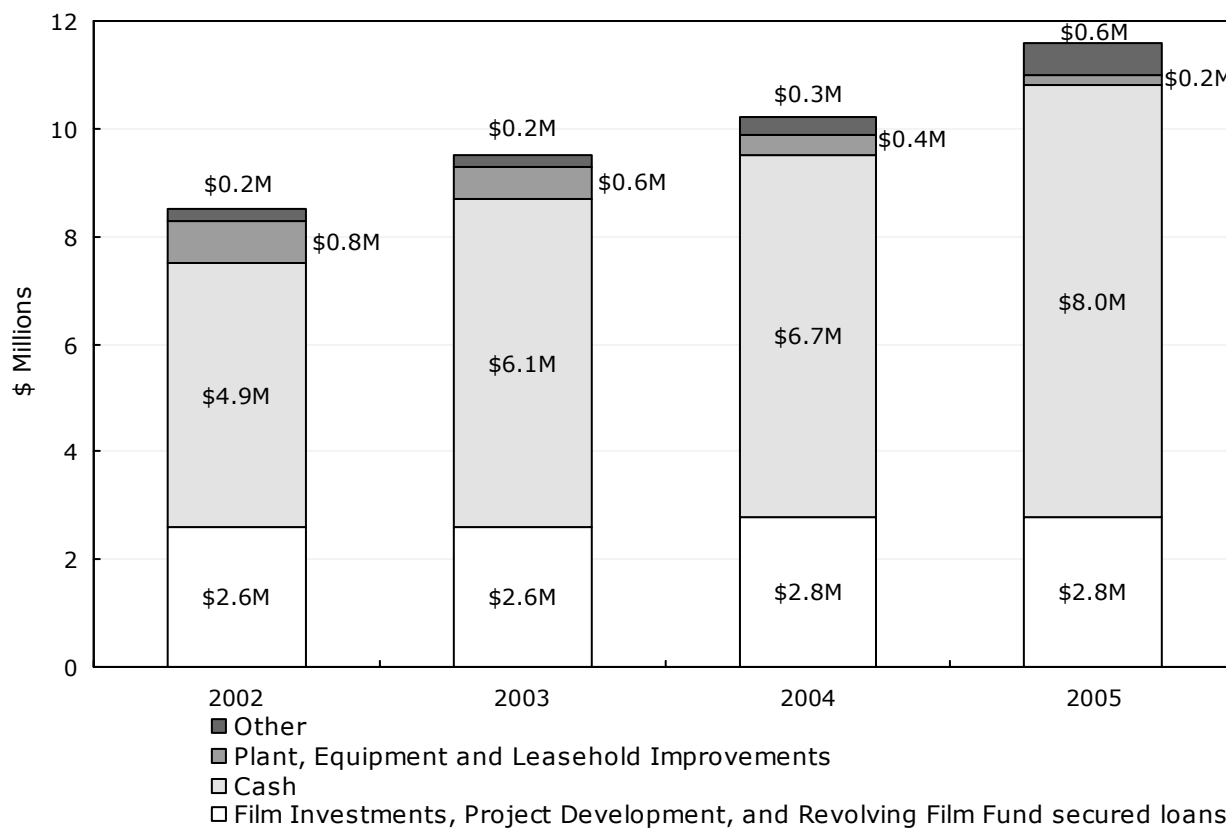
Revenues from the State Government have been approximately equal to operating expenses, with revenues from other sources creating a surplus for the preceding three years.

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2005.



Statement of Financial Position

A structural analysis of the Corporation's assets for the four years to 2005, as shown in the following chart, indicates that the amortised balance of film investments and project development has been relatively constant while cash has accumulated. While the level of cash is increasing, it is important to note that the Corporation had commitments of \$2.8 million in film investments, project development and Revolving Film Fund secured loans associated with 30 June 2005 (Refer to Notes 20 and 27 to the Financial Statements).



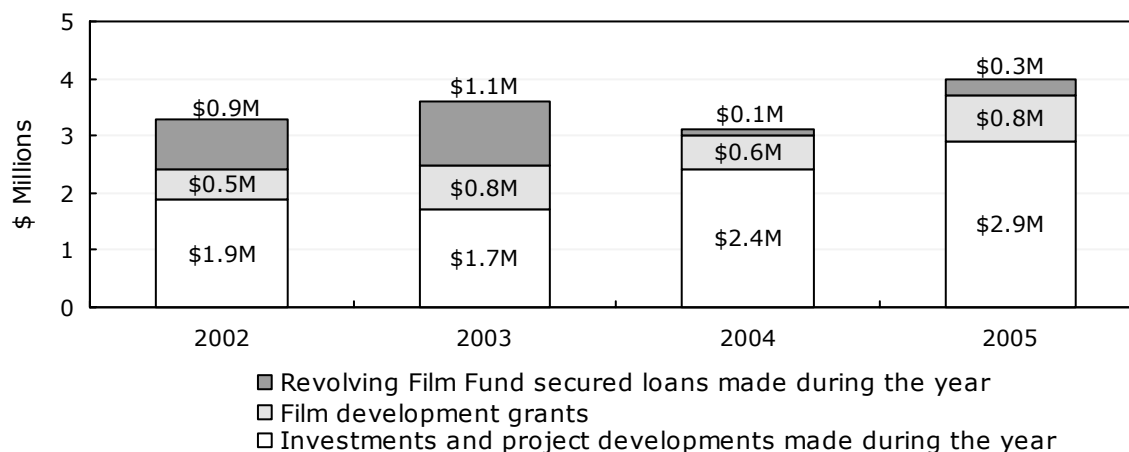
Administered Items

The Corporation provides a disbursement service to film producers and receives an administration fee for distributing film returns to investors. (Refer to Note 24 to the Financial Statements.)

FURTHER COMMENTARY ON OPERATIONS

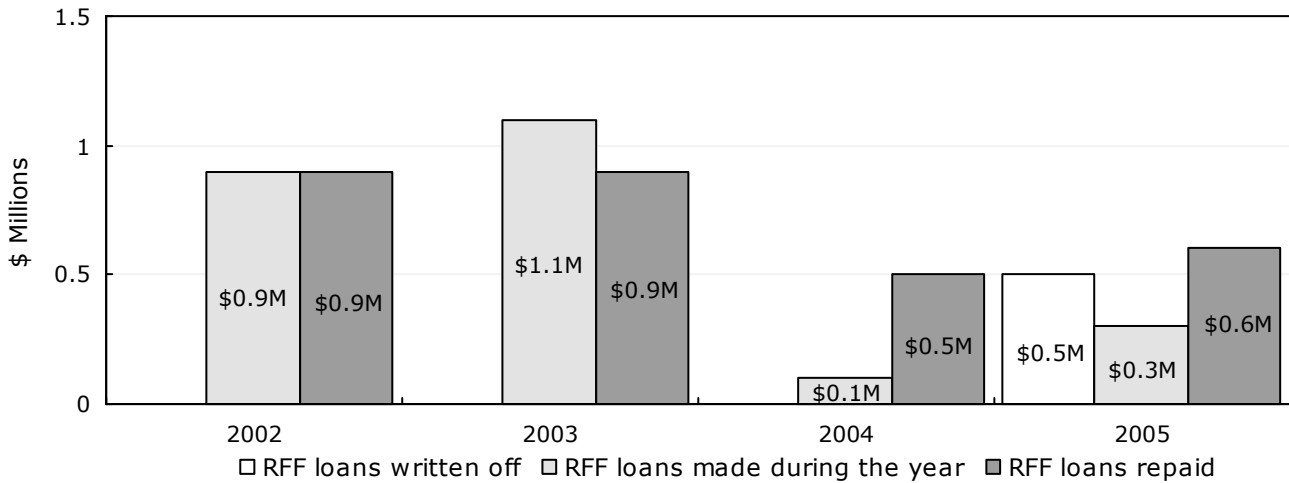
Provision of Financial Assistance to Film Producers

The following chart reflects the general growth in the Corporation's function as a provider of financial assistance to film producers over the last four years. In addition, \$2.8 million was committed to programs at 30 June 2005 (Refer to Note 27).



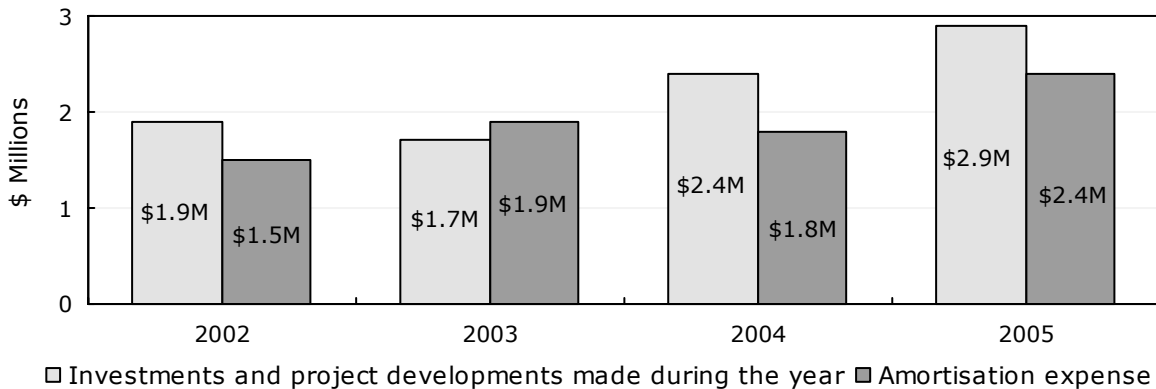
Revolving Film Fund Secured Loans

The chart below identifies the value of Revolving Film Fund (RFF) secured loans provided each year to film producers and production loans repaid each year for the last four years and indicates that loans are generally being repaid in a timely manner. However, as noted below in the current year a secured loan was written off for \$486 000. Production loans are secured by a combination of a charge over the producer’s assets from the film, including the right to receive income, and a charge over the gross proceeds from the exploitation of the film.



Project Developments and Film Investments

The chart below identifies the value of project developments and film investments provided each year to film producers and the associated annual amortisation expense. Due to a revision in accounting policy, amortisation expense for the current year is abnormally high.



**Statement of Financial Performance
for the year ended 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Film distribution returns		178	291
Interest	3	418	375
Studio hire		319	391
Other income	4	147	68
Total Revenues		1 062	1 125
EXPENSES FROM ORDINARY ACTIVITIES:			
Amortisation and write offs - Investments and project development	5	2 901	1 764
Depreciation and amortisation of plant, equipment and leasehold improvements	6	273	321
Educational Content Fund production costs		460	404
Employee benefits	7	1 168	1 149
Goods and services	8	965	1 072
Remuneration of members and related expenses	9	83	87
Screen Industry Program grants		762	618
Total Expenses		6 612	5 415
NET COST OF SERVICES		(5 550)	(4 290)
REVENUES FROM STATE GOVERNMENT	10	5 700	5 166
INCREASE IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES		150	876
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		150	876

**Statement of Financial Position
as at 30 June 2005**

	Note	2005	2004
ASSETS:		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	11	7 959	6 722
Inventories		18	17
Receivables	12	488	136
Revolving Film Fund secured loans	13	268	1 050
Total Current Assets		8 733	7 925
NON-CURRENT ASSETS:			
Investments and project development	14	2 532	1 797
Plant, equipment and leasehold improvements	15	232	439
Other	16	119	-
Total Non-Current Assets		2 883	2 236
Total Assets		11 616	10 161
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	17	1 496	214
Provision for employee benefits	18	64	43
Total Current Liabilities		1 560	257
NON-CURRENT LIABILITIES:			
Provision for employee benefits	18	12	10
Total Non-Current Liabilities		12	10
Total Liabilities		1 572	267
NET ASSETS		10 044	9 894
EQUITY:			
Capital contribution from State Government		8 460	8 460
Accumulated surplus	19	1 584	1 434
TOTAL EQUITY		10 044	9 894
Commitments	20		
Contingent Liabilities	21		

**Statement of Cash Flows
for the year ended 30 June 2005**

	Note	2005 Inflows (Outflows) \$'000	2004 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
RECEIPTS:			
Studio, film development and documentary sales		263	402
Interest		418	398
Repayment of Revolving Film Fund secured loans		516	512
Returns from film investments		118	209
Other		147	68
GST receipts on sales		61	-
GST refunded by Australian Taxation Office		332	26
Cash Flows from State Government		5 650	5 166
PAYMENTS:			
Employee benefits		(1 119)	(1 153)
Revolving Film Fund secured loans		(268)	(102)
Screen Industry Program grants		(762)	(618)
Screen Industry Program investments		(2 501)	(2 712)
Other payments		(1 162)	(1 412)
GST payments on purchases		(332)	-
GST remitted to Australian Taxation Office		(61)	-
Net Cash provided by Operating Activities	22(b)	1 300	784
CASH FLOWS FROM INVESTING ACTIVITIES:			
PAYMENTS:			
Payments for purchases of plant, equipment and leasehold improvements		(63)	(169)
Net Cash used in Investing Activities		(63)	(169)
NET INCREASE IN CASH HELD		1 237	615
CASH AT 1 JULY		6 722	6 107
CASH AT 30 JUNE	22(a)	7 959	6 722

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objective and Funding

The core functions of the South Australian Film Corporation (the Corporation) are to foster the creation and delivery of critically acclaimed and commercially successful ideas, moving images and sound for any viewing medium; to support the SA screen industry in a dynamic and responsive manner and to optimise opportunities for production and post-production in this State.

The Corporation provides financial assistance by way of grants, loans and equity investments.

The Corporation's principal sources of funds are State Government grants, investment income, revenue from studio and facilities hire and distribution returns.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The general purpose financial report has been prepared on an accrual basis and is based on historic cost. It is in accordance with Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*, and applicable Australian Accounting Standards, Statements of Accounting Concepts, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The accrual method of accounting has been used.

The financial statements do not take into account changing money values or, except where stated, the current valuations of non-current assets.

(b) The Reporting Entity

All funds through which the Corporation controls resources to perform its functions have been included in this financial report.

In the process of reporting on the Corporation as a single entity, all internal transactions have been eliminated.

Screen Industry Program Fund

The Screen Industry Program Fund provides investments in approved projects, project development and grants to screen industry practitioners. The cost of providing these funds are deducted from the funds received from the State Government.

Educational Content Fund

The Educational Content Fund provides funding for the production of non-print communication resources to meet the requirements of South Australian Government's departments and agencies. The participating departments and agencies contribute to the cost of productions. The Corporation receives an executive producer's fee for productions that utilise these funds.

Revolving Film Fund

The Revolving Film Fund provides secured loans to film and television producers. The loans are provided on an interest bearing basis.

Administered Items: Disbursement Returns Account

The Corporation provides to film producers a service for disbursing investment returns to investors. The Corporation does not have control or discretion to apply the undisbursed investment returns towards achieving the Corporation's objectives, therefore, the disbursement activities are not recognised in the financial statements but have been reflected in Note 24.

(c) Revenue Recognition

Government grants and film distribution returns are recognised on receipt. Interest revenues are recognised as they accrue. Other revenue is recognised after the service has been provided.

(d) Depreciation and Amortisation

Depreciation

Plant and equipment items with an initial cost greater than \$500 are depreciated over their estimated useful lives using the straight line method and the following rates:

	Percent
Production, projection, editing and sound equipment	10-30
Office furniture, equipment and computers	10-40

Depreciation rates and methods are reviewed annually.

Amortisation of Leasehold Improvements

Leasehold improvements are amortised over the lease term or estimated useful life, whichever is the shorter, using the straight line method.

Project Investments and Project Development Funding

The Corporation acknowledges the speculative nature of project investment and development and the low rate of return on projects funded through the Screen Industry Program. The Corporation has regard to industry standards and applies professional judgment to determine the rates of amortisation of individual investments and loans, in relation to recoupment projections. The Corporation assesses the performance of individual projects in determining the amortisation rates to be applied each year.

The rates of amortisation were revised during the current year and have been set to align with industry standards. Amortisation rates have been set at 80 percent of the cost of project investments and 90 percent of the cost of project development. This has resulted in an additional amortisation charge of \$1 280 000 during the current year.

(e) Provisions

Doubtful Debts

The collectability of trade debts is assessed annually and provision is made for any doubtful debts.

Employee Benefits

Provision has been made in the financial statements, where stated, for the Corporation's liability for employee benefits arising from services rendered by employees prior to balance date. This provision includes annual leave entitlements and pro rata entitlements for long service leave. No provision has been made for sick leave as it is regarded as an expense of the period during which leave is taken.

Employment related on-costs have been included in payables.

Liabilities in respect to long service leave entitlements have been calculated at nominal amounts based on current salary and wages rates. The Department of Treasury and Finance have advised that a benchmark of seven years can be used for a short hand estimation of long service leave liability in accordance with the provisions of Australian Accounting Standard AASB 1028 'Employee Benefits'. This advice has been adopted and the long service leave liability has been calculated on that basis.

(f) Superannuation

The Corporation contributes to an externally managed fund in respect of the provision of future retirement benefits for its employees. Pursuant to the Commonwealth Government's Superannuation Guarantee legislation contributions were made at a rate of 9 percent of eligible earnings.

The Corporation does not guarantee the performance of the fund.

These contributions are treated as an expense when they occur (refer Note 7). There is no liability for payments to beneficiaries as they have been assumed by the fund.

(g) Inventories

Inventories are valued at their lower of cost or net realisable value. Obsolete inventories are written off.

(h) Accounting for the Goods and Services Tax (GST)

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

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

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

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

(i) Tax Status

The activities of the Corporation are exempt from Commonwealth income tax but subject to other Commonwealth taxes such as fringe benefits tax, goods and services tax and payroll tax.

(j) Rounding

All amounts are rounded to the nearest thousand dollars.

(k) International Financial Reporting Standards

Australia will be adopting Australian equivalents to the International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Corporation will adopt these standards for the first time in the published financial report for the year ended 30 June 2006. A comparative opening Statement of Financial Position has been prepared in order for comparatives to be presented in the first Australian equivalents to the International Financial Reporting Standards (AIFRS), financial report for the financial year ending 30 June 2006 (refer Note 25).

3. Interest	2005	2004
	\$'000	\$'000
Deposits with SA Government Financing Authority	411	320
Revolving Film Fund loans	7	52
Film projects	-	3
	418	375
4. Other Income		
Revolving Film Fund fees	38	34
Disbursement Service fees	25	17
Sundry income	84	17
	147	68
5. Film Investment and Project Development Amortisation and Write Off		
Amortisation:		
Film Investments	1 827	1 295
Project Development	588	469
	2 415	1 764
Write Off:		
Revolving Film Fund secured loan *	486	-
	2 901	1 764
6. Depreciation and Amortisation of Plant, Equipment and Leasehold Improvements	2005	2004
	\$'000	\$'000
Depreciation:		
Production, projection, editing and sound equipment	152	227
Office furniture, equipment and computers	115	43
Amortisation:		
Leasehold improvements	6	51
	273	321

* A cash flow loan of \$486 000 was provided to Peach Film Pty Ltd against a distribution guarantee for all territories (excluding Australasia). Legal action has been undertaken with respect to non-payment of the distribution guarantee. The Board considered it prudent to make a \$486 000 write off in this financial year.

7. Employee Benefits	2005	2004
	\$'000	\$'000
Salary and wages (including annual leave)	1 032	1 009
Superannuation	88	86
Long service leave	2	2
Workers compensation (insurance)	9	10
Payroll and fringe benefits tax	37	42
	1 168	1 149

Remuneration paid to executives was in the following bands:	2005	2004
\$120 001 - \$130 000	Number	Number
	1	1

8. Goods and Services	2005	2004
	\$'000	\$'000
Audit fees for the audit of the financial report *	32	31
Audit fees for disbursement service	6	6
Computer supplies and related expenses	34	54
Contractors	27	51
Cost of goods sold	87	-
Doubtful debts	4	(9)
Industry promotion and participation	97	130
Legal fees	13	17
Location promotion costs	24	20
Motor vehicle	11	10
Occupancy expenses:		
Building rent	180	162
Contract cleaning and associated expenses	44	45
Utility expenses	79	98
Other	144	218
Repairs and maintenance	23	24
Stationery	39	15
Telephones and communications	29	28
Temporary staff and contractors	23	91
Travel	69	81
	965	1 072

* The auditors provided no other services.

9. Remuneration of Members and Related Expenses		
Remuneration of members	55	65
Board related expenses	28	22
	83	87

Remuneration paid to Board members for the full year ended 30 June 2005:	2005	2004
\$0 - \$10 000	Number	Number
\$10 001 - \$20 000	Members	Members
	4	10
	1	-

The following held office as Board members for the full year ended 30 June 2005:

- C Bart
- P Martin
- B Morris
- B Fox
- J Chataway
- J Shteinman
- H Leake

Board fees are not payable to government employees in accordance with the Department of the Premier and Cabinet Circular 14.

The Corporation has entered into commitments to invest \$275 000 and \$200 000 in respect of film productions with which Corporation members J Shteinman and J Chataway are associated. A commitment to provide Revolving Film Fund loans of \$750 000 was entered into by the Corporation in respect of a film production with which Corporate member J Shteinman is associated. Neither J Shteinman nor J Chataway participated in the processes of evaluating and approving those commitments.

10. Revenues from SA Government	2005	2004
Operating Grant:	\$'000	\$'000
Operating grant	970	972
Operational support grant *	300	-
Screen Industry Program Fund program grant	3 430	3 923
Production Incentive grant	500	-
Script Initiative grant	250	-
Educational Content Fund grant	200	200
Contribution from other State Government agencies	50	71
	5 700	5 166
	<hr/>	
	\$'000	\$'000
11. Cash Assets	2005	2004
Short term deposits	7 955	6 718
Cash at bank and on hand	4	4
	7 959	6 722
	<hr/>	
12. Receivables	2005	2004
Trade debtors	302	89
Less: Provision for doubtful debts	45	41
	257	48
	<hr/>	
Accrued revenue	199	21
Sundry debtors and prepayments	32	67
	231	88
	<hr/>	
Total Fess and Charges - Non-SA Government Entities ⁽¹⁾	488	136
	<hr/>	
(1) The total includes receivables received or due from SA Government entities where the amount received by or due from the SA Government entity was less than \$100 000.		
13. Revolving Film Fund Secured Loans	2005	2004
Classified as:	\$'000	\$'000
Current assets	268	1 050
	<hr/>	
The loans are provided on an interest bearing basis and secured, with due regard to the credit worthiness of the producer and the distributors providing distribution guarantees, by a combination of:		
a) a charge over the producer's assets from the film, including the right to receive income;		
b) a charge over the gross proceeds from exploitation of the film.		
14. Investments and Project Development	2005	2004
Production Investments	\$'000	\$'000
Project Development	2 486	1 797
	46	-
	2 532	1 797
	<hr/>	
15. Plant, Production, Projection, Editing, Sound, Office Equipment and Leasehold Improvements	2005	2004
Leasehold improvements - At cost	1 690	1 690
Less: Accumulated depreciation	1 680	1 674
	10	16
Production equipment - At cost	1 666	1 722
Less: Accumulated depreciation	1 615	1 462
	51	260
Office equipment - At cost	703	580
Less: Accumulated depreciation	532	417
	171	163
	232	439
	<hr/>	
16. Other Assets	2005	2004
Prepayments	119	-
	<hr/>	

The Corporation intends to vacate the Hendon premises at the end of the current lease term. The Corporation negotiated an agreed payment for the reinstatement of the premises, which was paid during the 2005 financial year. The payment has been shown as a prepayment of \$118 500 and will be recognised as an expense when the premises are vacated.

17. Payables	2005	2004
	\$'000	\$'000
Trade creditors*	1 200	125
Employee on-costs	19	8
Other payables	277	81
	1 496	214
* An amount of \$1 026 000 relates to an investment payment contracted on 30 June 2005, but not paid until July 2005.		
18. Provision for Employee Benefits		
Current Liability:		
Provision for annual leave	64	43
Non-Current Liability:		
Provision for long service leave	12	10
Employee Benefits and Related On-Cost Liabilities		
Accrued salaries included in other payables - Current (Note 17)	16	-
Annual Leave:		
Provision for employee benefits - Current (Note 18)	64	43
Employee on-costs - Current (Note 17)	19	8
	83	51
Long Service Leave:		
Provision for employee benefits - Non-current (Note 17)	12	10
Aggregate Employee Benefit and Related On-Cost Liabilities	111	61
19. Accumulated Surplus		
Accumulated surplus at 1 July	1 434	558
Net increase in assets resulting from ordinary activities	150	876
Accumulated Surplus at 30 June	1 584	1 434
20. Commitments		
(a) Screen Industry Program Funds		
The Corporation holds cash assets to meet future commitments of \$2 054 000 (\$3 085 000) to approved applicants. These commitments were not recognised in the financial statements at 30 June 2005.		
(b) Revolving Film Fund		
Cash flow loans of \$750 000 have been approved by the Board in the 2004-05 year but will not be drawn down until the 2005-06 year.		
(c) Operating Lease		
The Corporation's operating lease is for accommodation. The non-cancellable lease is for a two year term with the tenant's right to renew for a further one year period. This commitment is not recognised as a liability in the financial report at reporting date but is payable as follows:		
	2005	2004
	\$'000	\$'000
Not later than one year	185	180
Later than one year but not later than five years	190	-
Total Operating Lease Commitments (including GST)	375	180
21. Contingent Liabilities		
The Corporation has no material contingent liabilities.		
22. Notes to the Statement of Cash Flows		
(a) Reconciliation of Cash		
For the purposes of the Statement of Cash Flows, cash consists of cash on hand and at bank and investments in money market instruments.		
Cash at 30 June as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:		
	2005	2004
	\$'000	\$'000
Cash assets	7 959	6 722

(b) Reconciliation of Net Cost of Services to Net Cash Provided by Operating Activities	2005	2004
	\$'000	\$'000
Net cost of services	(5 550)	(4 290)
Revenues from State Government	5 700	5 166
Non-Cash Flows:		
Depreciation, amortisation, and write offs	3 174	2 085
Provision for doubtful debts	4	(9)
Changes in Assets and Liabilities:		
Increase in inventories	(1)	(7)
(Increase) Decrease in receivables	(352)	28
Decrease in Revolving Film Fund loans	782	410
Increase in investments and project development	(3 850)	(2 416)
Decrease in plant	207	-
Increase in other	(119)	-
Increase (Decrease) in payables	1 282	(179)
Increase (Decrease) in provision for employee benefits	23	(4)
Net Cash Provided by Operating Activities	1 300	784

23. Additional Financial Instruments Disclosure

(a) Accounting Policies and Terms and Conditions Affecting Future Cash Flows

Financial Assets

Cash assets are available at call and are recorded at cost. Receivables are recorded at cost. Production investments and project development are recorded at amortised cost. Revolving Film Fund loans (refer Note 13) are advanced to production companies and are secured by way of a charge or guarantee appropriate to the circumstances of each loan. Interest is charged at rates consistent with usual Corporation policy. Revolving Film Fund loans are recognised at cost and are classified between current asset and non-current asset elements based on the repayment terms specified in each agreement.

Financial Liabilities

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

(b) Interest Rate Risk

	2005				Weighted Average Effective Interest Rate Percent
	Fixed Interest Rate \$'000	Floating Interest Rate \$'000	Non-Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:					
Cash assets	-	7 959	-	7 959	5.45
Receivables	-	-	257	257	
Investments and project development	-	-	2 532	2 532	
Revolving Film Fund loans	268	-	-	268	5.64
	268	7 959	2 789	11 016	
Financial Liabilities:					
Payables	-	-	1 200	1 200	
	-	-	1 200	1 200	
	2004				
	Fixed Interest Rate \$'000	Floating Interest Rate \$'000	Non-Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate Percent
Financial Assets:					
Cash assets	-	6 722	-	6 722	5.0
Receivables	-	-	136	136	
Investments and project development	-	-	1 797	1 797	
Revolving Film Fund loans	1 050	-	-	1 050	4.0
	1 050	6 722	1 933	9 705	
Financial Liabilities:					
Payables	-	-	206	206	
	-	-	206	206	

(c) Net Fair Values

The net fair value of financial assets and liabilities of the Corporation approximates their carrying value.

24. Administered Item: Disbursement Returns Account	2005	2004
	\$'000	\$'000
Balance at 1 July	194	364
Add: Receipts		
Royalties, distribution advances, etc.	743	486
Less: Expenditure		
Disbursements to and on behalf of investors	463	515
Producer overhead costs	231	124
Disbursements fees	17	17
Balance at 30 June	226	194

25. Impact of adopting AIFRS

In accordance with requirements of AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards', a table has been prepared summarising any known or reliably estimated information about the impacts on the financial report had it been prepared using the AIFRS.

	Amount	AASB 102	AASB 139	Amount to
	currently	Inventories	Financial	be reported
	reported		Instruments	after
	per GAAP		Recognition	adopting
	\$'000	\$'000	and	AIFRS
			Measurement	\$'000
Total Assets	11 616	(9)	-	11 607
Total Liabilities	1 572	-	(8)	1 564
	10 044	(9)	(8)	10 043

26. Economic Dependency

The ongoing activities of the Corporation are dependent on the annual provision of grants from the State Government.

27. Program Funds

The financial performance and position of each Fund is as follows:

	Screen Industry Program Fund		Educational Content Fund		Revolving Film Fund	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	4 649	3 606	467	634	3 622	3 537
Prior period adjustment	69	-	78	-	-	-
Revenues from Ordinary Activities:						
Investment income	-	-	-	-	156	114
Total Revenues	-	-	-	-	156	114
Expenses from Ordinary Activities:						
Cost of providing funds	(481)	(498)	-	(34)	(38)	(29)
Grants	(762)	(618)	-	-	-	-
Amortisation and write-offs (Note 5)	(2 415)	(1 764)	-	-	(486)	-
Production costs	-	-	(460)	(404)	-	-
Total Expenses	(3 658)	(2 880)	(460)	(438)	(524)	(29)
Revenues from State Government:						
Grants from Arts SA (Note 10)	3 430	3 923	200	200	-	-
Contributions from other State Government Agencies (Note 10)	-	-	50	71	-	-
Total Revenues from State Government	3 430	3 923	250	271	-	-
Balance at 30 June	4 490	4 649	335	467	3 254	3 622
Represented by:						
Revolving Film Fund loans (Note 13)	-	-	-	-	268	1 050
Film production investments and project development (Note 14)	2 532	1 797	-	-	-	-
Cash assets	1 958	2 852	285	467	2 938	2 572
Receivables	-	-	50	-	48	-
	4 490	4 649	335	467	3 254	3 622
Program Commitments at 30 June (Note 20)	1 879	2 626	175	159	750	300
Cash Assets Uncommitted at 30 June	-	226	110	308	2 188	2 272

There is currently uncommitted cash assets in relation to SBSi Initiative, Script Initiative and Production Incentive grants of \$950 000.

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:

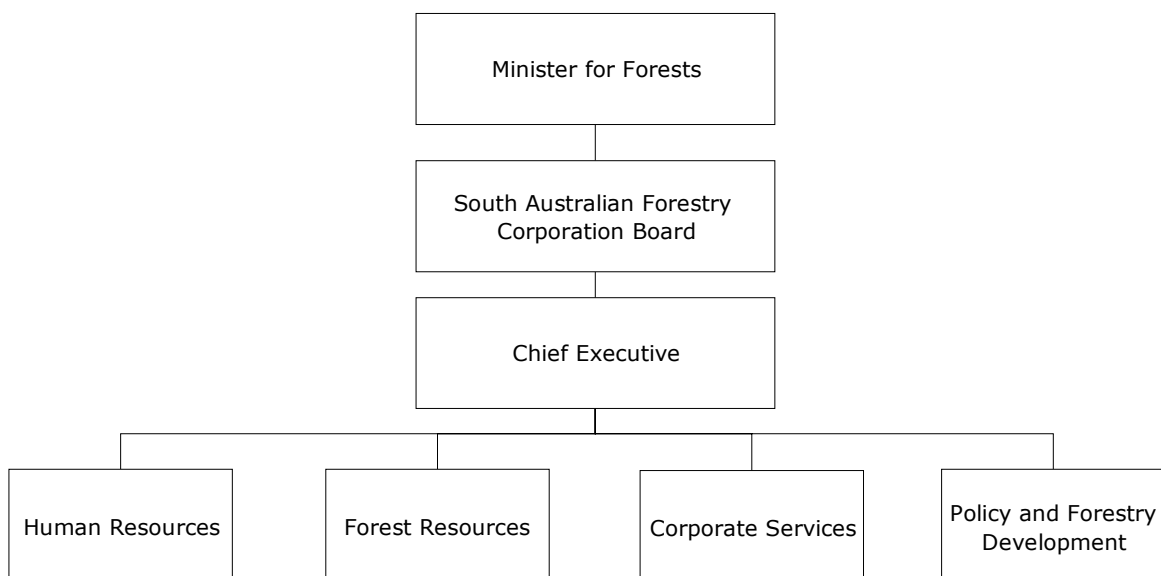
- manage plantation forests for commercial production;
- encourage and facilitate regionally based economic activities based on forestry and other industries;
- conduct research related to the growing of wood for commercial purposes;
- carry out any other function conferred on the Corporation by an Act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

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 2004-05, specific areas of audit attention included:

- accounts payable
- accounts receivable
- general ledger
- payroll
- Forestry Logging System revenue
- Forestry Logging System expenditure
- contract management.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The following is an extract from the 2004-05 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 Non-Current Asset - Growing Timber, consistent with the requirements of Australian Accounting Standard AASB 1037 'Self-Generating and Regenerating Assets'. 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 2004-05 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 2005, 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 in relation to the Internal Control Framework 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.

This opinion is provided on the operation of controls for the duration of the financial year. As explained below, most of the control matters emanated from the 2003-04 audit and were addressed at various stages during 2004-05.

Due to the aforementioned exceptions under 'Assessment of Controls', an increased level of testing was performed to form an opinion on the financial statements. That testing did not reveal any matters that adversely impacted the opinion on the financial statements.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. The response to the management letter was generally considered to be satisfactory. Major matters raised with the Corporation are considered hereafter.

Internal Control Framework

Introduction

During 2003 and 2004 the Corporation assumed various business functions that were previously undertaken by the Department for Administrative and Information Services on a bureau basis. These included implementing a new accounting package (ACCPAC) and undertaking all activities associated with the general ledger, accounts payable, accounts receivable and bank account, as well as processing and maintaining its own payroll information (on the Government mandated CHRIS system).

2003-04 Audit

Last year's audit observed there was a general lack of policies and procedures, segregation of duties and independent checking processes indicating a poor internal control framework. The more significant matters were:

- *Financial Accounting* — the bank reconciliation was not independently reviewed and related duties were not adequately segregated. In addition, officers were provided with greater access to ACCPAC and CHRIS than required;
- *Expenditure - Purchasing* — lack of segregation of ordering, goods receipting and invoice certification functions; no independent check of input data; and lack of checking of invoice charges;
- *Expenditure - Payment Processing* — payment authorisation not checked; one officer performed all key activities; and no independent review of information processed;

- *Accounts Receivable* — no independent checking of transactions processed;
- *Payroll* — bona fide reporting issues, including: inconsistent level of review; procedures not documented; and no independent review of discrepancy adjustments;
- *Forestry Logging System (FLS)* — no independent review of critical changes to the master file; and no documented procedure for the reconciliations between the FLS and other financial systems.

Current Year Audit

The 2004-05 audit noted the Corporation had given high priority to improving internal controls and a substantial improvement in the control environment from the previous year with most control issues being addressed at various times during the year. My 2004-05 controls opinion is qualified as many controls were not in place for the duration of the financial year.

Valuation of Forest Assets

Note 2.4 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.

In auditing the value of growing timber a number of assertions require attestation. Two important assertions are existence and valuation.

For valuation, Audit has noted that the Corporation has adopted a market based method consistent with the requirements of AASB 1037. 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 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.

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. For the 2004-05 year some issues are still ongoing and as a result, 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.

Further comment on the growing timber valuation is provided in the section below titled 'Interpretation and Analysis of Financial Statements'.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

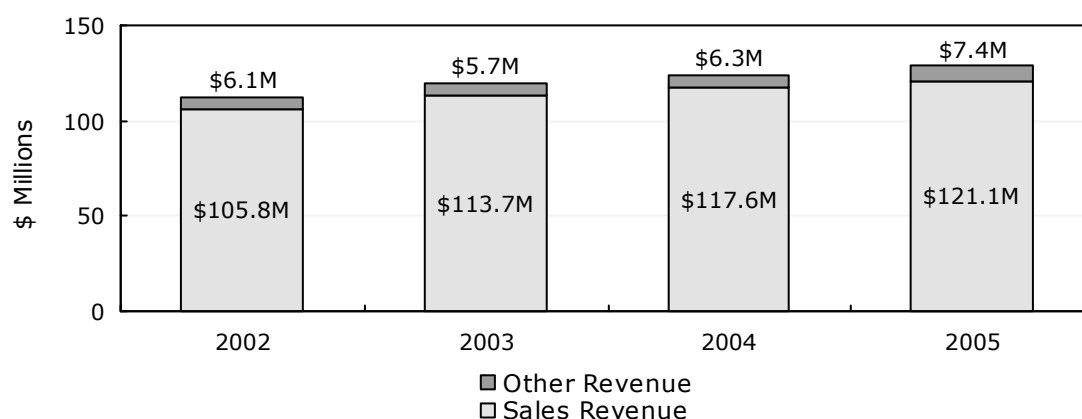
	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Sales revenue	121.1	117.6	3
Community service obligation funding	3.6	3.6	-
Other revenue	3.8	2.7	41
Total Operating Revenue	128.5	123.9	4
OPERATING EXPENDITURE			
Employee entitlements	14.1	12.9	9
Contractors	53.1	54.1	(2)
Other expenses	14.4	15.6	(8)
Total Operating Expenses	81.6	82.6	(1)

	2005	2004	Percentage
	\$'million	\$'million	Change
Trading Profit before Revaluation of Growing Timber	46.9	41.3	14
Net Cash Flows from Operations	36.6	30.9	18
ASSETS			
Current assets	53.4	35.5	50
Non-current assets	979.1	909.8	8
Total Assets	1 032.5	945.3	9
LIABILITIES			
Current liabilities	28.0	13.9	101
Non-current liabilities	7.0	5.6	25
Total Liabilities	35.0	19.5	79
EQUITY	997.5	925.8	8

Statement of Financial Performance

Operating Revenues

A structural analysis of operating revenues of the Corporation for the four years to 2005 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.

Operating Expenses

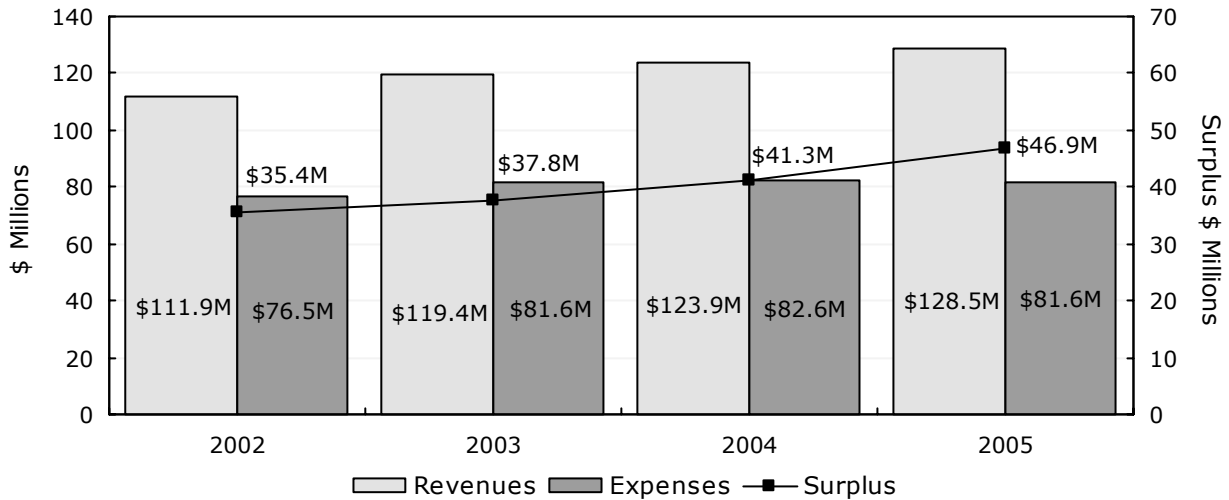
For the two years to 2005, a structural analysis of the main operating expense items for the Corporation is shown in the following chart.



Contractors are the main expenditure item for the Corporation representing approximately 65 percent of expenditure. Contractors predominantly include harvesting and transporting costs of \$50.0 million (\$51.4 million). The decrease in other expenses is due in part to the Corporation self insuring for fire risks for the first time in 2004-05, refer to Note 2.17 of the financial statements. 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

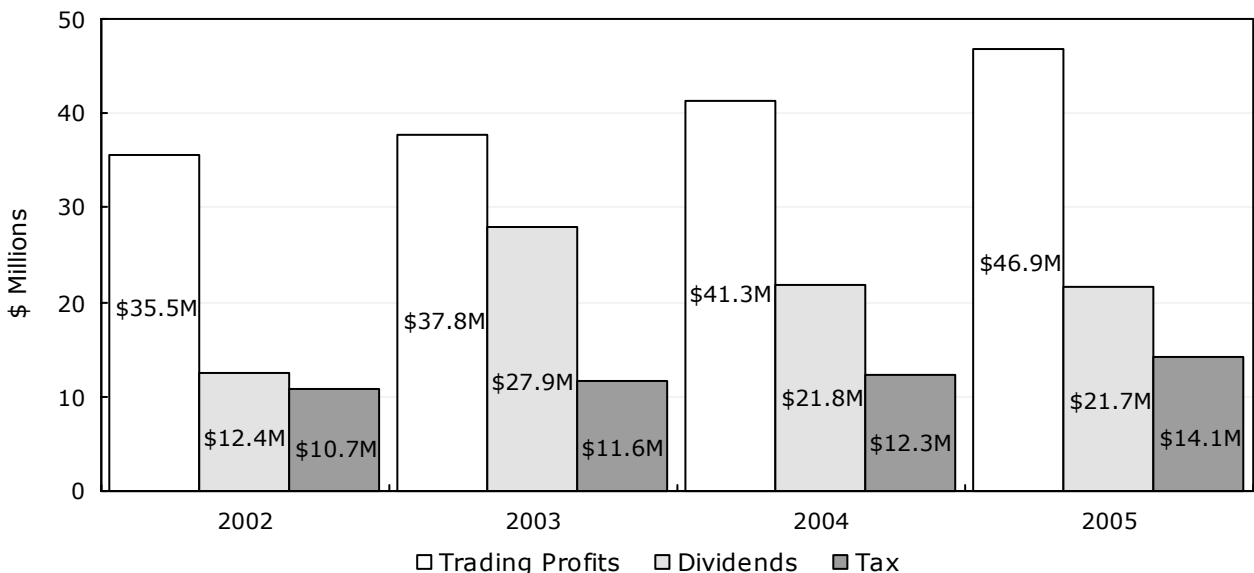
The Corporation’s financial performance during the last few years has benefited from the strong demand for housing construction.



The increase in surplus is due mainly to changes in the product mix of timber sold and prices received.

Distributions to Government

For the four years to 2005 an analysis of the Corporation’s Trading Profits before revaluation of Growing Timber compared to returns to Government is shown on the following chart.



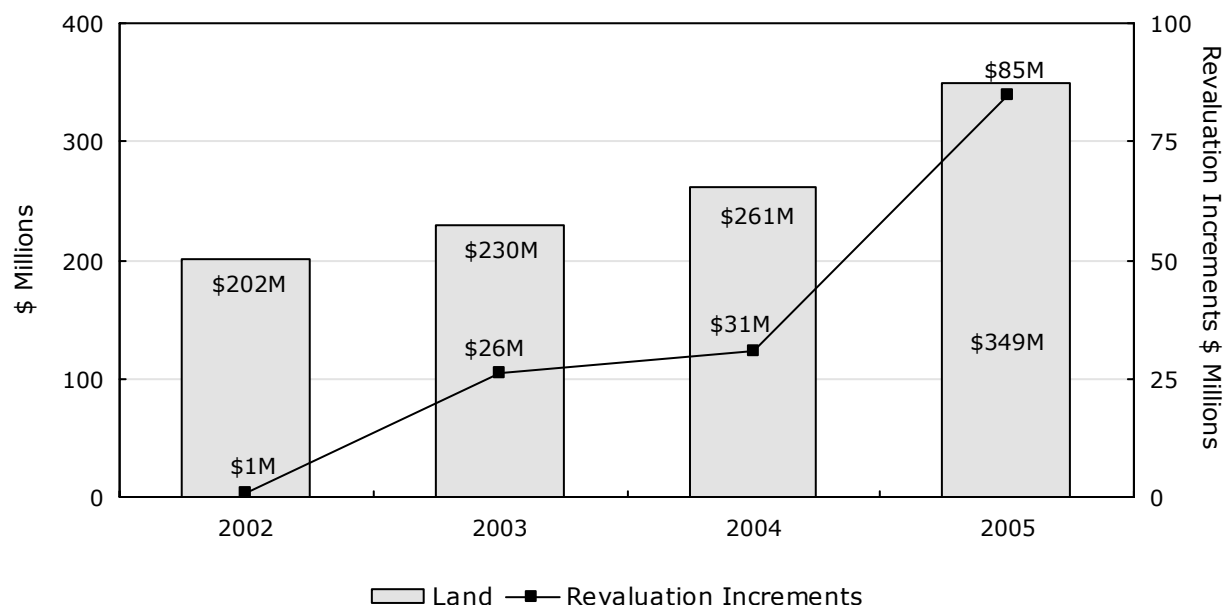
As previously mentioned, trading profits before revaluation of Growing Timber have consistently risen over the last few years. Subsequently, returns to Government through both dividends provided for or paid and tax related to ordinary activities have been substantially covered by the Corporation’s trading profits.

Statement of Financial Position

The two dominant items in the Statement of Financial Position are the non-current assets 'Growing Timber' and 'Land' representing approximately 95 percent of the total assets of the Corporation. These are analysed below.

Land

An analysis of land balance for the four years to 2005 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 increase in the value of property resulting from the strong real estate market experience. The main reasons for the significant increase in 2005 were an adjustment 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 2.4 '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 increment.

	2005	2004	2003	2002	2001
	\$'million	\$' million	\$' million	\$' million	\$' million
Region					
South East Region:					
Young plantations	39.2	26.5	29.1	27.5	25.9
Old plantations	491.2	515.9	496.4	486.1	486.5
Central and Northern Regions:					
Young plantations	5.3	3.5	3.9	3.9	3.8
Old plantations	73.3	87.1	88.8	79.7	77.2
	609.0	633.0	618.2	597.2	593.4
Revaluations					
Increment (Decrement)	(24.5)	14.8	21.0	3.8	14.9

	2005	2004	2003	2002	2001
	\$'million	\$' million	\$' million	\$' million	\$' million
Net increase in value of unrealised growing timber due to:					
Change in volume	(15.6)	2.9	20.0	(1.4)	70.2
Change in wood prices	(23.4)	14.8	(0.6)	3.6	(56.7)
Change in young plantations valued at replacement cost	14.5	(2.9)	1.6	1.6	1.4
	(24.5)	14.8	21.0	3.8	14.9

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; revising the price (ie cost) for young plantations; and including non-radiata plantations for the first time. Refer to Note 2.12.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	36.6	30.9	27.7	25.4
Investing	(10.3)	(2.6)	(4.4)	(2.2)
Financing	(8.5)	(22.0)	(25.9)	(32.4)
Change in Cash	17.8	6.3	(2.6)	(9.2)
Cash at 30 June	37.5	19.7	13.4	16

The analysis of cash flows shows that the Corporation's surplus cash generated through operating activities is applied to fund its financing activities, predominantly returns to government through dividends paid. In 2002 the Corporation also returned capital of \$20 million to the Government as part of its financing activities. Financing outflows for 2004-05 are less than prior years due to the timing of dividend payments. Dividends declared but not paid at 30 June 2005 were \$10.1 million.

**Statement of Financial Performance
for the year ended 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Sales - Timber products	6(ii)	121 080	117 566
Community service obligation funding	6(ii)	3 600	3 600
Other Revenue	6(ii)	3 754	2 689
		128 434	123 855
EXPENDITURE FROM ORDINARY ACTIVITIES:	6(i)		
Employee entitlements		(14 117)	(12 848)
Contractors		(53 073)	(54 194)
Other expenses		(14 382)	(15 553)
		(81 572)	(82 595)
Trading Profit before Revaluation of Growing Timber		46 862	41 260
Net change in value of growing timber	5	(24 519)	14 756
Profit from Ordinary Activities before Related Income Tax Expense		22 343	56 016
Income tax related to ordinary activities	2.5, 7	(14 105)	(12 251)
Profit from Ordinary Activities after Related Income Tax Expense		8 238	43 765
Net credit to an asset revaluation reserve on revaluation of non-current assets	22	85 070	30 854
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		93 308	74 619

**Statement of Financial Position
as at 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	9	37 530	19 704
Receivables	10	14 157	13 605
Inventories	11	944	1 463
Tax assets	14	696	-
Other	12	73	731
Total Current Assets		53 400	35 503
NON-CURRENT ASSETS:			
Growing timber	11	608 974	633 026
Property, plant and equipment	13	369 314	276 682
Tax assets	14	787	78
Total Non-Current Assets		979 075	909 786
Total Assets		1 032 475	945 289
CURRENT LIABILITIES:			
Payables	15	17 828	8 923
Employee benefits	16	1 139	873
Interest bearing loan	17	438	189
Tax liabilities	18	8 638	3 921
Total Current Liabilities		28 043	13 906
NON-CURRENT LIABILITIES:			
Payables	15	234	272
Employee benefits	16	2 279	2 549
Interest bearing loan	17	4 454	1 677
Tax liabilities	18	-	1 062
Total Non-Current Liabilities		6 967	5 560
Total Liabilities		35 010	19 466
NET ASSETS		997 465	925 823
EQUITY:			
Contributed equity	19	4 983	4 983
Reserves	20	910 292	847 258
Retained profits	21	82 190	73 582
TOTAL EQUITY		997 465	925 823
Commitments and Contingent Liabilities	23(a),(b)		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		122 160	117 561
Payments to suppliers and employees		(78 646)	(80 145)
Interest received		1 386	1 178
Borrowing costs		(161)	(104)
Community service obligation funding		3 600	3 600
GST receipts on sales		12 157	11 939
GST payments on purchases		(6 896)	(6 950)
GST payments to taxation authority		(5 108)	(4 919)
Income tax equivalents paid		(11 849)	(11 313)
Net Cash provided by Operating Activities	24(ii)	36 643	30 847
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(10 745)	(2 760)
Purchase of growing timber	2.12	(467)	-
Proceeds from sale of fixed assets		935	147
Net Cash used in Investing Activities		(10 277)	(2 613)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		3 285	-
Repayment of borrowings		(259)	(165)
Dividend paid		(11 566)	(21 793)
Net Cash used in Financing Activities		(8 540)	(21 958)
NET INCREASE IN CASH HELD		17 826	6 276
CASH AT 1 JULY		19 704	13 428
CASH AT 30 JUNE	24(i)	37 530	19 704

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Role and Function of The South Australian Forestry Corporation

The South Australian Forestry Corporation (SAFC), trading under the name of ForestrySA, was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. The 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;
- providing policy support and advice to Government, the industry and the community.

In addition to its business operations, SAFC is funded 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.

2.1 Basis of Accounting

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

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

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

The accounting policies have been consistently applied unless otherwise stated.

2.2 Comparative Figures

Where necessary, comparative figures are adjusted to conform with changes in presentation and classification in the current period. No material changes in presentation are included in these financial statements.

2.3 Rounding

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

2.4 Forestry Accounting

Due to the special nature of growing timber, which includes a long production cycle combined with physical change, historical cost accounting does not provide a meaningful measure of the economic performance or asset value of forestry activities. In order to provide more relevant, reliable and understandable information, a market value based method has been applied to growing timber.

The inventory value of growing timber (Note 2.12) is calculated for financial reporting purposes only, as a measure of forest management performance over the reporting period.

The main features of this method are:

- At the reporting date the inventory of growing timber is valued at its net market value. For the purpose of this financial statement 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 after deducting the direct costs incurred in realising the proceeds of such a disposal. This is in accordance with the requirements of Australian Accounting Standard AASB 1037 'Self-Generating and Regenerating Assets'. All amounts are calculated in pre-tax dollars in accordance with the Treasurer's Instructions.
- The difference between the net market value of the inventory of growing timber held at the reporting date and the net market value at the previous reporting date is recognised in the Statement of Financial Performance, where it is described as 'Net change in value of growing timber'
- The market 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.

Current policy provides the net change in the value of growing timber is unrealised and is therefore not available for distribution. This amount is transferred between retained profits and the growing timber revaluation reserve (Note 22) in the Statement of Financial Position.

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 are 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 about every three to five years and on these occasions the model simulations are repeated. For South Eastern forests the master database was last updated as at June 2004 affecting the growing timber valuation as at 30 June 2005. The master database was last updated in 2002 for Central forests and in 1999 for the Northern forests.

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.

2.5 Taxation

Income Tax (Payment in lieu of Income Tax)

SAFC is required to make taxation payments in accordance with the National Taxation Equivalents Regime in accordance with the *Income Tax Assessment Act 1997*. As SAFC engages in trading activities in competition with private sector enterprises, a payment in lieu of income tax, equivalent to the tax applicable to public companies under Commonwealth income tax law, is paid to the South Australian Government Consolidated Account.

The liability method of tax-effect accounting has been adopted, whereby the income tax expense shown in the Statement of Financial Performance is based on the operating profit before income tax expense, adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of operating profit before income tax expense and taxable income are brought to account as either provision for deferred income tax, or an asset described as future income tax benefit. These items are recorded at the rate of income tax applicable to the period in which the benefit will be received, or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Goods and Services Tax (GST)

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

- 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; and
- Receivables and payables are stated with the amount of GST included.

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

Other

SAFC is liable for payroll tax, fringe benefits tax, emergency services levy, land tax equivalents and local government rates.

2.6 Revenue and Expenses

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

Sales revenue is derived from the provision of goods and services to customers. This revenue is driven by customer demand.

Grants and funding for CSOs received from SA Government are recognised as revenues when SAFC obtains control over the assets. Control over the revenues is normally obtained upon receipt.

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

2.7 Current and Non-Current Classifications

In the Statement of Financial Position, assets and liabilities expected to be realised as cash within twelve months are classified as current. Assets and liabilities expected to be realised as cash in a period greater than twelve months are classified as non-current.

2.8 Cash

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

2.9 Receivables

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

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.

2.10 Property, Plant and Equipment

Cost and Valuation

The majority of property, plant and equipment is measured at fair value in accordance with AASB 1041 'Revaluation of Non-Current Assets'. 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.

The gain or loss on disposal of all fixed 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.

SAFC capitalises all non-current physical assets with a value of \$2 000 or greater.

SAFC undertakes an annual revaluation of land to fair value at the end of June. The basis of the revaluation is the current market value of the unimproved land. In accordance with this policy, land was revalued in 2005 using valuation provided by the Valuer General. Where a valuation has not been provided by the Valuer General the land is valued at cost.

Buildings, plant and equipment have continued to be brought to account at written down cost.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and there has been no change in major depreciation periods.

Major depreciation periods are:	Years
Freehold buildings	25
Leasehold improvements	Lease term
Plant and equipment	3-10
Computer software	3-10
Log storage sites	25

Crown Land

The majority (\$290 million) of SAFC land is Crown land. SAFC is entitled to the value of the Crown land, which may be used for a number of purposes, subject to approval by the relevant authorities.

Generally, the issue of title over Crown land is required before the land can be disposed of, however, SAFC is exempted from some policies and procedures related to the purchase and disposal of Crown land, as per Premier and Cabinet Circular 114 'Purchase and Disposal of Government Real Property (including Crown Lands)'.

2.11 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 Statement of Financial Performance on a basis, which is representative of the pattern of benefits derived from the leased assets.

2.12 Inventories

Harvested Log Stocks

Harvest log stocks at 30 June represent timber harvested for sale and are valued at net market value in accordance with AASB 1037. Harvested log stocks are disclosed as a current asset.

Growing Timber

Growing timber of a marketable size is valued at its net market value and disclosed as a non-current asset. SAFC has determined the net market 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 1037.

Growing timber below a marketable size is valued by a reasonable proxy by annually compounding the current replacement cost, from the date of preparation of the site for planting, at the minimum desired rate of return of 6 percent per annum in absence of verifiable market prices; this is considered to be a reasonable approximation, particularly as young timber accounts for approximately 5 percent of the total value.

From the annual valuation process a number of areas can be identified that explain the major part of the movement in the valuation of Growing Timber. Firstly, the inventory master database was updated, resulting in a reduction in the standing volumes (against 30 June 2004 net market value). Secondly, a more detailed analysis of the product mix and the net market value per diameter class resulting in a reduction of the valuation of the standing volumes as at 30 June 2005. Thirdly, the update of the current replacement cost for growing timber below a marketable size resulted in an increase in valuation. Finally, as at 30 June 2005 the growing timber in non-radiata plantations have been included in the overall Growing Timber valuation.

The total impact of all movements in the volumes and net market value of the growing timber, including harvesting and new plantings reduced the Profit from ordinary activities and Equity by \$24.5 million.

In addition growing timber valued at \$467 000 was acquired during the year.

2.13 Payables

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

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 relate to any contributions due but not yet paid.

2.14 Employee Benefits

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

Liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2005 and is measured at the nominal amount.

The liability for long service leave is recognised and measured at the actuarial assessment by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. This calculation is consistent with SAFC experience of employee retention and leave taken.

During the year ended 30 June 2005 SAFC paid \$1.644 million (\$1.175 million) to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of its employees. The contributions were made to the:

- State Pension Scheme
- State Lump Sum Scheme
- Triple S Scheme.

2.15 Provisions

SAFC as a self-insurer is responsible to fund its workers compensation obligations. The workers compensation liability was based on an actuarial assessment provided by the Department of Administrative and Information Services and provides for the estimated unsettled workers compensation claims.

2.16 Equity contributed by the SA Government

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.

2.17 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, reestablishment 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 Profits and the Fire Insurance Fund Reserve (Note 22).

3. Changes in Accounting Policies**3.1 Government/Non-Government Disclosures**

In accordance with Accounting Policy Statement (APS) 13 'Form and Content of General Purpose Financial Reports', the SAFC has included details of revenue, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the SA Government in a Note to the accounts.

3.2 Presentation in Statement of Financial Performance

The format of the Statement of Financial Performance has changed from a function basis to a nature basis in accordance with the requirement of APS 13 issued by the Department of Treasury and Finance.

3.3 Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia has adopted Australian Equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The SAFC will adopt these standards for the first time in the published financial report for the year ending 30 June 2006.

In accordance with requirements of AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards', a table has been prepared summarising any known or reliably estimated information about the impacts on the financial report had it been prepared using the AIFRS.

Impact of adopting AIFRS

Reconciliation of key aggregates	Amount currently reported per GAAP \$'000	Known or reliably estimated impact on the financial report	
		AASB 112 'Income Tax' \$'000	Amount to be reported after adopting AIFRS \$'000
Profit from Ordinary Activities before Income Tax Equivalents Expense	22 343	-	22 343
Tax Expense	(14 105)	7 767	(6 338)
Net Profit or Loss	8 238	7 767	16 005
Total Assets	1 032 475	(20)	1 032 455
Total Liabilities	35 010	*(182 572)	(217 582)
Net Assets	997 465	*(182 592)	814 873
Cash Flows from Operating Activities	36 643	-	36 643
Cash Flows from Investing Activities	(10 277)	-	(10 277)
Cash Flows from Financing Activities	(8 540)	-	(8 540)

* Reflects the Deferred Tax Liability (DTL) in relation to the Growing Timber Revaluation only. No DTL for Asset Revaluation Reserve accounted for in this table (see under AASB 112).

AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement'

SAFC will be measuring financial assets and liabilities at cost.

AASB 112 'Income Tax'

SA Government entities are income tax exempt bodies. Therefore income tax is administered through the National Tax Equivalent Regime (NTER) or TER (refer Note 2.5). At 30 June 2005 SAFC is under the NTER and therefore AASB 112 will apply.

An amended Treasurer's Instruction 22 'Tax Equivalent Payments' has been approved that requires SAFC calculate the Tax Equivalent payment via the accounting profits model rather than using the NTER. SAFC is currently seeking approval to revert to the NTER model. Further arrangements regarding the application of Treasurer's Instruction 22 by SAFC could impact on the treatment of unrealised gains and losses.

Under the NTER SAFC will need to create a Deferred Tax Liability (DTL) and a Deferred Tax Asset (DTA). Under the accounting profits model no DTL or DTA will be created. The table summarising the known or reliably estimated information has been prepared under the assumption that SAFC will be under the NTER as at 30 June 2006.

The Capital Gains Tax (CGT) division of the *Income Tax Assessment Act 1997* (ITAA97) applies to SAFC under the NTER. SAFC is currently investigating the implication of the grandfathering rules stipulated under the NTER to determine the DTL that will need to be accounted for as a comparative figure in the 30 June 2005 AIFRS financial statements.

4. Funding

SAFC is funded by its trading operations. Prices charged for its products are determined by existing market forces. This financial report encompasses the SAFC Operating Account with the Department of Treasury and Finance through which all funds controlled by SAFC are recorded.

Proceeds from the sale of all goods and services are controlled by SAFC and can be deployed for the achievement of its objectives. Returns to the South Australian Government are by way of payments in lieu of income tax and dividends in accordance with SAFC's Dividend policy.

5. Change in Net Market Value of Growing Timber

		2005 \$'000	2004 \$'000
Change in net market value due to:	Note		
Normal growth and price changes		46 561	80 866
Reported in the Statement of Financial Performance as:			
Sales revenue (market value of growing timber realised)	6(ii)	71 080	66 110
Net change in value of unrealised growing timber due to:			
Change in volume	2.4	(15 665)	2 894
Change in wood prices	2.12	(23 393)	14 810
Young plantations valued at replacement cost	2.12	14 539	(2 948)
		(24 519)	14 756
Net Change in Market Value		46 561	80 866

6. Profit		2005	2004
Profit from Ordinary Activities before income tax has been determined after:	Note	\$'000	\$'000
(i) Charging as Expenses			
Interest paid or payable ⁽¹⁾	17	161	104
Depreciation of non-current assets	13(b)	2 028	1 612
Rental expense on property operating leases ⁽¹⁾		133	127
Loss on disposal of non-current assets		-	110
Consultants		75	22
Other expenses related to SA Government entities		3 588	4 019
(ii) Crediting as Revenue			
Sales Revenue:			
Revenue realised from the sale of timber products	5	71 080	66 110
Other sales revenue (recoup of harvesting and transport costs)		50 000	51 456
		121 080	117 566
Community service obligation funding received ⁽¹⁾	1	3 600	3 600
Other operating revenue:			
Interest received or receivable ⁽¹⁾		1415	1 177
Gain on disposal of non-current assets		696	-
Government grants received		134	472
Government Radio Network funding received ⁽¹⁾		350	345
Other revenue from SA Government entities ⁽¹⁾		51	-
Other revenue from non-SA Government entities		1 108	695
		3 754	2 689
(1) To/From SA Government entities			
7. Income Tax			
(i) The prima facie tax on operating profit is reconciled to the income tax provided in the accounts as follows:			
Prima facie tax at 30 percent on profit from ordinary activities		6 703	16 805
Tax effect of permanent differences			
Forest revaluation		7 356	(4 427)
Other permanent differences		46	(127)
		7 402	(4 554)
Income tax attributable to operating profit before income tax		14 105	12 251
Income Tax Expense		14 105	12 251
(ii) The income tax expense comprises amounts set aside as:			
Provision for income tax attributable to current year:			
Income tax payable on operating profit		13 819	12 223
Provision for income tax attributable to future years:			
Provision for deferred income tax		467	45
Future income tax benefit		(181)	(17)
Income Tax Expense		14 105	12 251
8. Auditors' Remuneration			
Amount received, or due and receivable, by the auditors for:			
Auditing the accounts		95	88
		95	88
9. Cash			
Cash		35 047	19 704
Fire insurance fund	2.17	2 483	-
		37 530	19 704
10. Receivables			
Current:			
Trade debtors		12 395	13 318
Other debtors		1 762	287
		14 157	13 605
SA Government Receivables:			
Trade debtors		25	4
Other debtors		142	113
		167	117
11. Inventories			
Current:			
Harvested log stocks		66	871
Chip stocks		387	367
Materials and stores		491	225
		944	1 463

11. Inventories (continued)		2005	2004
		\$'000	\$'000
Non-Current:			
Growing timber		608 974	633 026
12. Other Current Assets			
Prepayments		73	731
13. (a) Property, Plant and Equipment			
Land:			
At independent valuation		342 298	257 265
At cost		6 602	3 766
		348 900	261 031
Buildings:			
At cost		10 496	9 527
Less: Accumulated depreciation		4 667	4 175
		5 829	5 352
Plant and Equipment:			
At cost		23 876	19 770
Less: Accumulated depreciation		9 583	9 713
		14 293	10 057
Computer Software:			
At cost		968	866
Less: Accumulated depreciation		676	624
		292	242
Total Property, Plant and Equipment		369 314	276 682

(b) Property, Plant and Equipment - Movement Schedule

	Land	Buildings and Structures	Plant and Equipment	Computer Software	2005	2004
	\$'000	\$'000	\$'000	\$'000	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2004	261 031	5 352	10 057	242	276 682	243 389
Additions	2 925	1 140	5 662	102	9 829	4 349
Disposals	(126)	(12)	(101)	-	(239)	(298)
Net revaluation increments	85 070	-	-	-	85 070	30 854
Depreciation expense	-	(651)	(1 325)	(52)	(2 028)	(1 612)
Balance at 30 June 2005	348 900	5 829	14 293	292	369 314	276 682

14. Tax Assets		2005	2004
Current:		\$'000	\$'000
Future income tax benefit		696	-
		696	-
Non-Current:			
Future income tax benefit		787	78
		787	78

The future income tax benefit is made up of timing differences.

15. Payables			
Current:			
Trade creditors		5 960	8 088
Accrued expenses		1 439	694
Dividend payable		10 101	-
Revenue received in advance		-	41
Other creditors		328	100
		17 828	8 923
Non-Current:			
Other creditors		234	272
		234	272
SA Government Payables:			
Trade creditors		252	577
Accrued expenses		326	285
Dividend payable		10 101	-
		10 679	862

16. Employee Benefits		2005	2004
Current:		\$'000	\$'000
Accrued salaries and wages		151	103
Workers compensation		82	78
Long service leave		338	178
Annual leave		543	488
Other		25	26
		1 139	873
Employee benefit on-costs *		168	100
		1 307	973
Non-Current:			
Workers compensation		205	179
Long service leave		2 074	2 370
		2 279	2 549
Employee benefit on-costs *		234	272
		2513	2 821
Aggregate Employee Benefits and On-costs		3 820	3 794
* Employee benefit related on-costs are disclosed as payables			
17. Interest Bearing Loan			
Current:			
Unsecured ⁽¹⁾		438	189
		438	189
Non-Current:			
Unsecured ⁽¹⁾		4 454	1 677
		4 454	1 677
(1) To/From SA Government entities			
The interest bearing loans are entered into to finance land acquisitions.			
18. Tax Liabilities			
Current:			
Income tax payable		8 085	3 921
Provision for deferred income tax		553	-
		8 638	3 921
Non-Current:			
Provision for deferred income tax		-	1 062
		-	1 062
19. Equity			
Equity represents the residual interest in the net assets of SAFC. The SA Government holds the equity interest in SAFC on behalf of the community.			
20. Contributed Equity		2005	2004
Contributed equity represents advances from SA Government in the nature of contributions as owner.	Note	\$'000	\$'000
Contributed equity at 1 July		4 983	4 983
Contributed Equity as at 30 June		4 983	4 983
21. Retained Profits			
Retained profits at 1 July		73 582	66 366
Profit from ordinary activities after related income tax expense:		8 238	43 765
Transfer from (to) Growing Timber Revaluation Reserve	22, 5	24 519	(14 756)
Transfer from (to) Fire Insurance Fund Reserve	22	(2 483)	-
Total available for appropriation		103 856	95 375
Dividends provided for or paid		(21 666)	(21 793)
Retained Profits at 30 June		82 190	73 582
Dividends are paid to the South Australian Government using a free cash model. The balance of retained profits is reinvested in capital and transfers to/from reserves.			
22. Reserves			
Asset Revaluation Reserve		330 027	244 957
Growing Timber Revaluation Reserve		577 782	602 301
Fire Insurance Fund Reserve		2 483	-
		910 292	847 258

22. Reserves (continued)			2005	2004
(a) Asset Revaluation Reserve	Note		\$'000	\$'000
Movements in Reserve:				
Balance at 1 July			244 957	214 103
Revaluation increment on land	13(b)		85 070	30 854
Balance at 30 June			330 027	244 957
(b) Growing Timber Revaluation				
Movements in Reserve:				
Balance at 1 July			602 301	587 545
Net (decrease) increase in value for period transferred (to) from retained profits	2.4, 5		(24 519)	14 756
Balance at 30 June			577 782	602 301
(c) Fire Insurance Fund Reserve				
Movements in Reserve:				
Balance at 1 July			-	-
Transfer from retained profits	2.17, 9		2 483	-
Balance at 30 June			2 483	-
23. Expenditure Commitments				
(a) Leases				
Non-cancellable operating leases contracted for but not capitalised in the Accounts:				
Due not later than one year			861	838
Due later than one year but not later than five years			684	814
Due later than five years			-	131
Total Operating Lease Commitments			1 545	1 783

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

The property lease is until 2009 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 five + five years at the end of the rental agreement.

Plant and equipment leases are for varying lease periods and are non-cancellable, with rental payable monthly in arrears. Rental provisions within the lease agreements apply fixed rates for the full term of each lease. No options exist to renew the leases at the end of the term of the leases.

(b) Capital Expenditure Commitments

During 2002-03 SAFC entered into a contract for the supply of replacement fire trucks at an estimated total program cost of \$9 330 000 and is anticipated to be completed by October 2005. The remaining liability of \$1 744 000 (\$6 870 000) has not been provided for in the Statement of Financial Position as the goods under the contract for this portion have not been delivered as at 30 June 2005.

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 as at 30 June 2005 \$677 000 has been spent, under a total approved expenditure commitment for consultancy services of \$728 000. No contracts have been entered into for the construction of the new building as at 30 June 2005.

24. Statement of Cash Flows

(i) Components of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and the deposit account. Cash as shown in the Statement of Cash Flows is reconciled to the Statement of Financial Position as follows:

		2005	2004
		\$'000	\$'000
Cash		37 530	19 704
		37 530	19 704

Included in the Deposit Account is \$148 000 and \$11 000 (\$11 000) held respectively on behalf of the National Sirex Fund and the IPS Fund (Refer Note 25).

(ii) Reconciliation of Net Cash provided by Operating Activities to Operating Profit After Tax	2005	2004
	\$'000	\$'000
Net cash provided by operating activities	36 643	30 847
Other reconciliation movements:		
Net change in value of growing timber	(24 519)	14 756
Depreciation and amortisation	(2 028)	(1 612)
(Increase) Decrease in employee benefits:		
Long service leave	136	(3)
Annual leave	(55)	(85)
Workers compensation	(30)	120
Accrued salaries and wages	(48)	402
Other employee benefits	1	(1)
Movement in income tax payable and future income tax benefit	(2 250)	(938)
Gain (Loss) on sale of property, plant and equipment	696	(110)
Increase in receivables	552	1 644
(Decrease) in inventories	(519)	(446)
Increase (Decrease) in prepayments	(658)	270
Decrease (Increase) in creditors and accruals	276	(1 101)
Decrease in unearned revenue	41	22
Profit from Ordinary Activities after Related Income Tax Expense	8 238	43 765

25. Schedule of Administered Items

IPS Fund

SAFC administers a fund on behalf of a collective group interested in the effective control of the IPS beetle. The fund is for the publication of research findings. The only asset of the fund is cash and there were no liabilities at 30 June 2005.

Summary of Cash Flows:	2005	2004
	\$'000	\$'000
Cash at 1 July	11	10
Interest received	-	1
Cash at 30 June	11	11

Sirex Fund

SAFC administers a fund on behalf of a collective group interested in the effective control of the Sirex. The fund is for the research into Sirex. The only asset of the fund is cash and there were no liabilities at 30 June 2005.

Summary of Cash Flows:	2005	2004
	\$'000	\$'000
Cash at 1 July	-	-
Funds received	147	-
Interest received	1	-
Cash at 30 June	148	-

26. Remuneration of Directors and Employees

(i) Directors' Remuneration

Income paid or due and payable to or on behalf of directors	171	172
---	------------	-----

	2005	2004
	Number of	Number of
	Directors	Directors
The number of directors whose income was within the following bands:		
\$10 000 - \$19 999	-	4
\$20 000 - \$29 999	1	-
\$30 000 - \$39 999	3	2
\$40 000 - \$49 999	1	1

(ii) Employees' Remuneration

Income paid or due and payable to or on behalf of employees whose income was \$100 000 or more.	\$'000	\$'000
	1 194	701

	2005	2004
	Number of	Number of
	Executives	Executives
The number of employees whose income was within the following bands:		
\$100 000 - \$109 999	2	1
\$110 000 - \$119 999*	2	1
\$120 000 - \$129 999	2	1
\$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 in 2004-05 for two employees.

27. Related Party Disclosures

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

S Blencowe (Chairperson)
D Lloyd
J Ross
S Duncan
J Meeking

Transactions between SAFC and its directors are made at arms length.

28. Financial Instruments**(i) Credit Risk Exposures**

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

(ii) 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 \$'000	Non- Interest Bearing \$'000	Fixed Interest Maturing			2005 Total \$'000	2004 Total \$'000
			1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000		
Financial Assets:							
Cash	37 530	-	-	-	-	37 530	19 704
Receivables	-	14 157	-	-	-	14 157	13 605
	<u>37 530</u>	<u>14 157</u>	<u>-</u>	<u>-</u>	<u>-</u>	51 687	33 309
Weighted average interest rate (percent)	5.4	-	-	-	-		
Financial Liabilities:							
Interest bearing loan Payables	-	-	438	2 020	2 434	4 892	1 866
	<u>-</u>	<u>18 062</u>	<u>-</u>	<u>-</u>	<u>-</u>	18 062	8 088
	<u>-</u>	<u>18 062</u>	<u>438</u>	<u>2 020</u>	<u>2 434</u>	22 954	9 954
Weighted average interest rate (percent)	-	-	5.6	5.6	5.7		
Net Financial Assets (Liabilities)	<u>37 530</u>	<u>(3 905)</u>	<u>(438)</u>	<u>(2 020)</u>	<u>(2 434)</u>	28 733	23 355

(iii) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, trade debtors and payables approximates their carrying amount.

The resultant net fair values represents the best estimate of replacement cost. The cost of realising fair values is considered immaterial.

Furthermore, management consider that all financial instruments cannot be readily traded on organised markets in standardised form.

(iv) Terms and Conditions*Financial Assets**Cash on Hand and Deposits*

Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis. Interest is calculated on the average daily balance of the account.

Receivables

Receivables are recorded at amounts due to SAFC less a provision for doubtful debts. They are recorded as the debts fall due. Receivables are due within 30 days.

*Financial Liabilities**Payables*

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.

Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

Interest Bearing Loans

SAFC entered into four separate unsecured 10 year loans with SAFA to finance the acquisition of new land. As at 30 June 2004 one SAFA loan was in place. Repayments are due monthly with the final payment due for the latest loan on 20 May 2015 (26 February 2013).

(v) Hedging Instruments*Hedges of Specific Instruments*

SAFC has not entered into any hedges during the financial year (hedge closed per 30 June).

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 currently consists 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

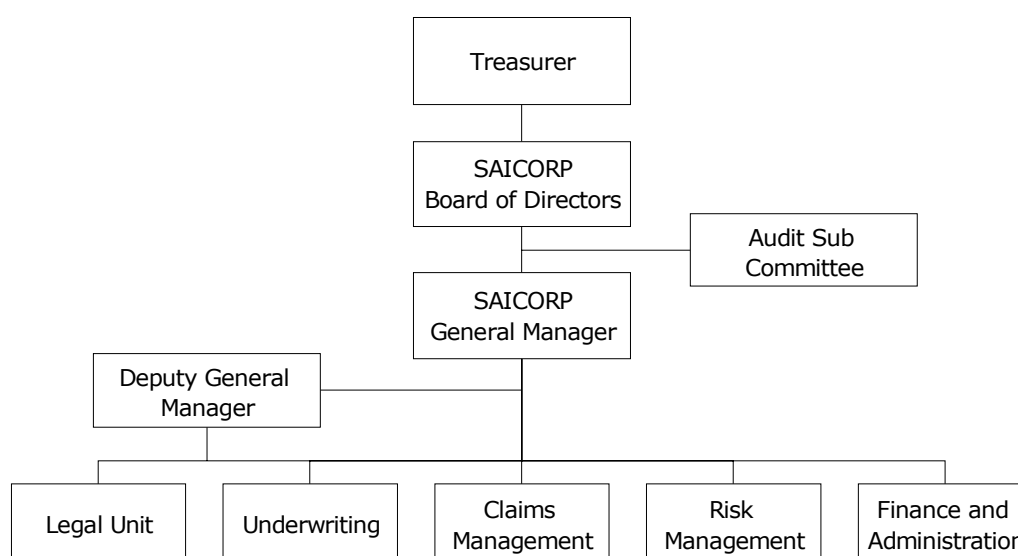
The main functions of SAICORP are:

- 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. Administratively, SAICORP is a separate branch within the Department of Treasury and Finance (DTF), and the SAICORP Board has entered into an arrangement with DTF to cover the use of staff, assets and accommodation to provide the services required by the Board.

Structure

The structure of SAICORP 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 (\$63 million) as at balance date.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 13(3) of the Schedule to the *Public Corporations Act 1993* provides 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 2004-05, 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 Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of SAICORP as at 30 June 2005, 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 in August 2005. The major matter raised with SAICORP and the related response is contained herein.

Policy and Procedure Manual

For a number of years SAICORP has been preparing a single policy and procedure manual. This project involved:

- the collation of existing policies and procedures that were maintained as separate documents;
- the review and revision of these documents;
- the preparation of new documents for policies and procedures that had not previously been documented.

The audit revealed that while significant progress had been made during 2004-05 towards the completion of the manual, it was still not finalised.

SAICORP Response

In response SAICORP advised it will continue the compilation of its Policy and Procedure Manual and review it for consistency with SAFA's documentation.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS (SECTION 1)**Highlights of Financial Statements**

	2005	2004	Percentage
	\$'million	\$'million	Change
UNDERWRITING RESULT			
Premium revenue	30.6	34.4	(11)
Outwards reinsurance expense	(9.4)	(11.9)	(21)
Net claims incurred	(30.9)	(20.8)	49
Net underwriting expenses	(0.3)	(0.3)	-
Underwriting Result	(10.0)	1.4	-
INVESTMENT RESULT			
Interest and distributions	10.8	5.1	-
Unrealised gains	13.1	12.4	6
Investment Revenue	23.9	17.5	37
General and administration expense	(0.9)	(0.7)	29
Operating Profit Before Notional Income Tax	13.0	18.2	(29)
Income tax equivalent expense	(3.9)	(5.5)	(29)
Operating Profit After Notional Income Tax	9.1	12.7	(28)
ASSETS			
Current assets	81.7	78.3	4
Non-current assets	132.7	104.4	27
Total Assets	214.4	182.7	17

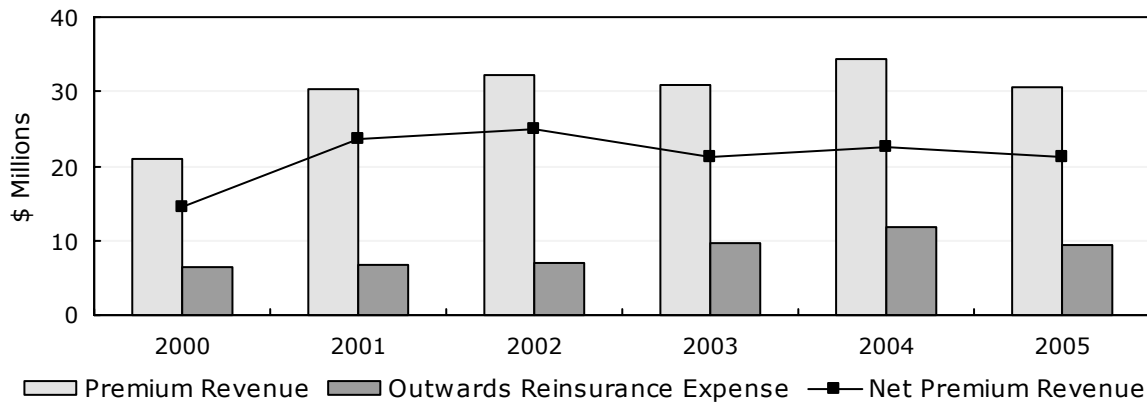
	2005	2004	Percentage
	\$'million	\$'million	Change
LIABILITIES			
Current liabilities	20.6	23.9	(14)
Non-current liabilities	121.6	95.7	27
Total Liabilities	142.2	119.6	19
EQUITY			
	72.2	63.1	14

Statement of Financial Performance

Net Premium Revenue

Premiums charged to agencies are SAICORP’s major source of revenue for the activities associated with the operation of the Government’s insurance and risk management arrangements.

Net premium revenue is premium revenue less the cost of the outwards reinsurance program (catastrophe reinsurance program). A structural analysis of operating revenues for the six years to 2005 is presented in the following chart. It is notable that premium revenue decreased in 2005 due mainly to finalisation of the Fleet SA lease agreement for light motor vehicles and Forestry SA no longer insuring its standing timber. Outwards reinsurance expense decreased in line with the cost of reinsurance in the global market and reinsurance of Forestry SA standing timer no longer being required.

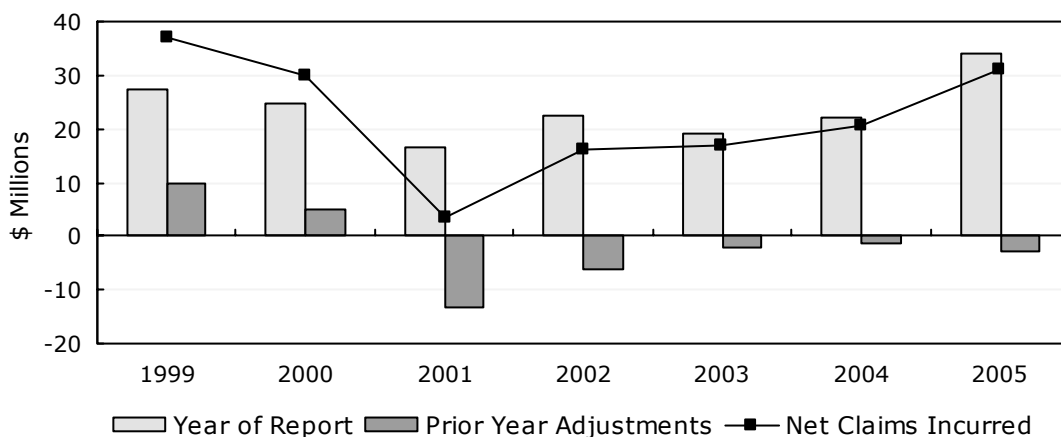


* Premium Revenue and Net Premium Revenue amounts prior to 2003 include stamp duty revenue, which for 2003 to 2005 is reported as Underwriting Expenses.

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 increased significantly in 2005. This is discussed below in 'Outstanding Claims'.

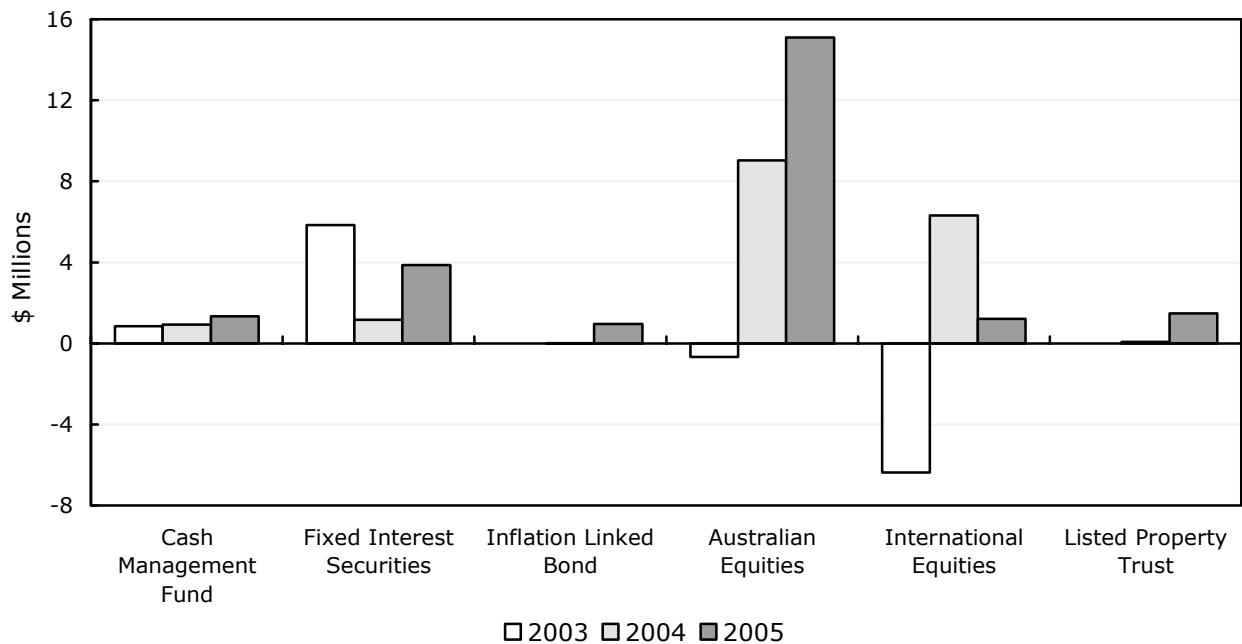


Investment Revenue/Expenses

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

Investment Class	2005		2004	
	Balance	Investment	Balance	Investment
	at 30.06.05 \$'000	Performance Percent p.a.	at 30.06.04 \$'000	Performance Percent p.a.
Cash Management Fund	11 741	5.7	11 639	5.4
Fixed Interest Securities	51 841	8.0	47 984	1.9
Inflation Linked Bond	9 256	11.8	8 302	3.9
Australian Equities	71 593	27.0	56 516	21.5
International Equities - hedged	10 753	13.2	9 534	24.3
International Equities - unhedged	30 016	0.3	30 026	19.6
Listed Property Trust	20 362	18.9	8 375	17.5

As a consequence of the above investment results, SAICORP reported investment revenue of \$23.9 million in 2004-05 of which unrealised market value movements contributed \$13.1 million. The impact that returns on individual investment classes have had on investment revenues over the previous three years are as follows:



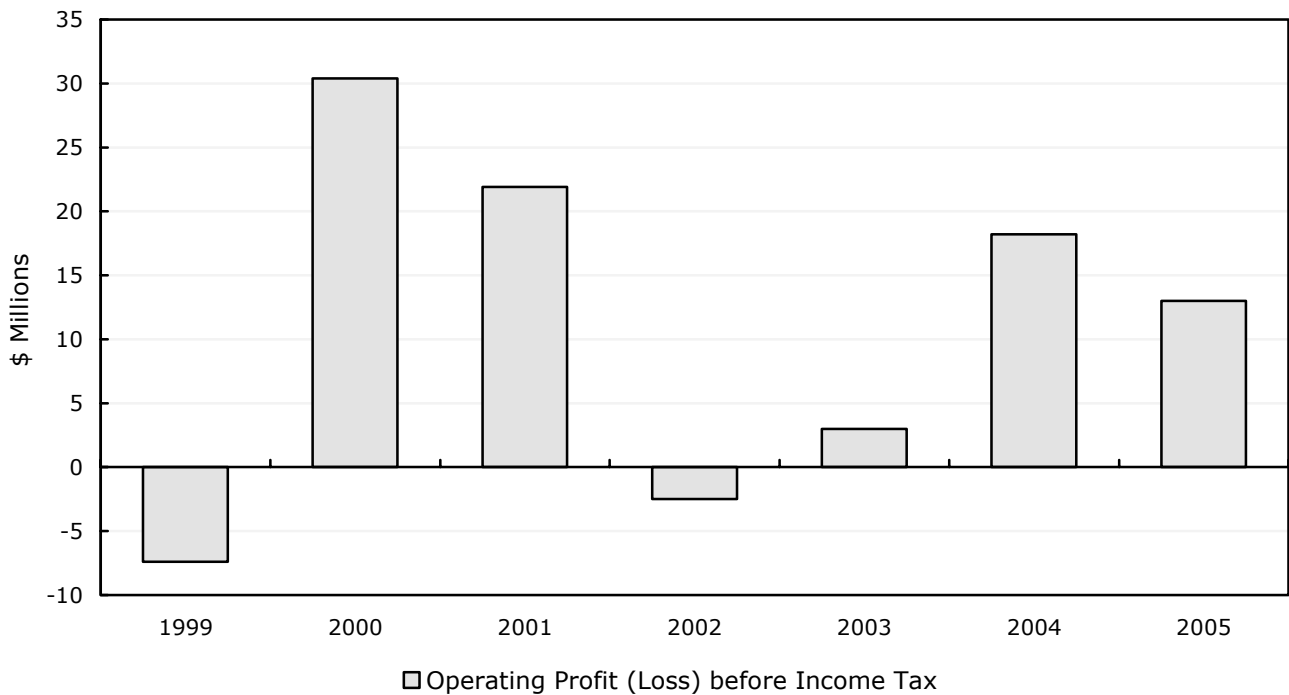
The chart shows that investment revenues were heavily influenced by the performance of fixed interest securities and Australian equity markets.

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

Operating Profit Before Income Tax

SAICORP's operating profit before income tax was \$13 million, a decrease of \$5.2 million over the previous year. This decrease is due to reduced underwriting profit (primarily the result of the movement in outstanding claim liabilities) offset by increased revenue from investments (primarily the result of investment market value movements).

The operating profit before income tax 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.

Statement of Financial Position

Outstanding Claims

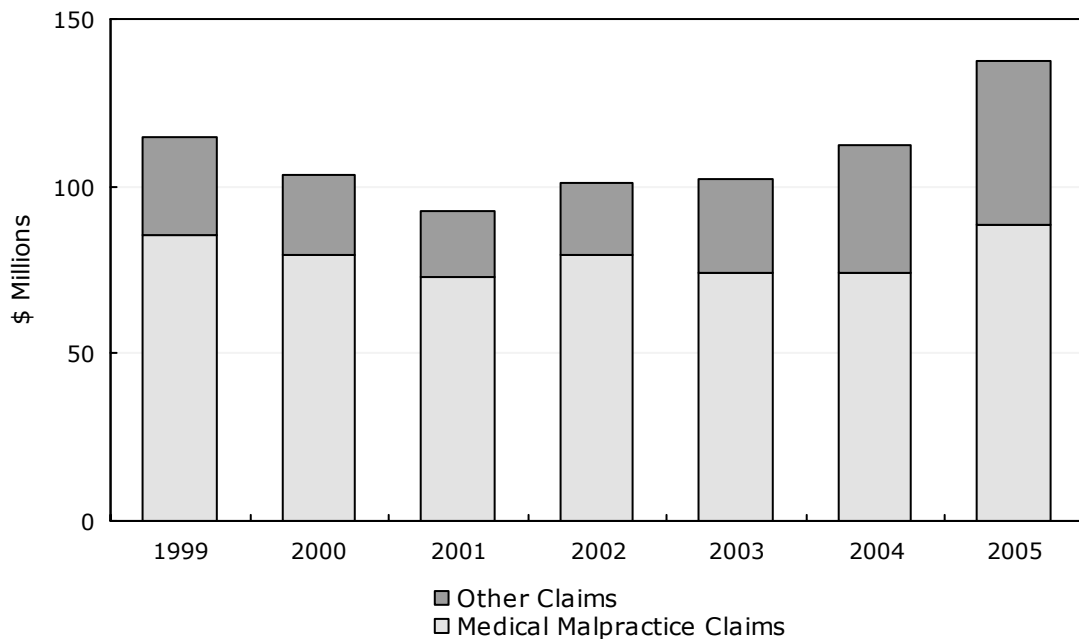
SAICORP's liabilities as recorded in the Statement of Financial Position are dominated by the provision for outstanding claims. SAICORP uses case estimation for calculating the liability for reported claims because of the variability inherent in claims for all classes of business. Independent actuaries 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 accepted by SAICORP's Board.

The outstanding claims liability of \$137.7 million as at 30 June 2005 was made up as follows:

	2005	2004
	\$'000	\$'000
Reported claims by case estimation	68 801	54 702
IBNR claims (including IBNER claims)	32 411	30 696
Adjustment for present value allowing for inflation and discounting	7 886	2 685
Provision for administration expenses	5 389	4 365
Prudential margin	23 256	19 610
	137 743	112 058

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 2005 is due to the net effect of increases in case estimates for reported and IBNR claims and changes in the assumed discount rates (decrease of 0.8 percent for medical malpractice claims, 0.2 percent for short tail

classes and 0.4 percent for long tail classes) used for calculating the value of the liabilities. Medical malpractice claims continue to dominate the claims liabilities.



Investments

Investments increased by \$33.2 million to \$206 million (\$172 million). This increase is due mainly to the purchase of additional investments and appreciation in value of SAICORP's Australian fixed interest and equity investments.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005 \$'million	2004 \$'million	2003 \$'million	2002 \$'million
Net Cash Flows				
Operations	11.1	11.3	4.9	3.6
Investing	(10.0)	(9.2)	(7.0)	-
Change in Cash	1.1	2.1	(2.1)	3.6
Cash at 30 June	5.7	4.6	2.5	4.6

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 2005 the balance of the Cash Management Fund was \$11.7 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 STATEMENTS (SECTION 2)

Highlights of Financial Statements

	2005 \$'million	2004 \$'million	Percentage Change
OPERATING REVENUE			
Total Revenue	7.6	9.4	(19)
Total Expenses	25.2	6.3	300
Net Result	(17.6)	3.1	(668)

	2005	2004	Percentage
	\$'million	\$'million	Change
ASSETS			
Current assets	13.2	9.7	36
Non-current assets	2.0	2.3	(13)
Total Assets	15.2	12.0	27
LIABILITIES			
Current liabilities	21.4	20.9	2
Non-current liabilities	56.7	36.4	56
Total Liabilities	78.1	57.3	36
EQUITY (DEFICIENCY)	(62.9)	(45.3)	39

Statement of Financial Position

Change in Net Assets

The \$17.6 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 \$21.1 million offset by a \$3.5 million decrease in claim payments. This increase in outstanding claims liability was due to revisions to past claims expenses, as discussed below in 'Outstanding Claims'.

The Cash balance of Section 2 financial statements has increased by \$5 million to \$12.7 million as the recurrent appropriation amount exceeded claim/compensation payments for the year.

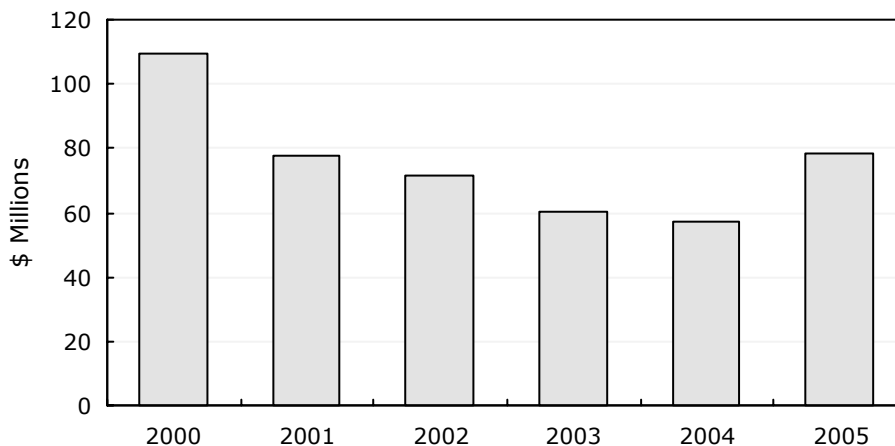
Outstanding Claims

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 \$78.1 million is made up as follows:

	2005	2004
	\$'000	\$'000
Reported claims by case estimation	58 235	44 038
IBNR claims (including IBNER claims)	-	-
Builders warranty inwards reinsurance	26	-
Adjustment for present value allowing for inflation and discounting	3 199	748
Provision for administration expenses	2 954	2 112
Prudential margin	13 653	10 063
	78 067	56 961

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



The majority of Section 2 claims relate to incidents which occurred before 1 July 1994. During 2005 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 \$24.9 million shown in the Statement of Financial Performance is mainly a result of this increase (\$21.1 million) in the liability and claim disbursements (\$4.0 million) made throughout the year.

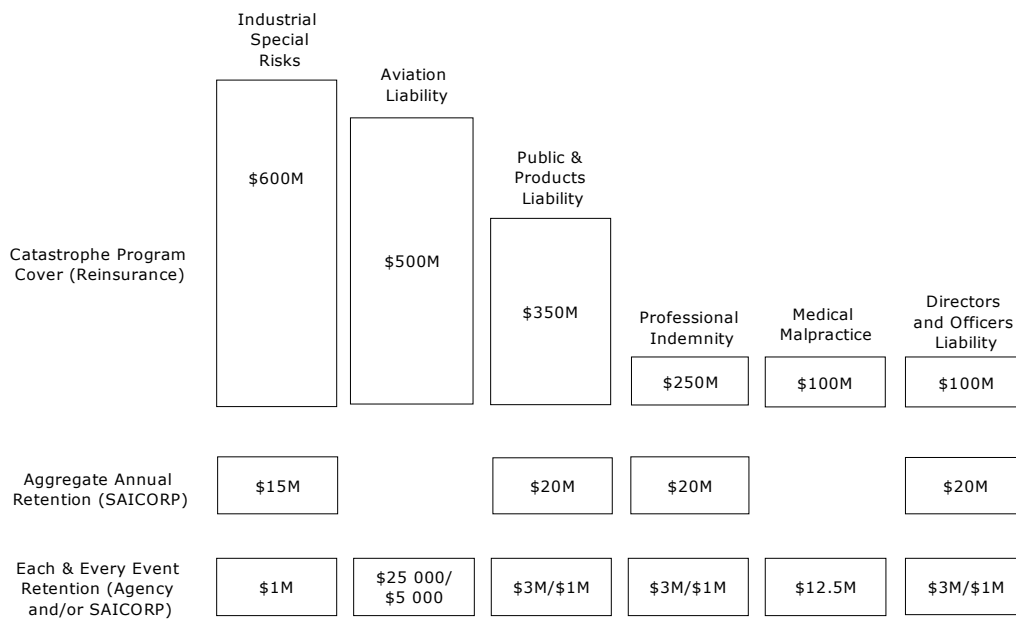
FURTHER COMMENTARY ON OPERATIONS

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, a catastrophe reinsurance program is placed in the international insurance market through SAICORP (in a year).

While the level of reinsurance cover that SAICORP effected under these arrangements increased in some areas during 2004-05, reinsurance premium expense decreased from \$11.9 million to \$9.4 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 SAICORP’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 2004-05 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**

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
Premium revenue	5	30 619	34 426
Outwards reinsurance expense	6	(9 442)	(11 938)
Net Premium Revenue		21 177	22 488
Claims expense	7	(31 412)	(20 736)
Reinsurance and other recoveries	8	530	(150)
Doubtful debts		(25)	93
Net Claims Incurred	9	(30 907)	(20 793)
Brokerage and lead reinsurer fee revenue	10	532	624
Underwriting expense	11	(815)	(897)
Underwriting Result		(10 013)	1 422
Investment revenue	12	23 935	17 524
General and administration expense	13	(868)	(752)
OPERATING PROFIT BEFORE NOTIONAL INCOME TAX		13 054	18 194
Income tax equivalent expense	14	(3 916)	(5 459)
OPERATING PROFIT AFTER NOTIONAL INCOME TAX		9 138	12 735
TOTAL CHANGES IN EQUITY EXCLUDING THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		9 138	12 735

**Statement of Financial Position
as at 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
CURRENT ASSETS:			
Cash	15	5 746	4 645
Receivables	16	183	158
Reinsurance and other recoveries receivable	17	807	284
Investments	18	72 838	67 925
Other	19	2 127	5 273
Total Current Assets		81 701	78 285
NON-CURRENT ASSETS:			
Reinsurance and other recoveries receivable	17	7	31
Investments	18	132 724	104 451
Total Non-Current Assets		132 731	104 482
Total Assets		214 432	182 767
CURRENT LIABILITIES:			
Payables	20	281	427
Unearned premium		9	1 516
Outstanding claims	21	16 192	16 359
Tax liability	22	3 916	5 459
Other	23	224	186
Total Current Liabilities		20 622	23 947
NON-CURRENT LIABILITIES:			
Outstanding claims	21	121 551	95 699
Total Non-Current Liabilities		121 551	95 699
Total Liabilities		142 173	119 646
NET ASSETS		72 259	63 121
EQUITY:			
Retained surplus	24	72 259	63 121
TOTAL EQUITY		72 259	63 121
Contingent Liabilities	31		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	(Outflows)	(Outflows)
CASH INFLOWS:		\$'000	\$'000
Premiums		29 844	31 999
Stamp Duty from agencies		3 609	3 709
Commercial insurance placements		2 709	3 620
Claim recoveries		6	652
Brokerage and lead reinsurer fee revenue		570	659
Interest received		630	449
Other underwriting and general administration receipts		-	18
GST received on sales		3 268	3 586
GST input tax credits		767	1 101
Total Inflows from Operating Activities		41 403	45 793
CASH OUTFLOWS:			
Outwards reinsurance payments		(8 435)	(12 429)
Commercial insurance placements		(2 714)	(3 796)
Claims paid		(4 625)	(7 477)
Prepaid maintenance payment to Fleet SA		-	(1 130)
Other underwriting and general administration expenses paid		(1 510)	(1 080)
Income tax equivalents paid to the Consolidated Account		(5 459)	(171)
Stamp Duty paid to RevenueSA		(3 535)	(3 716)
GST paid on purchases		(767)	(1 101)
GST payments to ATO		(3 257)	(3 549)
Total Outflows from Operating Activities		(30 302)	(34 449)
Net Cash Inflows from Operating Activities	32(b)	11 101	11 344
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Net payments for investments		(10 000)	(9 200)
Total Outflows from Investing Activities		(10 000)	(9 200)
Net Cash Outflows from Investing Activities		(10 000)	(9 200)
NET INCREASE IN CASH HELD		1 101	2 144
CASH AT 1 JULY		4 645	2 501
CASH AT 30 JUNE	32(a)	5 746	4 645

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS**1. Objectives and Funding**

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.

The fund is an interest bearing Special Deposit Account.

The principal source of funds for Section 1 consists of monies received from agencies for insurance cover provided in relation to the current financial year.

2. Summary of Significant Accounting Policies**2.1 Basis of Accounting**

This financial report is a general purpose financial report which, in accordance with section 13 of the Schedule to the *Public Corporations Act 1993*, 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.

The Statement of Financial Performance and Statement of Financial Position 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.

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 Australian Accounting Standard AASB 1024 'Consolidated Accounts' cannot be applied. Therefore two separate financial reports are prepared to discharge SAICORP's legislative disclosure obligations.

2.3 Rounding

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

2.4 Taxation

Effective 1 July 1995, pursuant to Treasurer's Instruction 22 'Tax and Tax Equivalents Applicable to Government Businesses', 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.

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

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

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

2.5 Revenues and Expenses

Revenues and Expenses are recognised in the Statement of Financial Performance when the flow or consumption or loss of economic benefit has occurred and can be reliably measured.

Revenues and Expenses have been classified according to their nature in accordance with Accounting Policy Statement 13 'Form and Content of General Purpose Financial Reports' and have not been offset unless required or permitted by another 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 Commercial 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 \$9.442 million (\$11.938 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. During September 2004 it was agreed that Forestry SA would self-insure their risk in relation to Standing Timber. As a result, the Standing Timber component of catastrophe reinsurance program was not renewed at the program renewal at September 2004.

Claims

Claims Expense is comprised of claim payments, deductible receipts, prepaid maintenance payments to Fleet SA 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 Duties

Amounts collected for Stamp Duties are excluded from premiums and on-paid monthly to RevenueSA. The amount of \$0.151 million carried in Stamp Duty Payable as at 30 June 2005 relates to the liability for stamp duty on premium receipts in June 2005 which was remitted in July 2005.

2.6 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. SAICORP 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.

2.7 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank (also referred to as Special Deposit Account) and is used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.8 Receivables

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.

2.9 Claim Recoveries Receivable

Recoveries receivable on claims paid and for claims reported but not yet paid are recognised as revenue 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 6.5 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 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 (6.0 percent per annum for medical malpractice and 5.4 percent per annum for short tail and 5.6 percent per annum for long tail classes) have been assumed.

2.10 Investments

In accordance with Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' investments in fixed interest, inflation linked bonds, equity funds and listed property trust are measured at net market value, as advised by the fund managers.

2.11 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 amounts are measured at their nominal amount and are normally settled within 30 days of receipt of an invoice, in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services'.

2.12 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 2004).

The claims liabilities are measured as the present values of the expected future claims payments. An inflation rate (normal and superimposed) of 6.5 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 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 (6.0 percent per annum for medical malpractice, 5.4 percent per annum for short tail and 5.6 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.

2.13 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 27). These are apportioned between Section 1 and Section 2 of the SAGIRM Fund. The amount expended during the year for Section 1 was \$1.560 million (\$1.466 million).

3. Adoption of Australian Equivalents to International Financial Reporting Standards

Currently SAICORP prepares its Financial Statements in accordance with the Generally Accepted Accounting Principles (GAAP). Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. For SAICORP this would be for the financial report for the year ended 30 June 2006.

For SAICORP the most significant impact arising from AASB 1023 'Insurance Contracts' is the requirement for SAICORP to change its valuation basis for measuring investments backing insurance liabilities.

In the current year, investments backing insurance liabilities are measured at net market value. Net market value is defined as the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. Under the amended AASB 1023 'General Insurance Contracts', these assets will be measured at fair value. Fair value of an asset is defined as the amount at which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The key difference between the two definitions is that fair value does not allow a deduction for transaction costs.

In accordance with requirements of AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards', a table has been prepared summarising any known or reliably estimated information about the impacts that these would have on the financial report had it been prepared using AIFRS.

	Amount currently reported per GAAP \$'000	Known or reliably estimated impact on the financial report	
		AASB 1023 'General Insurance Contracts' \$'000	Amount to be reported after adopting AIFRS \$'000
Reconciliation of key aggregates			
Investment revenue	23 935	360	24 295
Operating profit before notional income tax	13 054	360	13 414
Operating profit after notional income tax	9 138	252	9 390
Total assets	214 432	360	214 792
Total liabilities	142 173	108	142 281
Net assets	72 259	252	72 511
Net equity	72 259	252	72 511

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.

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

	Industrial Special Risks & Business Interruption		Public & Products Liability		Medical Malpractice	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Premium revenue	7 747	7 619	5 594	5 703	12 781	12 119
Outwards reinsurance expense	(5 337)	(5 904)	(1 845)	(1 565)	(1 386)	(2 226)
Net premium revenue	2 410	1 715	3 749	4 138	11 395	9 893
Claims expense	(12 416)	(2 097)	(3 494)	(6 014)	(14 374)	(2 402)
Reinsurance and other recoveries	-	2	(5)	27	26	(228)
Doubtful debts	-	-	-	-	(25)	93
Net claims incurred	(12 416)	(2 095)	(3 499)	(5 987)	(14 373)	(2 537)
Brokerage and lead reinsurer fee revenue	46	111	325	329	-	-
Underwriting expenses	937	-	677	-	1 494	-
Underwriting Result	(9 023)	(269)	1 252	(1 520)	(1 484)	7 356
Outstanding claims	18 095	6 010	20 099	18 852	88 202	74 161

4. Segment Reporting (continued)

	Professional Indemnity and Directors and Officers Liability		Other		Total	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Premium revenue	2 127	1 755	2 370	7 230	30 619	34 426
Outwards reinsurance expense	-	-	(874)	(2 243)	(9 442)	(11 938)
Net premium revenue	2 127	1 755	1 496	4 987	21 177	22 488
Claims expense	1 673	(5 881)	(2 801)	(4 342)	(31 412)	(20 736)
Reinsurance and other recoveries	-	-	509	49	530	(150)
Doubtful debts	-	-	-	-	(25)	93
Net claims incurred	1 673	(5 881)	(2 292)	(4 293)	(30 907)	(20 793)
Brokerage and lead reinsurer fee revenue	-	1	161	183	532	624
Underwriting expenses	257	-	(4 180)	(897)	(815)	(897)
Underwriting Result	4 057	(4 125)	(4 815)	(20)	(10 013)	1 422

Outstanding claims	7 582	10 053	3 765	2 982	137 743	112 058
--------------------	-------	--------	-------	-------	---------	---------

5. Premium Revenue

	2005	2004
	\$'000	\$'000
Premium revenue from entities within the SA Government	27 903	32 902
Premium revenue from entities external to the SA Government	2 716	1 524
Total Premium Revenue	30 619	34 426

6. Outwards Reinsurance Expense

Outwards Reinsurance Expense paid/payable to entities external to the SA Government	9 442	11 938
Total Outwards Reinsurance Expense	9 442	11 938

7. Claims Expense

Claim payments	4 487	10 487
Deductibles	(654)	(3 010)
Fleet expenses	1 229	3 492
Other	665	64
Movement in outstanding claim liabilities	25 685	9 703
Total Claims Expense	31 412	20 736

Liability:		
Medical malpractice	14 372	2 402
Other liability	2 780	12 306
Property	13 954	5 713
Other	306	315
Total Claims Expense	31 412	20 736

Claims expense paid/payable to entities within the SA Government	16 104	7 722
Claims expense paid/payable to entities external to the SA Government	15 308	13 014
Total Claims Expense	31 412	20 736

8. Reinsurance and Other Recoveries

Reinsurance and other recoveries received	6	652
Other	-	(168)
Movement in reinsurance and other recoveries asset	524	(634)
Total Reinsurance and Other Recoveries	530	(150)

Reinsurance and other recoveries from entities within the SA Government	505	5
Reinsurance and other recoveries from entities external to the SA Government	25	(155)
Total Reinsurance and Other Recoveries	530	(150)

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 \$'000	In respect of Prior Years \$'000	2005 Total \$'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 - Reinsurance and other recoveries	-	70	70
Net Discount Movement	(14 364)	11 656	(2 708)
Net Claims Incurred	33 940	(3 033)	30 907
	In respect of Current Year \$'000	In respect of Prior Years \$'000	2004 Total \$'000
Gross claims incurred and related expenses undiscounted	29 168	159	29 327
Reinsurance and other recoveries undiscounted	(4)	2 580	2 576
Net Claims Incurred - Undiscounted	29 164	2 739	31 903
Discount and discount movement - Gross claims incurred	(7 160)	(1 431)	(8 591)
Discount and discount movement - Reinsurance and other recoveries	-	(2 519)	(2 519)
Net Discount Movement	(7 160)	(3 950)	(11 110)
Net Claims Incurred	22 004	(1 211)	20 793

10. Brokerage and Lead Reinsurer Fee Revenue

	2005 \$'000	2004 \$'000
Brokerage and lead reinsurer fee revenue from entities external to the SA Government:		
Catastrophe Program	275	265
Direct insurance placements	257	359
Total Brokerage and Lead Reinsurer Fee Revenue	532	624

11. Underwriting Expense

	2005 \$'000	2004 \$'000
Underwriting expense paid/payable to entities within the SA Government:		
Risk management grants	73	73
Acquisition costs	280	252
Stamp Duty revenue	(3 456)	(3 547)
Stamp Duty expense	3 668	3 710
Direct insurance placement revenue	(2 219)	(3 357)
Total Underwriting Expense paid/payable to entities within the SA Government	(1 654)	(2 869)
Underwriting Expense paid/payable to entities external to the SA Government:		
Risk management grants	6	345
Consultants and brokers expenses	351	-
Acquisition costs	-	(163)
Stamp duty revenue	(212)	-
Stamp duty expense	-	9
Direct Insurance Placement revenue	(202)	(158)
Direct Insurance Placement expense	2 526	3 733
Total Underwriting Expense paid/payable to entities external to the SA Government	2 469	3 766
Total Underwriting Expense	815	897

12. Investment Revenue

	Interest \$'000	Dividends & Distributions \$'000	Unrealised Gains (Losses) \$'000	2005 Total \$'000
Investment Revenue from entities within the SA Government:				
Special Deposit Account	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

12. Investment Revenue (continued)		Interest	Dividends & Distributions	Unrealised Gains (Losses)	2005 Total
		\$'000	\$'000	\$'000	\$'000
Investment Revenue from entities external to the SA Government:					
Inflation Linked Bond		470	1	482	953
Australian Equities		-	6 229	8 867	15 096
Overseas Equities		-	1 841	(631)	1 210
Listed Property Trust		-	920	566	1 486
Total Investment Revenue from Entities External to the SA Government		470	8 991	9 284	18 745
Total Investment Revenue		1 802	8 991	13 142	23 935
Investment Revenue from entities within the SA Government:					
Special Deposit Account		460	-	-	460
Cash Management Fund		473	-	-	473
Australian Fixed Interest (Composite Bond)		-	-	1 158	1 158
Total Investment Revenue from Entities within the SA Government		933	-	1 158	2 091
Investment Revenue from entities external to the SA Government:					
Inflation Linked Bond		202	-	(199)	3
Australian Equities		-	2 017	7 019	9 036
Overseas Equities		-	1 293	5 025	6 318
Listed Property Trust		-	649	(573)	76
Total Investment Revenue from Entities External to the SA Government		202	3 959	11 272	15 433
Total Investment Revenue		1 135	3 959	12 430	17 524
13. General and Administration Expense				2005	2004
General and administration expenses paid/payable to entities within the SA Government:				\$'000	\$'000
Administration expenses				616	616
Investment management fees				65	-
Staff development revenue				-	(15)
Staff development expense				-	8
Total General Administration Expense paid/payable to entities within the SA Government				681	609
General and administration expenses paid/payable to entities external to the SA Government:					
Investment management fees				176	142
Software				11	1
Total General and Administration Expense paid/payable to entities external to the SA Government				187	143
Total General and Administration Expense				868	752
14. Income Tax Expense					
Operating profit before notional income tax				13 054	18 194
Income Tax Expense (calculated at 30 percent)				3 916	5 459
15. Cash					
Cash held with entities within the SA Government:					
Special Deposit Account				5 746	4 645
Total Cash				5 746	4 645
16. Receivables					
Receivables from entities within the SA Government:					
Debtors:					
Commercial insurance placement premiums				24	135
Deductibles receivable				40	3
				64	138
Accrued interest revenue				119	20
Total Receivables				183	158

17. Reinsurance and Other Recoveries Receivable	2005	2004
Total discounted reinsurance and other recoveries receivable before provision for doubtful debts:	\$'000	\$'000
Expected future recoveries (inflated/undiscounted)	1 529	961
Discount to present value	(219)	(176)
Total Discounted Reinsurance and Other Recoveries Receivable before provision for Doubtful Debts	1 310	785
Provision for doubtful debts	(496)	(470)
Total Discounted Reinsurance and Other Recoveries Receivable after Provision for Doubtful Debts	814	315
Current:		
Reinsurance and other recoveries receivable	871	357
Provision for doubtful debts	(64)	(73)
Total Current Reinsurance and Other Recoveries Receivable after Provision for Doubtful Debts	807	284
Non-Current:		
Reinsurance and other recoveries receivable	439	428
Provision for doubtful debts	(432)	(397)
Total Non-Current Reinsurance and Other Recoveries Receivable after Provision for Doubtful Debts	7	31
Total Reinsurance and Other Recoveries Receivable after Provision for Doubtful Debts	814	315
Current reinsurance and other recoveries from entities within the SA Government	800	-
Total Reinsurance and Other Recoveries Receivable from Entities within the SA Government	800	-
Current Reinsurance and Other Recoveries from entities external to SA Government	7	284
Non-Current Reinsurance and Other Recoveries from entities external to SA Government	7	31
Total Reinsurance and Other Recoveries Receivable from Entities External to the SA Government	14	315
Total Reinsurance and Other Recoveries Receivable	814	315

During some preceding years, the lead reinsurer for Modbury Hospital medical malpractice claims was HIH Insurance Ltd, with a co-insurer 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.

18. Investments	2005	2004
Current:	\$'000	\$'000
Cash Management Fund	11 741	11 639
Australian Fixed Interest (Composite Bond)	51 841	47 984
Inflation Linked Bond	9 256	8 302
Total Current Investments	72 838	67 925
Non-Current:		
Australian Equities	71 593	56 516
Overseas Equities - Unhedged	30 016	30 026
Overseas Equities - Hedged	10 753	9 534
Listed Property Trust	20 362	8 375
Total Non-Current Investments	132 724	104 451
Total Investments	205 562	172 376
Investments held with entities within the SA Government:		
Cash Management Fund	11 741	11 639
Australian Fixed Interest (Composite Bond)	51 841	47 984
Inflation Linked Bond	9 256	8 302
Total Investments Held with Entities within the SA Government	72 838	67 925

18. Investments (continued)	2005	2004
Investments held with entities external to the SA Government:	\$'000	\$'000
Australian Equities	71 593	56 516
Overseas Equities - Unhedged	30 016	30 026
Overseas Equities - Hedged	10 753	9 534
Listed Property Trust	20 362	8 375
Total Investments Held with Entities External to the SA Government	132 724	104 451
Total Investments	205 562	172 376
19. Other Assets		
Other assets held with entities within the SA Government:		
Prepayments:		
Fleet insurance	-	1 900
Total Other Assets held with Entities within the SA Government	-	1 900
Other assets held with entities external to the SA Government:		
Prepayments:		
Catastrophe reinsurance program	2 127	3 133
Service provider (Insurance and reinsurance broking services)	-	240
Total Other assets held with Entities external to the SA Government	2 127	3 373
Total Other Assets	2 127	5 273
20. Payables		
Creditors and accruals	130	409
Stamp Duty payable	151	18
Total Payables	281	427
Payables to entities within the SA Government:		
Creditors and accruals	13	89
Stamp Duty payable	151	18
Total Payables to entities within the SA Government	164	107
Payables to entities external to the SA Government:		
Creditors and accruals	117	320
Total Payables to entities external to the SA Government	117	320
Total Payables	281	427
21. Outstanding Claims		
(a) Total Outstanding Claims		
Expected future claims payments (inflated/undiscounted)	196 825	168 362
Discount to present value	(59 082)	(56 304)
Total Outstanding Claims	137 743	112 058
Current:		
Liability:		
Medical malpractice	4 434	160
Other liability	5 667	10 482
Property	6 084	5 717
Other	7	-
Total Current Outstanding Claims	16 192	16 359
Non-Current:		
Liability:		
Medical malpractice	83 768	74 001
Other liability	23 670	19 141
Property	13 988	2 425
Other	125	132
Total Non-Current Outstanding Claims	121 551	95 699
Total Outstanding Claims	137 743	112 058
Outstanding claims payable to entities within the SA Government	20 056	8 048
Outstanding claims payable to entities external to the SA Government	117 687	104 010
Total Outstanding Claims	137 743	112 058

(b) Average inflation (normal and superimposed) rates and discount rates used in the measurement of outstanding claims	2005	2004
	Percent	Percent
For the succeeding year:		
Inflation rate (which includes superimposed inflation)	6.5	6.5
Discount rate - Medical malpractice	5.2	6.0
Discount rate - Short tail classes	5.2	5.4
Discount rate - Long tail classes	5.2	5.6
For subsequent years:		
Inflation rate (which includes superimposed inflation)	6.5	6.5
Discount rate - Medical malpractice	5.2	6.0
Discount rate - Short tail classes	5.2	5.4
Discount rate - Long tail classes	5.2	5.6
(c) Weighted average expected term to settlement of outstanding claims from the balance date	2005	2004
	Years	Years
Medical malpractice	9.7	9.5
Liability (other than medical malpractice)	3.5	2.5
Property	2.3	1.5
Other	3.5	2.5
(d) Table of Classes		
<i>Short Tail Classes</i>	<i>Long Tail Classes</i>	<i>Medical Malpractice</i>
Aviation Property	Aviation Liability	
Buildings and Contents	General Liability	
Consequential Loss	Marine Property	
Fidelity Guarantee	Volunteers	
General Property	Other	
Machinery Breakdown	Professional Indemnity	
Marine Property		
Standing Timber		
Motor Vehicle Liability		
Motor Vehicle Property		
Personal Accident/Corporate Travel		
22. Tax Liability	2005	2004
	\$'000	\$'000
Balance at 1 July	5 459	171
Income tax equivalent paid	(5 459)	(171)
Current year's provisional income tax equivalent expense	3 916	5 459
Balance at 30 June	3 916	5 459
23. Other Liabilities		
Other Liabilities to entities external to the SA Government:		
Lead reinsurer liability	157	110
Unearned brokerage revenue	67	76
Total Other Liabilities to Entities external to the SA Government	224	186
Total Other Liabilities	224	186
24. Retained Surplus		
Balance at 1 July	63 121	50 386
Operating profit after notional income tax	9 138	12 735
Balance at 30 June	72 259	63 121
25. Financial Instruments		
(a) Terms, Conditions and Accounting Policies		
Outlined below are the terms and conditions of financial assets and liabilities held as at 30 June 2005.		
<i>(i) Financial Assets</i>		
Cash is available at call and is recorded at cost.		
Receivables are raised for goods and services provided for which payment has not been received. Receivables are normally invoiced for settlement within 30 days.		
Deposits held with SAFA are able to be withdrawn upon request.		
In accordance with Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' SAICORP's investments in fixed interest, inflation linked bonds, equity funds and the listed property trust are measured at net market value, as advised by the fund managers.		
<i>(ii) Financial Liabilities</i>		
Creditors are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days.		

(b) Interest Rate Risk

The effective weighted average interest rate risk is outlined below for the following financial assets and liabilities:

	2005				Weighted Average Interest Rate Percent
	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000	
Financial Assets:					
Cash	5 746	-	-	5 746	5.11
Receivables	-	-	997	997	-
Investments:					
Cash Management Fund	11 741	-	-	11 741	5.71
Australian Fixed Interest (Composite Bond)	-	-	51 841	51 841	-
Inflation Linked Bond ⁽¹⁾	-	9 256	-	9 256	5.66
Australian Equities	-	-	71 593	71 593	-
Overseas Equities - Hedged	-	-	10 753	10 753	-
Overseas Equities - Unhedged	-	-	30 016	30 016	-
Listed Property Trust	-	-	20 362	20 362	-
Total Financial Assets	17 487	9 256	185 562	212 305	
Financial Liabilities:					
Payables	-	-	(281)	(281)	-
Total Financial Liabilities	-	-	(281)	(281)	
Net Financial Assets	17 487	9 256	185 281	212 024	
	2004				
	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000	Weighted Average Interest Rate Percent
Financial Assets:					
Cash	4 645	-	-	4 645	4.91
Receivables	-	-	473	473	-
Investments:					
Cash Management Fund	11 639	-	-	11 639	5.37
Australian Fixed Interest (Composite Bond)	-	-	47 984	47 984	-
Inflation Linked Bond ⁽¹⁾	-	8 302	-	8 302	2.44
Australian Equities	-	-	56 516	56 516	-
Overseas Equities - Hedged	-	-	9 534	9 534	-
Overseas Equities - Unhedged	-	-	30 026	30 026	-
Listed Property Trust	-	-	8 375	8 375	-
Total Financial Assets	16 284	8 302	152 908	177 494	
Financial Liabilities:					
Payables	-	-	(427)	(427)	-
Total Financial Liabilities	-	-	(427)	(427)	
Net Financial Assets	16 284	8 302	152 481	177 067	

(1) Average maturity of 10 years

(c) 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 Statement of Financial Position, is the carrying amount, net of any provision for doubtful debts.

The cash 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 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.

(d) 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:

	2005	2004
	\$'000	\$'000
Canadian Dollar	1 239	1 009
Euro	6 200	5 629
Japanese Yen	3 947	4 099
Swiss Franc	1 223	1 214
United Kingdom Pound	4 534	4 265
United States Dollar	22 403	22 280
Other	1 223	1 064
	40 769	39 560

(e) Net Fair Values

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

26. 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 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 the 2004-05 year, the Corporation incurred fleet maintenance expenses of \$1.229 million (\$3.492 million). The value of the prepaid fleet maintenance costs (\$0.671 million) was written back to the appropriate revenue class at 30 June 2005. This reflects the conclusion for the agreement between CBA (South Australia Fleet Lease Arranger Pty Ltd), SAICORP and Fleet SA.

27. Auditor's Remuneration

	2005	2004
	\$'000	\$'000
Audit fees paid/payable to the Auditor-General's Department	35	28

Other Services

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

28. External Consultants

Number of consultants and the dollar amount of consultancies paid/payable that fell within the following bands:	2005	2004	2005	2004
	Number of Consultants	Number of Consultants	\$'000	\$'000
Below \$10 000	1	2	1	10
Between \$10 000 - \$50 000	1	1	30	10
	2	3	31	20

29. Directors' Remuneration

(a) Directors' Remuneration

Number of Directors of the Corporation and the dollar amount of remuneration paid/payable to Directors that fell within the following bands:

	2005	2004	2005	2004
	Number of Directors	Number of Directors	\$'000	\$'000
\$nil	1	1	-	-
\$1 - \$10 000	4	4	19	20
	5	5	19	20

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.

(b) 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.

30. Related Parties**(a) Directors**

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

Mr K M Cantley (Chairman, appointed April 2005)
 Mr B G Rowse (former Chairman, resigned March 2005)
 Mr L R Foster (Deputy Chairman)
 Ms C J Marjoribanks (resigned December 2004)
 Ms Y Sneddon (appointed December 2004)
 Ms R J Batt
 Mr L C Holmes

(b) 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.

31. 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.

32. Cash Flow Reconciliation**(a) Reconciliation of Cash - Cash at the End of the Financial Year per**

	2005	2004
	\$'000	\$'000
Statement of Cash Flows	5 746	4 645
Statement of Financial Position	5 746	4 645

(b) Reconciliation of Net Cash Inflows from Operating Activities to Operating Profit after Notional Income Tax

Net Cash Inflows from Operating activities	11 101	11 344
Add: Non-cash items:		
Interest from Investments reinvested	1 165	675
Distributions from Investments reinvested	8 991	3 959
Management fees deducted against Investment balance	(20)	(96)
Accrued interest on Cash Management Fund	(93)	-
Unrealised gains on investments	13 142	12 430
Changes in Assets and Liabilities:		
(Decrease) Increase in receivables	25	(173)
(Decrease) Increase in reinsurance and other recoveries receivable	499	(634)
(Decrease) Increase in other assets	(3 146)	(1 870)
(Increase) Decrease in payables	146	(397)
(Increase) Decrease in unearned premium	1 507	2 517
(Increase) Decrease in outstanding claims	(25 685)	(9 703)
(Increase) Decrease in income tax payable	1 543	(5 288)
(Increase) Decrease in other liabilities	(37)	(29)
Operating Profit after Notional Income Tax	9 138	12 735

33. Events After Balance Day

On 18 July 2005 Cabinet approved the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP and drafting instructions to Parliamentary Counsel to effect the amalgamation. It is anticipated that the necessary legislative changes will be introduced into the South Australian Parliament during 2005-06.

SOUTH AUSTRALIAN GOVERNMENT INSURANCE AND RISK MANAGEMENT FUND – SECTION 2

Statement of Financial Performance for the year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Claims expense	4	24 907	4 262
Compensation expense	5	46	1 874
Administration expense	6	208	202
Total Expenses from Ordinary Activities		25 161	6 338
REVENUES FROM ORDINARY ACTIVITIES:			
Inwards reinsurance	7	26	-
Claims recoveries	8	(169)	(31)
Compensation recoveries	9	2	1 800
Interest	10	700	636
Total Revenues from Ordinary Activities		559	2 405
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		(24 602)	(3 933)
REVENUES FROM SA GOVERNMENT:			
Revenues from SA Government	11	7 000	7 000
Total revenues from Government		7 000	7 000
NET RESULT FROM ORDINARY ACTIVITIES		(17 602)	3 067
TOTAL CHANGES IN EQUITY EXCLUDING THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		(17 602)	3 067

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
CURRENT ASSETS:			
Cash	12	12 684	7 661
Receivables	13	139	36
Recoveries receivable	14	353	202
Compensation recoveries receivable		-	1 800
Total Current Assets		13 176	9 699
NON-CURRENT ASSETS:			
Recoveries receivable	14	1 999	2 335
Total Non-Current Assets		1 999	2 335
Total Assets		15 175	12 034
CURRENT LIABILITIES:			
Payables	15	-	19
Outstanding claims	16	21 430	20 572
Outstanding compensation payments	17	11	355
Total Current Liabilities		21 441	20 946
NON-CURRENT LIABILITIES:			
Outstanding claims	16	56 637	36 389
Total Non-Current Liabilities		56 637	36 389
Total Liabilities		78 078	57 335
NET ASSETS		(62 903)	(45 301)
EQUITY:			
Accumulated deficit	18	(62 903)	(45 301)
TOTAL EQUITY		(62 903)	(45 301)
Contingent Liabilities	22		

Statement of Cash Flows for the year ended 30 June 2005

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:	Note	\$'000	\$'000
Claims paid		(4 274)	(7 498)
Compensation payments		(389)	(1 519)
Administration costs paid		(209)	(202)
GST payments on purchases		(261)	(120)
GST remitted to ATO		(3)	(1)
Total Outflows from Operating Activities		(5 136)	(9 340)
 CASH INFLOWS:			
Receipts from SA Government		7 000	7 000
Inwards reinsurance premiums received		13	-
Compensation received		1 802	-
Interest received		679	633
Deductibles collected		385	180
Claim recoveries received		16	11
GST input tax credits		261	120
GST received on receivables		3	1
Total Inflows from Operating Activities		10 159	7 945
Net Cash Inflows (Outflows) from Operating Activities	23(b)	5 023	(1 395)
NET INCREASE (DECREASE) IN CASH HELD		5 023	(1 395)
CASH AT 1 JULY		7 661	9 056
CASH AT 30 JUNE	23(a)	12 684	7 661

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Objectives and Funding

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 which is funded by appropriations from the Consolidated Account of the South Australian Government.

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*; and
- other mandatory professional requirements in Australia;

The Statement of Financial Performance and Statement of Financial Position 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.

2.2 Reporting Entity

The financial statements of section 2 of the SAGIRM Fund include the use of assets, liabilities, revenues 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 Australian Accounting Standard AASB 1024 'Consolidated Accounts' 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.

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

- the amount of GST incurred by Section 2 of the SAGIRM Fund 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 amounts of GST included.

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

2.6 Revenues and Expenses

Revenues and Expenses are recognised in the Statement of Financial Performance when the flow or consumption or loss of economic benefit has occurred and can be reliably measured.

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

2.7 Revenue from SA Government

Recurrent and additional appropriations are recognised as revenue 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 Items

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. 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.

2.9 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank (also referred to as the Special Deposit Account), used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.10 Receivables

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 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 revenue 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 6.5 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 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 (6.0 percent per annum for medical malpractice, 5.4 percent per annum for short tail classes and 5.6 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 amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services'.

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 financial year ending 30 June 2005 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 2004). 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 6.5 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 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 (6.0 percent per annum for medical malpractice, 5.4 percent per annum for short tail and 5.6 percent per annum for long tail classes) have been assumed.

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 2005 for Section 2 was \$436 000 (\$432 000).

3. Adoption of Australian Equivalents to International Financial Reporting Standards

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

3. Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

In accordance with requirements of AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards', the analysis of differences published by the Australian Accounting Standards Board identifying the differences between AASB 1023 'Financial Report of General Insurance Activities' under which the financial statements for 30 June 2005 have been prepared, and the renamed AASB 1023 'Insurance Contracts' reveals no financial impact to SAICORP Section 2 upon adoption of AASB 1023 'Insurance Contract' in the 2005-06 financial year.

4. Claims Expense

	2005	2004
	\$'000	\$'000
Claim payments	4 007	7 498
Deductibles	(454)	(180)
Claim movements	21 106	(3 105)
Other	248	49
Total Claims Expense	24 907	4 262
Liability - Medical malpractice	10 656	5 734
Liability - Other	12 223	(1 655)
Property	2 028	183
Total Claims Expense	24 907	4 262
Claims expense paid/payable to entities within the SA Government	3 998	1 620
Claims expense paid/payable to entities external to the SA Government	20 909	2 642
Total Claims Expense	24 907	4 262

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.

	2005	2004
	\$'000	\$'000
Compensation expense paid/payable to entities external to the SA Government	46	1 874
Total Compensation Expense Paid/Payable to Entities external to the SA Government	46	1 874

6. Administration Expense

Administration Expenses paid/payable to entities within the SA Government:

Service Level Agreement	188	181
Total Administration Expense Paid/Payable to Entities within the SA Government	188	181

Administration Expenses paid/payable to entities external to the SA Government:

Software maintenance	11	11
Actuarial consultants	9	10
Total Administration Expenses Paid/Payable to Entities external to the SA Government	20	21
Total Administration Expense	208	202

7. Inwards Reinsurance Premium Revenue

Inwards Reinsurance Premium Revenue from entities external to the SA Government:

Inwards reinsurance premium revenue	26	-
Inwards Reinsurance Premium Revenue from entities external to the SA Government:	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 single 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 Statement of Financial Performance are comprised of claim recovery receipts as well as the movements in underlying assets.

	2005	2004
	\$'000	\$'000
Claim recovery receipts	16	11
Claim recovery movements	(185)	(42)
Total Claim Recoveries	(169)	(31)
Claim recoveries from entities within the SA Government	4	-
Claim recoveries from entities external to the SA Government	(173)	(31)
Total Claim Recoveries	(169)	(31)

9. Compensation Recoveries

The Minister 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. The recovery was received in 2004-05 but was reflected in the 2003-04 Statement of Financial Performance.

	2005	2004
	\$'000	\$'000
Compensation recovery from entities external to the SA Government	2	1 800
Total Compensation Recovery	2	1 800

10. Interest

Interest from entities within the SA Government

	700	636
Total Interest	700	636

11. Revenues from SA Government

Appropriations from Consolidated Account pursuant to the *Appropriations Act*

	7 000	7 000
Total Revenues from SA Government	7 000	7 000

12. Cash

Cash held with entities within the SA Government:

Special Deposit Account	12 684	7 661
Total Cash	12 684	7 661

13. Receivables

Accrued interest revenue
Inwards reinsurance receivable
Cost recovery debtors

	56	36
	13	-
	70	-
Total Receivables	139	36

Receivables from entities within the SA Government

	126	36
--	------------	----

Receivables from entities external to the SA Government

	13	-
Total Receivables	139	36

14. Recoveries Receivable

Expected future recoveries (undiscounted)
Discount to present value

	3 165	5 136
	(813)	(2 599)
Recoveries Receivable	2 352	2 537

Current recoveries receivable from entities external to SA Government

	353	202
--	------------	-----

Non-current recoveries Receivable from entities external to SA Government

	1 999	2 335
Total Recoveries Receivable	2 352	2 537

15. Payables

Trade creditors payable to entities within the SA Government

	-	19
Total Payables	-	19

16. Outstanding Claims		2005	2004
(a) Outstanding Claims		\$'000	\$'000
Expected future claims payable (undiscounted)		99 896	71 150
Discount to present value		(21 829)	(14 189)
Total Outstanding Claims		78 067	56 961
Current:			
Liability - Medical Malpractice		5 636	14 158
Liability - Other		13 316	5 851
Property		2 478	563
Total Current Outstanding Claims		21 430	20 572
Non-Current:			
Liability - Medical Malpractice		49 873	31 460
Liability - Other		6 764	4 905
Property		-	24
Total Non-Current Outstanding Claims		56 637	36 389
Total Outstanding Claims		78 067	56 961
Claims payable to entities within the SA Government		2 478	588
Claims payable to entities external to the SA Government		75 589	56 373
Total Outstanding Claims		78 067	56 961
(b) Average Inflation (Normal and Superimposed) Rates and Discount Rates Used in the Measurement of Outstanding Claims			
For the succeeding year:		Percent	Percent
Inflation rate (which includes superimposed inflation)		6.5	6.5
Discount rate - Medical malpractice		5.2	6.0
Discount rate - Short tail classes		5.2	5.6
Discount rate - Long tail classes		5.2	5.4
For subsequent years:			
Inflation rate (which includes superimposed inflation)		6.5	6.5
Discount rate - Medical malpractice		5.2	6.0
Discount rate - Short tail classes		5.2	5.6
Discount rate - Long tail classes		5.2	5.4
(c) Weighted Average Expected Term to Settlement of Outstanding Claims from the Balance Date		2005	2004
		Years	Years
Medical malpractice		6.6	9.5
Liability (other than medical malpractice)		1.0	2.5
Property		0.5	1.5
Other		1.0	2.5
(d) Table of Classes			
<i>Short Tail Classes</i>	<i>Long Tail Classes</i>		<i>Medical Malpractice</i>
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	Builders Warranty		
Standing Timber			
Motor Vehicle Liability			
Motor Vehicle Property			
Personal Accident/Corporate Travel			
17. Outstanding Compensation Payments		2005	2004
Expected future compensation payments/payables to entities external to SA Government		\$'000	\$'000
		11	355
Total Outstanding Compensation Payments		11	355
18. Accumulated Deficit			
Balance at 1 July		(45 301)	(48 368)
Net result from ordinary activities		(17 602)	3 067
Balance at 30 June		(62 903)	(45 301)

19. Financial Instruments

(a) Terms, Conditions and Accounting Policies

Outlined below are the terms and conditions of financial assets and liabilities held by Section 2 of the SAGIRM Fund as at 30 June 2005.

(i) *Financial Assets*

Cash is available at call and is recorded at cost.

Receivables are raised for goods and services provided for which payment has not been received. Receivables are normally settled within 30 days.

(ii) *Financial Liabilities*

Creditors are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days.

(b) Interest Rate Risk

Section 2 of the SAGIRM Fund's exposure to interest rate risk, and the effective weighted average interest rates on classes of financial assets and financial liabilities at balance date are set out below:

	2005			Weighted Average Interest Rate Percent
	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:				
Cash	12 684	-	12 684	5.11
Receivables	-	2 491	2 491	-
Total Financial Assets	12 684	2 491	15 175	
Financial Liabilities:				
Payables	-	-	-	-
Total Financial Liabilities	-	-	-	-
Net Financial Assets	12 684	2 491	15 175	

	2004			Weighted Average Interest Rate Percent
	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:				
Cash	7 661	-	7 661	4.91
Receivables	-	2 573	2 573	-
Total Financial Assets	7 661	2 573	10 234	
Financial Liabilities:				
Payables	-	(19)	(19)	-
Total Financial Liabilities	-	(19)	(19)	-
Net Financial Assets	7 661	2 554	10 215	

(c) Net Fair Values

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

20. Auditors' Remuneration

	2005 \$'000	2004 \$'000
Audit fees paid/payable to the Auditor-General's Department	10	9

Other Services

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

21. Consultants

	2005 Number of Consultants	2004 Number of Consultants	2005 \$'000	2004 \$'000
Number of Consultants and the dollar amount of Consultancies paid/payable that fell within the following bands:				
Below \$10 000	2	2	9	10
	2	2	9	10

22. 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.

22. Contingent Liabilities (continued)

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 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.

23. Cash Flow Reconciliation

	2005	2004
	\$'000	\$'000
(a) Reconciliation of Cash - Cash at 30 June per:		
Statement of Cash Flows	12 684	7 661
Statement of Financial Position	12 684	7 661
(b) Reconciliation of Net Cash Inflows (Outflows) from Operating Activities to Net Cost of Services from Ordinary Activities		
Net cash Inflows (Outflows) from operating activities	5 023	(1 395)
Less: Revenues from SA Government	(7 000)	(7 000)
Changes in Assets and Liabilities:		
Increase (Decrease) in receivables	103	(28)
Increase (Decrease) in recoveries receivable	(185)	(41)
Increase (Decrease) in compensation recovery	(1 800)	1 800
(Increase) Decrease payables	19	(19)
(Increase) Decrease in outstanding claims	(21 106)	3 105
(Increase) Decrease in outstanding compensation payments	344	(355)
Net Cost of Services from Ordinary Activities	(24 602)	(3 933)

24. Events After Balance Date

On 18 July 2005 Cabinet approved the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP and drafting instructions to Parliamentary Counsel to effect the amalgamation. It is anticipated that the necessary legislative changes will be introduced into the South Australian Parliament during 2005-06.

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 as follows:

- 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 (as amended in 1995) provides that SAFA is constituted of the Under Treasurer (effectively assuming the role of the previous SAFA Board) and establishes the South Australian Government Financing Advisory Board.

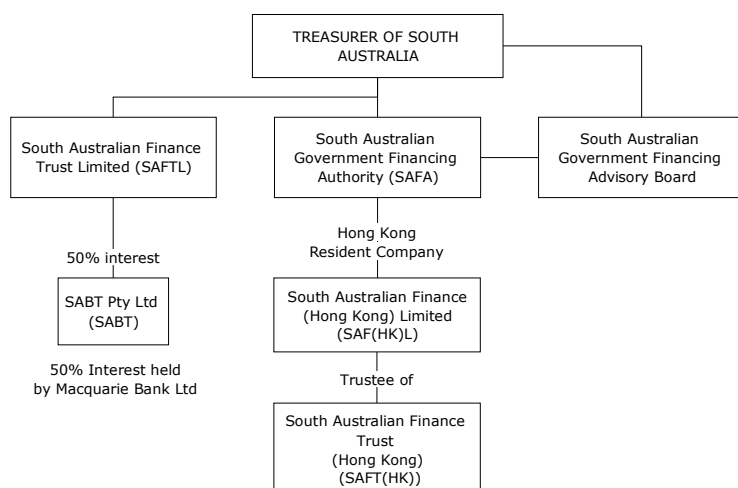
The Advisory Board comprises up to six members one of whom is the Under Treasurer, who is also Presiding Member.

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 2005.



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 an inactive company, expected to be wound up in 2005-06 following the wind up of SABT Pty Ltd and SAFA's controlled Hong Kong entities.
- SABT Pty Ltd has been dormant since November 1999, and is expected to be wound up in 2005-06.
- SAFT(HK) was liquidated and SAF(HK)L is in the process of liquidation.

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 2004-05.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 25(2) of the *Government Financing Authority Act 1982* provides 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 2004-05, 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 designing 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 2004 and period ending 30 June 2005.

AUDIT FINDINGS AND COMMENTS**Audit Opinions*****Audit of Financial Statements***

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the *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 2005, its financial performance and 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 to 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. The principal matter raised with SAFA is referred to hereunder.

Funding of Zero Coupon Bond Repayments

In my previous report Audit commented on the potential impact of the SAFA issued zero coupon bond on the public finances of the State and the CPSIR rate in future years and recommended that SAFA advise the Government of the matter, together with a strategy for dealing with the matter to enable its impact to be factored into the 2003-04 budget process.

In responding to this matter SAFA advised that on 3 July 2003 the Treasurer approved SAFA's proposal regarding the establishment of a sinking fund structure to minimise the future impacts of the zero coupon bond and also to transfer \$23 million from previous CPSIR overcharges to the sinking fund.

The submission to the Treasurer also proposed that the sinking fund structure would be reviewed on an annual basis to ensure that the objective of smoothing out the interest cost on the zero coupon bond is achieved.

During 2004-05 SAFA undertook an informal review to ensure the structure continued to smooth out the interest cost on the zero coupon bond.

Consistent with Audit recommendations, SAFA has advised that future annual reviews will be formalised, be independently reviewed by SAFA's Compliance Unit and review outcomes will be reported to the SAFA Advisory Board.

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

	2005	2004	Percentage
	\$'million	\$'million	Change
Interest revenue	923.4	605.2	53
Interest expense	899.8	581.5	55
Net Interest Revenue	23.6	23.7	-
Other revenue	6.4	11.2	(43)
Other expenses	7.3	5.9	24
Operating Surplus before income tax	22.7	29.0	(22)
Income tax expense	6.7	6.8	(1)
Net Profit after income tax	16.0	22.2	(28)

	2005	2004	Percentage
	\$'million	\$'million	Change
ASSETS			
Cash, short term assets and investments	2 967	2 605	14
Loans to SA Government entities	5 340	5 365	-
Other assets	155	159	(3)
Total Assets	8 462	8 129	4
LIABILITIES			
Deposits and short term borrowings	2 707	3 349	(19)
Long term borrowings	5 453	4 445	23
Other liabilities	128	140	(9)
Total Liabilities	8 288	7 934	4
EQUITY	174	195	(11)

Statement of Financial Performance

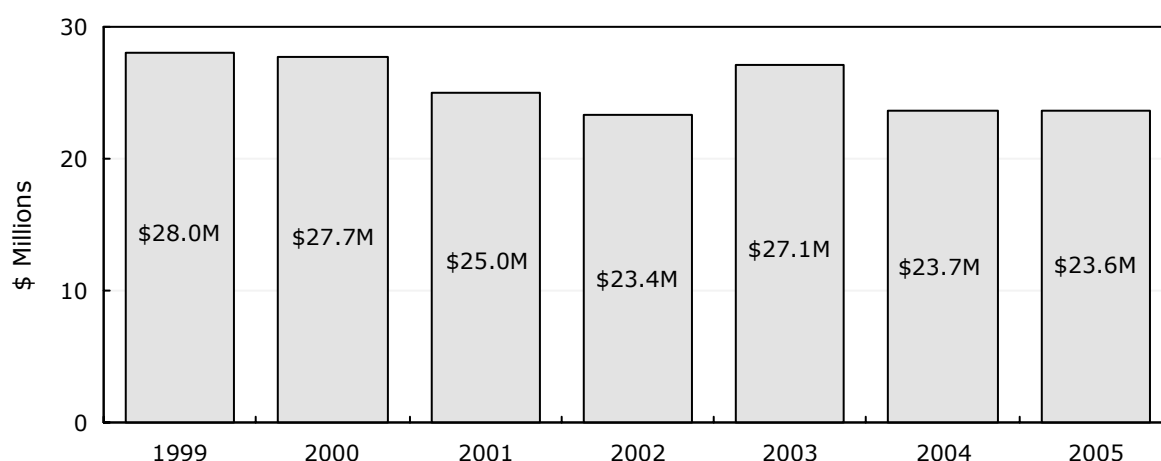
Net Interest Revenue

Net interest revenue 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 revenue was \$23.6 million, down \$0.1 million from the previous year.

Interest revenue has increased by \$318.2 million or 53 percent primarily as a result of a net unrealised gain of \$96.9 million arising from movements in market yields. This has been associated with a corresponding increase in interest expenses of \$318.3 million due primarily to an unrealised loss of \$90.2 million during the year. Net unrealised gains were \$6.7 million (\$5 million) in 2004-05. Refer to Note 16 of the Financial Statements.

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

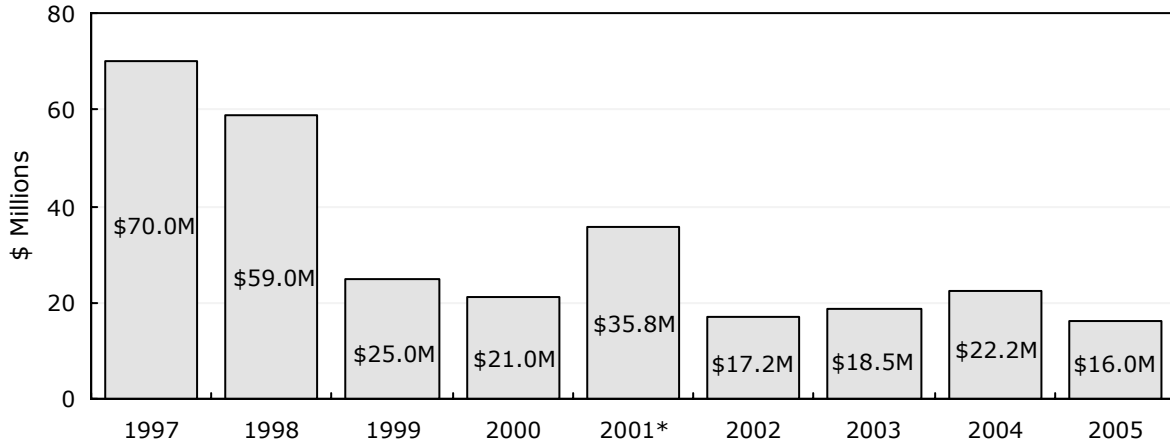


The net interest margin has remained constant from 2002 at around 0.25 percent.

Operating Surplus

SAFA's operations in 2004-05 included an operating surplus before income tax of \$22.7 million (\$29 million). This represents a \$6.3 million decrease from 2003-04 attributable mainly to a \$6.1 million decrease in dividends received from subsidiary operations.

The trend in SAFA’s operating surplus after income tax expense since the return of capital in 1997 is demonstrated in the following chart.



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

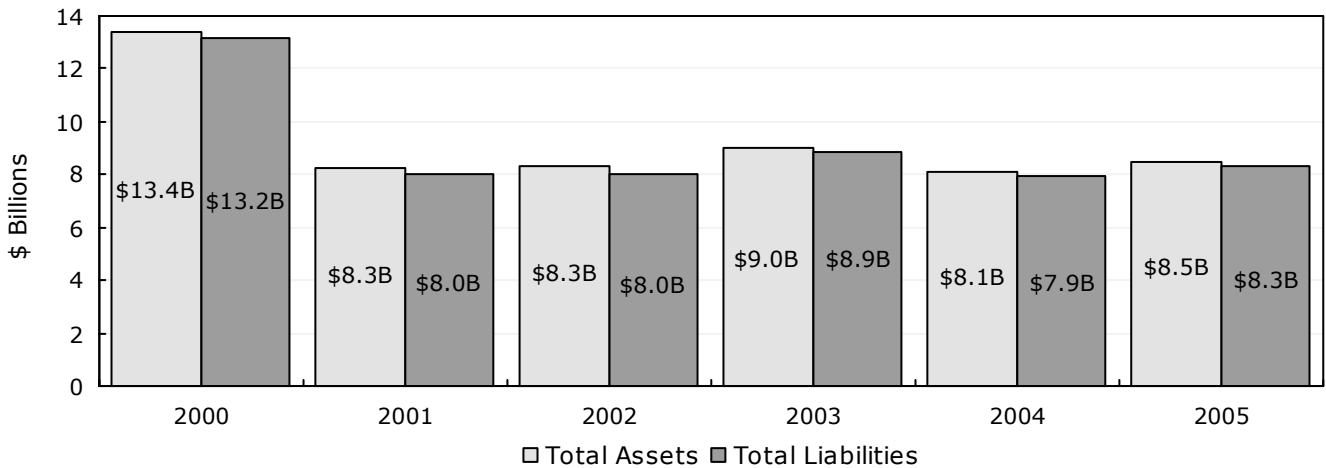
Another significant impact on the operating surplus is the level of retained surpluses, which are effectively invested by SAFA. During 2004-05 a distribution of \$37.6 million (\$19 million) was made to the Treasurer. All other things being equal, the budgeted distribution for 2005-06 will reduce the 2005-06 retained surplus by an amount of \$103 million.

The operating surplus is anticipated to decline in future years as the Government has budgeted for further significant distributions from SAFA (refer commentary below), and also from the finalisation of Commonwealth debt redemption assistance in 2005-06.

Statement of Financial Position

Assets and Liabilities

A structural analysis of assets and liabilities for the six years to 2005 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.

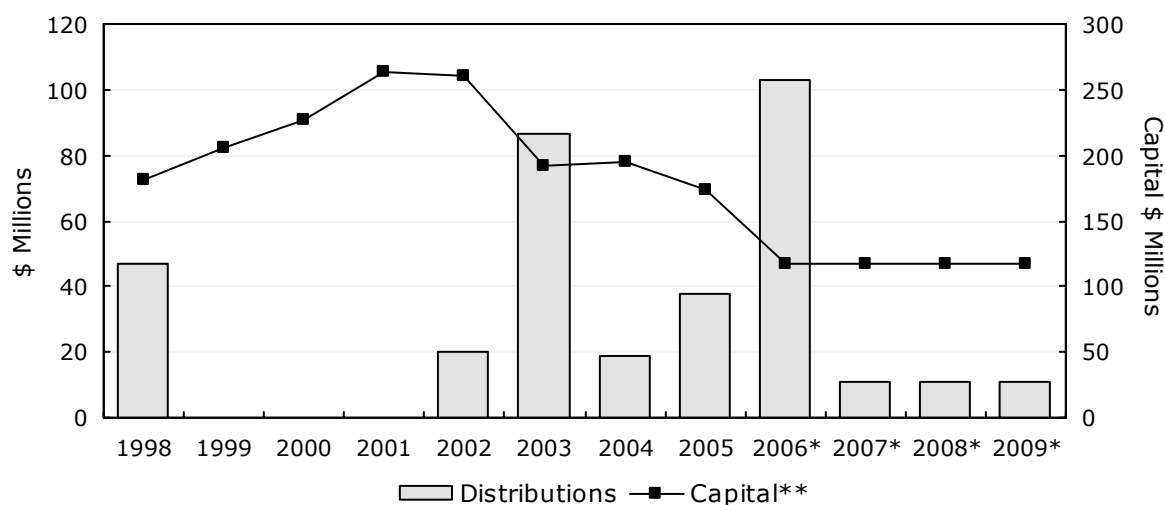
Capital and Distributions

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 2005, SAFA’s capital reserves were represented solely by its Retained Surplus, which stood at \$174 million (\$195 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 surplus was to bring SAFA more in line with the capital holdings of interstate central financing authorities.

A distribution of \$37.6 million was made to the Treasurer from SAFA this financial year, and the 2005-06 State Budget includes anticipated returns of capital of approximately \$135.7 million over the next four years.

The following chart sets out the level of capital and distributions to Government since the 1997-98 financial year, including future amounts reflected in the 2005-06 Budget Papers.



* Estimated amount.

** Future Capital levels have been calculated based on implied surpluses and distributions outlined in the 2005-06 Budget Papers.

As indicated previously, given that a significant component of SAFA's operating surplus 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. On current estimates, however, SAFA's capital will not reduce to \$75 million over the period of the estimates.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005 \$'million	2004 \$'million	2003 \$'million	2002 \$'million
Net Cash Flows				
Operations	82	96	26	50
Investing	(318)	(389)	(677)	157
Financing	369	228	717	(293)
Change in Cash	133	(65)	66	(86)
Cash at 30 June	202	69	134	68

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)

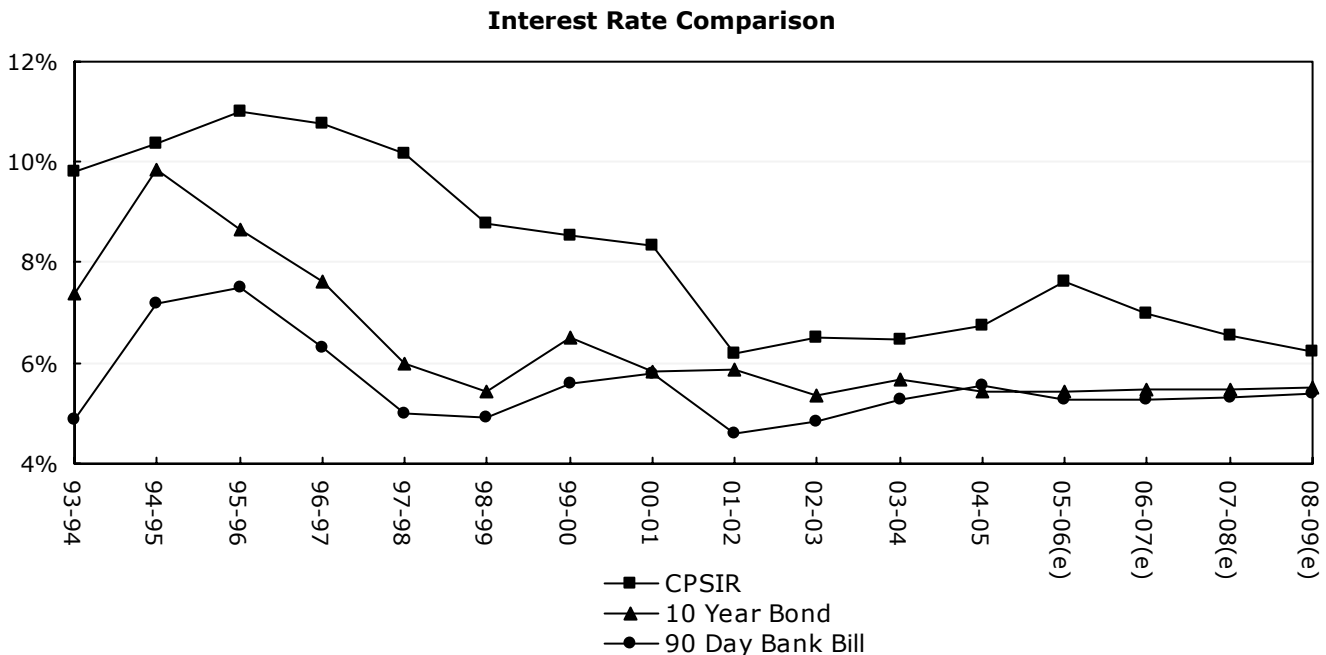
A major proportion of funding provided by SAFA is to the Treasurer at a common interest rate referred to as the Common Public Sector Interest Rate (CPSIR). The CPSIR is the quarterly charge out rate reflecting SAFA's average costs of borrowings sourced from domestic and international financial markets 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 2004-05 was approximately 6.75 percent (6.5 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:



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 have split their 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 \$464 million at 30 June 2005) 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 (\$3.1 billion at 30 June 2005) 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 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 \$4.9 billion at 30 June 2005) 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 statement of financial performance.

Statement of Financial Performance for the year ended 30 June 2005

	Note	2005 \$'million	2004 \$'million
Interest revenue	16	923.4	605.2
Less: Interest expense	16	899.8	581.5
Net Interest Revenue		23.6	23.7
Dividends	17	0.3	6.4
Other non-interest revenue	18	6.1	4.8
Less: Non-interest expense	19	7.3	5.9
OPERATING SURPLUS BEFORE INCOME TAX		22.7	29.0
Income Tax (TER) attributable to operating surplus		6.7	6.8
NET PROFIT AFTER INCOME TAX		16.0	22.2
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		16.0	22.2

Statement of Financial Position as at 30 June 2005

	Note	2005 \$'million	2004 \$'million
ASSETS:			
Cash and short-term assets	2	1 769	1 351
Investments	3	1 198	1 254
Loans to the South Australian Government	4	2 828	3 149
Loans to semi-government authorities	5	1 480	1 390
Loans to public sector financial institutions	6	1 032	826
Capital investments	27	-	-
Derivatives - Receivable	7	58	23
Other assets	8	97	136
Total Assets		8 462	8 129
LIABILITIES:			
Deposits and short-term borrowings	9	2 707	3 349
Bonds, notes and debentures	10	4 808	3 838
Obligations to Commonwealth Government	11	645	607
Derivatives - Payable	12	-	-
Other liabilities	13	128	140
Total Liabilities		8 288	7 934
CAPITAL AND RESERVES:			
Retained surplus	14	174	195
Total Capital and Reserves		174	195
TOTAL CAPITAL, RESERVES AND LIABILITIES		8 462	8 129
Contingent Assets	15		
Contingent Liabilities	15		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'million	\$'million
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received on loans to clients		348	355
Interest received on investments		265	271
Dividend received		-	6
Other income		(3)	(2)
GST received		1	-
Interest paid on borrowings		(506)	(501)
Administration fees paid		(6)	(6)
GST paid		-	(1)
Net Interest paid on derivatives		(10)	(19)
TER income tax paid		(7)	(7)
Net Cash provided by Operating Activities	20(b)	82	96
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds from payments for loans to clients		88	(120)
Purchase of investments		(21 835)	(27 522)
Proceeds from investments		21 429	27 253
Net Cash used in Investing Activities		(318)	(389)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of obligations to Commonwealth Government		(13)	(46)
Repayment of borrowings		420	343
Net proceeds from payments for derivatives		-	(50)
Distribution of SAFA surplus		(38)	(19)
Net Cash provided by Financing Activities		369	228
NET INCREASE (DECREASE) IN CASH HELD		133	(65)
CASH AT 1 JULY		69	134
EFFECT OF EXCHANGE RATE CHANGES		-	-
CASH AT 30 JUNE	20(a)	202	69

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(a) Principal Accounting Policies

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.

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 26 includes details of the entities.

The Financial Report has been prepared as a general purpose financial report in accordance with the Australian Accounting Standards (Accounting Standards), Urgent Issues Group (UIG) Consensus Views and the requirements of the Treasurer's Instructions relating to financial reporting by statutory authorities which are issued pursuant to the *Public Finance and Audit Act 1987*.

(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 manages its financial assets and liabilities on a market value basis, as it believes that it provides a better basis for making decisions and evaluating performance. Financial assets and liabilities (including derivatives) are recorded at net fair value in the Statement of Financial Position. The net fair value is equal to the market value less accrued interest. All financial instruments are revalued to reflect market movements with gains and losses, whether realised or unrealised, being recognised immediately in the Statement of Financial Performance (Note 16, Interest Revenue 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 2005. 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 Statement of Financial Performance.

Forward foreign exchange contracts are translated at the exchange rate applying at 30 June 2005. Resulting exchange differences are recognised in the Statement of Financial Performance.

(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 Revenue and Expense in the Statement of Financial Performance, but are separately identified in Note 16.

(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 (see Note 21). 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) Tax Equivalent Disclosure

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*.

(j) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (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 receivables or payables.

SAFA is grouped with the Department of Treasury and Finance for GST purposes.

(k) Cash and Short Term Assets

Primarily, Short Term Money Market Deposits and Negotiable Discount Securities, are held for liquidity and investment purposes. Cash and Short Term Assets are recorded at net fair value with interest income accrued in accordance with the terms of the transaction.

- (l) Investments**
Investments are assets originating outside the South Australian public sector, which are purchased as part of 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. Investments are recorded at net fair value. SAFA does not hold investments for trading purposes.
- (m) Loans and Advances**
Loans and advances are recognised at net 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 2005.
- (n) 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 (see Note 9).
- (o) Bonds, Notes and Debentures and Other Borrowings**
Funds are raised through various instruments including bonds, notes and debentures. These instruments are recorded at net fair value and the effective historic yield of the transaction is recognised as interest expense in the Statement of Financial Performance on an accrual basis. Any movements in net fair value due to revaluation are recorded as Interest Revenue and Expense in the Statement of Financial Performance. All borrowings are raised on an unsecured basis.
- (p) Derivative Instruments**
SAFA utilises derivative instruments in fund raising, 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. The net fair value of derivative instruments is recognised in the Statement of Financial Position with any movements in net fair value reflected in Interest Revenue and Expense in the Statement of Financial Performance. Interest receipts and interest payments are accrued on a gross basis in Other Assets and Other Liabilities respectively in the Statement of Financial Position and classified as Interest Revenue and Interest Expense in the Statement of Financial Performance.
- (q) Other Assets and Liabilities**
Other Assets, including debtors and accruals, and Other Liabilities, including creditors, expense accruals and provisions, are all stated at cost.
- (r) 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 2005, 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 2005 (see Note 22).
- (s) Average Balances**
The average balances presented in Note 16 refer to average month end balances and reflect the market value of the assets and liabilities. The average rate equals interest divided by the average balance of interest bearing assets and liabilities.
- (t) Comparatives**
The comparative amounts for the previous year have been reclassified to facilitate comparison with changes in presentation in the current year. Disaggregation of information into Government and Non-Government sectors at 30 June 2004 is unavailable and has not been provided.
- (u) Rounding**
Unless otherwise indicated, all amounts have been rounded to the nearest million Australian dollars.
- (v) Impact of Adopting Australian Equivalents to International Financial Reporting Standards**
Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. SAFA will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

During 2004-05 a project team continued to assess the impact of AIFRS on SAFA's accounts. There were only two standards identified as having a potential impact on SAFA's financial reporting, being AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 112 'Income Taxes'.

AASB 139 'Financial Instruments: Recognition and Measurement'

AASB 139 requires elections for the method of accounting for its assets and liabilities. SAFA has elected the option to classify all of its assets and liabilities as 'at fair value through profit and loss'. Upon initial recognition SAFA will designate assets and liabilities as 'at fair value through profit and loss'.

SAFA currently market value accounts all financial assets and liabilities using mid rates, which is consistent with the new classification of fair value through profit and loss.

(v) Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

AASB 139 requires SAFA to apply an appropriate valuation method to its assets and liabilities. After analysis of all of its transactions SAFA has determined that all assets and liabilities in its operations have offsetting market risks. Under Application Guidance Note 72 of AASB 139, when an entity has assets and liabilities with offsetting market risks mid rates may be used. SAFA will elect to value its assets and liabilities using mid rates.

As a consequence of the above election, it is considered that AASB 139 will have no monetary impact on the financial statements of SAFA.

AASB 112 'Income Taxes'

AASB 112 is specifically concerned with accounting for income tax. SAFA is not subject to federal income tax, but in lieu pays a taxation equivalent to the Treasurer of South Australia assessed on the current year accounting profits. Treasurer's Instruction 22 mandates that SAFA shall continue to pay a taxation equivalent amount under the accounting profits model.

There is no impact on income tax accounting policy for SAFA arising from AASB 112.

2. Cash and Short-Term Assets	2005	2004
	\$'million	\$'million
Cash at bank	2.5	3.2
Short-term money market deposits	198.9	65.7
Negotiable discount securities	1 567.5	1 282.0
	1 768.9	1 350.9
3. Investments		
Semi-government securities	273.6	368.3
Commonwealth Government securities	150.5	107.7
Local government securities	25.9	26.4
Indexed securities	64.8	62.4
Bank and corporate securities	683.6	689.3
	1 198.4	1 254.1
4. Loans to the South Australian Government		
Loans to SA Government at CPSIR	2 745.3	3 063.5
Loans to SA Government at market	82.3	85.3
	2 827.6	3 148.8
<p>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.</p> <p>Realised gains and losses resulting from debt management activities on behalf of the Treasurer in the Treasurer's Portfolio (see Note 21) are passed on to the Treasurer as an adjustment to the CPSIR loan balance. The net fair value of the CPSIR loan is considered to be the net fair value of the net Australian dollar assets and liabilities funding the CPSIR loan.</p>		
5. Loans to Semi-Government Authorities	2005	2004
	\$'million	\$'million
Forestry SA	4.9	1.8
Austraining International	0.4	-
Fleet SA	198.5	102.8
West Beach Trust	0.4	0.4
Minister for Primary Industries	5.6	7.5
Minister for Transport	-	4.1
Land Management Corporation	76.2	79.2
South Australian Water Corporation	1 193.5	1 194.3
	1 479.5	1 390.1
6. Loans to Public Sector Financial Institutions		
Local Government Finance Authority	8.0	13.4
HomeStart Finance	901.0	691.2
South Australian Community Housing Authority	123.4	121.4
	1 032.4	826.0
7. Derivatives - Receivable		
Forward rate agreements	0.1	-
Interest rate swaps	57.8	22.9
	57.9	22.9

8. Other Assets	2005	2004
	\$'million	\$'million
Accrued interest ⁽¹⁾	96.1	135.7
Sundry debtors	0.4	0.2
	96.5	135.9
<hr/>		
(1) Includes SA Government of \$37.4 million.		
9. Deposits and Short-term Borrowings		
Deposits	209.1	150.2
Repurchase agreements	266.9	451.1
Deposits from the Treasurer of South Australia	1 299.2	1 489.0
Deposits from semi-government authorities	517.0	422.1
Commercial paper	415.0	836.9
	2 707.2	3 349.3
<hr/>		
10. Bonds, Notes and Debentures		
Select line	3 937.5	2 986.4
Inflation linked bonds and annuities	331.7	339.8
Retail and immigration bonds	139.6	125.5
Zero coupon	398.9	385.8
	4 807.7	3 837.5
<hr/>		
11. Obligations to Commonwealth Government		
Obligations to Commonwealth Government	645.1	606.9
<hr/>		
12. Derivatives - Payable		
Currency swaps	-	-
<hr/>		
SAFA's only derivatives as at 30 June 2005 were interest rate swaps that had a net market value asset position. Refer Note 7.		
13. Other Liabilities		
Accrued interest ⁽¹⁾	103.1	117.3
Sundry creditors	24.5	22.5
	127.6	139.8
<hr/>		
(1) Includes SA Government of \$17.9 million.		
14. Retained Surplus		
Balance at 1 July	195.4	192.2
Add: Transfer from Statement of Financial Performance	16.0	22.2
Less: Distribution as determined by the Treasurer of South Australia	37.6	19.0
Balance at 30 June	173.8	195.4
<hr/>		

The Treasurer of South Australia determined that there would be a distribution of \$37.6 million from SAFA for 2004-05.

15. 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.

SAFA engaged an external accounting firm in 2004-05 to conduct a review of the input tax credit recovery methodologies being used for GST calculation purposes. As a result of the review, SAFA implemented a revised apportionment methodology for the calculation of input tax credits. The amendment resulted in a refund of \$1 145 299 for overpayment of GST for the periods ended 30 June 2001 to 30 June 2004. The refund was subject to lodgement and consideration of a request for a private ruling from the Australian Taxation Office (ATO). At balance date a ruling by the ATO had not been received and accordingly SAFA has recorded a potential future liability of \$1 145 299 in its accounts pending the outcome of the ruling request.

SAFA has an option to sell various floating rate notes to the value of US\$25 million to a third party. The options were entered into in 1987 and mature during September 2007 and October 2007. SAFA is presently in discussions with the other party regarding the details of the contracts. Due to the nature of these discussions it is considered inappropriate to disclose any further information including any estimate of potential value at this time.

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. Since October 2003, SAFTL has been dormant and it is intended to wind up SAFTL in 2005-06. Management does not consider that the indemnity will be invoked.

General (continued)

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 2005:

- The South Australian Housing Trust's performance under certain letters of credit. These guarantees totalled \$1.8 million.
- Land Management Corporation for the Port Waterfront Redevelopment. This guarantee totalled \$5 million.

Unused Loan Facilities

As at 30 June 2005, SAFA had extended loan facilities that were unutilised totalling \$80.2 million.

16. Interest Revenue and Expense

	2005				Average Balance \$'million	Average Rate Percent
	Interest \$'million	Net Unrealised Gains (Losses) \$'million	Net Realised Gains (Losses) \$'million	Total \$'million		
Revenue:						
Cash and short-term assets	82.5	-	-	82.5	1 582	5.21
Investments	72.9	10.3	5.4	88.6	1 223	5.96
Loans to SA Government	207.5	51.3	0.1	258.9	3 151	6.58
Loans to semi-government authorities	84.2	7.3	1.0	92.5	1 421	5.93
Loans to public sector financial institutions	52.3	2.7	-	55.0	933	5.61
Derivatives - Receivable ⁽¹⁾	329.4	25.3	(8.8)	345.9	36	N/A
	<u>828.8</u>	<u>96.9</u>	<u>(2.3)</u>	<u>923.4</u>	<u>8 346</u>	<u>6.01</u>
Expense:						
Deposits and short-term borrowings ⁽²⁾	(170.4)	(0.6)	(0.2)	(171.2)	(3 162)	5.39
Bonds, notes and debentures Obligations to Commonwealth Government	(270.3)	(37.6)	(4.0)	(311.9)	(4 327)	6.25
Derivatives - Payable ⁽³⁾	(33.8)	(52.0)	-	(85.8)	(634)	5.33
	<u>(330.9)</u>	<u>-</u>	<u>-</u>	<u>(330.9)</u>	<u>-</u>	<u>N/A</u>
	<u>(805.4)</u>	<u>(90.2)</u>	<u>(4.2)</u>	<u>(899.8)</u>	<u>(8 123)</u>	<u>5.84</u>
NET	<u>23.4</u>	<u>6.7</u>	<u>(6.5)</u>	<u>23.6</u>		

(1) Total includes SA Government of \$24.6 million.

(2) Total includes SA Government of (\$119.7) million.

(3) Total includes SA Government of (\$23.1) million.

	2004				Average Balance \$'million	Average Rate Percent
	Interest \$'million	Net Unrealised Gains (Losses) \$'million	Net Realised Gains (Losses) \$'million	Total \$'million		
Revenue:						
Cash and short-term assets	66.2	-	-	66.2	1 322	5.01
Investments	73.8	(49.7)	6.8	30.9	1 434	5.15
Loans to SA Government	222.5	(120.3)	(11.1)	91.1	3 540	6.29
Loans to semi-government authorities	77.7	(34.1)	0.6	44.2	1 304	5.96
Loans to public sector financial institutions	41.6	(5.6)	(0.1)	35.9	767	5.43
Derivatives - Receivable	337.3	(7.4)	7.0	336.9	216	N/A
	<u>819.1</u>	<u>(217.1)</u>	<u>3.2</u>	<u>605.2</u>	<u>8 583</u>	<u>5.76</u>
Expense:						
Deposits and short-term borrowings	(178.2)	15.8	(4.0)	(166.4)	(3 760)	4.74
Bonds, notes and debentures Obligations to Commonwealth Government	(235.0)	151.9	(2.5)	(85.6)	(3 746)	6.27
Derivatives - Payable	(35.1)	54.4	-	19.3	(649)	5.41
	<u>(348.8)</u>	<u>-</u>	<u>-</u>	<u>(348.8)</u>	<u>(226)</u>	<u>N/A</u>
	<u>(797.1)</u>	<u>222.1</u>	<u>(6.5)</u>	<u>(581.5)</u>	<u>(8 381)</u>	<u>5.50</u>
NET	<u>22.0</u>	<u>5.0</u>	<u>(3.3)</u>	<u>23.7</u>		

16. Interest Revenue and Expense (continued)

The average balance has been calculated on a monthly basis and reflects the market value of the assets and liabilities. The average interest rate equals interest revenue/expense divided by the average balance of interest bearing assets and liabilities. It excludes the realised and unrealised gains (losses).

17. Dividends

	2005	2004
	\$'million	\$'million
Dividends from South Australian Finance Trust (HK)	0.3	6.3
Dividends from South Australian Finance Trust Ltd	-	0.1
	0.3	6.4

18. Other Non-Interest Revenues

Debt redemption assistance from Commonwealth Government	3.8	3.9
Fees ⁽¹⁾	1.6	1.0
Foreign currency translation movement ⁽²⁾	(0.1)	(0.1)
Other	0.8	-
	6.1	4.8

(1) Total includes SA Government of \$1.6 million.

(2) Reflects the translation of foreign currency retained surpluses.

19. Non-Interest Expenses

Service Level Agreement with Treasury ⁽¹⁾	5.5	4.9
Program and debt management fees	0.9	0.8
Other	0.9	0.2
	7.3	5.9

(1) Total includes SA Government of \$5.5 million.

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.

20. Cash Flow Information

	2005	2004
	\$'million	\$'million
(a) Reconciliation of Cash		
Includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts	202	69
(b) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus after Income Tax		
Operating surplus after income tax	16	22
Non-cash flows in operating surplus		
Net unrealised (gain) loss on market revaluations	-	(5)
Amortisations	39	60
Changes in assets and liabilities		
Accrued interest income (Increase) Decrease	39	11
Accrued interest expense Increase (Decrease)	(14)	7
Debtors (Increase) Decrease	-	2
Creditors Increase (Decrease)	2	(1)
FX movement	-	-
Net Cash provided by Operating Activities	82	96

(c) Non-Cash Financing and Investing Activities

During 2004-05, \$0.3 million was adjusted against the Treasurer's debt for book losses arising from debt management activity.

21. Additional Financial Instrument Disclosures

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 comprise 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 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 2005, open interest rate futures positions represented a total notional principal of \$645 million (\$1 177.8 million).

The mark-to-market movement in futures contracts is taken to the Statement of Financial Performance, 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 quarterly or semi-annual basis. As at 30 June 2005, the notional value of interest rate swaps totalled \$5 274 million (\$6 414.4 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 2005, there were no outstanding exchange traded interest rate option contracts, but SAFA held the right to sell various floating rate notes totalling USD\$25 million.

(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 2005 is \$150 million (\$180 million).

The settled amount for FRAs is recognised immediately in the Statement of Financial Performance, 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) Interest Rate Risk Exposures

SAFA's exposure to interest rate risk, repricing maturities and effective interest rates on financial instruments as at 30 June 2005 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 2005				2005 Total \$'million
		0 to 3 months \$'million	3 to 12 months \$'million	1 to 5 years \$'million	Over 5 years \$'million	
Assets:						
Cash and short-term assets	5.65	1 610	148	-	-	1 758
Investments	5.70	476	37	281	413	1 207
Loans to SA Government	7.06	2 762	16	12	56	2 846
Loans to semi-government authorities	5.90	403	196	635	258	1 492
Loans to public sector financial institutions	5.71	920	3	73	40	1 036
Total Assets		6 171	400	1 001	767	8 339

(v) *Interest Rate Risk Exposures (continued)*

	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2005				2005 Total \$'million
		0 to 3 months \$'million	3 to 12 months \$'million	1 to 5 years \$'million	Over 5 years \$'million	
Liabilities:						
Deposits and short-term borrowings	5.84	2 394	266	48	-	2 708
Bonds, notes and debentures	6.50	887	228	2 520	1 236	4 871
Obligations to Commonwealth Government	4.67	30	-	-	616	646
Total Liabilities		3 311	494	2 568	1 852	8 225
NET		2 860	(94)	(1 567)	(1 085)	114
Off-Balance Sheet:						
Interest rate swaps	0.94	(1 545)	(54)	1 528	154	83

	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2004				2004 Total \$'million
		0 to 3 months \$'million	3 to 12 months \$'million	1 to 5 years \$'million	Over 5 years \$'million	
Assets:						
Cash and short-term assets	5.47	1 334	13	-	-	1 347
Investments	5.75	453	21	443	350	1 267
Loans to SA Government	6.80	3 082	2	22	63	3 169
Loans to semi-government authorities	5.94	507	150	533	211	1 401
Loans to public sector financial institutions	5.65	714	1	50	64	829
Total Assets		6 090	187	1 048	688	8 013
Liabilities:						
Deposits and short-term borrowings	5.49	3 256	21	64	-	3 341
Bonds, notes and debentures	6.78	21	45	2 514	1 317	3 897
Obligations to Commonwealth Government	4.69	-	-	30	578	608
Total Liabilities		3 277	66	2 608	1 895	7 846
NET		2 813	121	(1 560)	(1 207)	167
Off-Balance Sheet:						
Interest rate swaps	0.59	(1 558)	86	1 280	240	48

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.

(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 agencies. These transactions totalled \$31.9 million (\$37.1 million) in face value as at 30 June 2005.

(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.

(iii) Currency Exposures (continued)	USD	GBP
	A\$'million	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	-	(0.9)
Net Derivatives	-	-
NET	-	(0.9)
TOTAL NET	0.1	0.7

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 2005 is detailed below.

NR represents loans within the South Australian Government which are not classified under a particular rating.

Asset Class	2005 Rating								Total \$'million
	AAA \$'million	AA+ \$'million	AA \$'million	AA- \$'million	A+ \$'million	A \$'million	A- \$'million	NR \$'million	
Loans/Investments	929	11	267	1 158	260	416	-	5 208	8 249
Interest rate swaps	-	12	7	165	3	23	-	36	246
FX Contracts	-	-	-	-	-	-	-	6	6
Total	929	23	274	1 323	263	439	-	5 250	8 501

Asset Class	2004 Rating								Total \$'million
	AAA \$'million	AA+ \$'million	AA \$'million	AA- \$'million	A+ \$'million	A \$'million	A- \$'million	NR \$'million	
Loans/Investments	953	1	207	703	243	490	-	5 663	8 260
Currency swaps	-	-	-	-	-	-	-	-	-
Interest rate swaps	-	8	17	147	5	10	-	36	223
FX Contracts	-	-	-	-	-	-	-	4	4
Total	953	9	224	850	248	500	-	5 703	8 487

Counterparty Class	Asset Class	SAFA 2005				
		Australia (AAA)* \$'million	Canada (AAA) \$'million	Germany (AAA) \$'million	Netherlands (AAA) \$'million	Singapore (AAA) \$'million
South Australian Government:	Loans/Investments	5 183	-	-	-	-
	Interest rate swaps	33	-	-	-	-
	FX Contracts	6	-	-	-	-
	Sub Total	5 222	-	-	-	-
Commonwealth/State Government:	Loans/Investments	473	-	-	-	-
	Sub Total	473	-	-	-	-
Banks:	Loans/Investments	1 871	40	2	10	120
	Interest rate swaps	155	-	13	21	-
	FX Contracts	-	-	-	-	-
	Sub Total	2 026	40	15	31	120

Credit Risk (continued)

Counterparty Class	Asset Class	SAFA 2005				
		Australia (AAA)* \$'million	Canada (AAA) \$'million	Germany (AAA) \$'million	Netherlands (AAA) \$'million	Singapore (AAA) \$'million
Corporate/Other:	Loans/Investments	186	-	-	-	-
	Interest rate swaps	-	-	-	-	-
	Sub Total	186	-	-	-	-
	Total by Country	7 907	40	15	31	120
Total by Asset Class:	Loans/Investments	7 713	40	2	10	120
	Interest rate swaps	188	-	13	21	-
	FX Contracts	6	-	-	-	-
	Total by Country	7 907	40	15	31	120
Counterparty Class	Asset Class	Supranational (AAA) \$'million	Switzerland (AAA) \$'million	United Kingdom (AAA) \$'million	United States (AAA) \$'million	Total \$'million
South Australian Government:	Loans/Investments	-	-	-	-	5 183
	Interest rate swaps	-	-	-	-	33
	FX Contracts	-	-	-	-	6
	Sub Total	-	-	-	-	5 222
Commonwealth/State Government:	Loans/Investments	-	-	-	-	473
	Sub Total	-	-	-	-	473
Banks:	Loans/Investments	-	-	273	29	2 345
	Interest rate swaps	-	4	-	8	201
	FX Contracts	-	-	-	-	-
	Sub Total	-	4	273	37	2 546
Corporate/Other:	Loans/Investments	62	-	-	-	248
	Interest rate swaps	-	12	-	-	12
	Sub Total	62	12	-	-	260
	Total by Country	62	16	273	37	8 501
Total by Asset Class:	Loans/Investments	62	-	273	29	8 249
	Interest rate swaps	-	16	-	8	246
	FX Contracts	-	-	-	-	6
	Total by Country	62	16	273	37	8 501
Counterparty Class	Asset Class	SAFA 2004				
South Australian Government:	Loans/Investments	Australia (AAA)* \$'million	Canada (AAA) \$'million	Germany (AAA) \$'million	Netherlands (AAA) \$'million	Singapore (AAA) \$'million
	Currency swaps	5 628	-	-	-	-
	Interest rate swaps	36	-	-	-	-
	FX Contracts	4	-	-	-	-
	Sub Total	5 668	-	-	-	-
Commonwealth/State Government:	Loans/Investments	490	-	-	-	-
	Sub Total	490	-	-	-	-
Banks:	Loans/Investments	1 339	40	10	50	158
	Currency swaps	-	-	-	-	-
	Interest rate swaps	106	-	12	26	-
	FX Contracts	-	-	-	-	-
	Sub Total	1 445	40	22	76	158

Credit Risk (continued)

Counterparty Class	Asset Class	SAFA 2004				
		Australia (AAA)* \$'million	Canada (AAA) \$'million	Germany (AAA) \$'million	Netherlands (AAA) \$'million	Singapore (AAA) \$'million
Corporate/Other:	Loans/Investments	137	-	-	-	-
	Interest rate swaps	-	-	-	-	-
	Sub Total	137	-	-	-	-
	Total by Country	7 740	40	22	76	158
Total by Asset Class:	Loans/Investments	7 594	40	10	50	158
	Currency swaps	-	-	-	-	-
	Interest rate swaps	142	-	12	26	-
	FX Contracts	4	-	-	-	-
	Total by Country	7 740	40	22	76	158
Counterparty Class	Asset Class	Supranational (AAA) \$'million	Switzerland (AAA) \$'million	United Kingdom (AAA) \$'million	United States (AAA) \$'million	Total \$'million
South Australian Government:	Loans/Investments	-	-	-	-	5 628
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	-	-	-	36
	FX Contracts	-	-	-	-	4
	Sub Total	-	-	-	-	5 668
Commonwealth/State Government:	Loans/Investments	-	-	-	-	490
	Sub Total	-	-	-	-	490
Banks:	Loans/Investments	-	103	167	84	1 951
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	6	25	5	180
	FX Contracts	-	-	-	-	-
	Sub Total	-	109	192	89	2 131
Corporate/Other:	Loans/Investments	53	1	-	-	191
	Interest rate swaps	-	7	-	-	7
	Sub Total	53	8	-	-	198
	Total by Country	53	117	192	89	8 487
Total by Asset Class:	Loans/Investments	53	104	167	84	8 260
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	13	25	5	223
	FX Contracts	-	-	-	-	4
	Total by Country	53	117	192	89	8 487

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 2005, 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.

Liquidity Risk (continued)

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.

22. Maturity Analysis of Financial Instruments

	Maturity period as at 30 June 2005				2005 Total \$'million
	0 to 3 Months \$'million	3 to 12 Months \$'million	1 to 5 Years \$'million	Over 5 Years \$'million	
Assets:					
Cash and short term assets	1 617.4	151.5	-	-	1 768.9
Investments	22.3	44.9	691.8	403.5	1 162.5
Loans to SA Government	0.6	18.2	16.1	2 640.1	2 675.0
Loans to semi-government authorities	242.0	205.4	779.0	235.5	1 461.9
Loans to public sector financial institutions	127.4	45.7	604.7	249.6	1 027.4
Currency Swaps - Receivable	-	-	-	-	-
Total	2 009.7	465.7	2 091.6	3 528.7	8 095.7
Liabilities:					
Deposits and short term borrowings	2 361.6	260.8	52.4	-	2 674.8
Bonds, notes and debentures	932.8	212.8	2 413.3	1 212.1	4 771.0
Obligations to Commonwealth Government	29.0	14.4	64.7	610.6	718.7
Currency Swaps - Payable	-	-	-	-	-
Total	3 323.4	488.0	2 530.4	1 822.7	8 164.5
NET	(1 313.7)	(22.3)	(438.8)	1 706.0	(68.8)

	Maturity period as at 30 June 2004				2004 Total \$'million
	0 to 3 Months \$'million	3 to 12 Months \$'million	1 to 5 Years \$'million	Over 5 Years \$'million	
Assets:					
Cash and short term assets	1 337.9	13.0	-	-	1 350.9
Investments	44.9	330.3	500.6	349.1	1 224.9
Loans to SA Government	0.5	4.3	30.0	3 012.5	3 047.3
Loans to semi-government authorities	380.9	137.8	657.7	203.0	1 379.4
Loans to public sector financial institutions	98.1	7.0	487.5	231.1	823.7
Currency Swaps - Receivable	-	-	-	-	-
Total	1 862.3	492.4	1 675.8	3 795.7	7 826.2
Liabilities:					
Deposits and short term borrowings	3 073.0	179.0	73.9	-	3 325.9
Bonds, notes and debentures	24.4	57.2	2 470.6	1 327.7	3 879.9
Obligations to Commonwealth Government	-	13.8	90.8	628.1	732.7
Currency Swaps - Payable	-	-	-	-	-
Total	3 097.4	250.0	2 635.3	1 955.8	7 938.5
NET	(1 235.1)	242.4	(959.5)	1 839.9	(112.3)

The maturity analysis has been calculated based on the repayment of the principal (face value).

23. Fiduciary Activities

SAFA provides asset and liability management services to clients and these financial assets and liabilities do not reside on SAFA's Statement of Financial Position. 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 2005, assets under management totalled \$22.2 million (\$586 million), and liabilities totalled \$1 155.3 million (\$619 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 2005 was \$533.4 million (\$364.6 million). The assets and liabilities of these portfolios are reported within SAFA's Statement of Financial Position.

24. Auditor's Remuneration

	2005	2004
	\$'million	\$'million
Remuneration paid to external audit	111	102

25. Remuneration of SAFA Advisory Board Members

Remuneration:	Number of	Number of
\$20 001 - \$30 000	Members	Members
	4	4
	4	4

The Advisory Board as at 30 June 2005 comprised 5 members: Mr J Wright (Presiding Member), Mr B Brownjohn, Mr C Long, Ms Y Sneddon and Ms A Howe. Mr M Doyle was a member during the year with his term expiring on 8 June 2005. 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 2004-05 only four members were entitled to receive the approved fee. The total remuneration paid was \$106 830 (\$105 706).

26. 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
South Australian Finance Trust (Hong Kong) ⁽²⁾	HK	100	-
SABT Pty Limited ⁽³⁾	Aust	-	1

- (1) SAFTL is now dormant and it is expected to be wound up in 2005-06 following the wind up of SABT Pty Limited and SAFA's controlled Hong Kong companies.
- (2) As at 30 June 2005, SAFT (HK) has been liquidated and paid a dividend to SAFA of USD\$262 248. SAF (HK) L is in the process of liquidation and SAFA will receive a final dividend of approximately USD\$252 000.
- (3) There has been no activity in SABT Pty Limited since November 1999 and it is expected that it will be wound up in 2005-06.

27. 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) and South Australian Finance Trust (Hong Kong) (SAFT(HK)), being a distribution to SAFA of USD\$0.2 million made by SAFT(HK) on 4 March 2005.

28. 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.

29. Subsequent Events

As required by AASB 1002, 'Events Occurring after Reporting Date', SAFA advises that since the end of the financial year there has been a matter arise which may affect the operations of the consolidated entity and the reported results from the consolidated entity in future financial years.

On 18 July 2005, the South Australian Cabinet approved an amalgamation of SAFA and the South Australian Government Captive Insurance Corporation (SAICORP) and drafting instructions to Parliamentary Counsel to effect the amalgamation. It is anticipated that the necessary legislative changes will be introduced into the South Australian Parliament during 2005-06.

SAICORP is a subsidiary of the Treasurer of South Australia, established pursuant to the Public Corporations (Treasurer) Regulations 1994.

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

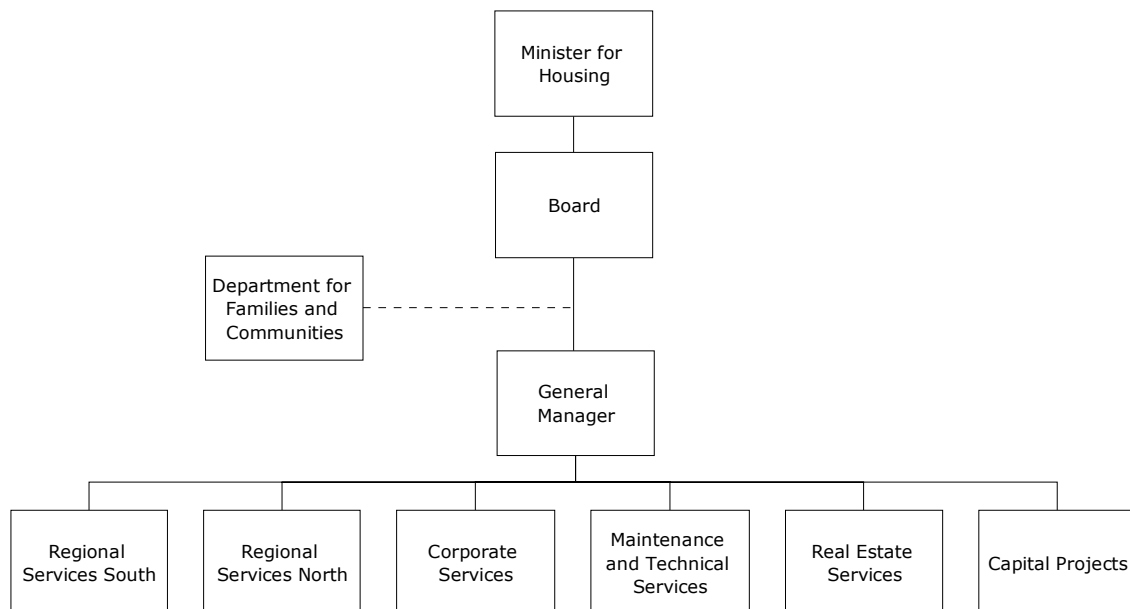
The functions of the Trust are to undertake the following:

- 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.

Structure

The structure of the South Australian Housing Trust is illustrated in the following organisation chart.



STATUS OF FINANCIAL STATEMENTS

The financial report for the South Australian Housing Trust for the year ended 30 June 2005 has not been included in this report. The following commentary details the reasons why the Trust's financial report is not presented at this time.

Inventory and Fixed Asset Work in Progress

In 2003-04 Audit identified weaknesses in controls over the Trust's work in progress. The more significant observations made by Audit included:

- there was a lack of control to ensure information recorded on the spreadsheet used to record project costs for individual properties was consistent with the Capital Projects Database;
- there was a lack of control to ensure project costs were correctly allocated to the individual properties;
- there was a lack of regular review of projects in the Job Cost System to identify outstanding project costs which should be allocated to Inventory or Fixed Assets;
- there was no structured system in place to record actual financial performance against budget for each individual capital project;
- the Trust had not reviewed all completed projects.

In 2004-05 the Trust established a project to address the control weaknesses identified by External Audit including the development of a robust automated IT based system to improve data management and control over capital projects and work in progress information. It is noted, however, that the system is not due to be implemented until late 2005.

The Trust's focus for 2004-05 was to substantiate work in progress balances within the job cost system to ensure the information is reliable for financial reporting purposes. This process was completed in early September 2005.

The timeframe to complete this review process was longer than originally expected and reflected the:

- large number of projects and volume of transactions reviewed;
- complexity of some projects;
- matters which arose from the review of projects.

Implications For the Audit of the Trust

The weaknesses in control over work in progress balances has required Audit to undertake a significant level of additional detailed testing. Given the extended timeframe required by the Trust to complete its review of work in progress balances, the completion of this testing by Audit was not possible within the time required to finalise this report. On completion of the required testing the Trust's financial report will be included in a Supplementary Report to Parliament.

SOUTH AUSTRALIAN METROPOLITAN FIRE SERVICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Metropolitan Fire Service (SAMFS), a Corporation constituted of the Minister, was established under the *South Australian Metropolitan Fire Service Act 1936*. SAMFS is responsible to the Minister for Emergency Services.

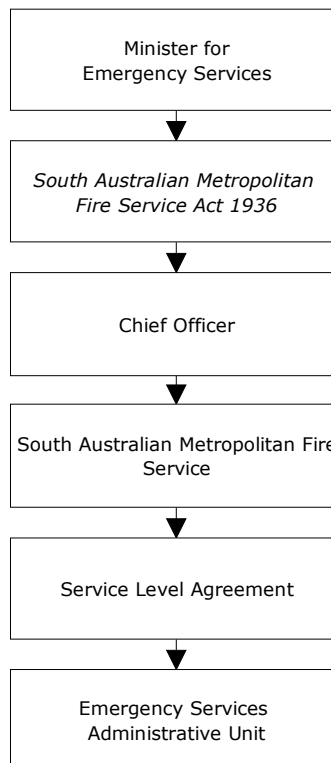
Functions

SAMFS is primarily responsible for the provision of:

- efficient fire fighting services;
- services to prevent the outbreak of fires in fire districts;
- services to deal with other emergencies.

Structure

The structure of the South Australian Metropolitan Fire Service is illustrated in the following organisation chart.



The Emergency Services Administrative Unit (ESAU) provides various services to SAMFS in support of its primary functions, including strategic risk management, financial management and accounting services. These were subject to corporate service level agreements. SAMFS' financial management is heavily reliant on information and reporting provided by ESAU.

The operations of SAMFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*.

Changes to Functions and Structure

Fire and Emergency Services Act 2005

Following the review of emergency service arrangements in South Australia, the *Fire and Emergency Services Act 2005* was passed by Parliament on 14 July 2005. The Act provides for the establishment of the South Australian Fire and Emergency Services Commission, the continuation of a metropolitan fire service and emergency service, a country fire and emergency service, and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of emergency situations.

The South Australian Metropolitan Fire Service will continue as a separate corporate entity under the proposed new arrangements.

At the time of preparing this Report it was anticipated that the legislation would be proclaimed on 1 October 2005.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 11(2) of the *South Australian Metropolitan Fire Service Act 1936* provides for the Auditor-General to audit the accounts of SAMFS for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

The audit of SAMFS during 2004-05 required Audit to direct much of its focus to the audit of the 'centralised accounting' structure maintained by ESAU and to test transactions at this level.

During 2004-05, 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 Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Metropolitan Fire Service as at 30 June 2005, 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, except for the issues raised in relation to credit cards, revenue and payroll as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Metropolitan Fire Service have been conducted properly and in accordance with law.

Audit Communications to Management

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

Credit Cards

The audit of the use of credit cards revealed a need to ensure that monthly statements are returned and have the appropriate supporting documentation attached.

In response SAMFS advised that staff will be reminded of the need to return statements and supporting documentation in a timely manner.

Revenue

The audit of revenue revealed the need to obtain Cabinet authorisation for the charges for certain services and the need to ensure that consistent charging methodologies are applied for certain charges.

In response SAMFS advised that action will be taken to address the matters raised.

Payroll

The audit of payroll revealed that the transfer of information from SAMFS to ESAU for processing into the payroll system could be improved, particularly in relation to changes affecting the payroll such as employee terminations. This issue was raised in 2003-04. Other areas requiring improvement included the monitoring and management of excessive leave balances (the liability for annual leave was \$6.2 million at 30 June 2005, up \$1.9 million or 43 percent from 2004) and the timely receipt and return of bona fide reports.

SAMFS advised that action will be taken to address the issues raised.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Contributions from government	76	76	-
Other revenue	7	6	17
Total Operating Revenue	83	82	1
OPERATING EXPENDITURE			
Employee expenses	66	58	14
Other	23	18	28
Total Operating Expenses	89	76	17
(Deficit) Surplus from Ordinary Activities	(6)	6	-
Net Cash Flows from Operations	7	9	(22)

	2005	2004	Percentage
	\$'million	\$'million	Change
ASSETS			
Current assets	30	36	(17)
Non-current assets	90	81	11
Total Assets	120	117	3
LIABILITIES			
Current liabilities	17	9	89
Non-current liabilities	19	21	(10)
Total Liabilities	36	30	20
EQUITY	84	87	(3)

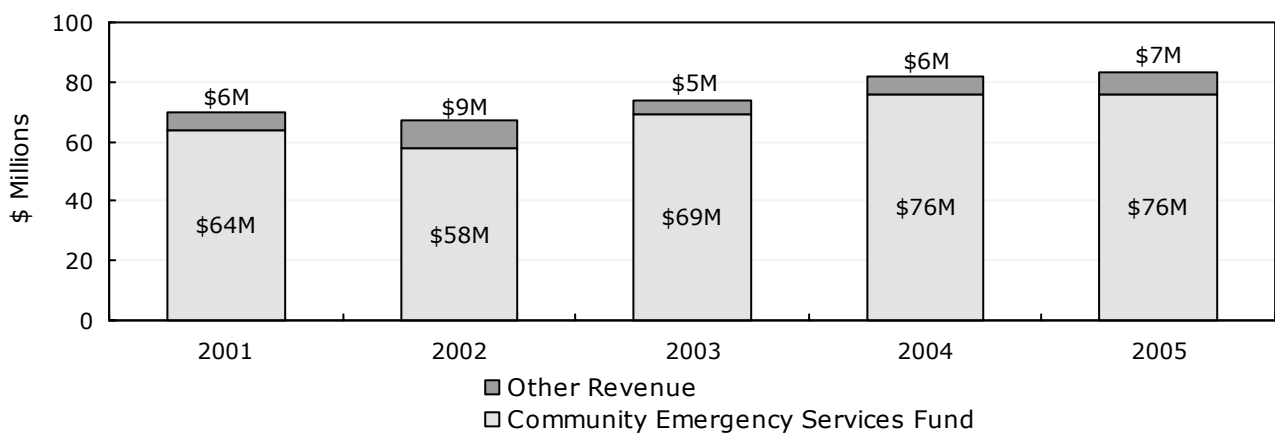
Statement of Financial Performance

Operating Revenues

SAMFS is essentially funded from the contribution from the Community Emergency Services Fund. Other revenue has typically represented only a small percentage of revenue since that time.

The contributions from the Community Emergency Services Fund did not change between the 2004 and 2005 years remaining at \$76 million which represents 92 percent of SAMFS' total revenue.

A structural analysis of operating revenues for SAMFS for the five years to 2005 is presented in the following chart.



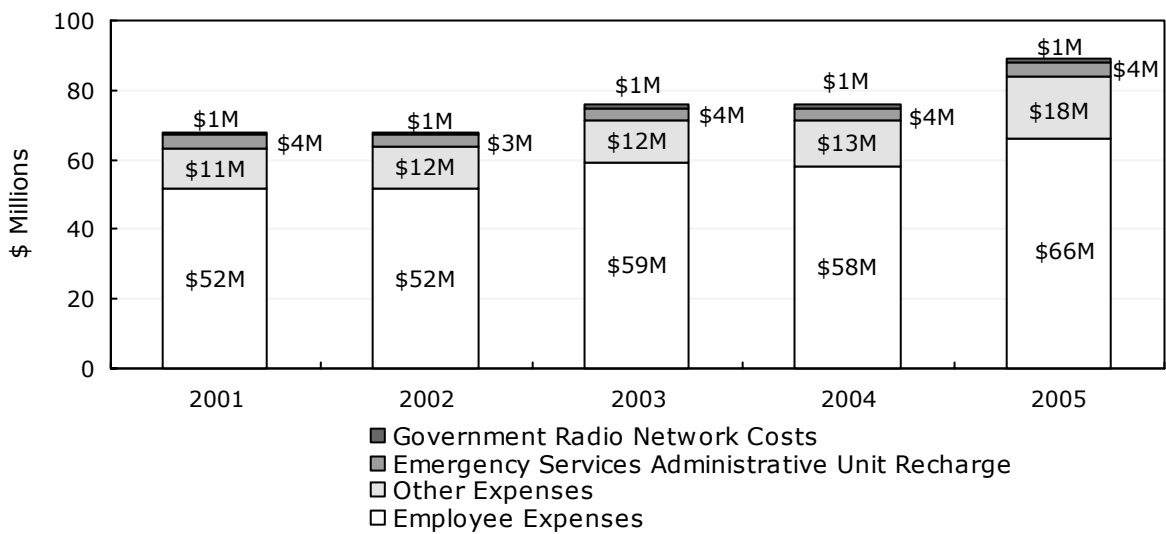
Operating Expenses

Total operating expenses increased by \$12.9 million in 2005 to \$89.2 million.

In 2005 employee expenses increased by \$8.6 million (15 percent) to \$66.4 million due mainly to an increase in salaries and wages, up \$4.7 million, long service leave, up \$1.7 million and workers compensation, up \$1.5 million. The increase in long service leave resulted from a change in the benchmark determined by the Department of Treasury and Finance to use in the calculation of this liability. Salaries and wages increased due to an increase in employee numbers along with increased pay rates. Employee expenses account for over 74 percent of the operating expenses of SAMFS.

Of the other expense categories supplies and services increased by \$2.2 million with uniform costs accounting for \$1.2 million of this increase. Depreciation also increased by \$1.7 million.

For the five years to 2005, a structural analysis of the main operating expense items for SAMFS is shown in the following chart.



Operating Result

SAMFS has recorded deficits for three of the past four years with various reasons contributing to the fluctuating results.

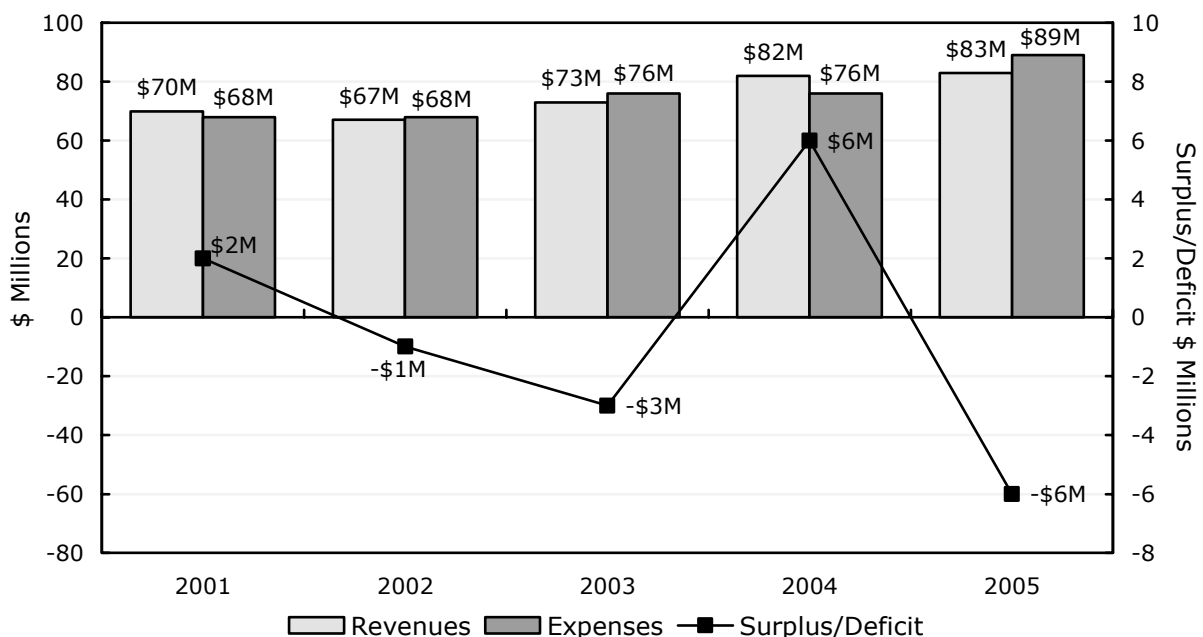
The deficit of \$6 million in 2005 came about mainly as a result of increased expenses for employee expenses and supplies and services costs.

In 2004 the surplus position was achieved through an increase in revenue from the Community Emergency Services Fund in 2004.

The deficit in 2003 primarily resulted from the increase in workers compensation expense which was a year end adjustment and as such was not considered when determining the appropriate level of funding from the Community Emergency Services Fund.

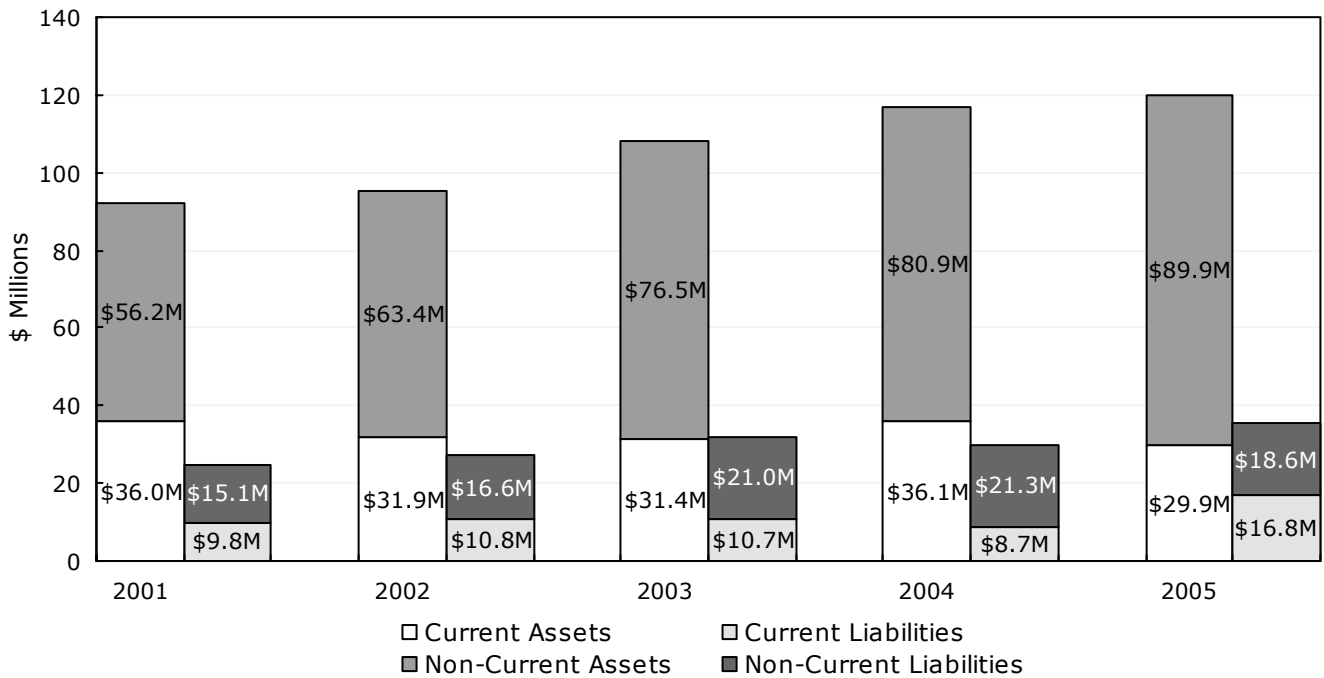
The result in 2002 reflected the budgetary decision to reduce contributions from the Community Emergency Services Fund by \$6 million offset by net revenue from restructuring of \$5 million arising from the transfer of the former ETSA Skills Centre.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the five years to 2005.



Statement of Financial Position

For the five years to 2005, a structural analysis of assets and liabilities is shown in the following chart.



SAMFS’ financial position is dominated by the non-current asset ‘property, plant and equipment’ which has grown by 60 percent over the five year period primarily as a result of asset purchases and revaluation of assets. Current liabilities increased significantly in 2005 due mainly to the inclusion of an interest bearing liability due for repayment in 2006 which was previously classified as a non-current liability.

The chart also demonstrates that SAMFS has had a strong position in relation to its coverage of current assets to current liabilities over the five year period.

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2005.

	2005 \$’million	2004 \$’million	2003 \$’million	2002 \$’million	2001 \$’million
Net Cash Flows					
Operations	7.5	9.4	5.5	0.5	10.1
Investing	(11.7)	(5.6)	(6.7)	(5.0)	(2.7)
Change in Cash	(4.2)	3.8	(1.2)	(4.5)	7.4
Cash at 30 June	29.0	33.2	29.4	30.6	35.0

Cash received from the Community Emergency Services Fund, which is accounted for in cash flows from operations, includes funding for capital expenditure which is accounted for in investing activities. Therefore a portion of the cash generated by operations is used to fund investing activities.

Over the period under review the cash holdings have fluctuated which reflects the timing differences between the receipt and use of funds for capital purposes. For 2005 cash paid for investing activities exceeded the cash inflows from operations which has resulted in a reduction in cash held. As at 30 June 2005 SAMFS had further commitments for capital expenditure totalling \$2.9 million which are expected to be paid within the next year and which may further reduce the cash holdings.

Overall SAMFS’ cash reserves are strong in comparison to annual net cash flows.

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005 \$'000	2004 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	4	66 434	57 818
Supplies and services	5	9 201	7 047
Government Radio Network costs	7	1 438	1 389
Emergency Services Administrative Unit recharge		3 863	3 623
Interest		751	672
Depreciation	8	7 245	5 572
Net loss from disposal of assets	9	224	135
Total Expenses		89 156	76 256
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	10	2 412	2 279
Interest		1 827	1 793
Resources received free of charge	11	1 126	-
Other revenue	12	1 251	2 295
Total Revenues		6 616	6 367
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		82 540	69 889
REVENUES FROM SA GOVERNMENT:			
Contributions from Community Emergency Services Fund		76 017	76 170
(DEFICIT) SURPLUS FROM ORDINARY ACTIVITIES		(6 523)	6 281
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Increase in the asset revaluation reserve	18	3 792	4 577
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		(2 731)	10 858

**Statement of Financial Position
as at 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	13	29 027	33 222
Receivables	14	867	2 885
Other		-	3
Total Current Assets		29 894	36 110
NON-CURRENT ASSETS:			
Property, plant and equipment	15	89 875	80 954
Total Non-Current Assets		89 875	80 954
Total Assets		119 769	117 064
CURRENT LIABILITIES:			
Payables	16	2 575	2 167
Interest bearing liabilities		5 226	-
Provision for employee benefits	17	9 004	6 561
Total Current Liabilities		16 805	8 728
NON-CURRENT LIABILITIES:			
Payables	16	1 467	1 103
Interest bearing liabilities		-	5 226
Provision for employee benefits	17	17 157	14 936
Total Non-Current Liabilities		18 624	21 265
Total Liabilities		35 429	29 993
NET ASSETS		84 340	87 071
EQUITY:	18		
Accumulated surplus		24 648	31 171
Asset revaluation reserve		59 692	55 900
TOTAL EQUITY		84 340	87 071
Commitments	20		
Contingent Liabilities	23		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)
CASH OUTFLOWS:	Note	\$'000	\$'000
Employee payments		(60 692)	(57 705)
Supplies and services		(9 352)	(7 841)
Government Radio Network costs		(1 400)	(2 390)
Emergency Services Administrative Unit recharge		(3 863)	(3 623)
Borrowing costs		(751)	(672)
GST payments on purchases		(2 601)	(1 539)
Total Outflows from Operating Activities		(78 659)	(73 770)
CASH INFLOWS:			
Contributions from Community Emergency Services Fund		76 017	76 170
Fees and charges		4 710	2 279
Interest received		1 842	1 730
GST receipts on receivables		349	586
GST input tax credits		1 993	972
Other receipts		1 215	1 454
Total Inflows from Operating Activities		86 126	83 191
Net Cash Inflows from Operating Activities	21	7 467	9 421
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		(11 668)	(5 587)
Total Outflows from Investing Activities		(11 668)	(5 587)
CASH INFLOWS:			
Proceeds from the sale of property, plant and equipment		6	-
Total Inflows from Investing Activities		6	-
Net Cash Outflows from Investing Activities		(11 662)	(5 587)
NET (DECREASE) INCREASE IN CASH HELD		(4 195)	3 834
CASH AT 1 JULY		33 222	29 388
CASH AT 30 JUNE	13	29 027	33 222

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The SA Metropolitan Fire Service (the Corporation) is a statutory authority established under the *South Australian Metropolitan Fire Service Act 1936* (the Act).

(a) Objectives

The Corporation's objectives are to provide for the fighting and prevention of fires in its fire districts, and to provide for the protection of life, property and the environment threatened by other emergencies.

(b) Funding and Administrative Arrangements

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

2. Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with Treasurer's Instructions (TI) and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts (SAC), applicable Australian Accounting Standards (AAS), and mandatory professional reporting requirements (Urgent Issues Group Consensus Views (UIG)). It has been prepared on the accrual basis of accounting using the historical cost accounting method, with the exception of certain major non-current assets, which have been revalued to their fair value.

(b) Comparative Figures

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

(c) Rounding

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

(d) Taxation

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

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

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

(e) Revenues and Expenses

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

(f) Cash

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

(g) Receivables

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

(h) Non-Current Asset Acquisition and Recognition

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

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

(i) Valuation of Non-Current Assets

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

- (i) Plant and equipment, computer equipment and communications equipment are at historical cost.
- (ii) Independent valuations for land and buildings were determined by Valcorp Australia Pty Ltd on the basis of open market values for existing use in the following years:
 - all country and four metropolitan land and station buildings in 2004-05;
 - one half of metropolitan land and buildings in 2003-04;
 - one half of metropolitan land and buildings in 2002-03.
- (iii) An independent valuation of vehicles was obtained in 2002-03 for current operational response vehicles acquired prior to 2002-03, from Valcorp Australia Pty Ltd and represents the written down current cost of vehicles.
- (iv) Capital work in progress represent costs accumulated during the construction or development of an asset and is valued at cost.

(j) Depreciation of Non-Current Assets

Depreciation on property, plant and equipment, excluding freehold land, is calculated on a straight-line basis, based on the expected useful lives of the assets which are reviewed annually.

The depreciation periods are:	Years
Vehicles	15
Computer equipment	5
Communications equipment	10
Plant and equipment	10
Buildings	1-30

(k) Payables

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

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

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

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

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

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

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Corporation expects to pay at the time the liability is settled. Accrued salaries and wages and employment on-costs are shown under the item 'Payables'. Sick leave is not provided for as it is non-vesting.

(ii) Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by employees to balance date. The liability has been calculated at nominal amounts based on current salaries and wages rates using a short hand benchmark of 10 years as advised by the Department of Treasury and Finance. Previously a benchmark of 12 years was used and the change in the benchmark has resulted in an increase in the Long Service Leave provision of \$480 000. Relevant employment on-costs are shown under the item 'Payables'.

(iii) Superannuation

Contributions are made by the Corporation to several Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. The Corporation has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

(iv) Workers Compensation

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

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

(m) Revenue Recognition**Interest**

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

Sale of Non-Current Assets

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

Fees and Charges for Services

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

Charges for a number of services, including Fire Safety, Brigade Attendance and Private Fire Alarms, are made on a fee-for-service basis. These charges are reviewed and approved by the State Government annually. (Refer Note 10).

Grants

The Commonwealth Government provides reimbursement to the State for the provision of emergency services to protect Commonwealth properties. Under a South Australian Department of Treasury and Finance formula, this grant is apportioned between the Country Fire Service Board and the Corporation. The grant reported as revenue is the portion received by the Corporation.

Revenues from the Fund

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

(n) State Government Funding

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

(o) Leases

The Corporation has entered into both operating and finance leases. In respect of these finance leases the Corporation retains substantially the entire risks and benefits incidental to ownership of the leased assets. Operating lease payments are charged to the Statement of Financial Performance on a basis which is representative of the pattern of benefits derived from the leased assets.

3. Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

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

Key Potential Implications

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

Changes in Accounting Policies

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

Impairment of Assets

In accordance with Accounting Standard AASB 136 'Impairment of Assets' all assets have been subjected to impairment testing and no impairments were found.

4. Employee Expenses

Employee expenses for the reporting period comprised:

	2005	2004
	\$'000	\$'000
Salaries and wages	51 461	46 780
Payroll tax and superannuation	8 642	7 887
Long service leave	3 276	1 589
Workers compensation	2 844	1 327
Other employee related expenses	211	235
	66 434	57 818

Average Number of Employees During the Reporting Period

On average, the Corporation employed 809.7 (795.6) people throughout the reporting period.

Remuneration of Employees

The number of employees whose remuneration received or receivable, including fringe benefits and superannuation payments made to various superannuation schemes, falling within the following bands were:

	2005	2004
	Number of	Number of
	Employees	Employees
\$100 000 - \$109 999	17	18
\$110 000 - \$119 999	8	3
\$120 000 - \$129 999	2	2
\$130 000 - \$139 999	1	-
\$140 000 - \$149 999	1	1
\$200 000 - \$209 999	-	1
\$210 000 - \$219 999	1	-

The aggregate remuneration for all employees referred to above was \$3 414 000 (\$2 783 000).

5. Supplies and Services

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

	2005	2004
	\$'000	\$'000
Consumables and minor purchases	210	52
Repairs and maintenance	55	3
Rates, taxes and rent	118	151
Communication expenses	22	-
Lease expenses	507	438
Travel and training	189	102
Other expenses	929	906
Total Supplies and Services - SA Government Entities	2 030	1 652

5. Supplies and Services (continued)	2005	2004
Supplies and services provided by entities external to the SA Government for the reporting period comprised:	\$'000	\$'000
Consumables and minor purchases	1 286	1 165
Repairs and maintenance	1 436	1 275
Rates, taxes and rent	71	75
Uniforms	1 775	539
Communication expenses	599	630
Energy	381	412
Lease expenses	2	41
Travel and training	855	893
Other expenses	766	365
Total Supplies and Services - Non-SA Government Entities	7 171	5 395
Total Supplies and Services	9 201	7 047
Consultancies	2005	2004
The number and dollar amount of consultancies paid/payable that fell within the following bands were:	Number of	Number of
Less than \$10 000	Consultancies	Consultancies
\$10 000 - \$50 000	3	8
	-	1
	3	9
	2005	2004
	\$'000	\$'000
Less than \$10 000	10	22
\$10 000 - \$50 000	-	14
	10	36
6. Remuneration of Auditors		
The amount due and payable for audit services provided by the Auditor-General's Department	19	23
The auditors provided no other services.		
7. Government Radio Network (GRN) Costs		
The Corporation has been charged by the Department for Administrative and Information Services for costs associated with the provision of emergency communication services, including voice, paging and data transmission using the GRN.		
	2005	2004
	\$'000	\$'000
Contribution towards GRN - Voice	936	931
Contribution towards GRN - Paging	46	41
Other GRN costs	456	417
	1 438	1 389
8. Depreciation		
Depreciation expenses for the reporting period were charged in respect of:		
Buildings	3 931	2 445
Computer equipment	320	307
Plant and equipment	646	538
Communications equipment	193	227
Vehicles	2 155	2 055
	7 245	5 572
9. Net Loss from Disposal of Non-Current Assets		
Proceeds from disposal of non-current assets	6	-
Less: Written down value of non-current assets	230	135
	(224)	(135)
10. Fees and Charges		
Fees and charges received/receivable from entities within the SA Government:		
Fire alarm monitoring fees	1	109
Fire attendance fees	43	138
Fire safety fees	10	9
Other recoveries	7	7
Total Fees and Charges - SA Government Entities	61	263

10. Fees and Charges (continued)	2005	2004
Fees and charges received/receivable from entities external to the SA Government:	\$'000	\$'000
Fire alarm monitoring fees	1 186	1 021
Fire attendance fees	561	618
Fire safety fees	361	234
Other recoveries	243	143
Total Fees and Charges - Non-SA Government Entities	2 351	2 016
Total Fees and Charges	2 412	2 279
11. Resources Received Free of Charge		
Assets received free of charge	1 126	-
Total Resources Received Free of Charge	1 126	-
12. Other Revenue		
Other revenue comprised:		
Fuel rebate	64	51
Rent received	39	186
Other	417	244
Receipts from Commonwealth Government	731	613
Receipts from the Department for Administrative and Information Services	-	928
Reimbursements from the Department of Treasury and Finance	-	30
Ministerial grant	-	243
	1 251	2 295
13. Cash		
Cash on hand	7	8
Cash at bank	29 020	33 214
	29 027	33 222
14. Receivables		
Current:		
Sundry debtors	280	2 565
Less: Allowance for doubtful debts	14	1
	266	2 564
Accrued revenues	205	184
GST receivables	396	137
	867	2 885
Government/Non-Government Receivables		
Receivables from SA Government entities:		
Sundry debtors	130	55
Accrued revenues	2	-
Total Receivables - SA Government Entities	132	55
Receivables from Non-SA Government entities:		
Sundry debtors	136	2 509
Accrued revenues	203	184
GST receivables	396	137
Total Receivables - Non-SA Government Entities	735	2 830
Total Receivables	867	2 885
15. Non-Current Assets	2005	
(a) Property, Plant and Equipment		Written Down Value
	Cost/Valuation	Accumulated Depreciation
	\$'000	\$'000
Land at independent valuation	17 766	-
Land at cost	330	-
Buildings at independent valuation	49 601	(3 614)
Buildings at cost	764	(126)
Vehicles at independent valuation	17 010	(5 598)
Vehicles at cost	7 874	(3 603)
Communications equipment at cost	4 070	(1 161)
Computer equipment at cost	2 375	(1 463)
Plant and equipment at cost	7 327	(4 403)
Work in progress at cost	2 726	-
Total Property, Plant and Equipment	109 843	(19 968)

(a) Property, Plant and Equipment (continued)

	2004		
	Cost/ Valuation \$'000	Accumulated Depreciation \$'000	Written Down Value \$'000
Land at independent valuation	16 278	-	16 278
Land at cost	457	-	457
Buildings at independent valuation	39 996	(2 677)	37 319
Buildings at cost	2 685	(196)	2 489
Vehicles at independent valuation	18 898	(5 519)	13 379
Vehicles at cost	6 163	(4 212)	1 951
Communications equipment at cost	3 473	(2 355)	1 118
Computer equipment at cost	3 373	(2 533)	840
Plant and equipment at cost	7 216	(4 320)	2 896
Work in progress at cost	4 227	-	4 227
Total Property, Plant and Equipment	102 766	(21 812)	80 954

(b) Asset Movement Schedule

	2005						
<i>Gross Carrying Amount</i>	Land and Buildings \$'000	Vehicles \$'000	Communi-cations Equipment \$'000	Computer Equipment \$'000	Plant and Equipment \$'000	Work in Progress \$'000	Total \$'000
Balance at 1 July 2004	59 416	25 061	3 473	3 373	7 216	4 227	102 766
Transfer of work in progress	7 825	2 574	1 068	366	49	(11 882)	-
Net adjustment on revaluation	736	-	-	-	-	-	736
Received free of charge	160	-	966	-	-	-	1 126
Additions	522	69	14	28	654	10 381	11 668
Disposals	-	(2 820)	(1 431)	(1 392)	(612)	-	(6 255)
Prior year adjustment	(198)	-	(20)	-	20	-	(198)
Balance at 30 June 2005	68 461	24 884	4 070	2 375	7 327	2 726	109 843
<i>Accumulated Depreciation</i>							
Balance at 1 July 2004	(2 873)	(9 731)	(2 355)	(2 533)	(4 320)	-	(21 812)
Net adjustment on revaluation	3 056	-	-	-	-	-	3 056
Prior year adjustment	8	-	6	-	(6)	-	8
Depreciation expense	(3 931)	(2 155)	(193)	(320)	(646)	-	(7 245)
Disposals	-	2 685	1 381	1 390	569	-	6 025
Balance at 30 June 2005	(3 740)	(9 201)	(1 161)	(1 463)	(4 403)	-	(19 968)
Net Book Value at 30 June 2005	64 721	15 683	2 909	912	2 924	2 726	89 875
	2004						
<i>Gross Carrying Amount</i>	Land and Buildings \$'000	Vehicles \$'000	Communi-cations Equipment \$'000	Computer Equipment \$'000	Plant and Equipment \$'000	Work in Progress \$'000	Total \$'000
Balance at 1 July 2003	55 746	24 613	3 356	3 285	6 547	2 204	95 751
Transfer of work in progress	1 072	923	4	84	302	(2 385)	-
Net adjustment on revaluation	2 490	-	-	-	-	-	2 490
Additions	363	5	165	56	588	4 408	5 585
Disposals	(255)	(480)	(52)	(52)	(221)	-	(1 060)
Balance at 30 June 2004	59 416	25 061	3 473	3 373	7 216	4 227	102 766
<i>Accumulated Depreciation</i>							
Balance at 1 July 2003	(2 770)	(8 056)	(2 180)	(2 275)	(3 971)	-	(19 252)
Net adjustment on revaluation	2 087	-	-	-	-	-	2 087
Depreciation expense	(2 445)	(2 055)	(227)	(307)	(538)	-	(5 572)
Disposals	255	380	52	49	189	-	925
Balance at 30 June 2004	(2 873)	(9 731)	(2 355)	(2 533)	(4 320)	-	(21 812)
Net Book Value at 30 June 2004	56 543	15 330	1 118	840	2 896	4 227	80 954

(b) Net Fair Values

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

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

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

	2005	2004
	\$'000	\$'000
Payable not later than one year:		
Vehicles	-	891
Fire stations and other equipment	2 900	1 441
	2 900	2 332

(b) Operating Leases

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

Payable not later than one year	338	282
Payable later than one year and not later than five years	251	128
	589	410

These operating leases are not recognised in the Statement of Financial Position as liabilities.

The non-cancellable leases are property leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased annually based on CPI movement. Options exist to renew the leases at the end of the term of the leases.

(c) Finance Leases

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

	2005	2004
	\$'000	\$'000
Payable not later than one year	-	686
	-	686

The lease relates to a loan by the SA Metropolitan Fire Service Superannuation Fund on the building at 99 Wakefield Street. The lease termination date is 1 July 2025, but may be terminated by the Corporation at the option date, 1 July 2005 with the principal repayable on termination. The lease was terminated at the option date of 1 July 2005.

(d) Contractual Commitments

At the end of the reporting period the Corporation had the following commitments on contracts.

	2005	2004
	\$'000	\$'000
Payable not later than one year	269	139
Payable later than one year and not later than five years	307	40
Payable later than five years	16	-
	592	179

Contractual commitments relate to a range of services and supplies including building repairs and maintenance.

21. Reconciliation of Net Cash Inflows from Operating Activities to Net Cost of Services from Ordinary Activities

Net cash inflows from operating activities	7 467	9 421
Less: Contribution from Community Emergency Services Fund	(76 017)	(76 170)
Add (Less) Non-Cash Items:		
Depreciation	(7 245)	(5 572)
Net loss from disposal of assets	(224)	(135)
Non-cash expense in supplies and services	(190)	-
Resources received free of charge	1 126	-
Changes in Assets/Liabilities:		
Increase in provision for employee benefits	(4 664)	(697)
(Increase) Decrease in payables	(772)	2 433
(Decrease) Increase in receivables	(2 018)	884
Decrease in other current assets	(3)	(53)
Net Cost of Services from Ordinary Activities	(82 540)	(69 889)

22. Events After Balance Date

Fire and Emergency Service Act 2005

The *Fire and Emergency Services Act 2005* was assented to on 14 July 2005. The Act provides for the continuation of the Metropolitan Fire Service, the Country Fire Service, the State Emergency Service, and provides for the prevention, control and suppression of fires and for the handling of certain emergency service situations. The *Country Fires Act 1989*, the *South Australian Metropolitan Fire Service Act 1936* and the *State Emergency Service Act 1987* will be repealed at proclamation of the new Act. The establishment of the South Australian Fire and Emergency Services Commission is expected to come into operation on 1 October 2005.

The Corporation will continue as a separate corporate entity under the proposed new arrangements.

Repayment of Finance Lease

An option to terminate a loan by the SA Metropolitan Fire Service Superannuation Fund on the building at 99 Wakefield Street was taken on 1 July 2005 with \$5.226 million being repaid.

23. Contingent Liabilities

Customs Duty on Fire Appliances

The Australian Customs Service issued a notice of demand on the Corporation dated 3 February 2004 in respect of customs duty of \$189 000 allegedly short-paid in regard to ten fire appliances built in New Zealand by Fraser Fire and Rescue Ltd in 2001-02. The Corporation had previously paid Scania for the ten chassis and Chubb Australia for the ten pumps imported from the USA to Fraser NZ direct.

The Corporation, represented by the Crown Solicitor, objected to the amount of duty alleged by the Australian Customs Service to be outstanding in a letter dated 25 June 2004. On 30 June 2004 the Australian Customs Service advised of the suspension of the demand pending further legal review but subsequently confirmed the original demand.

The Corporation decided to bring a test case before the Administrative Appeals Tribunal (AAT), and on 11 February 2005 made payment under protest amounting to \$18 000 for duty on one fire appliance. Customs has indicated it will continue to pursue the full amount of duty it considers is owed by the Corporation.

SOUTH AUSTRALIAN MOTOR SPORT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Motor Sport Board was established pursuant to the *South 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.

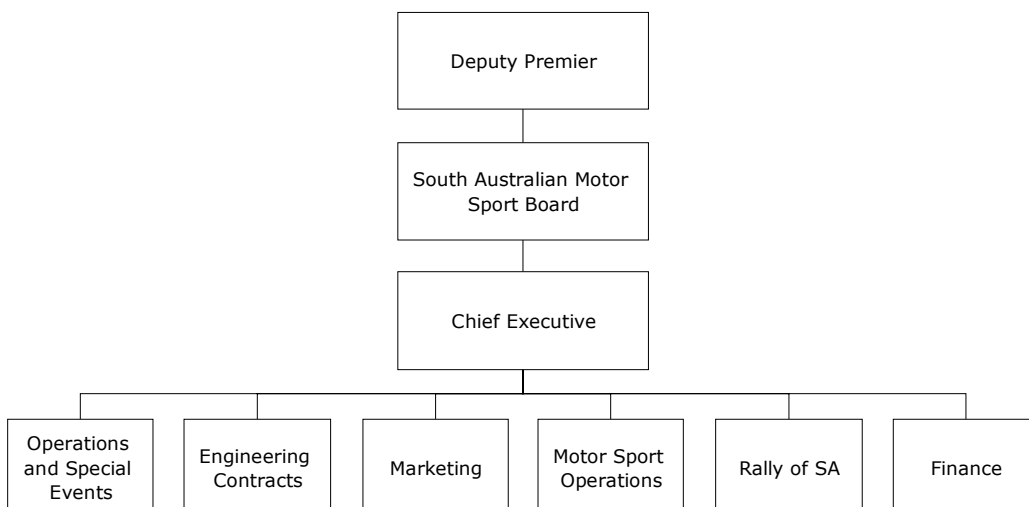
The Board comprises no more than nine members (nine members as at 30 June 2005) appointed by the Governor and is subject to the general control and direction of the Deputy Premier.

The Board secured the right to stage a motor sport event for a period of ten 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 Financial Statements

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 2004-05, specific areas of audit attention included:

- payroll
- accounts payable
- revenue
- non-current assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The following is an extract from the 2004-05 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 in 1998-99 and 1999-2000 should be amortised over the initial fixed five year race staging period while subsequent capital grants received and the 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 \$9.24 million received by way of capital grants and \$2.25 million by way of forgiven loan funds, only \$9.06 million has been recognised as revenue with the remaining \$2.43 million being recognised as a liability.

Australian Accounting Standard AAS 15 'Revenue' and Treasurer's Accounting Policy Statement APS 11 'Contributions' requires that grants be recognised as revenues when received. Also, AAS 15 'Revenue' requires the gross amount of liability forgiven by a credit provider be recognised by the borrower as revenue.

The financial effect of the Board not complying with AAS 15 "Revenue' and APS 11 'Contributions' is as follows:

2005

Revenues from Ordinary Activities and the Operating Surplus are both overstated by \$180 000. Total Equity is understated by \$2 434 000.

2004

Revenues from Ordinary Activities and the Operating Surplus are both understated by \$634 000. Total Equity is understated by \$2 614 000.

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 2005, 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 STATEMENTS

Highlights of Financial Statements

	2005 \$'000	2004 \$'000	Percentage Change
OPERATING REVENUE			
State Government grants	2 082	2 006	4
User charges	15 902	14 254	12
Amortisation of capital grants	1 138	946	20
Other	274	269	2
Total Operating Revenue	19 396	17 475	11
OPERATING EXPENDITURE			
Supplies and services	16 648	15 054	11
Depreciation and amortisation	1 125	957	18
Salaries, wages and related payments	779	770	1
Other	-	10	
Total Operating Expenses	18 552	16 791	10
Surplus	844	684	23
Net Cash Flows	494	842	(41)
ASSETS			
Current assets	3 404	2 342	45
Non-current assets	3 991	3 902	2
Total Assets	7 395	6 244	18
LIABILITIES			
Current liabilities	3 867	3 205	21
Non-current liabilities	1 374	1 729	(21)
Total Liabilities	5 241	4 934	6
EQUITY	2 154	1 310	64

Statement of Financial Performance

Operating Revenues

The Statement of Financial Performance of the Board for the period ended 30 June 2005 records an Operating Surplus of \$844 000 (\$684 000).

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 Statement of the Treasurer and an applicable Australian Accounting Standard, in relation to the financial accounting and reporting treatment of \$9.238 million recorded by way of capital grants since 1998-99 and \$2.25 million by way of forgiven loan funds in 2001-02.

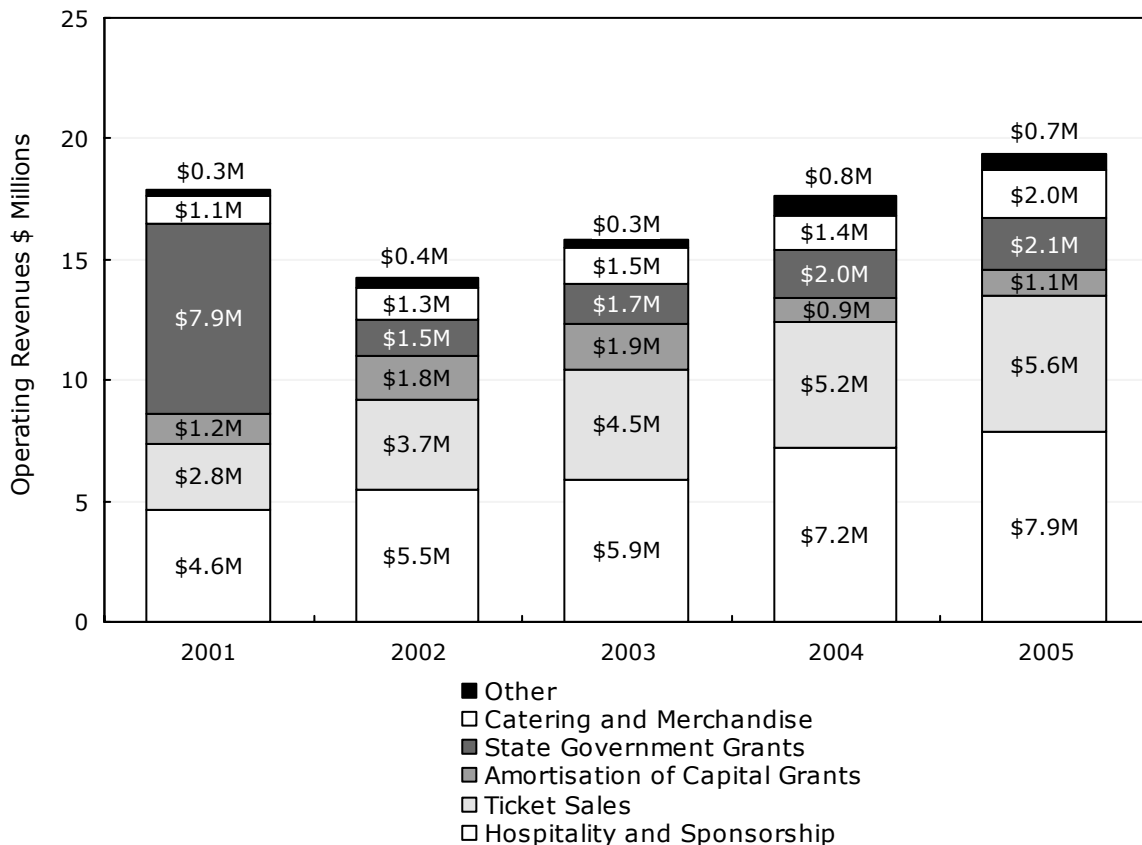
The Board’s decision not to apply Accounting Policy Statement APS 11 ‘Contributions’ and Accounting Standard AASB 1004 ‘Revenue’, but to apply the International Accounting Standard, has resulted in an overstatement of Revenues from Ordinary Activities and the Operating Surplus by \$180 000 and an understatement of Total Equity by \$2 434 000. Consequently the Independent Audit Report for 2004-05 has been qualified in respect of these matters (refer to commentary provided under the heading ‘Audit Opinions - Audit of Financial Statements’). The financial statements of the Board for prior years were qualified on the same basis.

Total revenue from operations increased by \$1.9 million (11 percent) to \$19.4 million.

Revenue from all sources, excluding State Government Grants and Amortisation of Capital Grants increased, by 12 percent from \$14.5 million to \$16.2 million. Notably, revenue from ticket sales increased by \$400 000 due primarily to increased attendance for the Clipsal 500. Similarly, hospitality, sponsorship, catering and merchandising income increased by \$1.2 million due primarily to greater activity associated with the 2005 event.

Revenues from the State Government (State Government Grants and Amortisation of Capital Grants) increased by 7 percent from \$3 million to \$3.2 million. The increase is due predominately to an increase of \$192 000 in Amortisation of Capital Grant revenue which has been amortised in accordance with Board policy.

A structural analysis of operating revenues for the Board for the five years to 2005 is presented in the following chart.

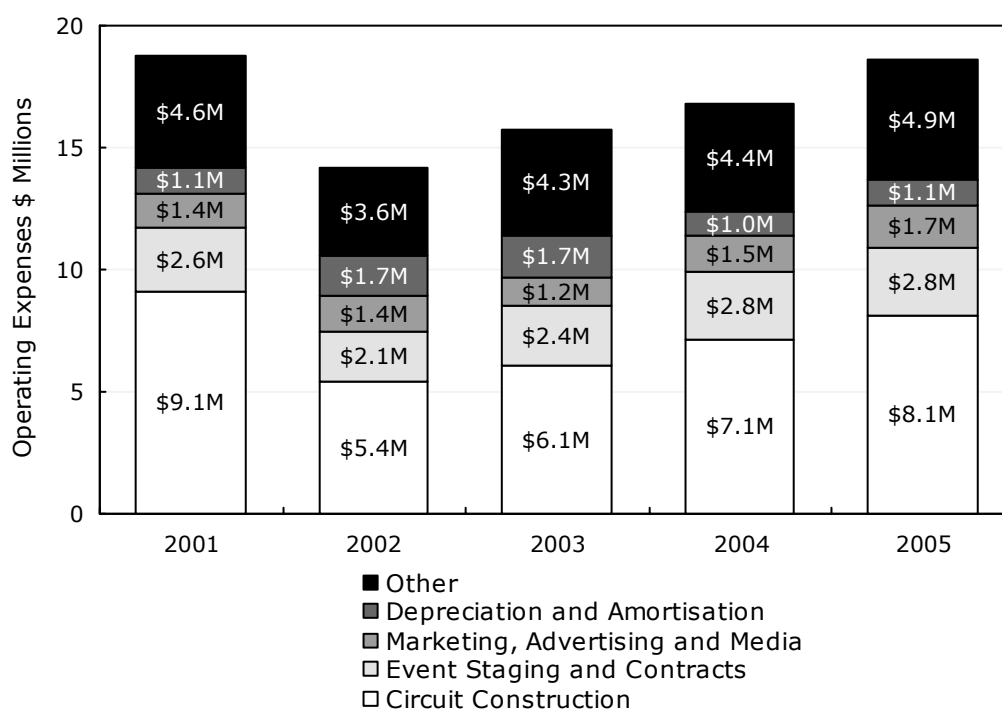


The chart illustrates that, excluding Amortisation of Capital Grants, revenues from operations have increased each year since 2001. The high level of State Government Grants in 2001 reflect support for capital and operating requirements associated with staging 'The Race of 1000 years'.

Operating Expenses

Total expenses from operations increased by \$1.8 million (10 percent) to \$18.6 million. Notably, Circuit Construction expenses increased by \$1 million (14 percent) to \$8.1 million due primarily to changes made to the circuit and facilities for the 2005 Clipsal 500 event.

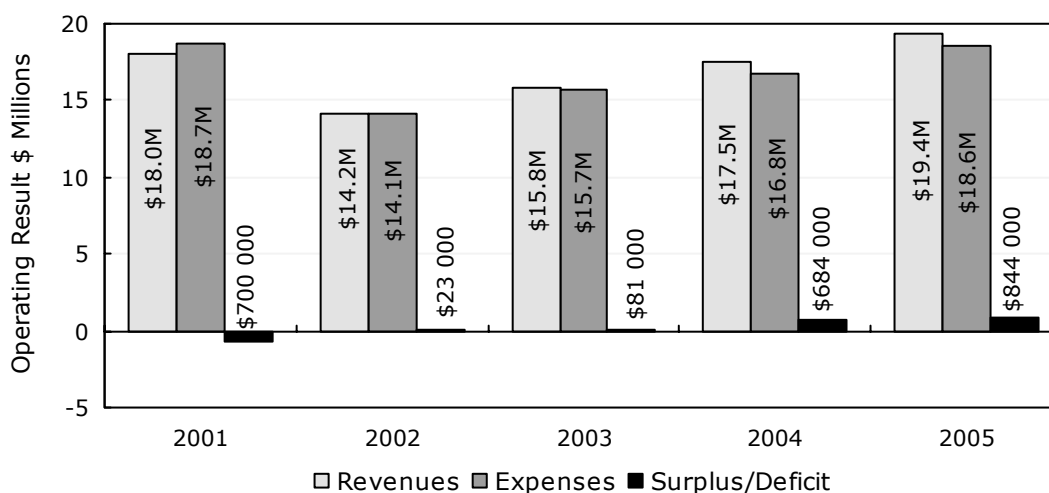
For the five years to 2005, a structural analysis of the main operating expense items for the Board is shown in the following chart.



The chart demonstrates steady growth for most expense categories over the past five years with the exception of 2001. Expenses for 2001 were increased by costs associated with conducting 'The Race of 1000 years'.

Operating Result

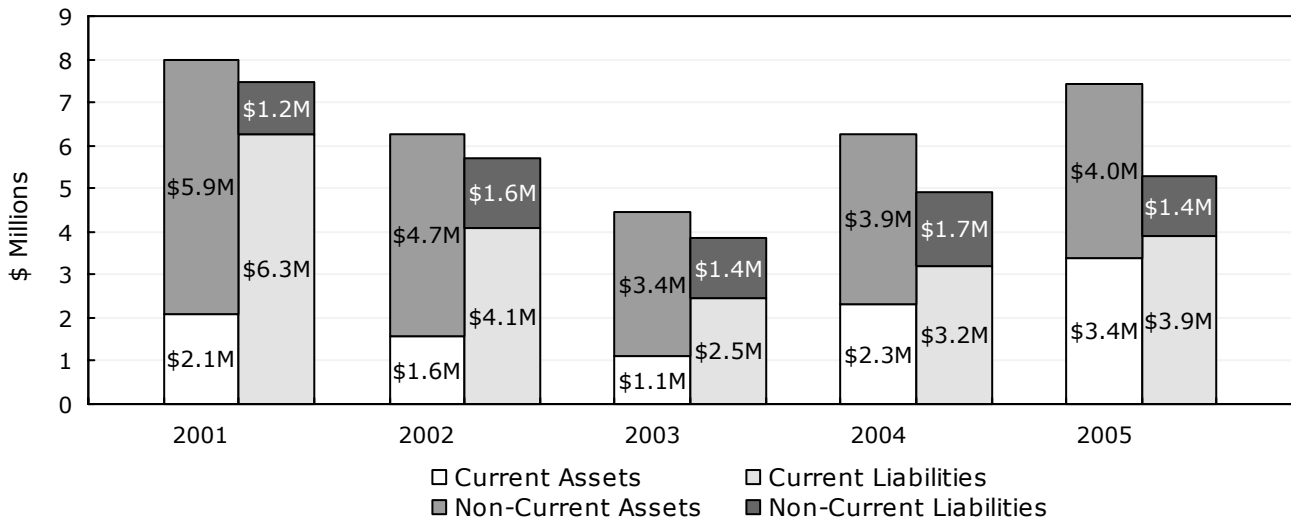
For the five years to 2005 the following chart shows the operating revenues, operating expenses and surplus/deficits. After recording deficits in 2000 and 2001, the Board achieved surpluses for the following four years.



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.

Statement of Financial Position

The structural analysis of the Board’s Statement of Financial Position shows a gradual decrease in both assets and liabilities for the first three years followed by an increase in 2004 and 2005.



Statement of Cash Flows

The analysis of cash flows highlights that in 2005 and 2004 the operations of the Board generated a positive cash flow. In contrast, for the preceding two years the Board recorded cash deficits. 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 2005.

	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Net Cash Flows				
Operations	730	695	(200)	(193)
Investing	(236)	147	33	(3)
Financing	-	-	-	-
Change in Cash	494	842	(167)	(196)
Cash at 30 June	1 521	1 027	185	352

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
State Government grants	1	2 082	2 006
Interest:			
Interest received from SA Government entities		228	182
Interest received from non-SA Government entities		26	20
User charges	3	15 902	14 254
Amortisation of capital grants	1, 2.1, 2.2, 13	1 138	946
Profit on sale of fixed assets		20	67
Total Revenues		19 396	17 475
EXPENSES FROM ORDINARY ACTIVITIES:			
Supplies and services	4	16 648	15 054
Depreciation and amortisation	10	1 125	957
Salaries, wages and related payments	5	779	770
Provision for doubtful debts		-	10
Total Expenses		18 552	16 791
OPERATING SURPLUS		844	684
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		844	684

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
CURRENT ASSETS:			
Cash	7, 16.1	1 521	1 027
Receivables	8	1 883	1 294
Other	9	-	21
Total Current Assets		3 404	2 342
NON-CURRENT ASSETS:			
Concrete safety barriers, racing infrastructure, plant and equipment	10	3 991	3 902
Total Non-Current Assets		3 991	3 902
Total Assets		7 395	6 244
CURRENT LIABILITIES:			
Payables	11	2 662	2 190
Employee entitlements and related provisions	12	68	69
Deferred State Government grant - Capital	13	1 137	946
Total Current Liabilities		3 867	3 205
NON-CURRENT LIABILITIES:			
Employee entitlements and related provisions	12	77	61
Deferred State Government grant - Capital	13	1 297	1 668
Total Non-Current Liabilities		1 374	1 729
Total Liabilities and Deferred State Government Grant		5 241	4 934
NET ASSETS		2 154	1 310
EQUITY:			
Reserves	2.3, 14.1	1 000	515
Accumulated surplus	14.2	1 154	795
TOTAL EQUITY		2 154	1 310
Contingent Liabilities	15		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows	Inflows
		(Outflows)	(Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and sponsors		15 314	13 847
Goods and Services Tax receipts		1 742	1 569
Payments to suppliers and employees		(16 919)	(15 360)
Goods and Services Tax payments		(1 844)	(2 396)
Refunds of Goods and Services Tax		101	827
Interest received		254	202
State Government contributions		2 082	2 006
Net Cash provided by Operating Activities	16.2	730	695
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for racing infrastructure, plant and equipment		(1 214)	(1 500)
Proceeds on disposal of assets		20	67
State Government contributions		958	1 580
Net Cash (used in) provided by Investing Activities		(236)	147
NET INCREASE IN CASH HELD		494	842
CASH AT 1 JULY		1 027	185
CASH AT 30 JUNE	16.1	1 521	1 027

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 \$2 082 000 for operating activities and \$958 000 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 Statements have been prepared as a general purpose financial report in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), except as described 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.

The Financial Statements have also been prepared in accordance with the historical cost convention and do not take into account changing money values except where it is specifically stated.

2.2 Amortisation of State Government Grant - Capital

The State Government has since 1999 provided a total of \$9.238 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 in 1998-99 and 1999-2000 are being amortised over the initial fixed five year period of the race staging contract whilst the grants subsequently 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 Accounting Policy Statement APS 11 'Contributions' requires that all non-reciprocal transfers be brought to account as revenue in the period in which they are received. The Board believes that application of this policy would incorrectly report the trading result. If APS 11 had been applied, the result for the reporting period would have been as follows:

	2005		2004	
	APS 11 \$'000	Board Policy \$'000	APS 11 \$'000	Board Policy \$'000
Revenue - State Government Grant - Capital	958	688	1 580	496
Revenue - Forgiven loan	-	450	-	450
Operating Surplus	664	844	1 318	684
Assets	7 395	7 395	6 244	6 244
Liabilities	2 807	5 241	2 320	4 934
Equity	4 588	2 154	3 924	1 310

Therefore the application of APS 11 would result in an operating surplus for the year of \$664 000. The application of IAS 20 results in an operating surplus of \$844 000 which the Board believes to be a true reflection of the result for the year.

2.3 Reserve for Bad Weather

The Directors believe that rain 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 Bad Weather at future events. This Reserve has been created by transfers from Accumulated Surplus. During the year \$485 000 (\$515 000) was transferred to the reserve. Amounts transferred will be utilised at events adversely affected by rain.

2.4 Revenue Recognition

Except as described in Note 2.2 above, revenues from Ordinary Activities are recorded in the Statement of Financial Performance 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 Statement of Financial Position. 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 Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets', specific assets or classes of assets which have an individual or total value greater than \$1 million at the time of acquisition are required to be revalued every three years. 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 Statement of Financial Position.

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. For the financial year ending June 2004 and prior, management fees considered to have economic benefits extending beyond a financial year were capitalised and written off over 2 years. Amounts previously capitalised totalling \$23 000 have been fully depreciated. These amounts have been written off as at 30 June 2005 (\$200 000).

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.

2.11 Employee Entitlements*Salaries, Wages and Annual Leave*

Liabilities for unpaid salaries, wages and annual leave at the reporting date are based on current pay rates and employees' services to that date. Liabilities for employment on-costs such as superannuation contributions and payroll tax are calculated in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Long Service Leave

Provision has been made for employee entitlements to long service leave at 30 June 2005. 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 1028 'Employee Benefits'.

Sick Leave

No liability for sick leave was recognised in the financial report as sick leave taken by employees is considered to be taken from the current year's accrual.

2.12 Cash on Hand and on Deposit

For purposes of the Statement of Cash Flows, 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 5.2 percent (5.0 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 2005, 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 5.2 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

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

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the taxation authority, 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 from the taxation authority is included as part of receivables in the Statement of Financial Position.

2.15 Economic Dependency

The ongoing activities of the Board in promoting and staging motor sport events within South Australia are dependent on the on-going financial support by the South Australian Government.

2.16 International Financial Reporting Standards

The adoption of Australian equivalents to International Financial Reporting Standards in 2005 will not have a material impact on the accounting policies of the Board. The impact in relation to the treatment of the receipt of Government Grants cannot, as yet, be determined. Other potential impacts are not perceived to be material and relate mainly to the treatment of revaluation decrements and increments within a class of asset.

The Board is managing the transition through consultancy with the Department of Treasury and Finance, training seminars and the Board's own internal review.

3. User Charges		2005	2004
User Charges Received/Receivable from Entities within the SA Government:		\$'000	\$'000
Hospitality and sponsorship		20	40
User Charges Received/Receivable from Entities External to the SA Government:			
Hospitality and sponsorship		7 849	7 165
Ticketing sales		5 622	5 247
Catering and merchandise		1 968	1 428
Entry fees		279	210
Asset hire		51	29
Other		113	135
Total User Charges - Non-SA Government		15 882	14 214
Total User Charges		15 902	14 254
4. Supplies and Services			
Supplies and Services Provided by Entities within the SA Government:			
Hospitality, sponsorship and ticketing costs		204	174
Administration		128	121
Event staging and contracts		45	37
Circuit construction net of recoveries		31	9
Total Supplies and Services - SA Government Entities		408	341
Supplies and Services Provided by Entities External to the SA Government:			
Circuit construction net of recoveries		8 078	7 088
Hospitality, sponsorship and ticketing costs		1 027	911
Catering and merchandise costs		1 001	927
Event staging contracts		2 782	2 770
Non motor sport entertainment		510	413
Security and ground staff		780	664
Administration		368	414
Marketing, advertising and media		1 694	1 526
Total Supplies and Services - Non-SA Government		16 240	14 713
Total Supplies and Services		16 648	15 054
5. Salaries, Wages and Related Payments			
Salaries, wages and related payments comprise:			
Salaries, wages, annual and sick leave		685	641
Long service leave		14	54
Superannuation (refer Note 6)		66	59
Other employee on-costs		14	16
Total		779	770

Total number of full time equivalent employees at reporting date was 7.0 (9.0).

6. Superannuation

The superannuation costs included in the Financial Statements relate to the Commonwealth Government's Superannuation guarantee legislation. The payments of \$66 000 (\$59 000) have been made to externally managed funds.

7. Cash on Hand and at Bank		2005		2004
		\$'000		\$'000
Cash on deposit with SAFA		1 416		722
Cash on hand and at bank - Other		105		305
		1 521		1 027
8. Receivables				
Current:				
Trade debtors		572		397
Amount owing by BASS for funds held in trust (refer Note 11)		1 574		1 161
Allowance for doubtful debts		(263)		(265)
Non-trade amounts:				
Unrelated parties		-		1
		1 883		1 294
SA Government/Non-SA Government Receivables:				
Receivables from SA Government entities		1 585		1 161
Receivables from non-SA Government entities		298		133
		1 883		1 294
9. Other Assets				
Current:				
Prepayments		-		21
		-		21
10. Concrete Barriers, Racing Infrastructure, Plant and Equipment				
Concrete Safety Barriers:				
Gross Carrying Amount:				
Balance at 1 July		1 458		1 458
Additions		35		-
Disposals		(52)		-
Balance at 30 June		1 441		1 458
Accumulated Depreciation:				
Balance at 1 July		(643)		(571)
Depreciation expense		(73)		(72)
Disposals		52		-
Balance at 30 June		(664)		(643)
Net Carrying Amount		777		815
Other Racing Infrastructure, Plant and Equipment:				
Gross Carrying Amount:				
Balance at 1 July		8 941		7 738
Additions		1 179		1 500
Disposals and write off of irrecoverable amounts		(23)		(297)
Balance at 30 June		10 097		8 941
Accumulated Depreciation:				
Balance at 1 July		(5 854)		(5 266)
Depreciation expense		(1 052)		(885)
Disposals and write off of irrecoverable amounts		23		297
Balance at 30 June		(6 883)		(5 854)
Net Carrying Amount		3 214		3 087
Total Concrete Barriers, Racing Infrastructure, Plant and Equipment		3 991		3 902
11. Payables				
Current:				
Trade creditors		381		253
Other creditors and accruals		815		872
Funds held in trust ⁽ⁱ⁾		1 466		1 065
		2 662		2 190
(i) Advance ticket sales exclusive of GST for Year 2006 event.				
12. Employee Benefits and Related On-Cost Liabilities		2005		2004
	\$'000	\$'000	\$'000	\$'000
Annual leave:				
Included in other creditors - Current (Note 11)	10		10	
Provision for employee benefits - Current	64		66	
		74		76
Long service leave:				
Included in other creditors - Current (Note 11)	11		9	
Provision for employee benefits - Current	4		3	
Provision for employee benefits - Non-Current	77		61	
		92		73
Aggregate Employee Benefit and Related On-Cost Liabilities		166		149

13. Deferred State Government Grant - Capital		2005	2004
	Note	\$'000	\$'000
Deferred State Government Grant - Capital		11 488	10 530
Less: Accumulated amortisation		9 054	7 916
		2 434	2 614
Reconciled to:			
Current		1 137	946
Non-current		1 297	1 668
		2 434	2 614
14. Reserves and Accumulated Surplus			
14.1 Reserve for Bad Weather			
Balance at 1 July		515	-
Transfer from accumulated surplus	2.3	485	515
Reserve for Bad Weather at 30 June		1 000	515
The basis for the creation of this Reserve is contained in Note 2.3.			
14.2 Accumulated Surplus at 1 July		795	626
Operating surplus		844	684
Less: Transfer to reserve for bad weather	2.3, 14.1	(485)	(515)
Accumulated Surplus at 30 June		1 154	795
Total Reserves and Accumulated Surplus		2 154	1 310
15. Contingent Liabilities			
Contingent obligations are items in the nature of liabilities, which at the reporting date, are not recognised in the Statement of Financial Position 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.			
16. Notes to the Statement of Cash Flows		2005	2004
16.1 Reconciliation of Cash		\$'000	\$'000
Cash on hand		5	2
Cash at bank		1 516	1 025
		1 521	1 027
16.2 Reconciliation of Net Cash provided by Operating Activities to Operating Surplus			
Operating surplus		844	684
Adjustments for non-cash income and expense items:			
Depreciation and amortisation		1 125	957
Amortisation of State Government grant - Capital		(1 138)	(946)
Profit on disposal of assets		(20)	(67)
Transfers to (from) provisions:			
Employee entitlements		15	67
Doubtful debts		-	10
Changes in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables		(589)	(424)
Prepayments		21	17
Increase (Decrease) in liabilities:			
Payables		472	397
Net Cash provided by Operating Activities		730	695
17. Financing Arrangements			
The State Government pledges financial support for the entity.			
18. Employee Remuneration		2005	2004
The number of officers who received or were due to receive total remuneration of \$100 000 or more:		Number of	Number of
\$100 000 - \$110 000		Employees	Employees
\$180 000 - \$190 000		1	1
\$210 000 - \$220 000		-	1
		1	-
The total remuneration (including superannuation and motor vehicles) paid amounted to \$329 000 (\$291 000).			
19. Auditors' Remuneration			
Amounts due and receivable by the Auditor-General's Department for the audit of the Board for the reporting period total \$19 000 (\$19 000).			

20. Related Parties**20.1 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	R Hayward
G Boulton - Deputy Chairman	C Magasdi
M Brock (Resigned 9 September 2004)	T Schenken
B Carter (Appointed 10 September 2004)	C Smerdon
A Ford	J Turbill

20.2 Directors' Loans

There are no loans to directors.

20.3 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	\$95 327	License fees, permit fees and insurance
T Schenken	CAMS Ltd	\$2 500	Sponsorship of CAMS award
C Smerdon	Vectra Corporation	\$5 100	Hospitality Revenue
C Smerdon	Sealink Group	\$1 509	Hospitality Revenue
A Ford	Woods Bagot Pty Ltd	\$4 460	Architectural Review Victoria Park
R Hayward, C Magasdi	Adelaide City Council	\$53 909	Sponsorship Revenue and signage
R Hayward, C Magasdi	Adelaide City Council	\$54 093	Circuit construction and sponsor costs

In August 2004, in accordance with the Board's tender procedures, the Board approved the appointment of TravelLink Australia as preferred travel wholesaler. TravelLink is the wholesale division of Kangaroo Island Sealink Pty Ltd a company of which Mr C Smerdon is a director.

All corporate facilities purchased by directors or by related entities are at arms-length rates.

21. Remuneration of Directors of the Board

The number of directors who received, or were due to receive, remuneration (including superannuation) were:

	2005	2004
	Number of	Number of
	Directors	Directors
\$1 - \$10 000	2	2
\$10 001 - \$20 000	8	7

The total remuneration of the Directors was \$101 000 (\$99 000).

22. Consultants

There were no consultants engaged where individual amounts exceeded \$10 000.

SOUTH AUSTRALIAN SUPERANNUATION BOARD

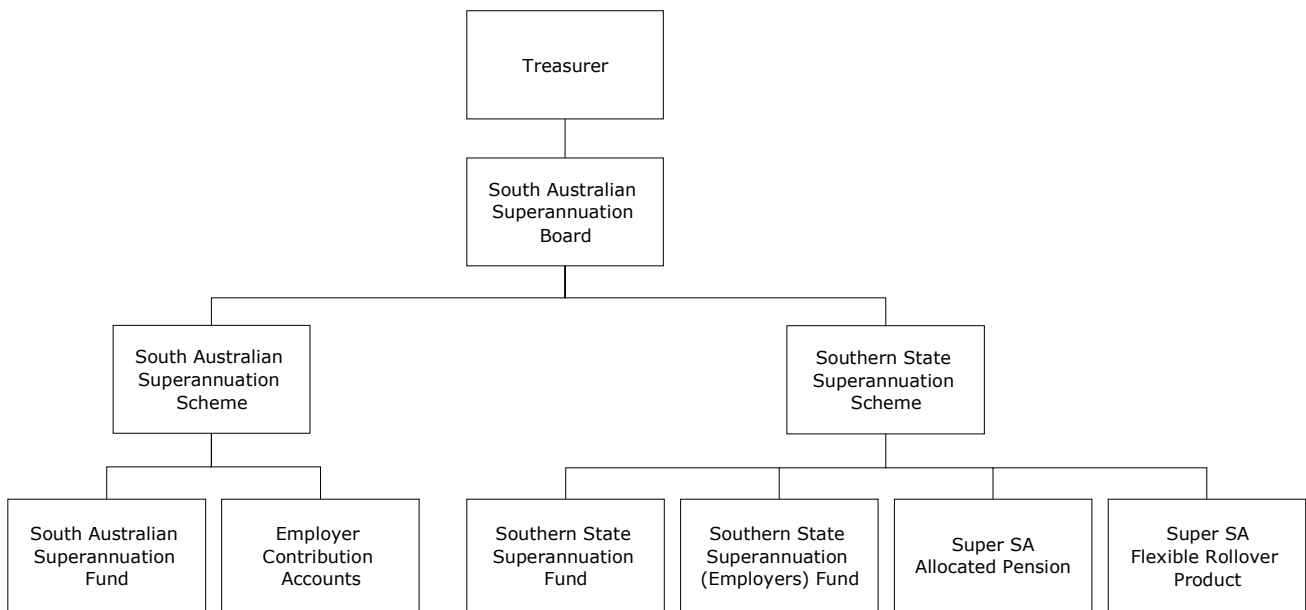
FUNCTIONAL RESPONSIBILITY AND STRUCTURE

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).

Structure and Functions

The Board is responsible for the administration of two separate superannuation schemes. 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 all aspects of the administration of the Act except the management and investment of the South Australian Superannuation Fund (the Fund).

The South Australian Superannuation 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, operating under the business name of Funds SA, a body corporate, 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.

Both the Old Scheme and the New Scheme Divisions were closed to new membership in May 1986 and June 1994, respectively. Consequently, the South Australian Superannuation Scheme is now a 'closed' scheme, having been replaced by the Southern State Superannuation Scheme effective 1 July 1995 (refer hereunder for further details).

Southern State Superannuation Scheme

The *Southern State Superannuation Act 1994* (Triple S Act) originally established the Southern State Superannuation Scheme (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. Police Officers who commenced employment from 1 July 1995 also became members of the Triple S Scheme.

The Triple S Scheme is both a contributory and non-contributory superannuation scheme as it 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 Act charges the Board with responsibility for the maintenance of:

- accounts in the name of all members of the Triple S Scheme;
- proper accounts in respect of each financial year relating to the receipt of member contributions and payments to members.

The Southern State Superannuation Fund (Triple S Fund) is established pursuant to the Triple S Act. The Triple S Fund comprises the contributions of employees and rollovers from other superannuation funds or schemes to the Triple S Scheme and income derived from investments of those funds, less the Fund portion of benefits paid. Funds SA is responsible for the investment and management of the Triple S Fund.

The Triple S Act also establishes the Southern State Superannuation (Employers) Fund, which comprises employer contributions and rollovers from other superannuation funds or schemes to the Triple S Scheme and income derived from investment of those funds less the Fund portion of benefits paid, administration expenses and insurance premiums. The Southern State Superannuation (Employers) Fund is also managed and invested by Funds SA.

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 being:

- 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; 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 requirements and internal control requirements.

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.

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 Financial Statements

Details of audit mandate for the audit of the financial statements of the two schemes administered by the Board are provided in the sections for each of the schemes which follow directly after this section.

Assessment of Controls

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

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

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed on the financial statements 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 statements and specific controls 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 except for:

- Policy and Planning;
- Superb and ePass Computer Processing Environment Review,

as outlined under 'Audit Communications to Management', 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

Governance and Risk Management

As part of a wider review of governance and risk management practices across government, a review was undertaken of the Board's practices, with particular emphasis on:

- organisational structure and responsibilities
- policy and planning
- monitoring and reporting
- risk management policy and practice.

This review was finalised in September 2004, with a follow-up review of management's actions in response to the Audit findings undertaken in May 2005. The main findings of the review and status of management's actions were as follows:

Overall Governance Process

The Board has established some sound corporate governance processes including:

- existing Management Committees have clear terms of reference;
- comprehensive internal reporting and monitoring mechanisms are in place;
- an Instrument of delegation is in place and is continually reviewed and updated;
- Board policies are current and subject to regular review to ensure they remain relevant.

Policy and Planning

While the Board uses a number of important documents as part of its planning processes, there is a lack of documentation detailing the Board's planning framework which aligns future and short term planning. The absence of this framework means that information in the various planning documents cannot be shown to be consistent with the Board's vision, nor demonstrate the progress towards the realisation of long-term goals and risks of not achieving those goals. A documented framework would enable the Board to demonstrate that its annual business activities are in alignment with its overall strategic direction.

In response, Super SA has drafted a three year strategic plan which was approved by the Board in July 2005. Super SA noted that a strategic plan had not been previously developed due to the dynamic nature of the superannuation industry, particularly the constant changes in the legislative framework governing the sector.

Organisational Structure and Responsibilities

The Board is responsible to the Minister (the Treasurer) for all aspects of the administration of the *Superannuation Act 1988* and the *Southern State Superannuation Act 1994*. While the Board meets its statutory obligations, there is no formal documentation, from the Treasurer, which provides a clear articulation of the respective roles, responsibilities and accountabilities of the Board.

The Board agreed to seek advice from the Treasurer on the formalisation of roles, responsibilities and expectations of performance for Board members and to take steps to ensure appropriate documentation is in place. At the time of writing this report, the Presiding Member of the Board is scheduled to meet with the Treasurer in August 2005 to discuss this issue.

Risk Management

While the Risk Management Framework states how risks were identified, it does not clearly document the personnel responsible for analysing, approving, controlling, monitoring, documenting and reviewing the risks and the management of those risks.

Audit also suggested the following improvements to Super SA's Risk Management Plan:

- Provide more detailed information on the organisation's risks, their causes and severity and the risk treatment strategies what were considered and adopted/rejected.
- Inclusion of information supporting the risk rating assessment process and consideration of potential actions to risk mitigation.

Super SA responded that the Risk Management Plan for 2004-05 was developed in accordance with the Australian Superannuation Funds Association Best Practice Paper 'A Risk Management Framework for Superannuation Funds'. The Risk Management Framework is documented and contained within the Plan and it outlines how and by whom risks have been identified, analysed, controlled, monitored, documented and reviewed. In preparing the 2005-06 Risk Management Plan, Super SA considered Audit's recommendations where appropriate.

Superb and ePass Computer Processing Environment Review

The Superb system is primarily designed to improve superannuation financial and management reporting; and process member contributions. In 2005, Audit undertook a review of the following aspects of the Superb system:

- Information access security and integrity for the system and information.
- Application system implementation and maintenance arrangements.
- Information system operations, including business recovery arrangements.
- Relationships with outsourced vendors.

SA Superannuation Board

In addition, Audit performed a follow-up of some issues raised by an externally contracted security review of the ePass system initiated by the Board. The ePass system allows agencies to electronically transfer member contribution data and members to directly access certain information via the internet.

The main matters conveyed to the Board were:

System Operation and Maintenance

Issues were identified that impact on the effective operation and maintenance of the system. These included:

- the absence of formalised key procedural documentation outlining change management processes;
- operational management documentation for the Superb system was either not developed and/or maintained.

Information Security

For the Superb system, no system reports highlighting security transaction events (eg changes to security parameters) were generated to report on changes to data. Audit acknowledges that Super SA has manual processes over key member data changes, such as benefit payments and unit prices.

For the ePass system, Audit found that the externally contracted security review had identified that remote application access to the system was permanently enabled. At the time of Audit's review, actions were in progress to rectify this situation.

Backup and Recovery

Controls that facilitate the recovery of the system should any adverse event occur needed improvement. These included:

- the development of a broader Business Continuity Plan (the Plan) to cover other core business functions;
- testing of recovery arrangements was only performed for the pension payment system.

The Board Response

The Board has responded satisfactorily to the matters raised highlighting its acceptance and/or consideration of the Audit suggestions.

SOUTH AUSTRALIAN SUPERANNUATION SCHEME

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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 Board of receipts and payments relating to the payment of benefits under the Act.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised over the South Australian Superannuation Scheme (the Scheme) 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 2004-05, 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 undertaken by the Superannuation Funds Management Corporation of South Australia (Funds SA); these areas were reviewed in the course of the audit of Funds SA.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Superannuation Scheme as at 30 June 2005, 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 South Australian 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 South Australian Superannuation Scheme have been conducted properly and in accordance with law.

Audit Communications to Management

The audit of the Scheme indicated that the internal controls over its operations were satisfactory. No significant issues were raised as a result of the audit. For further 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 STATEMENTS

Highlights of Financial Statements

	2005 \$'million	2004 \$'million	Percentage Change
OPERATING REVENUE			
Contribution Revenue	383	392	(2)
Net Investment Revenue	471	467	1
Other	67	65	3
Total Operating Revenue	921	924	(1)
OPERATING EXPENDITURE			
Benefits expense	1 350	1 123	20
Other expenses	13	12	8
Total Expenses	1 363	1 135	20
Operating result	(442)	(211)	
Net Cash Flows from Operations	(49)	(32)	53
ASSETS			
Investments	3 574	3 154	13
Other assets	11	9	22
Total Assets	3 585	3 164	13
LIABILITIES			
Liability for Accrued benefits	8 654	7 791	11
Current liabilities	16	13	23
Non-current liabilities	10	13	(23)
Total Liabilities	8 680	7 817	11
EXCESS OF LIABILITIES OVER NET ASSETS	(5 095)	(4 653)	9

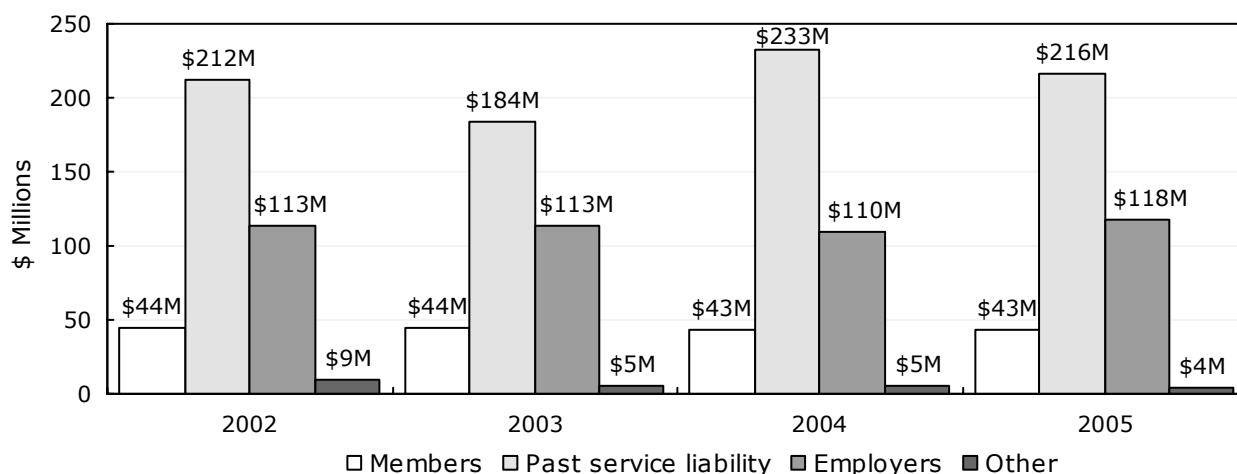
Operating Statement

Revenues

Investment activity for the year resulted in a return of \$471 million compared to \$467 million in the previous year. Investment returns are further discussed in the commentary for Funds SA.

Contribution revenue decreased by \$8.8 million to \$383 million, due mainly to a decrease of \$17.1 million in contributions for past service liability. During the year the Government transferred \$215 million into the 'South Australian Superannuation Scheme Contribution Account' for past service liability funding. The decrease was partially offset by an increase of \$8.3 million in contributions by employers, due primarily to an increase in the employer contribution rate. Refer to Note 1(d) of the financial statements.

A structural analysis of contribution revenues of the Scheme for the four years to 2005 is presented in the following chart.

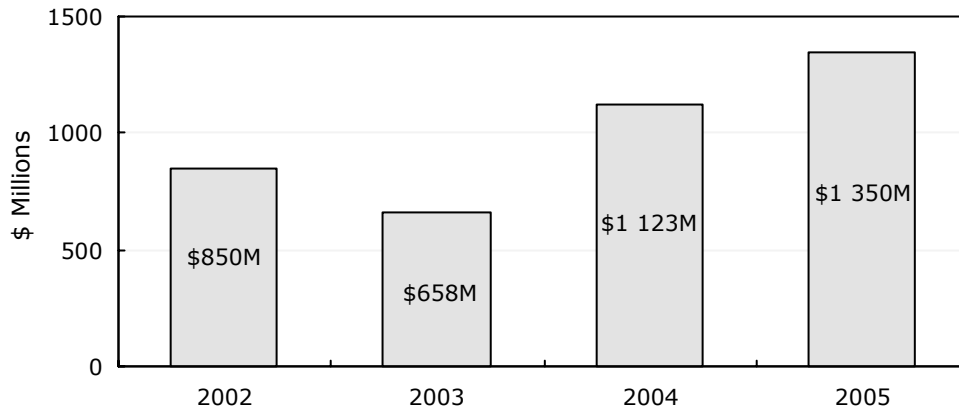


The chart shows that over the last four years employer and member contributions have remained relatively constant. This is expected as the new and old schemes are closed schemes and therefore, there are no new contributors. Past service liability payments represent funding from the Government (since 1994) to meet accrued superannuation liabilities. The Government expects to fully fund liabilities by 30 June 2034.

Expenses

The Scheme’s dominant expenditure item is benefits expense which increased by \$227 million (20 percent) to \$1.3 billion for the year.

For the four years to 2005 a structural analysis of the benefits expense item for the Scheme is shown in the following chart.



Benefits expense fluctuates 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.

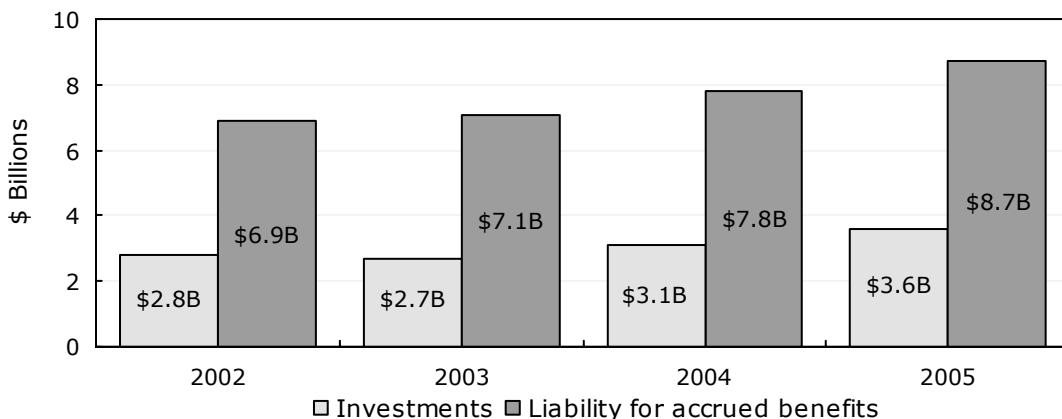
In 2004 the discount rate used to discount the expected future benefit payments to present values was reduced, in line with Funds SA’s target rate of return for the ‘defined benefit’ product. This resulted in a greater increase in Liability for Accrued Benefits in 2003-04, and thus greater increase in Benefits Expense.

In 2005 the actuarial review was completed which 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. Refer to Note 7 ‘Liability for Accrued Benefits to the Financial Statements’ for further details.

Statement of Financial Position

The estimated liability for accrued benefits increased by \$863 million to \$8.7 billion (\$7.8 billion) for which net assets of \$3.6 billion (\$3.1 billion) were available to pay benefits. The increase was mainly a result of revised actuarial assumptions as mentioned previously. This has resulted in an excess of liabilities over net assets of \$5.1 billion (\$4.7 billion). 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 2005 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 in line with increased investment revenue.



Statement of Cash Flows

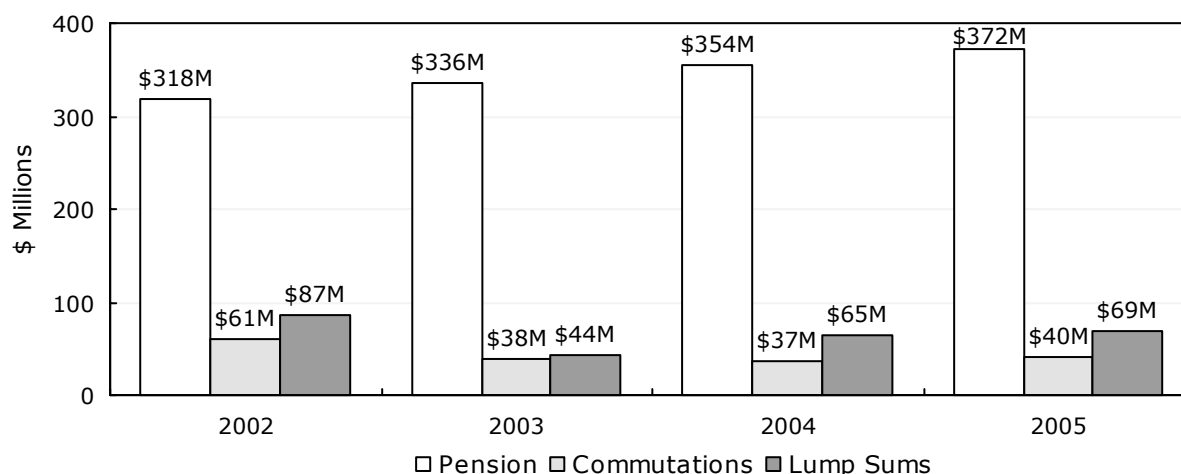
The following table summarises the net cash flows for the four years to 2005.

	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	(49.0)	(32.1)	(6.2)	(28.1)
Investing	48.2	24.8	10.2	23.6
Change in Cash	(0.8)	(7.3)	4	(4.5)
Cash at 30 June	2.5	3.3	10.6	6.6

Although contributions received increased in 2004-05, benefits paid increased by a greater amount. As a result net cash from operating activities decreased in 2004-05.

In 2004-05 total benefits paid amounted to \$484 million (\$453 million), which included \$372 million (\$354 million) paid as pensions. Details of benefits paid/payable are disclosed in Note 6 of the Financial Statements.

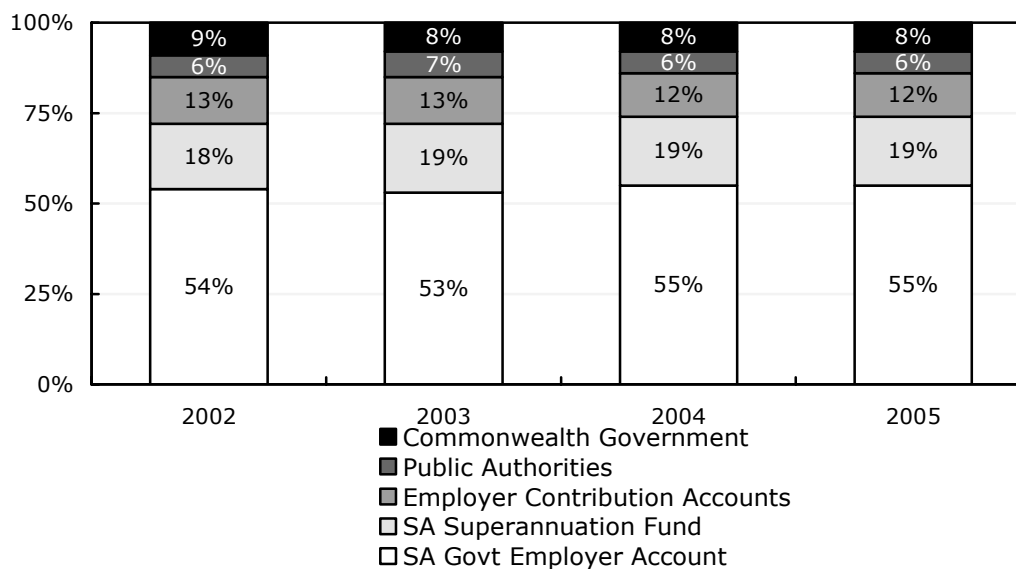
The following chart analyses benefits paid for the four years to 2005 and shows an increasing amount of pensions paid as more members reach retirement age and pensions being adjusted for increases in inflation.



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.

Note 1(d) to the Financial Statements 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:

	2005	2004	2003	2002
Pensioners	14 855	14 713	14 629	14 672
Pensions paid (\$'million)	372	354	336	318

Contributions by Members

The number of contributors, and contributions received from members for the past three years, was:

	2005			2004 Total	2003 Total
	Old Scheme	New Scheme	Total		
Contributors (excludes preserved members)	4 784	7 215	11 999	12 585	13 382
Contributions received (\$'000)	17 742	25 726	43 468	43 027	43 830

Operating Statement for the year ended 30 June 2005

		2005	2004
	Note	\$'000	\$'000
INVESTMENT REVENUE:			
Net investment revenue	2(a)	471 187	466 747
CONTRIBUTION REVENUE:			
Contribution for past service liability	1(d)	216 343	233 433
Contributions by employers	1(d)	118 557	110 281
Transfers from other schemes		-	1 749
Rollovers from other schemes		3 692	3 030
Government Co-contributions	19	700	-
Contributions by members		43 468	43 027
		382 760	391 520
OTHER REVENUE	18	67 045	65 091
CO-CONTRIBUTIONS TRANSFERRED TO OTHER SCHEME	19	(700)	-
HIGHER EDUCATION SUPERANNUATION COSTS	21	(7 790)	(7 516)
ADMINISTRATION EXPENSE	4	(4 133)	(4 022)
AUDIT EXPENSE	22	(118)	-
CONSULTANCY EXPENSE		(46)	(17)
BENEFITS EXPENSE	7	(1 349 720)	(1 122 859)
OPERATING RESULT FOR THE PERIOD		(441 515)	(211 056)

Statement of Financial Position as at 30 June 2005

		2005	2004
	Note	\$'000	\$'000
INVESTMENTS:	2(b), 9		
Inflation linked securities		361 950	363 940
Property		283 446	264 956
Australian equities		1 244 137	1 065 636
International equities		1 233 565	1 212 629
Fixed interest		205 366	179 830
Diversified Strategies - Growth		64 475	-
Diversified Strategies - Income		93 319	-
Cash		87 979	67 474
		3 574 237	3 154 465
FIXED ASSETS		210	63
OTHER ASSETS:			
Cash and deposits at Treasury	11	2 497	3 271
Cash and deposits at Treasury - Funds SA		232	264
Contributions receivable	3	3 971	576
Interest, dividends and rent due - Funds SA		359	93
Prepaid expenses - Funds SA		2	-
Other income receivable	16	4 116	5 349
Sundry debtors	17	122	222
		11 299	9 775
Total Assets		3 585 746	3 164 303
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		645	834
Benefits payable	20	10 481	5 180
Sundry creditors	12	5 124	4 252
PAYG withholding tax	13	7	2 727
		16 257	12 993
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		9 759	13 165
Total Liabilities		26 016	26 158
NET ASSETS AVAILABLE TO PAY BENEFITS	5, 15	3 559 730	3 138 145
<i>Less:</i> LIABILITY FOR ACCRUED BENEFITS	7	8 654 200	7 791 100
RESERVES	23	649	-
EXCESS OF LIABILITIES OVER NET ASSETS		(5 095 119)	(4 652 955)

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Contributions received:			
Contributions for past service liability	1(d)	216 343	212 433
Contributions by employers		116 092	110 629
Transfers from other schemes		-	1 749
Rollovers from other schemes		3 692	3 029
Government co-contributions		700	-
Contributions by members		42 538	43 133
		379 365	370 973
Other income:			
Reimbursement from other sources:			
Commonwealth Government and Public Authorities		66 999	60 903
Temporary disability reimbursements		302	475
		67 301	61 378
Refund of reserves		649	-
Bank account interest		328	318
		68 278	61 696
GST recoup received		330	273
Benefits paid:			
Pensions		(372 050)	(354 083)
Commutation of pension benefits		(39 977)	(36 619)
Lump sums		(69 292)	(65 125)
PAYG withholding tax		(2 733)	2 712
		(484 052)	(453 115)
Administration expense		(4 362)	(4 385)
Co-contributions transferred to other scheme		(700)	-
Higher Education Superannuation costs		(7 790)	(7 516)
Consultancy expense		(38)	(17)
Receipts from debtors		5	1
Payments to creditors		(10)	(54)
Net Cash used in Operating Activities	10	(48 974)	(32 144)
CASH FLOWS FROM INVESTING ACTIVITIES:	2(a)		
Receipts from Funds SA		316 700	289 650
Payments to Funds SA		(268 500)	(264 858)
Net Cash provided by Investing Activities		48 200	24 792
NET DECREASE IN CASH HELD		(774)	(7 352)
CASH AT 1 JULY		3 271	10 623
CASH AT 30 JUNE	11	2 497	3 271

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Financial Statements

(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 with 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 public sector superannuation 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, reference should be made to the financial statements 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 set out in the Regulations of the Act. During the year ended 30 June 2005 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 'South Australian Superannuation Scheme Contribution Account' (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. From 1 July 2004 employer contributions for these agencies increased to 21.5 percent (20 percent) in respect of old scheme contributors and 13 percent (12 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 \$87.3 million (\$82.2 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 2005 the Government transferred a total of \$215 million (\$232 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 \$282 000 (\$382 000) 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.

During the year ended 30 June 1995 the South Australian Housing Trust commenced a 30 year program of funding its accrued superannuation liabilities. An amount of \$1.273 million (\$1.224 million) was received during 2005 representing accrued past service superannuation liabilities.

On 2 September 2002 Cabinet approved the dissolution of Port's Corporation and the repeal of the *SA Ports Corporation Act 1994*. An amount of \$10 million was received during 2004 to be applied to the State's unfunded superannuation liabilities.

- **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, \$30.6 million (\$27.5 million) relates to amounts received or receivable from SA Government entities and \$628 000 (\$598 000) relates to amounts received from non-SA Government entities.

(iii) Commonwealth Government

The Commonwealth Government meets an agreed portion of benefits payable 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.

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

This financial report is a general purpose financial report and has been prepared on an accrual basis in accordance with applicable Accounting Standards, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (eg Urgent Issues Group Consensus Views), except as provided below.

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 AAS 25 'Financial Reporting by Superannuation Plans' 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 balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets, making up the balance of Net Investment Revenue.

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 30 June 2005 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. Investments held by the external manager in pooled funds have been valued in accordance with the valuations supplied by the pooled fund managers.

(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 exit 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-rate applicable at the balance date where applicable.

(v) *Fixed Interest*

The Fixed Interest sector fund was created on 1 April 2005 following a review of Funds SA's investment strategy. Prior to that date, Funds SA's fixed interest investments were administered through two separate sector funds, Australian fixed interest and International fixed interest. These sector funds were merged to create a single fixed interest sector fund.

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. Investments held by the external managers in pooled funds have been valued in accordance with the valuations supplied by the pooled fund managers.

(vi) *Diversified Strategies – Growth*

The Diversified Strategies (Growth) sector fund was created on 1 April 2005 following a review of Funds SA's investment strategy. Prior to that date, Funds SA's private equity and opportunistic real estate investments were administered through three existing sector funds: Australian equities (domestic private equity), International equities (international private equity) and property (opportunistic real estate).

The Diversified Strategies (Growth) portfolio comprises investments in domestic (Australian) and overseas private equity funds, and is invested and managed by external managers. Valuations of these funds are based on the most recently available valuations by the relevant managers. In the case of domestic funds, the valuations are generally in accordance with the Australian Development Capital Association Limited exposure draft guidelines. In the case of international funds, the valuations are generally in accordance with the National Venture Capital Association (NVCA) guidelines. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(vii) *Diversified Strategies – Income*

The Diversified Strategies (Income) sector fund was created on 1 April 2005 following a review of Funds SA's investment strategy.

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 assets of the Scheme under the management of Funds SA 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*. Consequently, no income tax expense 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 2005, 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.

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 of the Financial Statements of Funds SA. Each fund's allocation of total net investment income is disclosed in Note 5(b) of Funds SA's Financial Statements and in each fund's Statement of Changes in Net Assets Under Management in Note 25 of the Financial Statements 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.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2004-05 financial year received by the Scheme after 30 June 2005.

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 2005 but have not been paid until after 30 June 2005.

(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.

(h) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) has adopted IFRS for application to reporting periods beginning on or after 1 January 2005. The adoption of Australian International Financial Reporting Standards (AIFRS) will be first reflected in the Scheme's financial statements for the year ending 30 June 2006.

The Board has implemented a process to ensure that the financial statements of the Scheme comply with all relevant AIFRS by the time the adoption of such standards is required on 30 June 2006.

The process has included discussions with external advisors to evaluate the impact on the financial statements and where appropriate, internal processes have been changed to ensure that all required information is captured.

The AASB has stated that AAS 25 will continue to apply for the foreseeable future.

The Board believes that the adoption of AIFRS will have minimal impact on the financial statements of the Scheme as no significant change to accounting policies is expected as a result, however some changes in presentation and disclosure are expected.

3. Contributions Receivable	2005	2004
	\$'000	\$'000
Contributions by members	1 004	74
Contributions by employers	2 967	502
	3 971	576

4. Administration

Costs of administering the Scheme comprise those costs incurred by Funds SA in administering the investment activities of the Fund and the Account, and those costs incurred by the Board in administering the Scheme.

Administration costs incurred by the Board in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. 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:

	2005		2004	
	Old Scheme Division	New Scheme Division	Total 2005 \$'000	Total 2004 \$'000
Administration cost charged to the Fund (30 percent)	682	558	1 240	1 207
Administration cost deducted from employer contributions	1 475	1 302	2 777	2 815
Administration cost deducted from employer contributions:				
SA Water	84	-	84	-
WorkCover	19	-	19	-
Forestry SA	13	-	13	-
Total Administration Cost as per Operating Statement	2 273	1 860	4 133	4 022
Administration cost reimbursed by Public Authorities	-	-	-	62

The Commonwealth has agreed to meet its share of the agreed overall costs of providing superannuation to their employees. In keeping with the administrative arrangements that apply to all other entities and authorities whose employees are members of the State Scheme, the universities are also being charged for their share of administrative costs. For the 2005 financial year, the universities were invoiced directly by the Department of Treasury and Finance for their share of administrative costs.

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)

	2005		2004	
	Old Scheme Division	New Scheme Division	Total 2005 \$'000	Total 2004 \$'000
Funds held at 1 July	1 197 138	422 158	1 619 296	1 411 422
<i>Add:</i> Contributions	17 742	25 726	43 468	43 027
Transfers from other schemes	-	-	-	89
Rollovers from other schemes	259	3 433	3 692	3 030
Investment income ⁽ⁱ⁾	176 893	64 899	241 792	249 436
Government co-contributions	80	620	700	-
Other income - Bank account interest	54	44	98	95
Other income - Refund of Reserves ⁽ⁱⁱⁱ⁾	107	88	195	-
	195 135	94 810	289 945	295 677
<i>Less:</i> Net benefits paid ⁽ⁱⁱ⁾	74 850	20 547	95 397	86 590
Co-contributions transferred to other scheme	80	620	700	-
Administration expenses	682	558	1 240	1 213
Audit expenses	19	16	35	-
	75 631	21 741	97 372	87 803
Funds held at 30 June	1 316 642	495 227	1 811 869	1 619 296

- (i) Shown net of direct investment expenses.
- (ii) Refer to Note 6.
- (iii) Refer to Note 23.

(b) SA Superannuation Scheme Contribution Account (Employer Component)	2005	2004
	\$'000	\$'000
Funds held at 1 July	1 518 849	1 273 979
Add: Employer contributions:		
State Government Departments	87 311	82 154
Transfers from other schemes	-	1 660
Statutory Authorities ⁽ⁱ⁾	31 246	28 127
Contribution for past service liability ⁽ⁱ⁾	216 343	233 433
	334 900	345 374
Investment income ⁽ⁱⁱⁱ⁾	229 395	217 311
Other income - Commonwealth and public Authorities	65 786	64 391
Other income - Temporary disability	282	382
Other income - Bank account interest	230	222
Other income - Refund of Reserves ^(v)	454	-
	631 047	627 680
Less: Benefits paid: ^(iv)		
Old Scheme contributors	351 863	330 802
New Scheme contributors	39 360	41 667
Higher Education Superannuation costs ⁽ⁱⁱ⁾	7 790	7 516
Consultancy expenses	46	17
Administration expenses	2 893	2 808
Audit expenses	83	-
	402 035	382 810
Funds held at 30 June	1 747 861	1 518 849
Total Net Assets	3 559 730	3 138 145

- (i) Refer to Note 1(d).
(ii) Refer to Note 21.
(iii) Shown net of direct investment expenses.
(iv) Refer to Note 6.
(v) Refer to Note 23.

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.

	Old Scheme Division	2005 New Scheme Division	Total	Old Scheme Division	2004 New Scheme Division	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Pensions:						
Funded from:						
SA Superannuation Fund	65 582	105	65 687	60 565	108	60 673
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	35 991	460	36 451	34 604	472	35 076
Public authorities	25 452	1	25 453	24 003	2	24 005
Commonwealth Government	35 581	-	35 581	35 474	-	35 474
SA Government employer account	215 659	191	215 850	198 671	184	198 855
Gross Scheme Costs	378 265	757	379 022	353 317	766	354 083
Commutations:						
Funded from:						
SA Superannuation Fund	7 304	-	7 304	6 560	-	6 560
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	6 637	-	6 637	3 789	-	3 789
Public authorities	1 473	-	1 473	822	-	822
Commonwealth Government	3 989	-	3 989	3 384	-	3 384
SA Government employer account	21 577	-	21 577	22 064	-	22 064
Gross Scheme Costs	40 980	-	40 980	36 619	-	36 619
Lump Sums:						
Funded from:						
SA Superannuation Fund	1 551	19 618	21 169	2 036	16 213	18 249
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	598	13 366	13 964	1 609	14 350	15 959
Public authorities	101	465	566	51	491	542
SA Government employer account	3 693	24 094	27 787	4 789	25 802	30 591
Gross Scheme Costs	5 943	57 543	63 486	8 485	56 856	65 341

6. Benefits Paid/Payable (continued)	2005		Total	2004		Total
	Old Scheme Division	New Scheme Division		Old Scheme Division	New Scheme Division	
Retrenchments:						
Funded from:						
SA Superannuation Fund	2	-	2	6	33	39
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	78	-	78	-	95	95
Public authorities	-	-	-	183	-	183
Commonwealth Government	-	-	-	27	-	27
SA Government employer account	-	-	-	36	-	36
Gross Scheme Costs	80	-	80	252	128	380
Targeted Separation Packages:						
Funded from:						
SA Superannuation Fund	411	824	1 235	415	654	1 069
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	293	140	433	-	115	115
SA Government employer account	741	643	1 384	1 296	156	1 452
Gross Scheme Costs	1 445	1 607	3 052	1 711	925	2 636
Total Benefit Payments	426 713	59 907	486 620	400 384	58 675	459 059

7. Liability for Accrued Benefits

The accrued liabilities of the Superannuation 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 2005 based on membership data as at 30 June 2004.

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 2005.

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 of 4.5 percent per annum above the CPI.

Changes in the liability for accrued benefits:	2005		Total	2004		Total
	Old Scheme Division	New Scheme Division		Old Scheme Division	New Scheme Division	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Liability for accrued benefits at 1 July	6 634 900	1 156 200	7 791 100	6 118 000	1 009 300	7 127 300
Add: Benefits expense ⁽ⁱ⁾	1 127 813	221 907	1 349 720	917 284	205 575	1 122 859
Less: Benefits paid ⁽ⁱⁱ⁾	426 713	59 907	486 620	400 384	58 675	459 059
Liability for Accrued Benefits at 30 June	7 336 000	1 318 200	8 654 200	6 634 900	1 156 200	7 791 100
Represented by:						
SA Superannuation Fund	1 377 900	495 100	1 873 000	1 236 700	422 200	1 658 900
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	841 300	267 200	1 108 500	800 500	249 900	1 050 400
SA Government employer account	4 439 400	543 800	4 983 200	3 959 700	473 600	4 433 300
Public authorities	278 500	12 100	290 600	258 500	10 500	269 000
Commonwealth Government	398 900	-	398 900	379 500	-	379 500
Total	7 336 000	1 318 200	8 654 200	6 634 900	1 156 200	7 791 100

(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 \$8.6 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. 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 is expected to be tabled in Parliament in the 2005 Spring sittings. 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.

On resignation, a contributor in the Old Scheme Division (Pension Scheme) has two options. Firstly, the contributor can elect to take a cash refund of their own contributions (accumulated with interest) and their employer Superannuation Guarantee entitlement is preserved in the Scheme. Secondly, the contributor can preserve their total accrued superannuation benefit (increased during preservation by increases in investment earnings and inflation). In addition to these two options, a contributor in the New Scheme Division (Lump Sum Scheme) can also elect to transfer their accrued superannuation benefit to another superannuation scheme approved by the Board.

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 2005 based on membership data as at 30 June 2004.

	Old Scheme Division \$'000	2005 New Scheme Division \$'000	Total \$'000	Old Scheme Division \$'000	2004 New Scheme Division \$'000	Total \$'000
SA Superannuation Fund	1 319 900	495 100	1 815 000	1 194 700	424 200	1 618 900
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	790 900	288 400	1 079 300	758 000	263 800	1 021 800
SA Government employer account	4 235 100	605 000	4 840 100	3 789 100	509 300	4 298 400
Public authorities	275 900	7 200	283 100	256 500	10 800	267 300
Commonwealth Government	398 900	-	398 900	379 500	-	379 500
Total	7 020 700	1 395 700	8 416 400	6 377 800	1 208 100	7 585 900

9. Summary of Investment Holdings

	Fund- Old Scheme Division \$'000	2005 Fund- New Scheme Division \$'000	Scheme Contribution Accounts \$'000	2005 \$'000	Total 2004 \$'000
The interests of the Fund and the South Australian Superannuation Scheme Contribution Account in the unithised investment portfolio of Funds SA are as follows:					
Inflation linked securities	133 562	49 764	178 624	361 950	363 940
Property	104 447	39 313	139 686	283 446	264 956
Australian equities	458 295	172 924	612 918	1 244 137	1 065 636
International equities	454 401	171 453	607 711	1 233 565	1 212 629
Fixed interest	75 400	29 127	100 839	205 366	179 830
Diversified Strategies - Growth	23 697	9 086	31 692	64 475	-
Diversified Strategies - Income	34 281	13 191	45 847	93 319	-
Cash	32 276	12 537	43 166	87 979	67 474
Total	1 316 359	497 395	1 760 483	3 574 237	3 154 465

10. Reconciliation of Net Cash used in Operating Activities to Operating Result

	2005 \$'000	2004 \$'000
Operating result	(441 515)	(211 056)
Increase in liability for accrued benefits	863 100	663 800
Contribution for past service liability	-	(21 000)
Net investment revenue	(471 187)	(466 747)
Decrease (Increase) in other income receivable	1 233	(3 384)
(Increase) Decrease in contributions receivable	(3 395)	454
(Decrease) Increase in PAYG withholding tax	(2 720)	2 712
Increase in benefits payable	5 301	3 232
Net movement in other debtors	85	4
Net Movement in other creditors	124	(159)
Net Cash used in Operating Activities	(48 974)	(32 144)

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:

	2005 \$'000	2004 \$'000
Cash and deposits at Treasury	2 497	3 271

12. Summary of Sundry Creditors and Provisions	2005	2004
	\$'000	\$'000
Audit fees	118	-
Consultancy expense	11	-
Other creditors	2	8
Funds SA sundry creditors	4 993	4 244
	5 124	4 252
13. PAYG Withholding Tax		
The PAYG Withholding Tax represents taxation due on benefit payments made in June 2005 which had not been remitted to the Commissioner of Taxation as at 30 June 2005. This amount was forwarded to the Commissioner of Taxation early in the 2005-06 financial year.		
This amount is lower than the previous financial year as the previous year included a pension run for which tax was not due to be paid to the ATO until early July 2004.		
14. Guaranteed Benefits		
Contributors' benefit entitlements are specified by the <i>Superannuation Act 1988</i> .		
15. Reconciliation of Net Assets available to Pay Benefits	2005	2004
	\$'000	\$'000
Opening net assets available to pay benefits	3 138 145	2 685 401
Add: Benefits expense	1 349 720	1 122 859
Less: Benefits paid	486 620	459 059
Add: Operating result for the period	(441 515)	(211 056)
Closing Value of Net Assets available to Pay Benefits	3 559 730	3 138 145
16. Other Income Receivable		
Temporary disability	56	77
Public Authorities	4 060	5 272
	4 116	5 349
17. Sundry Debtors		
Refund from Tax Office for GST	21	48
Bank fees (reimbursement receivable)	23	25
Funds SA accrual	27	42
University administration fees receivable	-	68
Pension payments	37	33
Other debtors	14	6
	122	222
18. Other Revenue		
Bank account interest	328	318
Commonwealth and public authorities	65 786	64 391
Temporary disability	282	382
Refund of reserves ⁽ⁱ⁾	649	-
	67 045	65 091
(i) Refer to Note 23.		
The Other revenue relating to Temporary disability and Refund of reserves relates to amounts received or receivable from SA Government entities.		
19. Government Co-contributions		
During the 2004-05 financial year, the Scheme received co-contributions from the ATO amounting to \$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.		
20. Benefits Payable	2005	2004
	\$'000	\$'000
Benefits payable by SA Superannuation Fund	2 250	1 359
Benefits payable by SA Superannuation Scheme Contribution	8 231	3 821
	10 481	5 180
21. Higher Education Superannuation Costs		
An amount of \$7.790 million (\$7.516 million) was paid to the Commonwealth Government which related to the South Australian share of the 2004-05 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.		

22. 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 \$118 000 (\$107 000).

23. 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 (\$43 000) and an Administration Reserve (\$86 000). 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 18.

24. Related Parties

(a) Board Members

The following are members of the Super SA Board who served during the course of the 2004-05 financial year, along with the period served:

Hedley Bachmann	Presiding Member	1 July 2004 - 30 June 2005
Dr Paul Grimes (John Wright, Deputy)	Appointed by the Governor	1 July 2004 - 11 February 2005
Kevin Cantley	Appointed by the Governor	17 March 2005 - 30 June 2005
Virginia Deegan (Liz Hlipala, Deputy)	Appointed by the Governor	1 July 2004 - 30 June 2005
Jan McMahon (Leah York, Deputy)	Elected by the Members	1 July 2004 - 30 June 2005
Ros Sumner	Elected by the Members	1 July 2004 - 30 June 2005

(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 \$81 100 (\$78 100) is met by both superannuation schemes. Of this amount \$34 200 (\$33 600) was met by the South Australian Superannuation Scheme which is included in the administration expense.

	2005	2004
	Number of	Number of
	Directors	Directors
\$0 - \$10 000	1	1
\$10 001 - \$20 000	-	1
\$20 001 - \$30 000	2	1
\$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.

25. Financial Instruments

The specific disclosure requirements of Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the Financial Statements of Funds SA and have not been repeated in this financial report.

SOUTHERN STATE SUPERANNUATION SCHEME

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised over the 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.

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 2004-05, 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 undertaken by the Superannuation Funds Management Corporation of South Australia (Funds SA); these areas were reviewed in the course of the audit of Funds SA.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards, and other mandatory professional reporting requirements in Australia, the financial position of the Southern State Superannuation Scheme as at 30 June 2005, 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 of the Scheme indicated that internal controls over its operations were satisfactory. No significant issues were raised as a result of the audit. For further 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 STATEMENTS

Highlights of Financial Statements

	2005 \$'million	2004 \$'million	Percentage Change
OPERATING REVENUE			
Net investment revenue	425.2	359.1	18
Contribution revenue	438.3	375.6	17
Other revenue	0.8	0.3	-
Total Operating Revenue	864.3	735.0	18
OPERATING EXPENDITURE			
Other expenses	6.3	5.3	19
Total Operating Expenses	6.3	5.3	19
Benefits Accrued as a Result of Operations	858.0	729.7	17
Net Cash Flows from Operations	331.6	288.0	15
ASSETS			
Investments	3 494.1	2 742.8	27
Other assets	16.3	3.7	-
Total Assets	3 510.4	2 746.5	28
LIABILITIES			
Current liabilities	10.1	6.1	63
Non-current liabilities	8.4	10.1	(17)
Total Liabilities	18.5	16.2	13
NET ASSETS AVAILABLE TO PAY BENEFITS	3 491.9	2 730.3	28

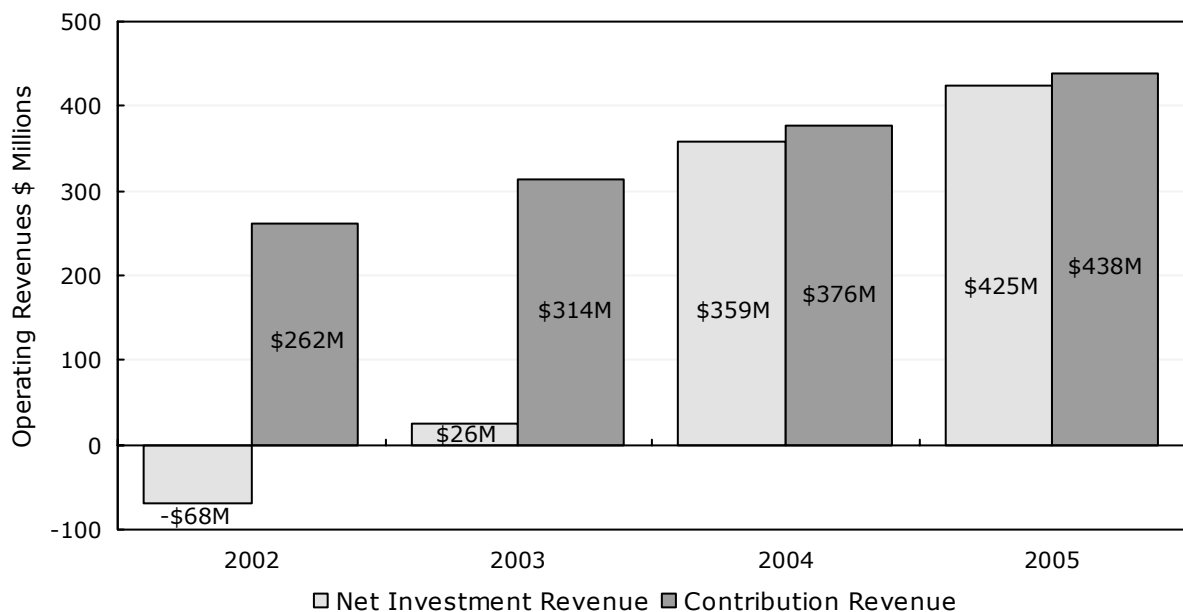
Operating Statement

Operating Revenues

Total operating revenue increased by \$129.3 million (18 percent). Included in this amount were increases of:

- \$66.1 million in Net Investment Revenue;
- \$62.7 million in Contribution Revenue.

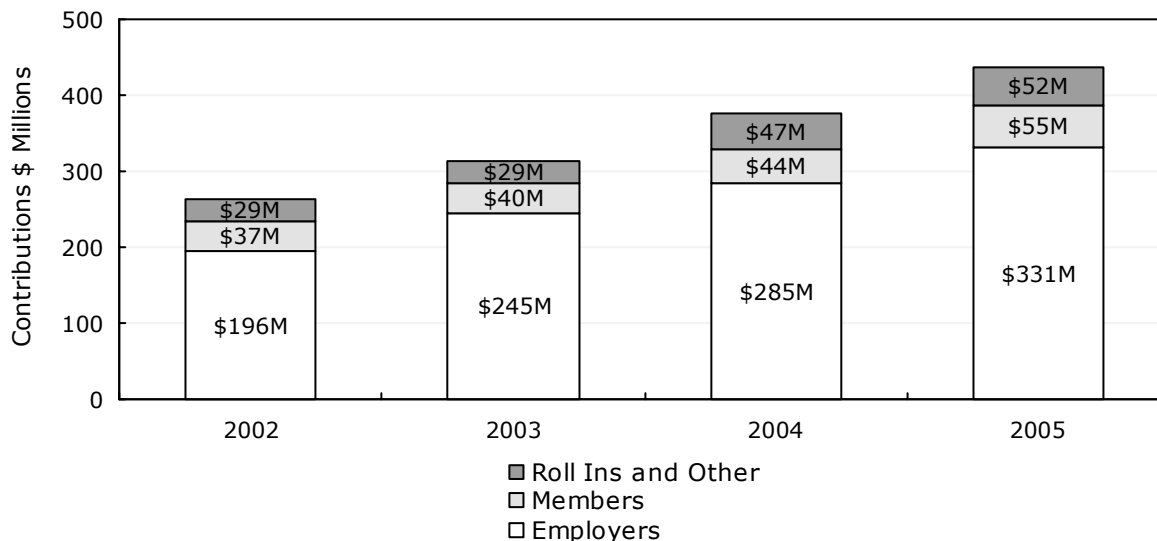
A structural analysis of operating revenues of the Scheme for the four years to 2005 is presented in the following chart.



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 two years. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

Contribution Revenue

Members of the Southern State Superannuation Scheme can elect to make contributions to the Scheme. 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 2005 is presented in the following chart.



The chart indicates that the value of contributions by employers has increased over the four year period by \$135 million (69 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 \$18 million (49 percent) due mainly to increases in the numbers of members contributing.

Included in other contribution revenue for 2005 was an amount of \$4.3 million from the Commonwealth Government 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. As of 1 July 2004, the co-contribution amount has been paid straight into the member's superannuation account.

The number and proportion of contributory to non-contributory members for the last three years is depicted in the following table. In 2004, the increase in contributory members as a proportion of total active members was predominantly due to the inclusion of salary sacrificing members in the contributory figures for the first time.

	2005	2004	2003
	Numbers	Numbers	Numbers
Contributory	23 271	22 102	17 801
Non-contributory	66 674	64 702	66 396

	2005	2004	2003
	Percent	Percent	Percent
Contributory	25.9	25.5	21.1
Non-contributory	74.1	74.5	78.9

Benefits Accrued as a Result of Operations

Benefits accrued as a result of operations increased by \$128 million (17 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 asset/liability position at 30 June 2005 means that the Scheme is fully funded. The asset/liability position over the last four years was:

Year	\$'billion
2002	1.8
2003	2.1
2004	2.7
2005	3.5

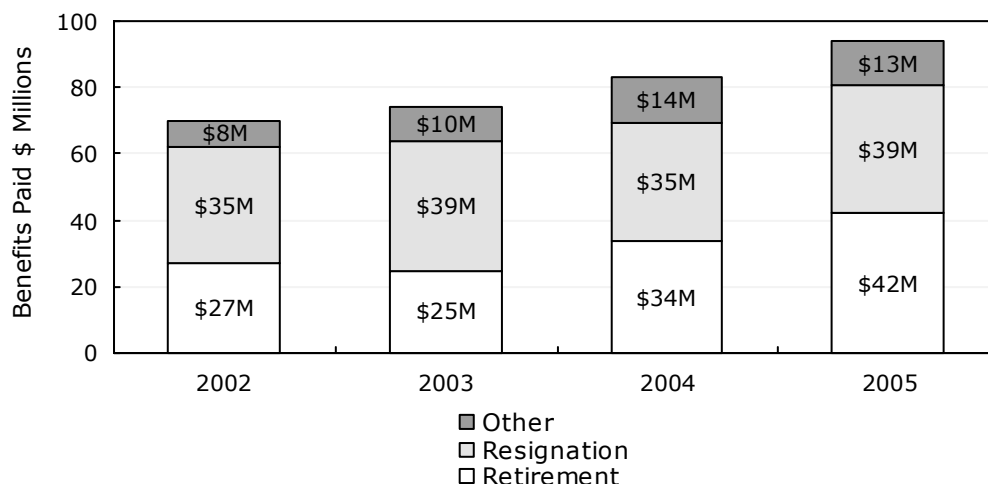
Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005 \$'million	2004 \$'million	2003 \$'million	2002 \$'million
Net Cash Flows				
Operations	331.6	288	234.7	187.6
Investing	(327.2)	(293.4)	(236.1)	(187.5)
Change in Cash	4.4	(5.4)	(1.4)	0.1
Cash at 30 June	6.1	1.7	7.1	8.5

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 \$94 million (\$83 million). The following chart analyses benefits paid for the four years to 30 June 2005 and shows an increasing trend in benefits paid. This is expected in an open scheme which was established 10 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 2005 there were 13 members in the Super SA Allocated Pension and 28 members in the Super SA Flexible Rollover Product. Refer to Note 6 to the financial statements for further details of the total funds held in each product.

Operating Statement for the year ended 30 June 2005

	Note	2005	2004
		\$'000	\$'000
INVESTMENT REVENUE:			
Net investment revenue	2(a)	425 236	359 145
CONTRIBUTION REVENUE:			
Contributions by members	1(a)	55 406	43 999
Contributions by employers	1(a)	331 327	284 768
Government co-contributions		4 308	-
Rollovers from other schemes		47 218	33 331
Transfers from other schemes		-	13 526
		438 259	375 624
OTHER REVENUE		824	307
INSURANCE ADMINISTRATION	17	(39)	-
ADMINISTRATION EXPENSE	7	(5 682)	(5 329)
AUDIT EXPENSE	20	(73)	-
BENEFITS ACCRUED BEFORE TAX	5	858 525	729 747
INCOME TAX EXPENSE	11	(490)	-
BENEFITS ACCRUED AS A RESULT OF OPERATIONS		858 035	729 747

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
INVESTMENTS:	2(b)		
Inflation linked securities		363 558	303 391
Property		242 126	201 387
Australian equities		1 091 624	820 459
International equities		1 080 830	924 961
Fixed interest		453 516	418 196
Diversified strategies:			
Growth		65 976	-
Income		97 318	-
Cash		99 173	74 406
		3 494 121	2 742 800
FIXED ASSETS		237	69
OTHER ASSETS:			
Cash and deposits at Treasury	13	6 115	1 648
Cash and deposits at Treasury - Funds SA		262	291
Contributions receivable	3	9 252	1 546
Interest, dividends and rent due - Funds SA		377	73
Prepaid expense		2	-
Future income tax benefit	11	2	-
Sundry debtors	15	66	106
		16 076	3 664
Total Assets		3 510 434	2 746 533
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		647	695
Benefits payable	4	4 234	1 891
Sundry creditors	16	4 646	3 506
PAYG withholding tax		102	54
Current tax liabilities	11	492	-
		10 121	6 146
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		8 394	10 059
Total Liabilities		18 515	16 205
NET ASSETS AVAILABLE TO PAY BENEFITS	5, 6	3 491 919	2 730 328
REPRESENTED BY:			
LIABILITY FOR ACCRUED BENEFITS:	5		
Allocated to members' accounts	18	3 398 004	2 654 814
Not Allocated to members' accounts	19	8 190	5 193
		3 406 194	2 660 007
RESERVES:			
Death, invalidity and income protection insurance reserve	8	80 862	67 510
Other reserves	9	4 863	2 811
		85 725	70 321
		3 491 919	2 730 328

Statement of Cash Flows for the year ended 30 June 2005

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Contributions received:	Note		
Contributions by members		54 468	44 049
Contributions by employers		324 556	285 125
Government co-contributions		4 311	-
Rollovers from other schemes		47 218	33 357
Transfers from other schemes		-	13 526
		430 553	376 057
GST recoup received		447	-
Bank interest and other revenue		824	307
Benefits paid:			
Retirement		(41 592)	(33 848)
Resignation		(39 373)	(34 876)
Retrenchment		(200)	(102)
Invalidity - Balance of account		(5 257)	(5 247)
Invalidity - Insurance	8	(2 580)	(3 715)
Death - Balance of account		(2 681)	(2 224)
Death - Insurance	8	(1 557)	(2 319)
Payments to Unclaimed Monies		(27)	(29)
Base pension		(694)	(646)
Allocated pension payments		(23)	-
Allocated pension commutations		(47)	-
Flexible rollover product partial withdrawals		(22)	-
		(94 053)	(83 006)
Insurance Administration	17	(42)	-
Administration expense	7	(6 093)	(5 367)
Net Cash provided by Operating Activities	12	331 636	287 991
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from Funds SA	2(a)	542	-
Payments to Funds SA		(327 711)	(293 475)
Net Cash used in Investing Activities		(327 169)	(293 475)
NET INCREASE (DECREASE) IN CASH HELD		4 467	(5 484)
CASH AT 1 JULY		1 648	7 132
CASH AT 30 JUNE	13	6 115	1 648

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Financial Statements

(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.

(a) Southern State Superannuation Scheme (continued)

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) the Board introduced the Flexible Rollover Product and the Allocated Pension from 1 April 2005. These new products form part of and are consolidated with the Scheme for financial reporting purposes at 30 June 2005.

(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 public sector superannuation 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 statements 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

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

This financial report is a general purpose financial report and has been prepared on an accrual basis in accordance with applicable Accounting Standards, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987*, and other mandatory professional reporting requirements (eg Urgent Issues Group Consensus Views), except as provided below.

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 AAS 25 'Financial Reporting by Superannuation Plans' 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 balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets, making up the balance of Net Investment Revenue.

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 30 June 2005 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. Investments held by the external manager in pooled funds have been valued in accordance with the valuations supplied by the pooled fund managers.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*
The value of Funds SA's directly held property has been 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 sector fund was created on 1 April 2005 following a review of Funds SA's investment strategy. Prior to the date, Funds SA's fixed interest investments were administered through two separate sector funds, Australian fixed interest and International fixed interest. These sector funds were merged to create a single fixed interest sector fund.

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. Investments held by the external managers in pooled funds have been valued in accordance with the valuations supplied by the pooled fund managers.

(vi) *Diversified Strategies (Growth)*
The Diversified Strategies (Growth) sector fund was created on 1 April 2005 following a review of Funds SA's investment strategy. Prior to that date, Funds SA's private equity and opportunistic real estate investments were administered through three existing sector funds: Australian equities (domestic private equity), International equities (international private equity) and property (opportunistic real estate).

The Diversified Strategies (Growth) portfolio comprises investments in domestic (Australian) and overseas private equity funds, and is invested and managed by external managers. Valuations of these funds are based on the most recently available valuations by the relevant managers. In the case of domestic funds, the valuations are generally in accordance with the Australian Development Capital Association Limited exposure draft guidelines. In the case of international funds, the valuations are generally in accordance with the National Venture Capital Association (NVCA) guidelines. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(vii) *Diversified Strategies (Income)*
The Diversified Strategies (Income) sector fund was created on 1 April 2005 following a review of Funds SA's investment strategy.

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) 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.

The Scheme adopts the liability method of tax effect accounting.

(c) Income Tax (continued)

Income tax expense is calculated on the operating surplus or deficit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried in the Statement of Financial Position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

(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 2005, 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.

As previously mentioned, the Board launched two new post-retirement products under section 47B of the Act, namely the Super SA Flexible Rollover Product and the Super SA Allocated Pension. Funds SA introduced six new tailored investment options to facilitate the provision of investment choice to members investing in these new products. The new investment options 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 of the Financial Statements of Funds SA. Each fund's allocation of total net investment income is disclosed in Note 5(b) of Funds SA's Financial Statements and in each fund's Statement of Changes in Net Assets Under Management in Note 25 of the Financial Statements 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.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2004-05 financial year received by the Scheme after 30 June 2005.

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 terminated employment prior to 30 June 2005 but have not been paid until after 30 June 2005.

(g) Goods and Services Tax (GST)

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.

(h) Adoption of International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) has adopted IFRS for application to reporting periods beginning on or after 1 January 2005. The adoption of Australian International Financial Reporting Standards (AIFRS) will be first reflected in the Scheme's financial statements for the year ending 30 June 2006.

The Board has implemented a process to ensure that the financial statements of the Scheme comply with all relevant AIFRS by the time the adoption of such standards is required 30 June 2006.

This process has included discussions with external advisors to evaluate the impact on the financial statements and where appropriate, internal processes have been changed to ensure that all required information is captured.

The AASB has stated that AAS 25 will continue to apply for the foreseeable future.

The Board believes that the adoption of AIFRS will have minimal impact on the financial statements of the Scheme as no significant change to accounting policies is expected as a result, however some changes in presentation and disclosure are expected.

3. Contributions Receivable	2005	2004
	\$'000	\$'000
Contributions from members	1 098	161
Contributions from employers	8 157	1 385
Less: Refund of Government co-contributions payable	(3)	-
	9 252	1 546
4. Benefits Payable		
Benefits payable by Southern State Superannuation (Employee) Fund	574	142
Benefits payable by Southern State Superannuation (Employers) Fund	3 660	1 749
	4 234	1 891
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.		
	2005	2004
	\$'000	\$'000
Liability for accrued benefits at 1 July	2 730 328	2 083 900
Add: Increase in accrued benefits	858 035	729 747
Less: Benefits paid and payable	96 444	83 319
Liability for Accrued Benefits at 30 June	3 491 919	2 730 328
6. Net Assets Available to Pay Benefits		
(a) Southern State Superannuation (Employee) Fund		
Funds held at 1 July	383 868	257 747
Add: Contributions by members	55 005	43 999
Government co-contributions	4 308	-
Rollovers from other schemes	43 889	33 331
Transfers from other schemes	-	13 526
Investment income ⁽ⁱ⁾	62 327	48 432
Other revenue	34	31
	165 563	139 319
Less: Benefits paid and payable	17 172	13 198
Internal transfers ⁽ⁱⁱ⁾	1 232	-
	18 449	13 198
Funds Held at 30 June	530 982	383 868
(b) Southern State Superannuation (Employers) Fund		
Funds held at 1 July	2 346 460	1 826 153
Add: Employer contributions	331 327	284 768
Investment income ⁽ⁱ⁾	362 723	310 713
Other revenue	790	276
	694 840	595 757
Less: Benefits paid and payable	79 136	70 121
Internal transfers ⁽ⁱⁱ⁾	1 430	-
Administration costs	5 388	5 329
Audit fees	73	-
Insurance administration	39	-
	86 066	75 450
Funds Held at 30 June	2 955 234	2 346 460

(c) Allocated Pension	2005	2004
	\$'000	\$'000
Funds held at 1 July	-	-
<i>Add:</i> Rollovers from other schemes	846	-
Internal transfers ⁽ⁱⁱ⁾	1 569	-
Investment income ⁽ⁱ⁾	79	-
	2 494	-
<i>Less:</i> Benefits paid and payable	69	-
Administration costs	228	-
Income Tax	146	-
	443	-
Funds Held at 30 June	2 051	-
(d) Flexible Rollover Product		
Funds held at 1 July	-	-
<i>Add:</i> Contributions by members	379	-
Rollovers from other schemes	2 483	-
Internal transfers ⁽ⁱⁱ⁾	1 705	-
Spouse contributions	22	-
Investment income ⁽ⁱ⁾	107	-
	4 696	-
<i>Less:</i> Benefits paid and payable	22	-
Administration costs	66	-
Internal transfers ⁽ⁱⁱ⁾	612	-
Income Tax	344	-
	1 044	-
Funds Held at 30 June	3 652	-
Total Net Assets	3 491 919	2 730 328

(i) Shown net of direct investment expense.

(ii) Internal transfers relates to transfers between the Employee Fund, the Employer Fund, the Allocated Pension and the Flexible Rollover Product, which do not appear in the Operating Statement as they are within the Scheme.

7. Administration

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 2005 the charge is \$1 per week per member for all members, active and non-active. The charge for a member with an aggregate balance of \$1000 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 (2003-04: \$50 active, \$40 non-active per annum fee applied). This charge is included on member annual statements. As at 30 June 2005 the amount charged to members' employer contribution accounts was \$6.8 million (\$6.2 million).

Administration costs 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 2005, based on actual costs of administering the Scheme, amounted to \$5.7 million (including GST) (\$5.3 million).

8. Death, Invalidity and Income Protection Insurance Reserve

The Scheme provides an insurance benefit, with a few exceptions, in the event of death 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.

A new insurance arrangement was introduced on 1 July 2002, based on units of benefit cover. The Standard Insurance benefit of one unit of cover costs \$1 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 \$50 000. The value of a unit declines from age 35. Additional units can be purchased (subject to medical evidence) to provide permanent employees with cover up to \$500 000 and casual employees up to \$250 000. The cost for each one unit of Standard Insurance is \$1 per week. 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.

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, Invalidation 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.

	Note	2005 \$'000	2004 \$'000
Opening balance of the Death, Invalidation and Income Protection Insurance Reserve		67 510	57 008
Add: Investment earnings on insurance reserve		10 159	9 238
Contributions		8 542	8 144
		18 701	17 382
Less: Benefit Payments:			
Invalidity		2 674	3 815
Death		1 927	2 419
Disability Pensions		709	646
Less: Administration Costs	17	39	-
		5 349	6 880
Net Transfer Value to Death, Invalidation and Income Protection Insurance Reserve		13 352	10 502
Closing Balance of Reserve		80 862	67 510

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 2005.

	Administration Cost Reserve ⁽ⁱ⁾ \$'000	Investment Reserve ⁽ⁱⁱ⁾ \$'000	Board Reserve ⁽ⁱⁱⁱ⁾ \$'000	Total 2005 \$'000	Total 2004 \$'000
Balance as at 1 July	2 492	319	-	2 811	1 622
Transfers to reserves	1 535	34	483	2 052	1 189
Transfers out of reserves	-	-	-	-	-
Balance as at 30 June	4 027	353	483	4 863	2 811

- (i) Section 27 of the Act requires an administrative charge to be deducted from the member's employer accounts. These monies are credited to the Administration Cost Reserve. At the end of the financial year the actual cost incurred in administering the Scheme is debited to the Administration Cost Reserve. Further information is included in Note 7 to the financial statements. The amount of \$1.5 million is the excess of actual administration recovery (\$6.8 million plus an interest component of \$446 000) over the actual 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. The majority of the increase in the value of the investment reserve is due to interest income on the opening balance with a small amount relating to the resolution of outstanding data integrity issues during the 2005 year.
- (iii) The Board Reserve Account represents amounts which have been put aside for the provision for future capital and development costs (\$314 000), a provision for three yearly board election costs (\$59 000) and an administration reserve (\$110 000). 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. Therefore, an amount of \$292 000 is owed to the Board reserve account from those products as at 30 June 2005 (represented by costs of \$293 000 less member charges of \$1 000). 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.

	2005 \$'000	2004 \$'000
Vested Benefits:		
Triple S	3 391 592	2 654 814
Allocated Pension	3 738	-
Flexible Rollover Product	2 277	-
	3 397 607	2 654 814

11. Taxation

(a) Income Tax Expense

Benefits accrued before tax	853 431	-
Prima facie income tax expense calculated at 15 percent (15 percent) on the benefits accrued	128 015	-
Increase in income tax expense due to:		
Non-deductible expenses	41	-
Decrease in income tax expense:		
Exempt income of constitutionally protected schemes	(126 980)	-
Member contributions	(574)	-
Exempt pension income	(12)	-
Income Tax Expense	490	-

(b) Current Tax Liabilities

Current Year's Income Tax Provision	492	-
-------------------------------------	-----	---

(c) Deferred Tax Assets

Future income tax benefit comprises the estimated benefit at the applicable rate of 15 percent on the following item:

Accrued Expenses	2	-
------------------	---	---

12. Reconciliation of Net Cash provided by Operating Activities to Benefits

Accrued from Operations

Benefits accrued as a result of operations	858 035	729 747
Benefits paid and payable	(96 444)	(83 319)
(Increase) Decrease in contributions receivable	(7 706)	369
Decrease in rollovers receivable from other schemes	-	27
Net Investment Revenue	(425 236)	(359 145)
Income Tax Expense	490	-
Increase in Board creditors	74	40
Decrease (Increase) in Board debtors	32	(41)
Increase in PAYG withholding tax	48	53
Increase in benefits payable	2 343	260
Net Cash provided by Operating Activities	331 636	287 991

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:

	2005 \$'000	2004 \$'000
Cash and deposits at Treasury:		
Triple S	5 458	1 648
Allocated Pension	146	-
Flexible Rollover Product	511	-
	6 115	1 648

14. Guaranteed Benefits

Benefit entitlements are specified by the *Southern State Superannuation Act 1994*.

15. Sundry Debtors

Refund from Taxation Office for GST	31	65
Other	9	7
Funds SA sundry debtors	26	34
	66	106

16. Sundry Creditors

Audit fees payable	73	-
Other	1	-
Funds SA sundry creditors	4 572	3 506
	4 646	3 506

17. Insurance Administration

The amount of \$39 000 relates to professional services performed in relation to the Triple S Insurance Investigation and Review, including the 3 year actuarial review. This amount was paid to consultants.

18. Allocated to Members' Accounts

This amount indicates the value of funds which have been formally allocated to member accounts. The formal allocation of earnings to members' accounts has been determined for the 2005 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 19 (below).

	2005	2004
Allocated to Members' Accounts:	\$'000	\$'000
Triple S	3 391 989	2 654 814
Allocated Pension	3 738	-
Flexible Rollover Product	2 277	-
	3 398 004	2 654 814

19. Not Allocated to Members' Accounts

This note indicates that there is approximately \$8.2 million (\$5.1 million) unallocated to members' accounts, which is immaterial in a \$3.5 billion Scheme. All accumulation schemes carry some type of unallocated amount. This unallocated amount arises because the Financial Statements of the Scheme are prepared on an accruals basis while monies are allocated to members on a cash basis. Between the time of preparing the benefit accruals figure for the Financial Statements and the finalisation of the annual review additional member liabilities are determined.

20. 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 \$73 000 (\$73 000).

21. Related Parties

(a) Board Members

The following are members of the Super SA Board who served during the course of the 2004-05 financial year, along with the period served:

Hedley Bachmann	Presiding Member	1 July 2004 - 30 June 2005
Dr Paul Grimes (John Wright, Deputy)	Appointed by the Governor	1 July 2004 - 11 February 2005
Kevin Cantley	Appointed by the Governor	17 March 2005 - 30 June 2005
Virginia Deegan (Liz Hlipala, Deputy)	Appointed by the Governor	1 July 2004 - 30 June 2005
Jan McMahon (Leah York, Deputy)	Elected by the Members	1 July 2004 - 30 June 2005
Ros Sumner	Elected by the Members	1 July 2004 - 30 June 2005

(b) Board Members' Remuneration

Board members' remuneration includes fees and superannuation benefits. Board members' fees are set 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 \$81 100 (\$78 100) is met by both superannuation schemes. Of this amount \$46 900 (\$44 500) was met by the Southern State Superannuation Scheme which is included in the administration expense.

	2005	2004
	Number of	Number of
	Directors	Directors
\$0 - \$10 000	1	1
\$10 001 - \$20 000	-	1
\$20 001 - \$30 000	2	1
\$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.

22. Financial Instruments

The specific disclosure requirements of Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the Financial Statements 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*.

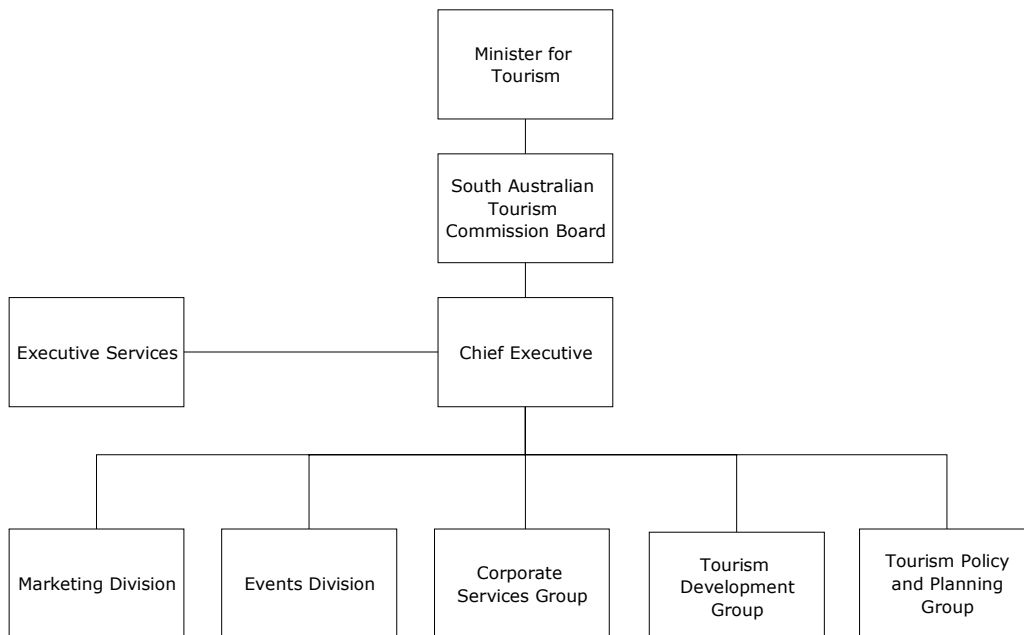
Functions

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 Financial Statements

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 2004-05, specific areas of audit attention included:

- participation fees and other revenue
- industry assistance and other expenditure
- advertising and promotion
- accounts payable
- payroll
- general ledger.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards, and other mandatory professional reporting requirements in Australia, the financial position of the SA Tourism Commission as at 30 June 2005 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 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 to Management

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

The issues raised by Audit related mainly to the opportunity to improve controls in relation to the provision of infrastructure funding, timing of event revenue raising and segregation of duties.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

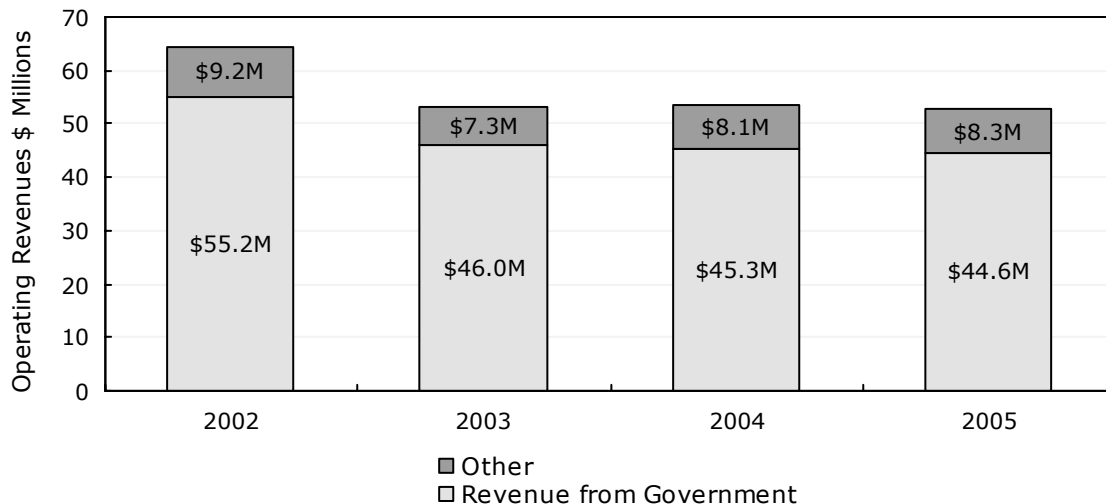
	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Revenue from Government	44.6	45.3	(1)
Other	8.3	8.1	3
Total Operating Revenue	52.9	53.4	

	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING EXPENDITURE			
Employee benefits	11.7	10.5	11
Advertising and promotion	16.4	16.6	(1)
Industry assistance	10.2	15.4	(34)
Other	14.3	13.9	3
Total Operating Expenses	52.6	56.4	(7)
Surplus (Deficit)	0.3	(3.0)	110
Net Cash Flows from Operations	0.3	(2.3)	113
ASSETS			
Current assets	5.2	5.3	(2)
Non-current assets	4.1	4.1	-
Total Assets	9.3	9.4	(1)
LIABILITIES			
Current liabilities	4.2	4.5	(7)
Non-current liabilities	1.5	1.6	(6)
Total Liabilities	5.7	6.1	(7)
EQUITY	3.6	3.3	9

Statement of Financial Performance

Operating Revenues

A structural analysis of operating revenues for the Commission in the four years to 2005 is presented in the following chart.

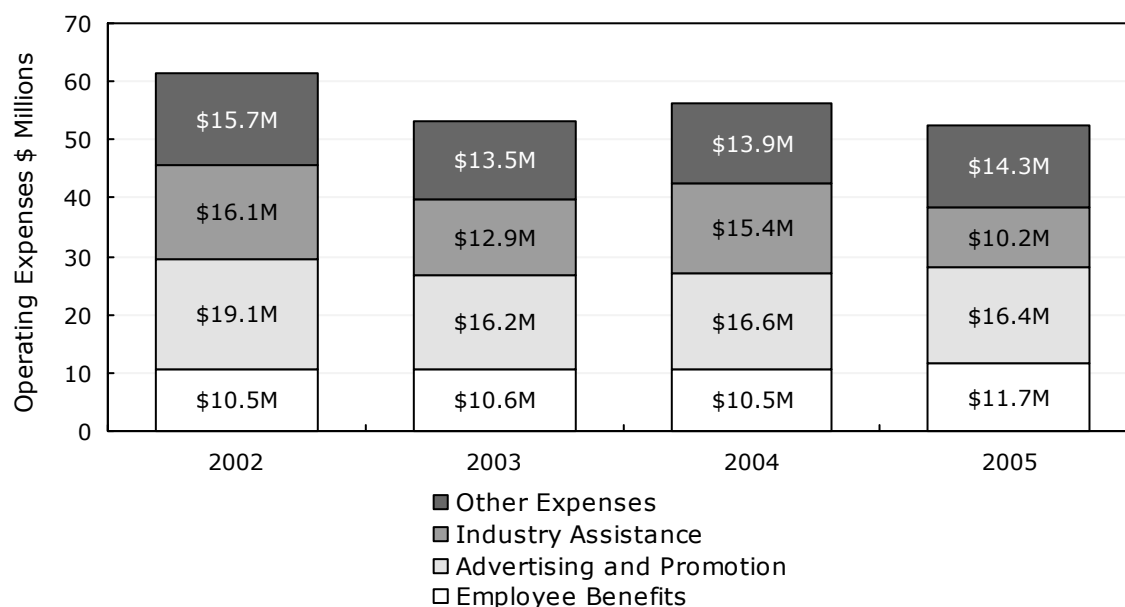


Operating revenues for the year totalled \$52.9 million (\$53.4 million). This includes revenue appropriated from Government for operating purposes which totalled \$44.6 million (\$45.3 million) and represents 84 percent (85 percent) of total revenues. This supports the view that the Commission is dependent on the ongoing financial support of the State Government as expressed in Note 1 to the Financial Statements.

Other revenue predominantly consists of participation fees, event entry fees and refunds/recoups of expenses.

Operating Expenses

For the four years to 2005, a structural analysis of the main operating expense items for the Commission is shown in the following chart.



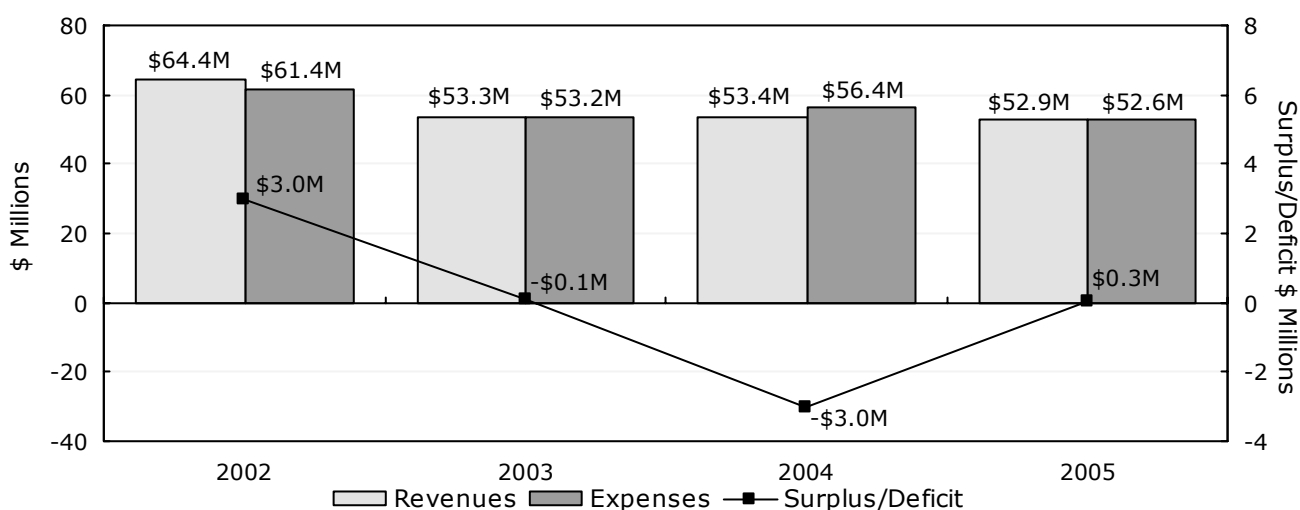
The overall reduction in operating expenditure is predominantly due to a decrease in industry assistance during the year provided for tourism infrastructure grants and sponsorships which is directly related to the decrease in sponsored events held during the year compared to previous years.

The increase in employee benefits is due to the change in employment arrangements associated with the regional marketing employees, together with an increase in the provision of leave entitlements and the results of the Enterprise Bargaining Agreement.

Operating Result

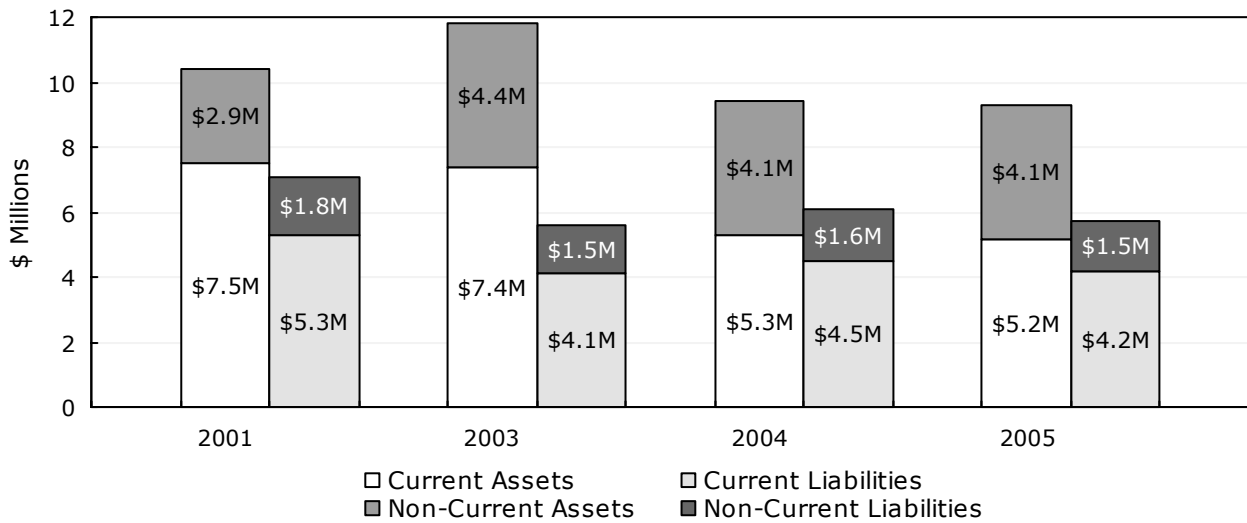
The operating surplus was \$325 000 which compares to a deficit of \$3 million in 2003-04.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2005.



Statement of Financial Position

For the four years to 2005, a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	(0.3)	(2.3)	0.7	2.4
Investing	(0.5)	(0.2)	(0.5)	(0.5)
Financing	(0.1)	(0.1)	(0.1)	(0.1)
Change in Cash	(0.9)	(2.6)	0.1	1.8
Cash at 30 June	2.7	3.6	6.2	6.1

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005 \$'000	2004 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits		11 731	10 539
Advertising and promotion		16 444	16 597
Industry assistance	8	10 215	15 391
Administrative costs		6 878	5 957
Event operations		4 634	5 389
Accommodation and services costs		2 215	1 867
Depreciation and amortisation	9	427	543
Interest on borrowings		64	75
Bad and doubtful debts expense		8	2
Total Expenses		52 616	56 360
REVENUE FROM ORDINARY ACTIVITIES:			
Participation fees	6	3 962	5 050
Interest		208	324
Commission on sales		598	557
Other revenue	7	3 614	2 164
Net loss from the disposal of non-current assets		(92)	(25)
Total Revenue		8 290	8 070
NET COST OF SERVICES		44 326	48 290
REVENUE FROM GOVERNMENT			
Revenue from Government	5	44 651	45 303
Total Revenue from Government		44 651	45 303
NET RESULT FROM ORDINARY ACTIVITIES		325	(2 987)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
	19, 20	325	(2 987)

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
ASSETS:			
CURRENT ASSETS:			
Cash	23(b)	2 650	3 564
Receivables	10	1 918	1 680
Prepayments	11	645	45
Total Current Assets		5 213	5 289
NON-CURRENT ASSETS:			
Receivables	10	1 870	1 870
Plant and equipment	12	1 717	1 705
Intangibles	13	108	118
Investment in Australian Tourism Data Warehouse Ltd	14	400	400
Total Non-Current Assets		4 095	4 093
Total Assets		9 308	9 382
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	15	2 968	3 472
Other liabilities	16	216	168
Employee benefits	17	836	736
Borrowings	18	147	138
Total Current Liabilities		4 167	4 514
NON-CURRENT LIABILITIES:			
Payables	15	81	72
Employee benefits	17	714	628
Borrowings	18	751	898
Total Non-Current Liabilities		1 546	1 598
Total Liabilities		5 713	6 112
NET ASSETS		3 595	3 270
EQUITY:			
Tourism infrastructure reserve	19	-	2 291
Accumulated surplus	20	3 595	979
TOTAL EQUITY		3 595	3 270
Commitments	21		
Contingent Obligations	22		

**Statement of Cash Flows
for the year ended 30 June 2005**

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
CASH OUTFLOWS:			
Employee benefits		(11 467)	(10 333)
Goods and services		(41 670)	(44 644)
Borrowing costs		(64)	(75)
GST paid to suppliers		(3 098)	(4 010)
CASH INFLOWS:			
Recurrent appropriation		44 651	45 303
Participation fees		3 962	5 073
Commission earned		598	557
Interest received		208	239
GST recovered from Australian Taxation Office		2 445	2 775
GST received from customers		1 116	699
Other		3 064	2 133
Net Cash used in Operating Activities	23(a)	(255)	(2 283)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of plant and equipment		(521)	(230)
Proceeds from disposal of plant and equipment		-	1
Net Cash used in Investing Activities		(521)	(229)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of Borrowings		(138)	(129)
Net Cash used in Financing Activities		(138)	(129)
NET DECREASE IN CASH HELD		(914)	(2 641)
CASH AT 1 JULY		3 564	6 205
CASH AT 30 JUNE	23(b)	2 650	3 564

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

Objectives

The purpose of the South Australian Tourism Commission 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 Commission's Statement of Financial Performance or Statement of Financial Position 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.
- (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 \$890 000 during 2004-05.

2. Significant Accounting Policies

(a) Basis of Preparation

The financial statements have been drawn up in accordance with the requirements of the Statements of Accounting Concepts, applicable Australian Accounting Standards, Treasurer's Instructions and applicable Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views). The accrual basis has been used in the preparation of the financial statements.

(b) Recognition of Revenues

Commission

Commission earned on sales of travel through the SA Travel and Visitor Centre is recognised at the date of ticketing.

Interest

Interest earned on deposit accounts at the Department of Treasury and Finance is recognised as revenue as it accrues.

Participation Fees

The Commission earns revenue from participants in the Tourism Industry through cooperative marketing schemes, sponsorship of events, subscriptions and training fees. This revenue is recognised as it accrues.

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

Fitouts are amortised over the length of the lease of the property using the straight line method.

(d) Inventories

Consumable supplies are not recognised in the Statement of Financial Position 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 and Pageant assets controlled by the Commission with an individual value greater than \$5 000 are recognised as non-current assets in the Statement of Financial Position. 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 Statement of Financial Performance at the time of acquisition.

All Pageant Floats, regardless of their value, are recognised as non-current assets in the Statement of Financial Position. 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 15).

Salaries and Wages

Salaries and wages reflect remuneration received or due and receivable by employees as at the balance date.

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 1028 '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 2004-05 a total of \$899 000 (\$819 000) 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, \$78 000 (\$92 000) 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.

(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 2005, 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 revenue 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

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(l) Taxation

The Commission is liable for Payroll Tax, Fringe Benefits Tax, Goods and Services Tax and the Emergency Services Levy.

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

- the amount of GST incurred by the statutory authority 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.

3. Changes in Accounting Policies

(a) Government/Non-Government Disclosures

In accordance with APS 13 'Form and Content of General Purpose Financial Reporting', the Commission has included details of revenue, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the SA Government. Transactions with the SA Government with an individual value greater than \$100 000 have been disclosed as a Note to the accounts.

(b) Change in Asset Threshold

On 1 October 2004 the Commission changed the capitalisation threshold for all general plant and equipment purchases from \$2 000 to \$5 000. This resulted in a reduction in historic cost of \$618 000, accumulated depreciation of \$528 000 and a net loss from disposal of assets of \$89 000 in 2004-05.

(c) Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1 January 2005.

The Commission has assessed the significance of the adoption of the standards for the purpose of their implementation. This has involved assessment of accounting policy and topics in existing Australian Accounting Standards and Australian equivalents to IFRS to determine any key differences and significant financial impacts.

The assessment that has been undertaken identifies no key differences or financial impacts that will result from the adoption of Australian equivalents to International Financial Reporting Standards.

4. Program Class Schedule of Expenses and Revenues for the year ended 30 June 2005

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 product 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.

Revenues and expenses by Program Class for the year are as follows:

	Strategic Advice \$'000	Tourism Dvlpmt \$'000	Tourism Events \$'000	Tourism Marketing \$'000	2005 Total \$'000	2004 Total \$'000
EXPENSES:						
Employee benefits	888	1 232	2 252	7 359	11 731	10 539
Advertising and promotion	739	165	843	14 697	16 444	16 597
Industry assistance	238	3 739	2 422	3 816	10 215	15 391
Administrative costs	288	552	2 360	3 678	6 878	5 957
Event operations	-	22	4 576	36	4 634	5 389
Accommodation and services costs	112	143	552	1 408	2 215	1 867
Depreciation and amortisation	23	30	155	219	427	543
Interest on borrowings	4	6	13	41	64	75
Bad and doubtful debts expense	1	1	2	4	8	2
Total Expenses	2 293	5 890	13 175	31 258	52 616	56 360

4. Program Class Schedule of Expenses and Revenues for the year ended 30 June 2005 (continued)

	Strategic Advice \$'000	Tourism Dvlpmt \$'000	Tourism Events \$'000	Tourism Marketing \$'000	2005 Total \$'000	2004 Total \$'000
REVENUES:						
Participation fees	-	32	2 585	1 345	3 962	5 050
Interest	14	19	41	134	208	324
Commission on sales	-	-	-	598	598	557
Other revenue	55	104	1 904	1 551	3 614	2 164
Net loss from the disposal of non-current assets	(6)	(8)	(20)	(58)	(92)	(25)
Total Revenues	63	147	4 510	3 570	8 290	8 070
Total Net Cost of Services	2 230	5 743	8 665	27 688	44 326	48 290
GOVERNMENT:						
Revenues from Government	2 392	3 814	8 800	29 645	44 651	45 303
Total Revenues from Government	2 392	3 814	8 800	29 645	44 651	45 303
NET RESULT FROM ORDINARY ACTIVITIES	162	(1 929)	135	1 957	325	(2 987)

5. Revenue from Government

	2005 \$'000	2004 \$'000
Recurrent appropriation from the SA Government	44 651	45 303
	44 651	45 303

6. Participation Fees

Participation Fees from entities external to the SA Government:		
Cooperative marketing/advertising	1 052	1 153
Sponsorship revenue	2 076	2 354
Workshops/Training	38	27
Trade/consumer show participation	201	346
Contra transactions	245	710
	3 612	4 590
Participation Fees from entities within the SA Government:		
Sponsorship revenue	350	460
	350	460
	3 962	5 050

7. Other Revenue

Other Revenue from entities external to the SA Government:		
Event entry fees	835	981
Refunds/recoups of expenses	909	360
Service fees	8	11
Salary recoups	116	73
Familiarisation expenditure recouped	141	114
Sales of merchandise	127	86
Sundry revenue	595	539
	2 731	2 164
Other Revenue from entities within the SA Government:		
Other grants	883	-
	883	-
	3 614	2 164

8. Industry Assistance

Industry Assistance to entities external to the SA Government:		
Sponsorship of events	3 097	3 829
Tourism infrastructure grants	3 589	6 361
Tourism marketing boards/information centre grants	1 513	1 815
Marketing/Industry support	1 971	3 141
Membership of tourism industry bodies	13	43
Trade show subsidies	32	52
	10 215	15 241
Industry Assistance to entities within the SA Government:		
Marketing/Industry support	-	150
	-	150
	10 215	15 391

9. Depreciation and Amortisation

The aggregate amount of depreciation and amortisation expensed during the year for each class of depreciable asset was as follows:

	2005	2004
Plant and Equipment:	\$'000	\$'000
General plant and equipment	126	226
Fitouts	216	244
Pageant assets	75	63
	417	533
Intangibles:		
Christmas Pageant goodwill	10	10
	10	10
	427	543

10. Receivables

Current:

Debtors	974	399
Less: Provision for doubtful debts	16	16
	958	383
GST receivable	798	1 157
Sundry	162	140
	1 918	1 680

Non-Current:

Debtors	1 870	1 870
	1 870	1 870

All receivables at 30 June related to transactions with entities external to the SA Government.

11. Prepayments

Other	645	45
	645	45

12. Plant and Equipment

	2005			
	General Plant & Equipment	Fitouts	Pageant Assets	Total
	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount:				
Balance at 1 July	1 082	2 036	772	3 890
Purchases	281	162	78	521
WDV due to change in policy	(618)	-	-	(618)
Disposals	(11)	-	(40)	(51)
Balance at 30 June	734	2 198	810	3 742
Accumulated Depreciation:				
Balance at 1 July	788	991	406	2 185
Depreciation expense	126	216	75	417
WDV due to change in policy	(528)	-	-	(528)
Disposals	(11)	-	(38)	(49)
Balance at 30 June	375	1 207	443	2 025
Net Book Value:				
As at 30 June 2005	359	991	367	1 717
As at 30 June 2004	294	1 045	366	1 705

13. Intangibles

	2005
	Christmas
	Pageant
	Goodwill
	\$'000
Gross Carrying Amount:	
Balance at 1 July	200
Balance at 30 June	200
Accumulated Amortisation:	
Balance at 1 July	82
Amortisation expense	10
Balance at 30 June	92
Net Book Value:	
As at 30 June 2005	108
As at 30 June 2004	118

14. 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.

15. Payables

	2005	2004
	\$'000	\$'000
Current:		
Trade creditors	2 078	2 539
Accrued expenses	387	603
Accrued employee benefits	171	114
Employee on-costs	119	106
GST payable	213	110
	2 968	3 472
Non-Current:		
Employee on-costs	81	72

All payables at 30 June related to transactions with entities external to the SA Government.

16. Other Liabilities

Current:		
Unclaimed monies	82	122
Unearned revenue	134	46
	216	168

17. Employee Benefits

Current:		
Provision for annual leave	690	616
Provision for long service leave	146	120
	836	736
Non-Current:		
Provision for long service leave	714	628

Employee Benefits and Related On-costs:

Current:		
Provisions	836	736
Accrued employee benefits	171	114
On-costs	119	106
	1 126	956
Non-Current:		
Provisions	714	628
On-costs	81	72
	795	700
Aggregate Employee Benefits and Related On-cost Liabilities	1 921	1 656

18. Borrowings

Balance 1 July	1 036	1 165
Less: Repayments	(138)	(129)
Balance 30 June	898	1 036
Represented by:		
Current borrowings	147	138
Non-current borrowings	751	898
	898	1 036

All borrowings held at 30 June were payable to the SA Government.

19. 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 2005. The movement in the Reserve for the year was:

	2005	2004
	\$'000	\$'000
Balance 1 July	2 291	4 791
Transfer to accumulated surplus	(2 291)	(2 500)
Balance 30 June	-	2 291

20. Accumulated Surplus	2005	2004
	\$'000	\$'000
Balance 1 July	979	1 466
Operating surplus (deficit)	325	(2 987)
Transfer from Tourism infrastructure reserve	2 291	2 500
Balance 30 June	3 595	979

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	1 096	1 018
Later than one year but not later than five years	4 195	2 455
Later than five years	139	1 130
	5 430	4 603

These commitments have been calculated at current rates as lease terms are reviewed at regular intervals.

(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 Statement of Financial Position because they have been assessed as giving rise to a future rather than a present obligation for payment. These commitments are summarised as follows:

	2005	2004
	\$'000	\$'000
Tourism marketing boards	1 611	1 633
International marketing representation fees	671	1 023
Tourism development projects	-	70
Events/sponsorship	4 655	4 566
Co-operative marketing	800	885
Service contracts	1 044	1 981

22. Contingent Obligations

Contingent obligations are items in the nature of liabilities and assets which, as at the reporting date, are not recognised in the Statement of Financial Position because they have been assessed as being dependent on certain events taking place before a present obligation for the Commission to make payments in respect of them will arise.

The Commission is currently contesting a claim concerning the staging of the LeMans event in Adelaide. It is not possible to estimate the amount, if any, of eventual payments or receipts that may eventuate in relation to this claim.

23. Notes to the Statement of Cash Flows**(a) Reconciliation of Net Cash used in Operating Activities to Net Cost of Services**

	2005	2004
	\$'000	\$'000
Net cash used in operating activities	(255)	(2 283)
Less: Revenues from Government	(44 651)	(45 303)
Proceeds from disposal of non-current assets	-	1
Depreciation and amortisation	(427)	(543)
Carrying value of non-current assets disposed/written off	(92)	(26)
Change in assets and liabilities:		
Increase (Decrease) in prepayments	600	(3)
Increase in receivables	238	509
Increase in employee benefits	(186)	(146)
Increase in other liabilities	(48)	(49)
Decrease (Increase) in payables	495	(447)
Net Cost of Services	(44 326)	(48 290)

(b) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at Treasury and deposits at call. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005	2004
	\$'000	\$'000
Cash at 30 June comprised:		
Cash on hand and at Treasury (unexpended balance)	2 321	2 282
Deposits at call (accrual appropriation funds)	329	1 282
	2 650	3 564

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

The following table details the Commission's exposure to interest rate risk.

	Average Interest Rate Percent	Variable Interest Rate \$'000	2005 Fixed Interest Rate Maturity			Non- Interest Bearing \$'000	Total \$'000
			Less than 1 Year \$'000	1 to 5 Years \$'000	Greater than 5 Years \$'000		
Financial Assets:							
Cash - Operating account	5.75	2 321	-	-	-	2 321	
Cash - Accrual appropriation funds	5.58	329	-	-	-	329	
Receivables	-	-	-	-	-	3 788	
Shares	-	-	-	-	-	400	
		<u>2 650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6 838</u>	
Financial Liabilities:							
Payables	-	-	-	-	-	2 678	
Borrowings	6.72	-	147	701	50	898	
		<u>-</u>	<u>147</u>	<u>701</u>	<u>50</u>	<u>3 576</u>	
	Average Interest Rate Percent	Variable Interest Rate \$'000	2004 Fixed Interest Rate Maturity			Non- Interest Bearing \$'000	Total \$'000
			Less than 1 Year \$'000	1 to 5 Years \$'000	Greater than 5 Years \$'000		
Financial Assets:							
Cash - Operating account	4.82	2 282	-	-	-	2 282	
Cash - Accrual appropriation funds	5.39	1 282	-	-	-	1 282	
Receivables	-	-	-	-	-	3 550	
Shares	-	-	-	-	-	400	
		<u>3 564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3 950</u>	
Financial Liabilities:							
Payables	-	-	-	-	-	3 252	
Borrowings	6.72	-	138	655	243	1 036	
		<u>-</u>	<u>138</u>	<u>655</u>	<u>243</u>	<u>3 252</u>	

(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 Statement of Financial Position, 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 Statement of Financial Position represents their respective net fair values.

25. Targeted Voluntary Separation Packages (TVSPs)

	2005 \$'000	2004 \$'000
Amount paid to these employees:		
TVSP	-	46
Annual leave and long service leave paid during the reporting period	-	16
Balance 30 June	<u>-</u>	<u>62</u>

Recovered from the Department of the Premier and Cabinet - 46

Number of employees who were paid TVSPs during the reporting period were nil (1).

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)	M Butler
A Skipper (Deputy Chair)	P Collins
F Connor	D Gautier
J James	D Alexander (from October 2004)
C Wickham	D Minear (until September 2004)

(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:

	2005 Number of Directors	2004 Number of Directors
\$0 - \$10 000	2	8
\$10 001 - \$20 000	8	4
\$20 001 - \$30 000	-	1

The total remuneration received, or due and receivable, by Directors was \$125 000 (\$133 000). 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:

	2005 Number of Employees	2004 Number of Employees
\$100 001 - \$110 000	3	2
\$110 001 - \$120 000	1	2
\$120 001 - \$130 000	1	1
\$130 001 - \$140 000	1	-
\$140 001 - \$150 000	-	1
\$150 001 - \$160 000	2	2
\$160 001 - \$170 000	1	1
\$240 001 - \$250 000	-	1
\$250 001 - \$260 000	1	-

The total remuneration received or due and receivable by employees whose remuneration exceeded \$100 000 was \$1 416 000 (\$1 415 000). The remuneration includes salary, employer's superannuation costs, non-monetary benefits, and associated fringe benefits tax.

29. Auditors' Remuneration

Amounts received, or due and receivable by the Auditor-General's Department for auditing of the accounts

2005 \$'000	2004 \$'000
58	65

Other Services

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

30. Consultants

Total expenditure on 1 (1) consultancy in 2004-05 amounted to \$63 000 (\$14 000).

Consultancies costing over \$50 001 per consultancy:

<u>Project</u>	<u>Consultants</u>	2005 Number of Consultants	\$'000
Joint review with the Department of Environment and Heritage into existing built accommodation and campsites within Reserves in South Australia	Corporate Ascent	1	63

31. Schedule of Administered Items**(a) Schedule of Administered Revenues and Expenses for the year ended 30 June 2005**

	2007 World Police and Fire Games		SA Motor Sport Board		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
ADMINISTERED REVENUES:						
State Government	890	-	-	-	890	-
Grants	-	573	-	-	-	573
Operating revenue	-	18	-	-	-	18
Total Administered Revenues	890	591	-	-	890	591
ADMINISTERED EXPENSES:						
Employee benefits	-	193	-	-	-	193
Advertising and promotion	-	19	-	-	-	19
Administrative costs	-	57	-	-	-	57
Event operations	-	178	-	-	-	178
Accommodation and service costs	-	1	-	-	-	1
Transfer to 2007 World Police and Fire Games	1 033	-	-	-	1 033	-
Total Administered Expenses	1 033	448	-	-	1 033	448

(b) Schedule of Administered Assets and Liabilities as at 30 June 2005

	2007 World Police and Fire Games		SA Motor Sport Board		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
ADMINISTERED ASSETS:						
Cash	-	158	476	476	476	634
Receivables	-	-	-	-	-	-
Plant and equipment	-	-	-	-	-	-
Land and buildings	-	-	-	-	-	-
Total Administered Assets	-	158	476	476	476	634
ADMINISTERED LIABILITIES:						
Payables	-	8	-	-	-	8
Employee benefits	-	7	-	-	-	7
Total Administered Liabilities	-	15	-	-	-	15

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.

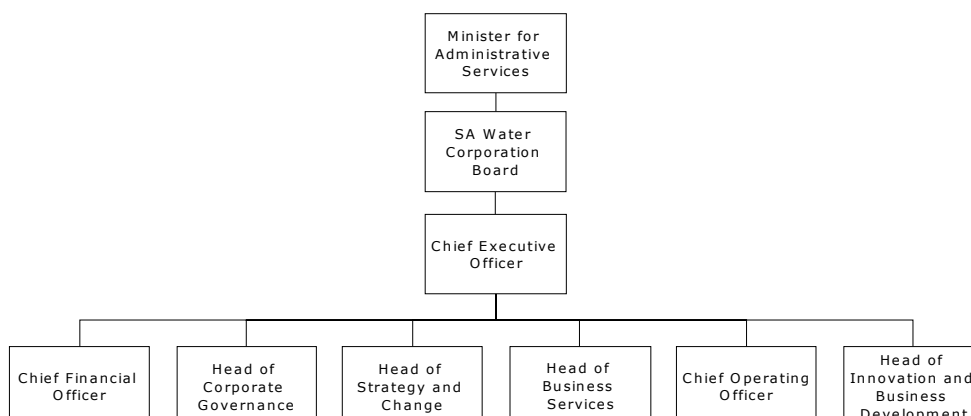
The primary functions of the Corporation in accordance with the Act are to provide services for the:

- 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 Financial Statements

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 2004-05, 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 designing the audit programs.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Water Corporation as at 30 June 2005, 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, except for the matters raised in relation to payroll and contract management and procurement as outlined under 'Audit Communications to Management', 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. Given the nature of this system and the large number of customer accounts this is an area of ongoing risk and while the Corporation has implemented a range of checking procedures Audit is of the view that the Corporation should give consideration to implementing an increased level of training for staff in an effort to prevent the initial occurrence of incorrect data entry, along with additional checking to detect any incorrect billing.

In response the Corporation indicated that action would be taken to resolve the matters identified.

Payroll

The audit of the payroll function revealed that there was room for improvement in relation to bona fide reports. This issue has been raised with the Corporation over a number of years and although there has been some improvement there remains a need to ensure there is adequate follow up of outstanding bona fide reports.

The audit also revealed that checking of timesheets to ensure that leave taken had been properly recorded had not been undertaken for the majority of the financial year.

The Corporation's response indicated that action would be taken to address all the issues identified.

Purchasing Cards

The audit of the use of purchasing cards identified that there was room for improvement in the timely clearing of transactions by card holders and authorisation by supervisors and the timely submission of supporting documentation for purchases. These issues were raised with the Corporation in 2003-04.

In response the Corporation indicated that action would be taken to address 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 were raised with the Corporation in 2003-04.

The Corporation indicated that action would be taken to address the matters raised.

Contract Management and Procurement

Contracting and managing contracts is a fundamental part of the Corporation's operations. The Corporation has large numbers of operational and capital project contracts worth many millions of dollars in place at any given time.

The audit of the tender and contract management processes revealed issues with:

- timing which can affect the integrity of the tendering process;
- the absence of documentation providing evidence of compliance with the Corporation's policy and practice;
- omission of basic tests such as price checks before payment of invoices.

In response the Corporation indicated circumstances affecting the specific matters identified by Audit but also that revised procedures would be implemented to address the issues raised by Audit.

Joint Venture Operations

The Corporation is responsible for the management and administration of the SA Water-Hydro Joint venture on behalf of both joint venture partners. Audit review of the processes employed by the Corporation in this regard revealed a need for improvement in the timeliness of reconciliations of the bank account and the sales of electricity and in the recording of decisions made by the joint venture management committee.

The Corporation has indicated that action will be taken to address the matters raised.

Acquisition of Land at Victor Harbor

In the course of the year an audit review was conducted regarding a number of matters associated with the compulsory acquisition of land at Victor Harbor for the purpose of building a waste water treatment plant.

The Corporation initiated a proposal for the redevelopment of the Victor Harbor Wastewater Treatment Plant (WWTP) in the early 1990s. A property neighbouring the existing WWTP was compulsorily acquired in 1996 for that purpose. Subsequently, in response to public opinion after the announcement of the intention to proceed with the project, the Corporation indicated to affected parties that it would consider alternative sites for the construction of a new WWTP. A second property, some distance from the existing WWTP, was subsequently compulsorily acquired in 2002 and a new WWTP is being constructed on that site.

Noting that the Corporation ultimately compulsorily acquired two separate properties in relation to the development of the WWTP, there were some important administrative matters that should be subject to review and improvement with regard to compulsory acquisitions.

Audit sought advice from the Corporation in relation to major capital works as to what processes were currently in place to ensure that appropriate public consultation has occurred before embarking on a course of compulsory acquisition of property.

In response the Corporation advised that its procedures for the acquisition of land had been revised and improved as part of a formal review process in 2002. For relevant projects, the initial public consultation aspect had been brought forward and would be included in the selection criteria for determining the preferred project option. The Corporation also advised it 'has in place communications and consultation plans for major projects. These plans aim to identify key stakeholders, analyse their information needs and develop suitable strategies throughout the project life'.

Audit notes that response and the acknowledgement by the Corporation of the need for effective due diligence to be applied in all situations when there is the need to exercise the power of compulsory acquisition of property.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2005	2004	Percentage
	\$'million	\$'million	Change
REVENUE FROM ORDINARY ACTIVITIES			
Rates and charges	530	510	4
Community service obligations	103	102	1
Other	143	110	30
Total Revenue	776	722	7
EXPENSES FROM ORDINARY ACTIVITIES			
Employment expenses	73	66	11
Depreciation and amortisation expense	126	117	8
Borrowing cost expense	81	79	3
Other expenses	208	193	8
Total Expenses	488	455	7
Profit from ordinary activities after income tax expense	197	180	9
Net Cash Flows from Operations	276	272	1
ASSETS			
Current assets	127	135	(6)
Non-current assets	6 905	6 706	3
Total Assets	7 032	6 841	3
LIABILITIES			
Current liabilities	175	177	(1)
Non-current liabilities	1 322	1 330	(1)
Total Liabilities	1 497	1 507	(1)
EQUITY	5 535	5 334	4

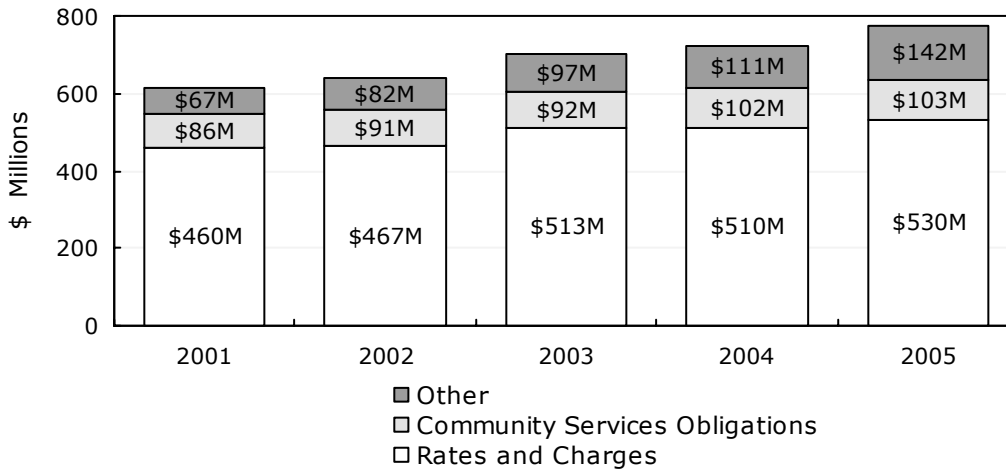
Statement of Financial Performance

Revenues from Ordinary Activities

Revenue from rates and charges increased by \$20.1 million or 4 percent. This was due mainly to price increases and growth in customer numbers.

Other revenue rose by \$31 million or 28 percent which was primarily as a result of an increase in contributed assets of \$26.9 million. Contributed assets for 2004-05 totalled \$72.1 million and represents 52 percent of other revenue.

A structural analysis of operating revenues for the Corporation in the five years to 2005 is presented in the following chart.



Expenses from Ordinary Activities

Total expenses from ordinary activities increased by \$32.1 million to \$487.6 million. This compares with a \$10.4 million increase in 2004.

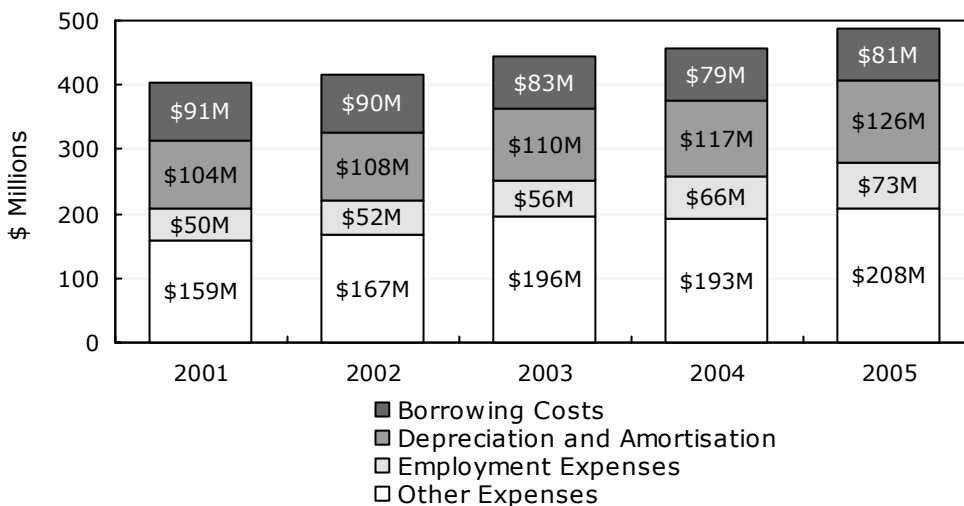
Depreciation and amortisation increased by \$8.5 million to \$125.8 million (26 percent of total expenses) as a result of higher asset values.

Borrowing costs increased by \$2.3 million in 2005 after successive decreases in the previous four years. The increase is due mainly to a higher level of debt throughout 2005.

Employment expenses increased by \$6.9 million in 2005 due mainly to increased pay rates along with increased number of employees associated with high levels of development and capital activity, workforce refreshment transition, water conservation officers and asset and land management and security. Employment expenses have increased by \$22.9 million over the past five years.

Other expenses increased by \$14.3 million primarily as a result of increased services and supplies costs, up \$7 million and increased expenses for operational and service contracts, up \$6.8 million.

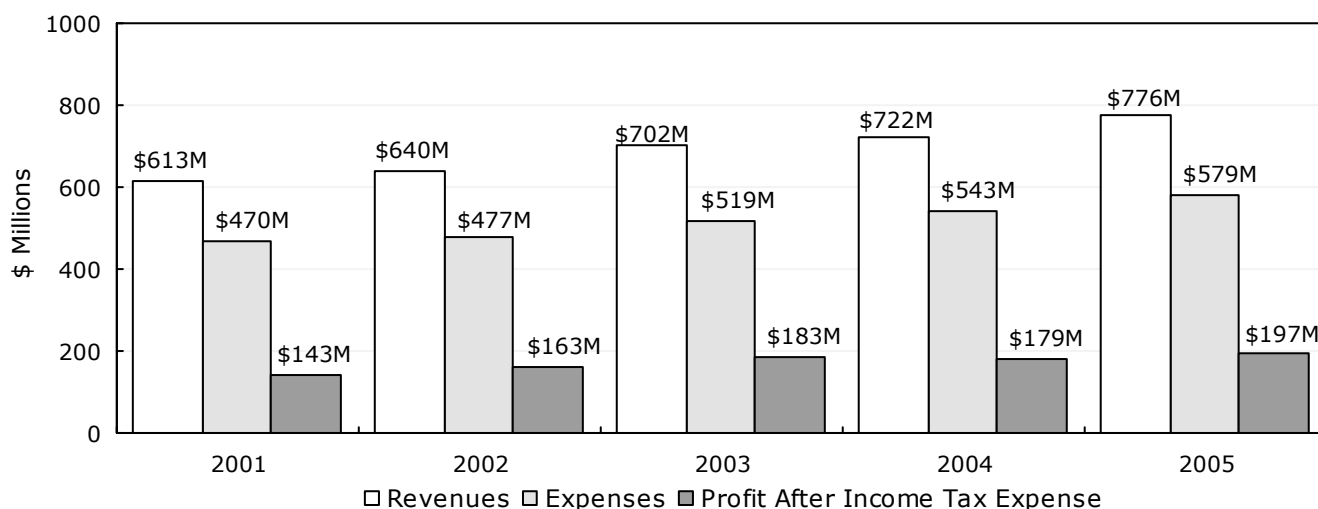
A structural analysis of the main expense items for the Corporation for the five years to 2005 is shown in the following chart.



Operating Result

The Corporation's profit has increased by \$17.5 million or 9.8 percent compared with a \$3.6 million (2 percent) decrease the previous year. Total revenue and total expenses both increased in 2005, up \$53.5 million and \$32.2 million respectively and along with an increase in income tax equivalent expenses of \$3.8 million led to the increase in overall profit.

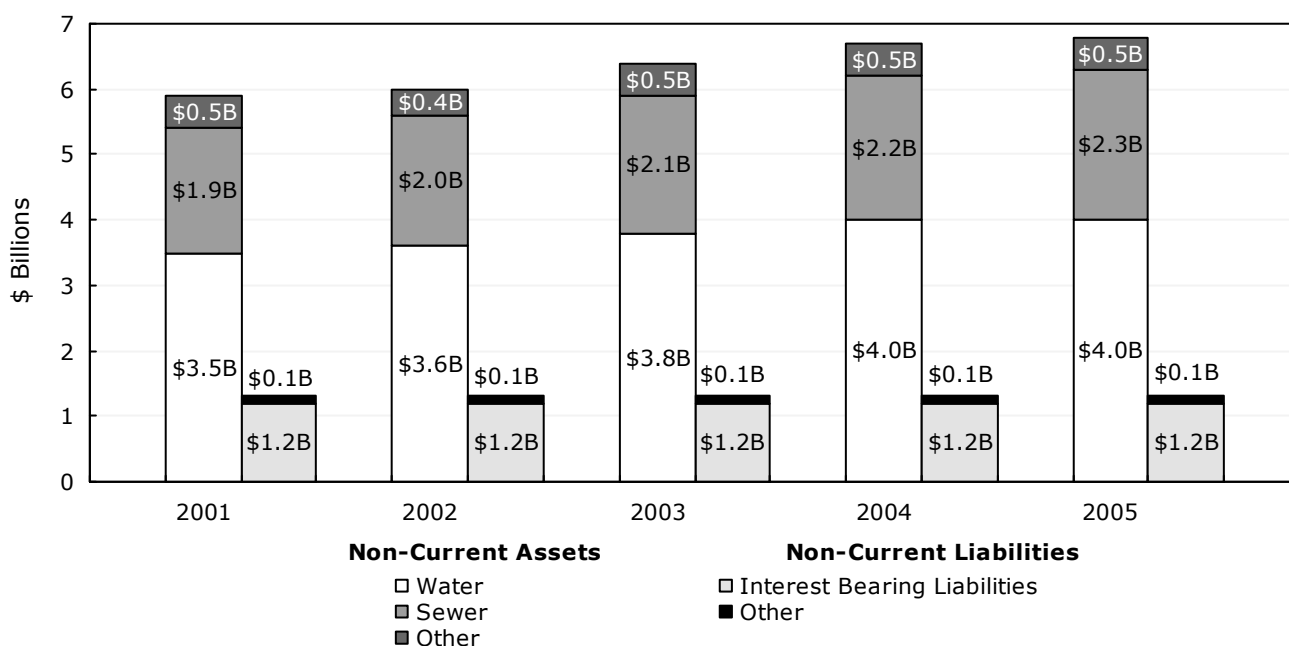
The following chart shows the revenues, expenses (including tax equivalent expense) and profit after income tax for the five years to 2005.



Statement of Financial Position

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 2005 current liabilities amounted to \$175 million, exceeding current assets of \$127 million, by \$48 million due to a short term borrowing of \$64 million to meet capital expenditure and dividend payment requirements.

A structural analysis of non-current assets and non-current liabilities for the five years to 2005, is shown in the following chart.



Non-current assets increased by \$200 million (3 percent) in 2005 to \$6.9 billion. Of the increase \$128 million was as a result of the revaluation of water and sewer infrastructure assets and \$156 million was from payments for construction and purchase of assets including \$12 million for tradeable water allocations. These increases were offset by depreciation and amortisation expense of \$126 million. The value of all other assets and liabilities remained relatively unchanged over the period.

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2005.

	2005	2004	2003	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000
Net Cash Flows					
Operations	275 652	272 371	266 890	254 896	235 107
Investing	(114 613)	(184 293)	(123 253)	(91 209)	(101 114)
Financing	(162 689)	(88 310)	(143 462)	(163 205)	(133 943)
Change in Cash	(1 650)	(232)	175	482	50
Cash at 30 June	(744)	*906	1 148	973	491

* 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.

The analysis of cash flows shows that net cash from operations has been steadily growing over the five years to 2005.

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 2005 decreased by \$70 million (due to completion in 2004 of upgrading at the Bolivar Wastewater Treatment Plant) net outlays over the five year period totalled \$614.5 million.

Cash flows used in financing activities primarily reflect the payment of dividends to Government and the outcome of borrowing activities. In 2005 these payments totalled \$162.7 million, an increase of \$74.4 million over the previous year. In 2005 the dividends paid to the Government were \$165 million (\$164 million) and there was no repayment of capital. Net borrowings increased by only \$2.5 million compared with a \$75.8 million increase the previous year.

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.

An analysis of some key financial ratios agreed to in the Performance Statement is set out in the following table:

Performance measure	Target	Actual	Actual	Actual	Actual
	2004-05	2004-05	2003-04	2002-03	2001-02
Rate of return on assets (percent) ⁽¹⁾	5.3	5.4	5.2	5.3	5.3
Interest cover (times) ⁽²⁾	4.0	4.6	4.4	4.1	3.5

(1) Earnings before interest, tax and dividend divided by the total infrastructure assets (excluding plant and equipment).

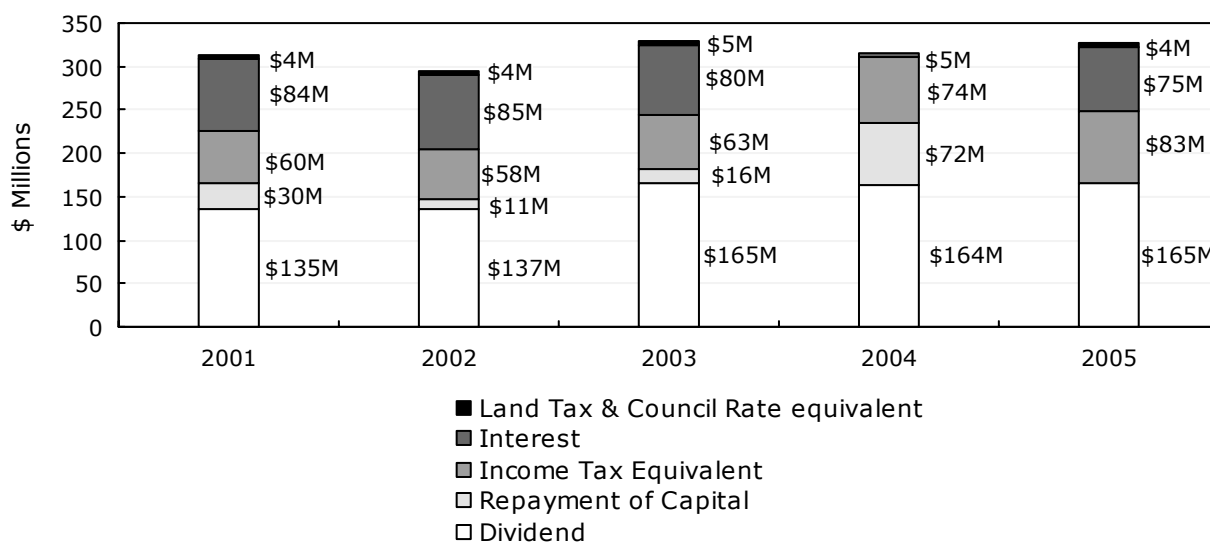
(2) Borrowing costs expense plus profit from ordinary activities before income tax expense divided by interest expense.

The Corporation has achieved better than the targets agreed to in the Performance Charter for interest cover where the target was exceeded by 0.6. The target for rate of return on assets was also achieved by the Corporation.

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 2005 is shown in the following chart.



In 2004-05 total cash paid to the Government which comprised a dividend payment, tax equivalent payments and interest payments increased by \$12 million to \$327 million due primarily to an increase in income tax equivalent payments of \$11 million following an increase in profit from ordinary activities.

The key payment to the Consolidated Account in any year is subject to a standard, cash based, formula such that the total payment is 55 percent of earnings before interest, tax, depreciation and amortisation less the level of capital expenditure agreed with the Treasurer as necessary to maintain the ongoing business operations of the Corporation. This amount is paid as a combination of dividends, repayment of capital and income tax equivalent payments.

New Financial Ownership Framework

This is the last year that the payment to the Consolidated Account will be determined on that basis. A new Financial Ownership Framework has been developed by the Department of Treasury and Finance for Public Non-Financial Corporations which will apply from 2005-06 to the Corporation. The main features of the new structure are:

- debt to total assets ratio range of 15-25 percent for the next four to five years (currently 18.4 percent);
- target gearing ratio of 20 percent;
- dividend payout ratio of 95 percent based on after tax profit (currently 78.8 percent);
- a revised Community Service Obligation Agreement

The effect of the new framework budgeted for by the Department of Treasury and Finance in 2005-06 is an increase in dividend of \$28 million, increased tax equivalent regime payment of \$8 million plus an EPA levy contribution of \$4 million, while the community service obligation payment to SA Water will increase by \$30 million resulting in a total net contribution to the Budget of an additional \$10 million.

While the dividend payout ratio is high at 95 percent, the reasoning is that this ratio is appropriate for achieving the target forecast gearing ratio.

The revised framework is to be subject to annual review of outcomes and periodic review of operation and effectiveness.

For four of the last five years net cash generated from operating activities has been 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 not sufficient to enable the payment of the level of dividend and return of capital required by the Department of Treasury and Finance. As a result the net borrowings of the Corporation have increased by \$131.9 million over the last five years. Essentially the Corporation is borrowing to fund part of its dividend payments to the Government and to fund its capital works.

This is illustrated in the following table.

	2005	2004	2003	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000
Net cash inflows from operating activities	275 652	272 371	266 890	254 896	235 107
Net cash outflows from investing activities	(114 613)	(184 293)	(123 253)	(91 209)	(101 114)
Surplus cash from operations after investing activities	161 039	88 078	143 637	163 687	133 993
Repayments to owners	(165 189)	(164 110)	(180 845)	(148 175)	(165 170)
Shortfall in funds available to pay owners	4 150	76 032	37 208	(15 512)	31 177
Net increase in borrowings	2 500	75 800	37 383	(15 030)	31 227
Debt/Asset Ratio (percent)	18.4	19.0	18.7	19.2	20.0

With the implementation of the new Financial Ownership Framework which requires a higher gearing ratio and higher dividend payout ratio than is currently in place, the level of borrowings is likely to increase.

**Statement of Financial Performance
for the year ended 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES	2	775 854	722 365
EXPENSES FROM ORDINARY ACTIVITIES			
Salaries and employee benefits expense		73 425	66 454
Electricity expense		27 780	27 215
Operational and service contracts		87 499	80 726
Services and supplies		92 226	85 220
Borrowing costs expense	3	80 907	78 577
Depreciation and amortisation expense	3, 11	125 812	117 288
Total Expenses from Ordinary Activities		487 649	455 480
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		288 205	266 885
Income tax expense relating to ordinary activities	4(a)	(91 337)	(87 544)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	19	196 868	179 341
Net increase in asset revaluation reserve	18	159 994	187 655
Total valuation adjustments recognised directly in equity		159 994	187 655
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		356 862	366 996

**Statement of Financial Position
as at 30 June 2005**

	Note	2005	2004
		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	16(a)	-	906
Receivables	6	121 708	129 064
Inventories	7	4 180	4 114
Other	8	1 141	865
Total Current Assets		127 029	134 949
NON-CURRENT ASSETS:			
Other financial assets	9	6 831	6 325
Infrastructure, plant and equipment	11	6 859 325	6 671 214
Deferred tax assets	4(d)	11 004	11 126
Intangible assets	10	25 369	13 858
Other	8	2 859	3 289
Total Non-Current Assets		6 905 388	6 705 812
Total Assets		7 032 417	6 840 761
CURRENT LIABILITIES:			
Overdraft	16(a)	744	-
Payables	12	67 648	75 891
Interest-bearing liabilities	13	64 016	58 393
Current tax liabilities	4(b)	31 707	30 217
Provisions	14	9 237	11 026
Other	15	1 255	1 812
Total Current Liabilities		174 607	177 339
NON-CURRENT LIABILITIES:			
Payables	12	1 222	1 159
Interest-bearing liabilities	13	1 228 521	1 243 579
Deferred tax liabilities	4(c)	71 496	64 409
Provisions	14	20 909	20 286
Other	15	497	497
Total Non-Current Liabilities		1 322 645	1 329 930
Total Liabilities		1 497 252	1 507 269
NET ASSETS		5 535 165	5 333 492
EQUITY:			
Contributed equity	17	247 950	247 950
Reserves	18	5 121 211	4 961 217
Retained profits	19	166 004	124 325
TOTAL EQUITY		5 535 165	5 333 492
Commitments	21		
Contingent Liabilities	24		

**Statement of Cash Flows
for year ended 30 June 2005**

		2005	2004
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
Receipts from customers		632 239	613 031
Payments to suppliers and employees		(315 282)	(301 962)
Receipts from Community Service Obligation funding	1(c)	104 800	100 196
Receipts from contributions		25 456	21 675
Interest received		59	171
Borrowing costs paid		(88 982)	(88 658)
Income tax paid	4(b)	(82 638)	(72 082)
Net Cash provided by Operating Activities	16(b)	275 652	272 371
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for construction and purchase of infrastructure, plant and equipment		(105 095)	(174 016)
Payments for intangible assets		(10 861)	(13 159)
Proceeds from sale of infrastructure, plant and equipment		1 343	2 882
Net Cash used in Investing Activities		(114 613)	(184 293)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		484 500	598 800
Repayment of borrowings		(482 000)	(523 000)
Dividends paid		(165 189)	(164 110)
Net Cash used in Financing Activities		(162 689)	(88 310)
NET DECREASE IN CASH HELD		(1 650)	(232)
CASH AT 1 JULY		906	1 138
CASH AT 30 JUNE	16(a)	(744)	906

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement 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 1929* 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

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Statements of Accounting Concepts, Urgent Issues Group (UIG) Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*. Additionally, the Corporation has undertaken to prepare its financial report in accordance with the *Corporations Act 2001*.

The financial report has been prepared in accordance with the historical cost convention, except for infrastructure, land, buildings and other non-current financial assets which are stated using fair value as detailed in Note 1(e).

(b) Change of Accounting Policy: Pensioner Concessions

SA Water is responsible for the administration of Local Government concession payments. The Corporation has adopted a revised approach to accounting for Pensioner Concessions in accordance with AAS 29 'Financial Reporting by Government Departments'. Refer to Note 1(w). Pensioner Concessions are separately disclosed in Note 33 as an administered item.

(c) Principles of Consolidation

Controlled Entities

The financial statements of the Corporation were previously prepared on a consolidated basis. Control of the subsidiary entities Crichbee Pty Ltd, SA Water International Pty Ltd and PT SA Water International Pty Ltd has now ceased and the financial statements are no longer prepared on a consolidated basis.

Joint Venture Operation

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 joint ventures' assets, liabilities, expenses and revenues on a line by line basis. See Note 22 for disclosure of the Corporation's interest in the joint venture operation.

(d) Revenue Recognition

Rates and Charges

Rates and other charges billed, but not yet received at balance date, are recognised as revenue for the period. Water consumption recorded in unread meters as at 30 June 2005 is not taken into account in determining revenue for the year ended 30 June 2005.

Community Service Obligations (CSOs)

The Corporation provides services to the community on behalf of the Government at a lower than commercial rate of return. The Government provides funding for CSOs in recognition of the non-commercial impact of these services provided to the community. The main CSOs are for the pricing of country water and wastewater services, the administration of the pensioner concession scheme and the provision of water and wastewater concessions to exempt properties, which include charities, churches and public schools. A CSO has also been recognised to fund a Community Education Program to assist and encourage customers to adopt water conservation practices. These amounts are recognised as revenue for the period when advice is received from Government on the level of funding.

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 gross proceeds of non-current asset sales are included as revenue 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, including capitalised borrowing costs, in accordance with Accounting Standard AASB 1036 'Borrowing Costs', 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(f).

• *Valuations*

To comply with Treasury Accounting Policy Statement APS 3 'Valuation of Non-Current Assets' and Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' the Corporation has adopted the fair value method for measuring and reporting land and buildings and infrastructure assets in the Statement of Financial Position.

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 General Cost Index (GCI) or current contract supply rates. The GCI is calculated by the Corporation's Chief Estimator from supporting indices maintained by the Australian Bureau of Statistics. The GCI is a calculation of the material and labour index for the construction industry in South Australia.

- *Valuations (continued)*
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:

(i) **Infrastructure Assets**

The fair value of an asset is determined by its written-down current cost. The Corporation determines the 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.

To determine the fair value of infrastructure assets the Corporation has utilised the following methodologies:

- Water mains, water services, water meters, sewer mains, sewer connections - Directors' valuations predominantly based on current contract rates. These rates are applied to the actual lengths of pre-defined modern equivalent asset types for water mains and sewer mains.
- Water tanks were independently revalued by Currie and Brown for the current financial year to 30 June 2005.
- Other infrastructure assets - Directors' valuations based on the current construction cost data. These assets are indexed in between comprehensive valuations using the GCI.

The cost of infrastructure assets constructed by the Corporation includes all materials used in construction, direct labour, an appropriate proportion of variable and fixed overheads and contract payments. Interest is capitalised to capital works in progress using funds borrowed generally at a weighted average capitalisation rate as outlined in Note 1(j).

(ii) **Land and Buildings**

Land is brought to account at market value using valuations provided from the State Valuer-General.

Buildings were independently revalued by Adderley and Partners Pty Ltd, Currie and Brown, Rider Hunt, Terotech and State Valuer-General for the current financial year 30 June 2005.

(iii) **Other Assets and Plant and Equipment**

Other assets and plant and equipment are brought to account at historical cost.

- *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:

	2005	2004
	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 Build, Own, Operate and Transfer (BOOT) arrangements for the Virginia Pipeline Scheme have been measured at fair value, in accordance with Treasury Accounting Policy Statement APS 3 'Valuation of Non-Current Assets' and Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' (refer Note 9). Due to the nexus between the class B shares and the pipeline assets, the value of the shares has been determined using the written-down current cost of the pipeline assets in 2018 discounted to their net present value.

(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. Subsequent to initial recognition they will be measured at fair value with reference to the current market price. The water allocations have an indefinite useful life and as such are not subject to amortisation.

(f) **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 Statement of Financial Performance. 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 Accounting Standard AASB 1008 '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 (refer Note 11). 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 Accounting Standard AASB 1008 'Leases'. 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 Statement of Financial Performance.

(g) **Investments**

As at 30 June 2005 the Corporation no longer has a controlling interest in its subsidiaries (Crichbee Pty Ltd, SA Water International Pty Ltd and PT SA Water International). The subsidiaries were in liquidation as at balance date.

(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 3.

(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.

The Corporation has adopted the liability method of tax effect accounting for income tax equivalents, whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in accounting profit and when items are taken into account in determining taxable income, the net taxation benefit or liability, calculated at current rates, is carried forward in the Statement of Financial Position as a future income tax benefit or a provision for deferred tax liability. Future income tax benefits relating to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

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

Revenues, 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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 in accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)'.

(j) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and finance lease charges.

Borrowing costs are expensed as incurred unless they relate to the construction of a qualifying asset. Qualifying assets are assets which take more than 12 months to complete. In these circumstances, borrowing costs are capitalised to the cost of the assets.

Interest was capitalised to capital works in progress using funds borrowed generally at a weighted average capitalisation rate of 6.32 percent (6.26 percent) (Note 1(e)).

(k) Cash

Cash on hand and at bank is stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand, at bank and 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. An allowance 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, 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 Statement of Financial Position 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 Statement of Financial Position 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 and 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 legal, equitable or constructive obligation to make future sacrifice of economic benefits to a third party as a result of past transactions or other past events. The amount is recognised in the Statement of Financial Position when it is probable that a future sacrifice of economic benefits will be required to settle the obligation and the timing or amount is significantly uncertain.

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 guarantee securities with terms of maturity that match, as closely as possible, the estimated future cash flows.

Removal of Biosolids

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 (EPA) 1993* to ensure no harm is caused to the environment. The removal of bio-solids is administered in accordance with the 1996 Biosolids Guidelines issued by the EPA.

Estimated future cash flows are based on the processing and administration costs associated with the preparation and loading of biosolids 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 biosolids 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 Site Rehabilitation

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. Obligations associated with the retirement or disposal of long lived assets are excluded from the scope of Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'.

(s) Commodities

The Corporation's exposure to commodities is managed through a natural hedge. This exposure is monitored, and if any conditions arise that change the exposure profile of commodity prices, appropriate hedge transactions will be entered into.

(t) Interest Bearing Liabilities

All loans are measured at the principal amount. Short-term borrowings are carried in the Statement of Financial Position at their face value. Long-term borrowings are valued at their historical yield. Interest expense is accrued at the contracted rates on a daily basis and includes costs incurred in restructuring borrowings. The Government provides a guarantee in respect of these borrowings pursuant to the provisions of the *Public Finance and Audit Act 1987*.

(u) Derivatives

The Corporation manages exposures to changes in interest rates, foreign exchange rates and commodity prices as per the Board approved Treasury Risk Management Policy. Derivative financial instruments as approved by the Board are used by the Corporation to implement strategies for the management of the debt portfolio, or the hedge of specific debt.

To assist in managing these exposures, the following derivative financial instruments are utilised from time to time to hedge the exposure:

(i) Interest Rate Swaps

Interest payments and receipts under interest rate swaps are recognised on an accrual basis in the Statement of Financial Performance 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 Statement of Financial Performance. 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.

(ii) Forward Rate Agreements

Any realised gains or losses on forward rate agreements are recognised immediately in the Statement of Financial Performance 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.

(v) 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, borrowings, 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.

(w) Administered Items

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 and the administered item is not recognised in the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows, but is separately disclosed in Note 33 as an administered item.

SA Water is responsible for the administration of Local Government 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 and the administered item is not recognised in the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows, but is separately disclosed in Note 33 as an administered item.

(x) Impact of Adopting Australian Equivalents to International Financial Reporting Standards

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

The Corporation is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (IFRS) which will be applicable for the financial year ended 30 June 2006. In 2004-05 the Corporation allocated internal resources to review IFRS and identify key areas that would be impacted by the transition to IFRS. As a result, SA Water established a project team to address each of the areas identified for review.

Set out below are the key areas where accounting policies are expected to change on adoption of IFRS and a best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

It should be noted that the figures disclosed are management's current and best assessment of the impact of IFRS as at the date of preparing the 30 June 2005 financial report. The actual effects on transition to IFRS may differ due to (a) ongoing work being undertaken by the IFRS project team; (b) potential amendments to IFRSs and interpretations thereof being issued by the standard-setters and International Financial Reporting Interpretation Committee (IFRIC); and (c) emerging accepted practice in the interpretation and application of IFRS and UIG Interpretations.

Reconciliation of Equity as Presented under AGAAP to that under IFRS

	**30.06.2005	*01.07.2004
	\$'000	\$'000
Total equity under AGAAP	5 535 165	5 333 492
Adjustments to Retained Earnings:		
Recognise taxation implications of AASB 112	a (11 624)	(17 501)
Derecognise capitalised interest in accordance with AASB 123#	b (22 922)	(18 466)
Derecognise provision balances in accordance with AASB 137#	c 596	596
	(33 950)	(35 371)
Adjustments to Other Reserves:		
Tax effect of revaluation of assets	a (436 950)	(402 997)
Derecognise capitalised interest on revalued assets	b -	4 647
	(436 950)	(398 350)
Total Equity under IFRS	5 064 265	4 899 771

* this column represents the adjustments as at the date of transition to IFRS.

** this column represents the cumulative adjustments as at the date of transition to IFRS and those for the year ended 30 June 2005.

net of tax

Reconciliation of Equity as Presented under AGAAP to that under IFRS

- (a) Under AASB 112 'Income Taxes' the Corporation is required to use a balance sheet liability method, rather than the current income statement method. The balance sheet method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This would result in the recognition of a deferred tax liability in relation to the revalued assets. Under AGAAP, the tax effects of asset revaluations are not recognised.
- (b) Under AASB 123 'Borrowing Costs' the Corporation is required to elect to capitalise or expense interest. In line with the Department of Treasury and Finance's preference as stated within the Accounting Policy Statements, the Corporation has elected to expense borrowing costs.
- (c) According to AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' the Corporation must only recognise provisions that are supported by a legal or constructive obligation. The provision for abandoned assets and others have been assessed as having no specific legal or constructive obligation and have been derecognised on this basis.
- (d) Under AASB 136 'Impairment of Assets', if there is an indication that assets may be impaired as at the date of transition the Corporation is required to estimate the recoverable amount of assets which is determined as the higher of its selling price and value in use. If the carrying amount of the asset exceeds its recoverable amount, the Corporation must write down the carrying amount of the assets to its recoverable amount. Any resulting adjustment shall be recognised directly in retained earnings. SA Water's current accounting policy is to determine the recoverable amount of an asset on the basis of discounted cash flows. The Corporation's assets have been tested against the impairment triggers on transition under the assumption of consisting of two cash generating units. The Corporation's assets have subsequently been tested at 30 June 2005 reporting date and no impairment losses have been identified under IFRS. Any future impairment losses will be recognised in the income statement.
- (e) Management has decided to apply the exemption provided in AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' which permits entities not to apply the requirements of AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement' for the financial year ended 30 June 2005. These standards will be applied from 1 July 2005 and not from the date of transition. Accordingly there are no quantitative impacts on the 30 June 2005 financial statements.
- (f) The Corporation is currently investigating the issue of recognition and valuation of the water licences that have been issued to SA Water under the *Water Resources Act 1997* according to AASB 138 'Intangibles'. As at 30 June 2005, it is the Corporation's opinion that these water licences cannot be reliably measured, and as such, do not satisfy the recognition criteria under IFRS. This issue is under investigation and will continue to be monitored during the next financial year.

Reconciliation of Net Profit under IFRS for the year ended 30 June 2005

	30.06.2005
	\$'000
Year ended 30 June 2005	
Net profit as reported under AGAAP	196 868
Adjustment for capitalised interest	(6 365)
Adjustment to income tax expense:	
Capitalised interest	1 910
Depreciation on revalued assets	5 654
Depreciation of pre-NTER contributed assets	374
Recognise temporary difference on VPS	(152)
Net Profit as Calculated under IFRS	198 289

Restated Balance Sheet items under IFRS for the year ended 30 June 2005

	IFRS 30.06.2005 \$'000	AGAAP 30.06.2005 \$'000
Non-Current Assets:		
Total infrastructure, plant and equipment	6 831 227	6 859 325
Deferred tax asset	15 790	11 004
Current Liabilities:		
Provisions	8 385	9 237
Non-Current Liabilities:		
Deferred tax liability	519 936	71 496
Equity:		
Retained profits	132 054	166 004
Asset revaluation reserve	4 684 261	5 121 211

Restated IFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of IFRS.

2. Revenue from Ordinary Activities	2005	2004
Revenue from Operating Activities:	\$'000	\$'000
Rates and charges	530 429	510 311
Community service obligations	103 440	101 556
Contributed assets	72 140	45 262
Recoverable works	48 562	42 864
Fees and charges	16 872	15 885
Miscellaneous	1 201	1 857
	<u>772 644</u>	717 735
Revenue from Outside Operating Activities:		
Gross proceeds from sale of infrastructure, plant and equipment	1 408	2 882
Interest received	118	53
Rents	1 178	1 227
Revaluation of investment in unlisted shares	506	468
	<u>3 210</u>	4 630
Total Revenue from Ordinary Activities	775 854	722 365
3. Profit from Ordinary Activities before Income Tax Expense		
Profit from ordinary activities before income tax expense has been arrived at after charging (crediting) the following items:		
Depreciation:		
Infrastructure assets - Water	74 957	70 162
Infrastructure assets - Sewer	37 955	36 549
Buildings	807	491
Other	9 283	7 733
Plant and equipment	2 810	2 295
Amortisation:		
Water licences	-	58
	<u>125 812</u>	117 288
Borrowing Costs:		
Interest expense	74 737	72 592
Finance charges on capitalised leases	12 536	12 763
Less: Capitalised borrowing costs	(6 366)	(6 778)
	<u>80 907</u>	78 577
Finance lease contingent rentals	1 894	1 438
Operating lease rental expense	3 096	3 030
Net bad and doubtful debts expense including movements in allowance for doubtful debts	(22)	(25)
Net gain (loss) on disposal of infrastructure, plant and equipment	368	26
Write-down in value of infrastructure, plant and equipment	524	4
Write-off value of capital works in progress	597	79
Write-off value of preliminary investigations	-	200
Write-off loan to controlled entities	-	7
Write-off investment in controlled entities	-	402
Expenditure on behalf of State Government:		
Water Industry Best Practice Program	518	119
Cooperative Research Centre	150	150
	<u>668</u>	269

4. Income Tax**(a) Income Tax Expense**

The difference between income tax expense provided in the financial report and the prima facie income tax expense is reconciled as follows:

	2005	2004
	\$'000	\$'000
Operating Profit	288 205	266 885
Prima facie income tax expense calculated at 30 percent (30 percent)	86 462	80 066
<i>Add (Less): Tax effect of permanent differences:</i>		
Non-deductible accounting depreciation on revalued assets	5 392	4 038
Non-deductible accounting depreciation on contributed assets	374	374
Non-deductible amortisation of intangible assets	-	17
Net gain on sale of land and buildings	31	48
Non-deductible amortisation on leased assets	43	21
Write-down of loan to controlled entities	-	(37)
Write-down of investments in controlled entities	-	121
Upward revaluation of investment in unlisted shares	(152)	(141)
Net write-up of infrastructure, plant and equipment	230	-
Additional deduction for research and development expenditure	(358)	(221)
	92 022	84 286
Amounts under (over) provided in prior years	(685)	3 258
Income Tax Expense Attributable to Operating Profit	91 337	87 544
The income tax expense comprises movements in:		
Provision for income tax	84 819	76 288
Provision for deferred income tax*	7 086	8 618
Future income tax benefit*	117	(620)
Amounts under (over) provided in prior year	(685)	3 258
	91 337	87 544

* This has been calculated at the current company tax rate of 30 percent (30 percent).

(b) Current Tax Liabilities*Provision for Current Income Tax*

Movements during the year were as follows:

Balance at 1 July	30 217	30 219
Income tax paid	(82 638)	(72 082)
Current years income tax provision	84 819	76 288
Amounts (over) under provided in prior year	(691)	(4 208)
	31 707	30 217

(c) Deferred Tax Liabilities*Provision for Deferred Income Tax*

Provision for deferred income tax comprises the estimated liability at the applicable rate of 30 percent (30 percent) on the following items:

Prepayments	156	161
Prepaid futures contract	-	42
Interest receivable	18	-
Difference in depreciation of infrastructure assets for accounting and income tax purposes	71 322	64 206
	71 496	64 409

(d) Deferred Tax Assets*Future Income Tax Benefit*

Future income tax benefit comprises the estimated future benefit at the applicable rate of 30 percent (30 percent) on the following items:

Provisions		
Employee benefits	8 024	7 921
Damages and claims	177	240
Removal of biosolids	339	501
Site rehabilitation	174	47
Asset disposal	-	322
Allowance for obsolete stock	171	152
Allowance for bad debts	49	72
Sundry items	156	122
Capitalised finance leases	1 914	1 749
	11 004	11 126

5. Segment Reporting						2005
	Metro Water	Country Water	Metro Sewer	Country Sewer	Other	Total
Business Segments						
Revenue:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rates and charges	195 643	92 650	217 857	24 279	-	530 429
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	10 930	6 665	8 364	1 349	42 419	69 727
Total Segment Revenue	<u>229 733</u>	<u>193 454</u>	<u>260 276</u>	<u>49 337</u>	<u>42 936</u>	775 736
Unallocated interest revenue						118
Total Revenue from Ordinary Activities						775 854
Result:						
Segment result	104 394	70 588	157 558	27 455	(3 537)	356 458
Unallocated interest expense net of unallocated interest revenue						(68 253)
Profit from ordinary activities before income tax						288 205
Income tax expense						(91 337)
Profit from Ordinary Activities after Income Tax						196 868
Assets:						
Segment assets	2 161 657	2 258 680	2 152 947	424 905	18 585	7 016 774
Unallocated corporate assets						15 643
Total Assets						7 032 417
Liabilities:						
Segment liabilities	24 215	133 730	24 992	6 806	10 156	199 899
Unallocated corporate liabilities						1 297 353
Total Liabilities						1 497 252
Other Segment Information:						
Acquisition and construction of non-current assets	30 507	29 680	26 268	13 548	16 059	116 062
Depreciation and amortisation	40 208	43 568	35 704	6 332	-	125 812
Non-cash expenses other than depreciation and amortisation	(703)	1 684	(274)	66	71	844
Business Segments	Metro Water	Country Water	Metro Sewer	Country Sewer	Other	2004 Total
Revenue:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rates and charges	193 672	84 578	209 173	22 888	-	510 311
Community service obligations	2 584	74 582	7 804	16 019	567	101 556
Contributed assets	12 282	7 524	21 520	3 936	-	45 262
Other revenue	11 960	8 108	7 035	1 496	36 584	65 183
Total Segment Revenue	<u>220 498</u>	<u>174 792</u>	<u>245 532</u>	<u>44 339</u>	<u>37 151</u>	722 312
Unallocated interest revenue						53
Total Revenue from Ordinary Activities						722 365
Result:						
Segment result	101 355	60 246	149 901	23 941	(2 799)	332 644
Unallocated interest expense net of unallocated interest revenue						(65 759)
Profit from ordinary activities before income tax						266 885
Income tax expense						(87 544)
Profit from Ordinary Activities after Income Tax						179 341
Assets:						
Segment assets	2 102 797	2 314 522	1 977 651	407 474	11 807	6 814 251
Unallocated corporate assets						26 510
Total Assets						6 840 761
Liabilities:						
Segment liabilities	21 243	138 715	27 403	5 557	8 877	201 795
Unallocated corporate liabilities						1 305 474
Total Liabilities						1 507 269
Other Segment Information:						
Acquisition and construction of non-current assets	42 989	43 449	73 234	11 102	16 581	187 355
Depreciation and amortisation	37 706	39 708	34 124	5 750	-	117 288
Non-cash expenses other than depreciation and amortisation	397	542	(21)	135	18	1 071

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.

SA Water

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.

6. Receivables		2005	2004
Current:	Note	\$'000	\$'000
Community service obligations		83 357	84 717
Rates receivable (water and wastewater)		19 649	19 700
Allowance for doubtful debts		(100)	(100)
		19 549	19 600
Sundry debtors		18 864	16 333
Allowance for doubtful debts		(62)	(140)
		18 802	16 193
Minister for Government Enterprises - Irrigation	31	-	8 554
		121 708	129 064
7. Inventories			
Raw materials and stores		3 809	3 560
Allowance for slow moving and obsolete inventory		(571)	(507)
		3 238	3 053
Work in progress - Sundry debtors		942	1 061
		4 180	4 114
8. Other Assets			
Current:			
Prepayments		1 082	865
Interest receivable		59	-
		1 141	865
Non-Current:			
Preliminary investigations		2 859	3 289
		2 859	3 289
9. Other Financial Assets			
Non-Current:			
Other Corporations - Unlisted shares at fair value		6 831	6 325
		6 831	6 325
10. Intangible Assets		2005	2004
		\$'000	\$'000
Water allocations - At cost		25 369	13 858
		25 369	13 858
11. Infrastructure, Plant and Equipment			
Infrastructure Assets:			
Water:			
Water infrastructure		6 922 188	6 591 190
Accumulated depreciation		(3 000 708)	(2 747 005)
		3 921 480	3 844 185
Leased water infrastructure		133 563	124 327
Accumulated depreciation		(17 616)	(14 136)
		115 947	110 191

The Corporation was a participant to the funding arrangements for the Virginia Pipeline Scheme (VPS). Its 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.

11. Infrastructure, Plant and Equipment (continued)	2005	2004
	\$'000	\$'000
Sewer:		
Sewer infrastructure	3 459 761	3 247 843
Accumulated depreciation	(1 180 046)	(1 076 289)
	2 279 715	2 171 554
Leased sewer infrastructure	3 571	3 469
Accumulated depreciation	(640)	(595)
	2 931	2 874
Land and Buildings:		
Land	226 748	187 836
Buildings	36 805	25 773
Accumulated depreciation	(21 543)	(4 664)
	15 262	21 109
Other	99 237	94 185
Accumulated depreciation	(60 064)	(48 509)
	39 173	45 676
Plant and equipment	37 654	35 549
Accumulated depreciation	(19 211)	(19 788)
	18 443	15 761
Capital work in progress	239 626	272 028
Total Infrastructure, Plant and Equipment	6 859 325	6 671 214

Reconciliations

Reconciliations of the carrying amounts for each class of infrastructure, plant and equipment are set out below:

Water infrastructure:		
Carrying amount at 1 July	3 844 185	3 683 492
Additions	60 451	65 150
Depreciation	(72 230)	(67 675)
Write down	(372)	-
Transfer to other assets	-	(71)
Net revaluation increment	89 446	163 289
Carrying amount at 30 June	3 921 480	3 844 185
Leased Water Infrastructure:		
Carrying amount at 1 July	110 191	109 621
Additions	5 576	-
Depreciation	(2 727)	(2 487)
Net revaluation increment	2 907	3 057
Carrying amount at 30 June	115 947	110 191
Sewer Infrastructure:		
Carrying amount at 1 July	2 171 554	2 144 989
Additions	110 534	39 461
Depreciation	(37 865)	(36 462)
Net revaluation increment	35 492	23 566
Carrying amount at 30 June	2 279 715	2 171 554
Leased Sewer Infrastructure:		
Carrying amount at 1 July	2 874	2 878
Depreciation	(90)	(87)
Net revaluation increment	147	83
Carrying amount at 30 June	2 931	2 874
Land:		
Carrying amount at 1 July	187 836	191 299
Additions	2 237	516
Disposals	(508)	(798)
Net revaluation increment (decrement)	37 183	(3 181)
Carrying amount at 30 June	226 748	187 836
Buildings:		
Carrying amount at 1 July	21 109	20 438
Additions	984	1 641
Disposals	7	(773)
Depreciation	(807)	(491)
Net revaluation (decrement) increment	(6 031)	294
Carrying amount at 30 June	15 262	21 109

Reconciliations (continued)

	Note	2005 \$'000	2004 \$'000
Other:			
Carrying amount at 1 July		45 676	39 702
Additions		1 937	13 946
Net revaluation increment		850	547
Depreciation		(9 283)	(7 733)
Disposals		-	(853)
Asset value write down		(7)	(4)
Transfer from water assets		-	71
Carrying amount at 30 June		39 173	45 676
Plant and Equipment:			
Carrying amount at 1 July		15 761	13 879
Additions		5 986	4 577
Disposals		(349)	(400)
Depreciation		(2 810)	(2 295)
Asset value write-down		(145)	-
Carrying amount at 30 June		18 443	15 761
Capital Work in Progress:			
Balance at 1 July		272 028	197 935
Additions		120 977	186 450
Transfers		(152 782)	(112 278)
Write down		(597)	(79)
Balance at 30 June		239 626	272 028
Total Infrastructure, Plant and Equipment		6 859 325	6 671 214

12. Payables

Current:			
Trade creditors		42 099	40 101
Interest payable		11 765	11 327
Dividends payable		-	10 000
Other creditors		13 784	14 463
		67 648	75 891
Non-Current:			
Other creditors		1 222	1 159

13. Interest Bearing Liabilities

Current:			
Short-term borrowings		58 688	56 188
Lease liability	21	5 328	2 205
		64 016	58 393

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.

	Note	2005 \$'000	2004 \$'000
Non-Current:			
Long-term borrowings		1 120 678	1 130 408
Lease liability	21	107 843	113 171
		1 228 521	1 243 579

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.

14. Provisions

	Note	2005 \$'000	2004 \$'000
Current:			
Employee benefits	23	7 268	7 988
Asset disposal		245	735
Workers compensation	23	667	846
Damages and claims		591	799
Removal of biosolids		466	500
Site Rehabilitation		-	158
		9 237	11 026
Non-Current:			
Employee benefits	23	17 238	16 239
Workers compensation	23	2 668	2 540
Removal of biosolids		666	1 170
Asset disposal		337	337
		20 909	20 286

Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits, asset disposal and site rehabilitation, are set out below:

	2005	2004
	\$'000	\$'000
Removal of Biosolids - Current:		
Carrying amount 1 July	500	488
Payments made during the year	(383)	(424)
Transfer from non-current provision	395	500
Re-measurement adjustments	(46)	(64)
Carrying Amount at 30 June	466	500
Removal of Biosolids - Non-current:		
Carrying amount 1 July	1 170	1 526
Transfer to current provision	(395)	(500)
Re-measurement adjustments	(109)	144
Carrying Amount at 30 June	666	1 170
Damages and Claims:		
Carrying amount 1 July	799	703
Payments made during the year	(246)	(111)
Re-measurement adjustments	38	207
Carrying Amount at 30 June	591	799
15. Other Liabilities		
Current:		
Deposits from contractors	1 088	1 282
Unearned income	167	530
	1 255	1 812
Non-Current:		
Advances for work carried out on behalf of Murray Darling Basin Commission	497	497

16. Notes to the Statement of Cash Flows**(a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and bank overdraft. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the items in the Statement of Financial Position as follows:

	2005	2004
	\$'000	\$'000
Cash assets	-	906
Overdraft *	(744)	-
	(744)	906

* At 30 June 2005 overdraft includes cash at bank \$1.6 million less unrepresented cheques \$0.8 million.

(b) Reconciliation of Profit from Ordinary Activities after Income Tax to Net Cash provided by Operating Activities

Profit from ordinary activities after income tax	196 868	179 341
Add (Less) items classified as investing activities:		
(Profit) Loss on sale of infrastructure, plant and equipment	(492)	(57)
Contributed assets	(45 332)	(24 014)
Add (Less) Non-cash items:		
Depreciation	125 812	117 230
Amortisation	-	58
Write-down of capitalised expenditure	1 121	283
Write-down in loan to controlled entities	-	(128)
Write-down of investments in controlled entities	-	402
Revaluation of investment in unlisted shares	(506)	(468)
Provision for employee benefits	278	1 750
Provision for workers compensation	(51)	(365)
Adjustment for non-business operations	-	18
Decrease in future income tax benefit	122	3 264
Increase (Decrease) in current tax liability	1 490	(2)
Increase in deferred tax liability	7 087	12 200
Net Cash provided by Operating Activities before change in Assets and Liabilities	286 397	289 512

(b) Reconciliation of Profit from Ordinary Activities after Income (continued)		Note	2005	2004
			\$'000	\$'000
Changes in assets and liabilities:				
Increase in rates and sundry receivables			(388)	(2 247)
Increase in prepayments			(382)	(177)
(Increase) Decrease in inventories			(311)	243
Decrease (Increase) in other operating assets			800	(211)
(Decrease) Increase in trade creditors			(3 740)	745
Decrease in other operating liabilities			(6 556)	(15 620)
(Decrease) Increase in other provisions			(168)	126
Net Cash provided by Operating Activities			275 652	272 371
17. Contributed Equity				
Balance at 1 July			247 950	247 950
Repayment of Capital			-	-
Balance at 30 June			247 950	247 950
18. Reserves				
Asset Revaluation Reserve:				
Balance at 1 July			4 961 217	4 773 562
Add: Revaluation increment on infrastructure, plant and equipment assets			159 994	187 655
Balance at 30 June			5 121 211	4 961 217
The asset revaluation reserve is the cumulative balance of asset revaluation increments and decrements.				
19. Retained Profits				
Retained profits at 1 July			124 325	119 094
Net profit from ordinary activities after income tax			196 868	179 341
			321 193	298 435
Dividends provided for and paid		27	(155 189)	(174 110)
Retained Profits at 30 June			166 004	124 325
20. Additional Financial Instruments Disclosure				
(a) Objectives of Holding Derivative Financial Instruments				
The Corporation is exposed to the risk of adverse movements in interest rates. The Corporation uses derivative financial instruments solely to hedge against interest rate risks.				
Interest rate swap agreements are used to convert interest rate exposures on certain debt from floating to fixed rates and vice versa. These swaps entitle the Corporation to either receive/pay floating interest quarterly or semi annually and receive/pay fixed interest semi annually.				
Forward rate agreements are utilised by the Corporation to hedge interest rate exposures on borrowings.				
(b) Interest Rate Risk Exposures				
The Corporation's financial assets and 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.				

		2005						
		Fixed Interest Maturing In						
		Floating	1 Year	Over 1 to	More	Non-	2005	Weighted
		Interest	or Less	5 Years	than	Interest	Total	Average
		Rate	\$'000	\$'000	5 Years	Bearing	\$'000	Interest
		\$'000			\$'000	\$'000		Rate
								Percent
Financial Assets:		Note						
Current receivables	6	-	-	-	-	38 351	38 351	
CSO receivable	6	-	-	-	-	83 357	83 357	
Other financial assets	9	-	-	-	-	6 831	6 831	
Other	8	-	-	-	-	59	59	5.40
			-	-	-	128 598	128 598	
Financial Liabilities:								
Bank overdraft	16(a)	744	-	-	-	-	744	4.99
Short term borrowings	13	58 688	-	-	-	-	58 688	5.58
Long term borrowings	13	190 641	224 064	505 148	200 825	-	1 120 678	5.89
Payables	12	-	-	-	-	66 439	66 439	
Deposits with SA Water	12,15	-	1 209	-	-	1 088	2 297	5.72
Non-business advances	15	-	-	-	-	497	497	
Lease liabilities	13	-	5 328	12 646	95 197	-	113 171	10.96
Interest rate swaps*		41 500	-	17 500	(59 000)	-	-	**1.37
			291 573	230 601	535 294	237 022	68 024	1 362 514

* Notional principal amount

** Net weighted average interest rate

(b) Interest Rate Risk Exposures (continued)

		2004						
		Fixed Interest Maturing In						
		Floating	1 Year	Over 1 to	More	Non-	2004	Weighted
		Interest	or Less	5 Years	than	Interest	Total	Average
		Rate	\$'000	\$'000	5 Years	Bearing	\$'000	Interest
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Rate
								Percent
Financial Assets:	Note							
Cash	16(a)	906	-	-	-	-	906	4.92
Current receivables	6	-	-	-	-	44 347	44 347	
CSO receivable	6	-	-	-	-	84 717	84 717	
Other financial assets	9	-	-	-	-	6 325	6 325	
		<u>906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135 389</u>	<u>136 295</u>	
Financial Liabilities:								
Short term borrowings	13	56 188	-	-	-	-	56 188	5.40
Long term borrowings	13	444 342	116 598	393 642	175 826	-	1 130 408	6.14
Payables	12	-	-	-	-	73 464	73 464	
Deposits with SA Water	12,15	-	2 427	-	-	1 282	3 709	5.33
Non-business advances	15	-	-	-	-	497	497	
Lease liabilities	13	-	2 205	11 664	101 507	-	115 376	10.96
Interest rate swaps*		(219 500)	10 000	42 500	167 000	-	-	**0.81
		<u>281 030</u>	<u>131 230</u>	<u>447 806</u>	<u>444 333</u>	<u>75 243</u>	<u>1 379 642</u>	

* Notional principal amount

** Net weighted average interest rate

Interest Rate Sensitivity

In relation to borrowings, a 1 percent change in interest rates would impact on interest expense by \$1.6 million (\$3.39 million) for the year to 30 June 2005. A 1 percent increase in interest rates would decrease the market value of the debt portfolio by \$23.2 million as at 30 June 2005 (\$24.7 million). This analysis is based on interest rates as at 30 June 2005.

(c) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties to the Corporation fail to meet their obligations.

The Corporation minimises concentrations of credit risk by undertaking transactions with a large number of counterparties with low outstanding amounts and/or credit worthy counterparties.

The credit risk on futures contracts is minimised as transactions are made through a recognised futures exchange.

SA Water undertakes all foreign exchange, interest rate risk management and commodity risk management transactions with SAFA as an eligible counterparty without limit. There is no credit risk exposure as SAFA is an entity guaranteed by the Government of South Australia.

Recognised Financial Instruments

The credit risk on financial assets recognised in the Statement of Financial Position is the carrying amount, net of any allowance for doubtful debts.

Non-Recognised Financial Instruments

The credit risk on swap contracts is limited to the amount to be received from counterparties on contracts that are favourable to the Corporation. The amount due to the Corporation as at 30 June 2005 was \$1.29 million (\$0.29 million).

There was no credit risk exposure on the forward rate agreements as at 30 June 2005 (Nil).

(d) Net Fair Values of Financial Assets and Liabilities

Net fair value is the amount at which the asset could be exchanged, or liability 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 assets and financial liabilities held at balance date are given below.

The net fair value of cash and cash equivalents, non-interest bearing monetary financial assets and financial liabilities of the Corporation approximate their carrying value and are therefore not disclosed below.

The net fair value of other monetary financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows at 30 June 2005 interest rates.

		2005		2004	
		Carrying	Net Fair	Carrying	Net Fair
		Amount	Value	Amount	Value
		\$'000	\$'000	\$'000	\$'000
Financial Liabilities:	Note				
Long-term borrowings	13	1 120 678	1 134 823	1 130 408	1 149 148
Lease liabilities	13	113 171	113 171	115 376	115 376

Non-Recognised Financial Instruments
The net fair value of non-recognised financial instruments held at the reporting date is:
Interest rate swaps

Net Fair Value
2005 2004
\$'000 \$'000
(8 942) (10 623)

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.

21. Expenditure Commitments		2005	2004
Capital Commitments	Note	\$'000	\$'000
Total capital expenditure contracted for at balance date but not recognised in the financial report and payable:			
Not later than one year		27 393	11 059
Later than one year and not later than five years		2 758	-
		30 151	11 059
Finance Lease Commitments			
Finance lease commitments are payable:			
Not later than one year		22 496	16 566
Later than one year and not later than five years		65 508	66 585
Later than five years		201 746	221 240
		289 750	304 391
Less: Future lease finance charges and contingent rentals		176 579	189 015
Total Lease Liabilities		113 171	115 376
Lease liabilities provided for in the financial statements:			
Current	13	5 328	2 205
Non-Current	13	107 843	113 171
		113 171	115 376

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 3.

Other Finance Lease Commitments	2005	2004
Finance lease contracted for at balance date but not recognised in the financial report as liabilities, payable:	\$'000	\$'000
Not later than one year	2 190	-
Later than one year and not later than five years	10 513	10 076
Later than five years	53 009	55 636
	65 712	65 712

Other finance lease expenditure commitments contracted for at balance date include amounts contracted with a private sector company to construct, own and operate a wastewater treatment facility which is expected to be commissioned in September 2005. The lease commitment is represented by total minimum lease payments of \$66 million which includes future finance charges of \$46.8 million.

Operating Leases and Other Expenditure Commitments	2005	2004
Future operating leases and other expenditure commitments not provided for in the Financial Report and payable:	\$'000	\$'000
Not later than one year	74 106	63 464
Later than one year and not later than five years	244 762	235 147
Later than five years	29 156	89 856
	348 024	388 467

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.

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.

22. Interest in Joint Venture Operation

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).

Current Assets:		2005	2004
	Note	\$'000	\$'000
Cash assets		3	47
Receivables		24	27
Total Current Assets		27	74
Non-Current Assets:			
Infrastructure assets		1 424	1 420
Capital work in progress		-	47
Total Non-Current Assets		1 424	1 467
Total Assets		1 451	1 541
Current Liabilities:			
Payables		21	22
Total Current Liabilities		21	22
Total Liabilities		21	22
Net Assets		1 430	1 519

23. Employee Benefits

Aggregate liability for employee benefits including on-costs

Current:

Accrued wages and salaries including on-costs included in other creditors		2 745	1 474
Workers compensation	14	667	846
Annual Leave:			
On-costs included in other creditors		902	846
Provision for employee benefits	14	5 412	4 876
		6 314	5 722
Long Service Leave:			
On-costs included in other creditors		118	173
Provision for employee benefits	14	1 856	3 112
		1 974	3 285
		11 700	11 327

Non-Current:

Workers compensation	14	2 668	2 540
Long Service Leave:			
On-costs included in other creditors		1 222	1 159
Provision for employee benefits	14	17 238	16 239
		18 460	17 398
		21 128	19 938
Total Employee Benefits		32 828	31 265

24. Contingent Liabilities

The Corporation has no material contingent liabilities as at 30 June 2005.

25. Auditor's Remuneration

Amounts received and receivable by the Auditors for auditing the accounts

250	245
------------	-----

The Auditors received no other benefits.

26. Consultancy Costs

During the year ended 30 June 2005, the Corporation paid \$1.4 million (\$0.4 million) as a result of engaging consultants. Assignments undertaken by consultants included work for operating and capital projects.

27. Dividends

		2005	2004
	Note	\$'000	\$'000
Dividends paid		155 189	164 110
Dividends payable	12	-	10 000
	19	155 189	174 110

Dividends paid during 2004-05 of \$155.2 million relate to the current year which have been paid to the South Australian Government Consolidated Account on 30 June 2005 based upon the recommendation of the Board to the Treasurer, pursuant to section 30 of the *Public Corporations Act 1993*. An additional \$10 million was paid during 2004-05 for the special dividend that was payable at 30 June 2004.

28. Remuneration of Employees

The number of employees whose remuneration received and receivable falls within the following band is:

	2005	2004
	Number of	Number of
	Employees	Employees
\$100 000 - \$109 999	24	17
\$110 000 - \$119 999	15	10
\$120 000 - \$129 999	5	4
\$130 000 - \$139 999	3	3
\$140 000 - \$149 999	2	2
\$150 000 - \$159 999	2	4
\$160 000 - \$169 999	4	4
\$170 000 - \$179 999	3	2
\$180 000 - \$189 999	2	-
\$190 000 - \$199 999	1	-
\$200 000 - \$209 999	-	2
\$210 000 - \$219 999	1	2
\$220 000 - \$229 999	1	-
\$230 000 - \$239 999	-	1
\$240 000 - \$249 999	1	-
\$250 000 - \$259 999	-	1
\$270 000 - \$279 999	1	-
\$300 000 - \$309 999	-	1
\$310 000 - \$319 999	1	-

The total remuneration received and receivable by those employees was \$8.9 million (\$7.4 million). This amount includes fringe benefits and superannuation payments made to the Department of Treasury and Finance.

29. Remuneration of Directors

The number of Directors of the Corporation whose remuneration received and receivable falls within the following bands is:

	2005	2004
	Number of	Number of
	Directors	Directors
\$30 000 - \$39 999	1	-
\$40 000 - \$49 999	4	5
\$80 000 - \$89 999	1	1
\$300 000 - \$309 999	-	1
\$310 000 - \$319 999	1	-

The total remuneration received and receivable by those Directors was \$0.62 million (\$0.61 million) which includes fringe benefits and superannuation contributions. These figures include the Chief Executive Ms Anne Howe who is also included in Note 28.

30. Related Party Disclosures

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

G B Allison	P W Pledge
F T Blevins	R J Owens
S M Doyle	A C Digance (appointed 26 August 2004)
A D Howe	

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, is on the Investment Committee of the Australian Water Infrastructure Fund and a 15 percent shareholder in Environmental Solutions (Aust) Pty Ltd. He is also a Director of the Kangaroo Island Natural Resources Management Board.

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.

Ms Howe is a Director of the Water Services Association of Australia (WSAA).

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 Ernst and Young and Sportsmed SA and Chairman of the Adelaide Chamber Orchestra.

All financial benefits provided by SA Water to related parties are provided on arm's length terms.

31. Irrigation Assets and Liabilities

Assets and liabilities arising from the *Irrigation Act 1994* which were controlled by the former Engineering and Water Supply Department were not vested in the Corporation. Government policy is for self-management of Government Irrigation Districts which resulted in the transfer of assets to trusts formed under the *Irrigation Act 1994* on 1 July 1997 for the Highland Irrigation Areas. During this transitional period, the Corporation continues to manage the irrigation activities for the reclaimed areas on behalf of the Minister for Government Enterprises. In order to reflect this arrangement, the assets and liabilities associated with the irrigation function have been excluded from the Corporation's financial statements. Agreement has been reached whereby the funding of capital works and operations for irrigation activities will be assumed by the Treasurer.

34. SA Government/Non-SA Government Transactions	2005	2004
(a) Revenue	\$'000	\$'000
Revenue received/receivable from entities external to the SA Government:		
Rates and charges	496 598	479 080
Contributed assets	72 140	45 262
Recoverable works	45 684	40 298
Fees and charges	16 872	15 885
Miscellaneous	591	620
Gross proceeds from sale of infrastructure, plant and equipment	1 058	2 882
Interest received	47	47
Rents	887	813
Revaluation of investment in unlisted shares	506	468
Total Revenue - Non-SA Government Entities	634 383	585 355
Revenue received/receivable from entities within the SA Government:		
Rates and charges	33 831	31 231
Community service obligations	103 440	101 556
Recoverable works	2 878	2 566
Miscellaneous	610	1 237
Gross proceeds from sale of infrastructure, plant and equipment	350	-
Interest received	71	6
Rents	291	414
Total Revenue - SA Government Entities	141 471	137 010
Total Revenue	775 854	722 365
(b) Expenses		
<i>Supplies and Services</i>		
Supplies and services provided by entities external to the SA Government:		
Operational services	36 392	32 158
Materials and other	11 251	11 670
Administration	16 041	16 484
Total Supplies and Services - Non-SA Government Entities	63 684	60 312
Supplies and services provided by entities within the SA Government:		
Operational services	17 731	15 252
Materials and other	9 646	8 268
Administration	1 165	1 388
Total Supplies and Services - SA Government Entities	28 542	24 908
Total Supplies and Services	92 226	85 220
<i>Operational and Service Contracts</i>		
Provided by entities external to the SA Government:		
Operational and service contracts	86 840	80 342
Total Operational and Service Contracts - Non-SA Government Entities	86 840	80 342
Provided by entities within the SA Government:		
Operational and service contracts	659	384
Total Operational and Service Contracts - SA Government Entities	659	384
Total Operational and Service Contracts	87 499	80 726
<i>Borrowing Costs</i>		
Borrowing Costs provided by entities external to the SA Government:		
Interest expense	124	152
Finance lease charges	12 535	12 763
Total Borrowing Costs - Non-SA Government Entities	12 659	12 915
Borrowing Costs provided by entities within the SA Government:		
Interest expense	68 248	65 662
Total Borrowing Costs - SA Government Entities	68 248	65 662
Total Borrowing Costs	80 907	78 577

(c) Receivables	2005	2004
Receivables from SA Government Entities:	\$'000	\$'000
Community service obligations	83 357	84 717
Rates receivable (water and wastewater)	335	362
Sundry debtors	2 485	1 251
Minister for Government Enterprises - Irrigation	-	8 554
	86 177	94 884
Receivables from Non-SA Government Entities:		
Rates receivable (water and wastewater)	19 214	19 238
Sundry debtors	16 317	14 942
	35 531	34 180
Total Receivables	121 708	129 064
(d) Payables		
Current:		
Payables to SA Government Entities:		
Trade creditors	2 284	1 173
Interest payable	11 765	11 327
Dividends payable	-	10 000
Other creditors	6 311	4 942
	20 360	27 442
Payables to Non-SA Government Entities:		
Trade creditors	39 815	38 808
Other creditors	7 473	9 641
	47 288	48 449
Total Current Payables	67 648	75 891
Non-Current:		
Payables to SA Government Entities:		
Other creditors	1 222	1 159
Total Non-Current Payables	1 222	1 159

STATE ELECTORAL OFFICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Electoral Commissioner is appointed by the Governor under the provisions of the *Electoral Act 1985*. The State Electoral Office (the Office) is the Administrative Unit which has been established to assist the Electoral Commissioner to discharge his/her statutory duties.

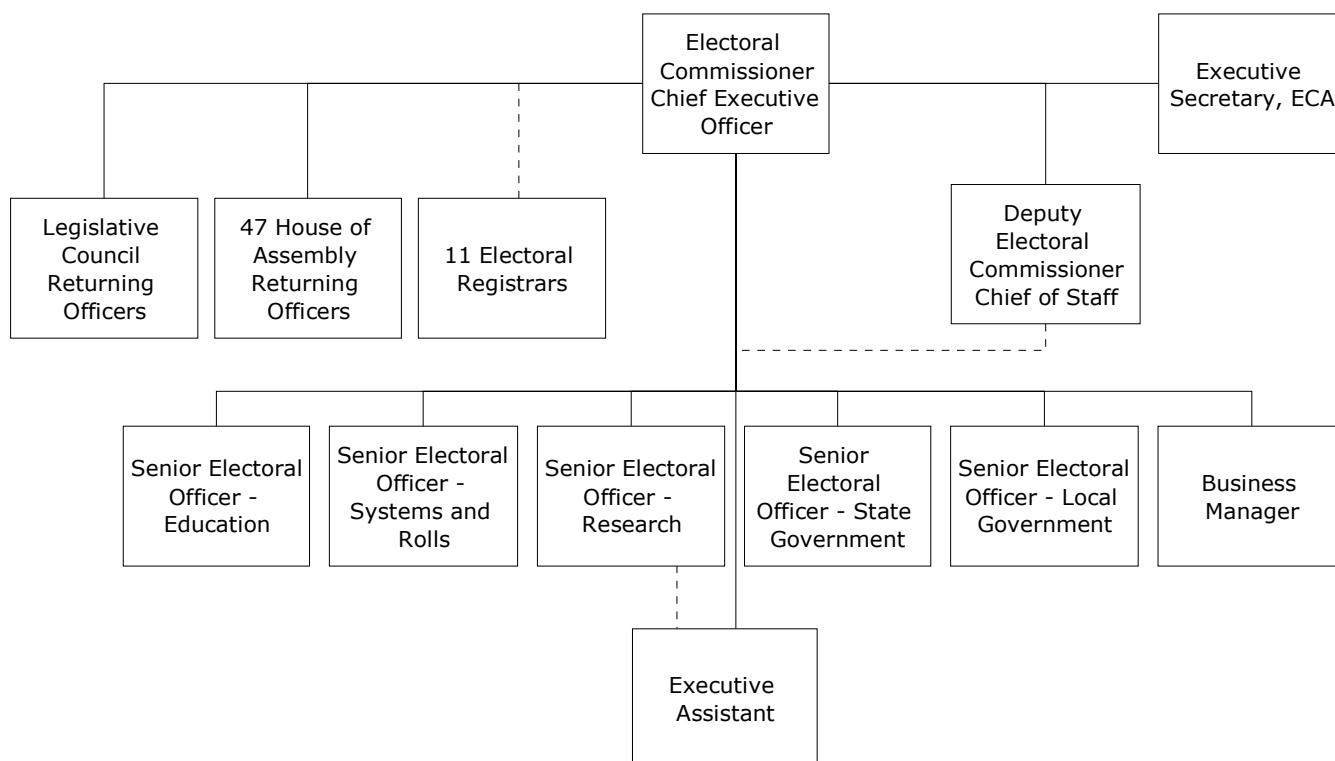
Functions

The functions of the State Electoral Office are as follows:

- To administer all South Australian parliamentary electoral events.
- To conduct elections for all Local Government Authorities and other organisations.
- To provide assistance in the formulation of appropriate election rules and procedures.
- To provide electoral rolls for local government elections and industrial ballots.
- To encourage community participation and promote an awareness of electoral matters.
- To provide support for parliamentary and council boundary reviews.

Structure

The structure of the State Electoral Office is illustrated in the following organisation chart.



The operations of the State Electoral Office are funded by appropriation from Treasury for conducting any Parliamentary elections. Costs for Local Government and non-government elections are recouped from councils or the organisation for which electoral services are provided.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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

Assessment of Controls

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

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

Scope of Audit

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

During 2004-05, specific areas of audit attention included:

- financial management framework
- salaries and wages
- accounts payable
- revenue, receipting and banking
- general ledger maintenance
- budgetary control
- fixed assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the State Electoral Office as at 30 June 2005, 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 management letters to the Electoral Commissioner. Responses to the management letters were generally considered to be satisfactory. Matters concerning the Financial Management Framework 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 reporting framework to ensure strategies are being followed and measures have been met. The outcomes to be 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 review of the ‘Risk Management Assessment - Ongoing Office Operations’ was performed on an ad hoc basis. Progress against the plan was discussed at staff meetings;
- the Risk Management Committee had not met since the finalisation of the ‘Risk Management Assessment - Ongoing Office Operations’;
- work had not yet commenced in relation to the preparation of the risk management plan for the next State Election to be held in March 2006; and
- work had not yet commenced in relation to the review and update of the risk management plan in relation to Local Government elections. The work was to be completed by 30 June 2005.

In response, the Office indicated that:

- the Risk Management Committee would review the Office’s ongoing operations risk strategies and discuss the implementation of a ‘Risk Register’. It is anticipated that the formalisation of a risk register will improve the recognition and reporting of new risks that have been identified on an ongoing basis;
- preliminary work had been undertaken in relation to the establishment of the State Election risk management plan and that it was still the intention to complete the plan by June 2005. A copy of the State Election risk management plan was received by Audit in July 2005; and
- the timing of the review and update of the risk management plan for the 2006 Local Government Elections has been extended from 30 June 2005 to 31 December 2005.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2005	2004	Percentage
	\$'million	\$'million	Change
OPERATING EXPENDITURE			
Employment expenses	1.3	1.3	-
Other	1.9	1.8	6
Total Operating Expenses	3.2	3.1	3
OPERATING REVENUE			
Revenues from SA Government	2.2	2.0	10
Other	0.7	1.0	(30)
Total Operating Revenue	2.9	3.0	(3)
Net Result from Ordinary Activities	* (0.5)	(0.1)	-
ASSETS			
Current assets	1.1	1.3	(15)
Non-current assets	0.2	0.3	(33)
Total Assets	1.3	1.6	(19)
LIABILITIES			
Current liabilities	0.5	0.3	67
Non-current liabilities	0.3	0.2	50
Total Liabilities	0.8	0.5	60
EQUITY	0.5	1.1	(55)

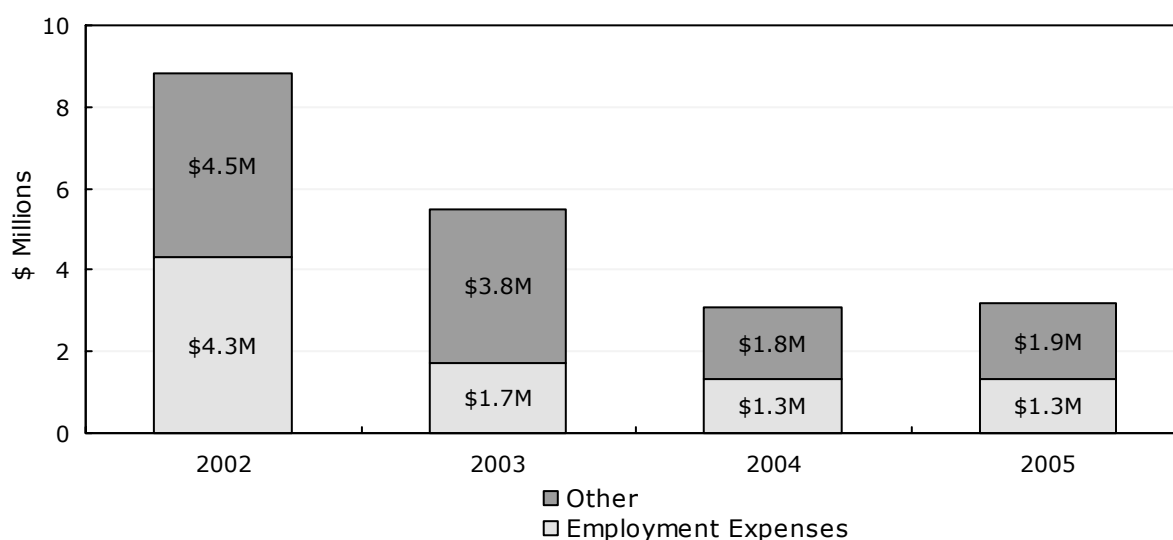
* Includes payment to Government \$184 000.

Statement of Financial Performance

Operating Expenses

As with revenues, operating expenses for the Office reflect the timing of State and Local Government elections.

The total expenses for the current year increased by 3 percent to \$3.2 million. The increase in expenses is due primarily to an increase in supplies and services expenses of \$0.1 million. Higher supplies and services expenses were incurred in 2004-05 due to the costs associated with the Anangu Pitjantjatjara Council elections held in October 2004, increased education and research costs due to major projects undertaken in relation to the sesquicentenary of SA election results and stage 1 planning of an electoral exhibition to be held in late 2006, increased EDS charges and increased advertising costs associated with pre-2006 election awareness. The fluctuations in expenditure are in line with elections held and is evident in the structural analysis of operating expenses for the office for the four years to 2005 as presented in the following chart.

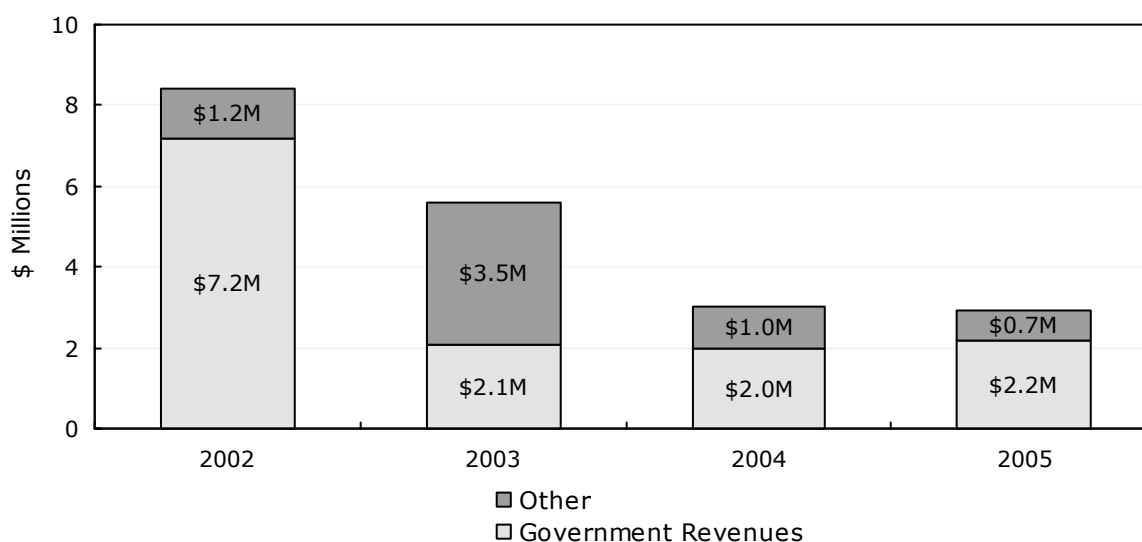


Operating Revenues

Total revenues for the Office fluctuate significantly from year to year in line with the timing of State and Local Government elections. No State or Local Government elections were held during 2004-05.

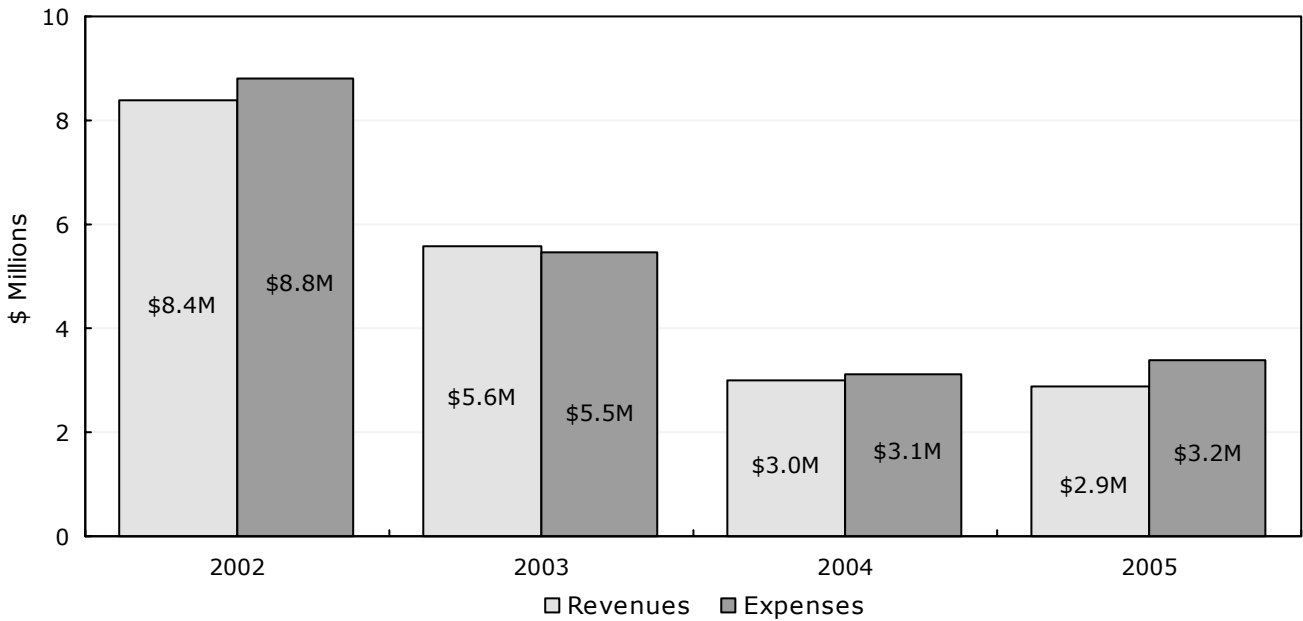
The total revenue for the current year decreased by 3 percent to \$2.9 million. The decrease in revenue is due primarily to reimbursements received during 2003-04 for TVSPs paid.

A structural analysis of operating revenues for the Office in the four years to 2005 is presented in the following chart.



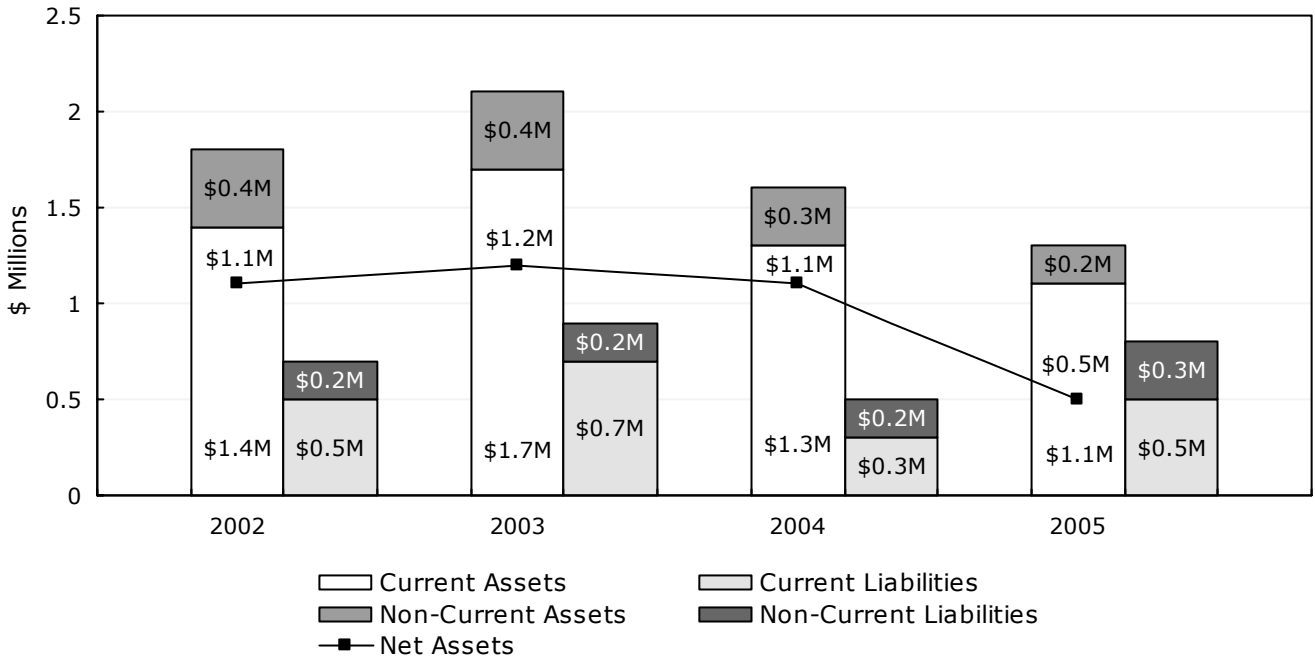
Operating Result

After recording a small deficit of \$84 000 for the year ending 30 June 2004 the Office has recorded a deficit of \$543 000 for the year ending 30 June 2005. The following chart shows that operating revenues have been less than operating expenses in all years except 2003.



Statement of Financial Position

For the four years to 2005 a structural analysis of assets and liabilities is shown in the following chart.



The financial position and the composition of assets and liabilities of the Office is again reflective of the timing of both State and Local Government elections. Net assets for the current year decreased by \$543 000 to \$555 000. The decrease was due primarily to a decrease in receivables of \$228 000, increase in employee benefits of \$150 000 and an increase in payables of \$164 000. The most significant item being cash, \$938 000 as at June 2005. Comment on the cash balances is presented hereunder.

Statement of Cash Flows

The following table summarises the cash as at 30 June for the five years to 2005.

	2005	2004	2003	2002	2001
	\$'million	\$'million	\$'million	\$'million	\$'million
Cash at 30 June	0.94	0.87	0.87	0.98	1.65

The Office has run down its cash balance from a peak in 2001 of \$1.65 million. The main change from 2001 to 2002 reflects the increase in cash used to conduct the 2002 State Election.

Administered Items

Transactions and balances relating to administered resources are not recognised as revenues, expenses, assets or liabilities of the Office but are disclosed in the appropriate schedules. Administered items are described in Note 18 to the financial statements.

**Statement of Financial Performance
for the year ended 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	5	1 375	1 353
Supplies and services	6	1 636	1 531
Depreciation	7	86	109
Other		161	137
Total Expenses from Ordinary Activities		3 258	3 130
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	9	684	1 022
Interest		56	65
Total Revenues from Ordinary Activities		740	1 087
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		2 518	2 043
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:			
Revenues from SA Government		2 159	1 959
Payments to SA Government		(184)	-
NET RESULT FROM ORDINARY ACTIVITIES		(543)	(84)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		(543)	(84)

**Statement of Financial Position
as at 30 June 2005**

		2005	2004
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash		938	873
Receivables	10	52	280
Inventories		79	71
Prepayments		17	18
Total Current Assets		1 086	1 242
NON-CURRENT ASSETS:			
Property, plant and equipment	11	238	311
Total Non-Current Assets		238	311
Total Assets		1 324	1 553
CURRENT LIABILITIES:			
Payables	12	348	212
Employee benefits	13	108	71
Total Current Liabilities		456	283
NON-CURRENT LIABILITIES:			
Payables	12	48	20
Employee benefits	13	265	152
Total Non-Current Liabilities		313	172
Total Liabilities		769	455
NET ASSETS		555	1 098
EQUITY:			
Accumulated surplus	14	555	1 098
TOTAL EQUITY		555	1 098
Commitments	16		

Statement of Cash Flows for the year ended 30 June 2005

		2005	2004
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:	Note	\$'000	\$'000
Receipts from SA Government		2 159	1 959
Receipts from customers		926	1 491
Interest received		53	62
GST input tax credits		111	164
Total Inflows from Operating Activities		3 249	3 676
CASH OUTFLOWS:			
Payments to SA Government		(184)	-
Payments to employees		(1 204)	(1 495)
Payments to suppliers		(1 776)	(2 049)
GST payments on purchases		(20)	(74)
Total Outflows from Operating Activities		(3 184)	(3 618)
Net Cash Inflows from Operating Activities	17	65	58
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Payments for property, plant and equipment		-	(59)
Total Outflows from Investing Activities		-	(59)
Net Cash Outflows from Investing Activities		-	(59)
NET INCREASE (DECREASE) IN CASH HELD		65	(1)
CASH AT 1 JULY		873	874
CASH AT 30 JUNE	17	938	873

Program Schedule of Revenues and Expenses for the year ended 30 June 2005

	(Refer Note 4)	Program 1		Program 2		Program Total	
		2005	2004	2005	2004	2005	2004
REVENUES FROM ORDINARY ACTIVITIES:		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenues from SA Government		2 159	1 959	-	-	2 159	1 959
Fees and charges		37	284	647	738	684	1 022
Interest		56	65	-	-	56	65
Total Revenues from Ordinary Activities		2 252	2 308	647	738	2 899	3 046
EXPENSES FROM ORDINARY ACTIVITIES:							
Payments to SA Government		184	-	-	-	184	-
Employee expenses		1 041	915	334	438	1 375	1 353
Supplies and services		1 422	1 289	375	379	1 797	1 668
Depreciation		61	72	25	37	86	109
Total Expenses from Ordinary Activities		2 708	2 276	734	854	3 442	3 130
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		(456)	32	(87)	(116)	(543)	(84)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the State Electoral Office

The State Electoral Office (the Office) is an administrative unit which has been established to assist the Electoral Commissioner to discharge his statutory duties in accordance with the provisions of the *Electoral Act 1985*.

The objectives of the Office are to engender in the community an understanding of electoral matters including the rights and responsibilities of electors and to provide the opportunity to vote at properly conducted State Parliamentary and non-Parliamentary elections and polls.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

- Treasurer's Instructions (TIs), Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987* and Statements of Accounting Concepts;
- applicable Australian Accounting Standards (AAS) and Urgent Issue Group Consensus Views (UIG);
- other mandatory professional reporting requirements in Australia.

The Office's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention except where stated.

2.2 Comparative Figures

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

2.3 Rounding

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

2.4 Taxation

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

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

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

2.5 Revenues and Expenses

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

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

Revenue from fees and charges are recognised upon the completion of services to customers. Fees charged to local government and other third parties are in relation to the conduct of elections and industrial ballots.

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

2.6 Revenues from/Payments to SA Government

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

Payments to SA Government comprised of the transfer of surplus cash from the State Electoral Office operating account to the Department of Treasury and Finance. This transfer was subject to the Treasurer's approval and in line with the Department of Treasury and Finance cash alignment policy.

2.7 Current and Non-Current Items

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

2.8 Cash

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

2.9 Receivables

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

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

2.10 Inventories

Inventories are stated at the lower of cost or their net realisable value.

2.11 Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

The Office capitalises all non-current physical assets with a value of \$1 000 or greater in accordance with APS 2 'Asset Recognition'.

2.12 Depreciation of Non-Current Assets

All non-current assets, having a limited useful life, are systematically depreciated over their useful lives in a manner that reflects the consumption of their service potential.

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

The value of leasehold improvements is depreciated over the unexpired period of the building lease.

Depreciation for non-current assets is determined as follows:

<i>Class of Asset</i>	<i>Depreciation Method</i>	<i>Useful Life (Years)</i>
Office equipment and furniture and fittings	Straight line	10
Leasehold improvements	Straight line	6
Computer equipment	Straight line	3
Office equipment (post July 2003 acquisitions)	Straight line	5

2.13 Payables

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

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

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

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

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

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

2.14 Employee Benefits

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

Liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2005 and is measured at the amount expected to be paid at the time the liability is settled.

The liability for long service leave is recognised and measured at the actuarial assessment by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. The liability has been calculated at present value of future cash outflows using a benchmark of seven years as advised by the Department of Treasury and Finance.

2.15 Provisions

No liability has been reported on workers compensation as the Office has no workers compensation claims pending or outstanding.

2.16 Operating Leases

The lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Payments are charged to the Statement of Financial Performance on a basis, which is representative of the pattern of benefits derived from the leased assets.

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

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

The State Electoral Office (the Office) is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (IFRS) which will be applicable for the financial year ended 30 June 2006. In 2004-05 the Office undertook a review of IFRS and identified key areas that would be impacted by the transition to IFRS. As a result of this review it has been determined that there are no material accounting policy changes which have a quantitative impact on total equity as at the date of transition (1 July 2004).

It should be noted that the Office's position is management's current and best assessment of the impact of AIFRS as at 30 June 2005. The actual results of transition to IFRS may differ due to:

- (a) ongoing internal review work of the IFRS;
- (b) potential amendments to IFRSs and interpretations thereof being issued by the standard-setters and the International Financial Reporting Interpretations Committee (IFRIC); and
- (c) emerging accepted practice in the interpretations and application of IFRS and UIG interpretations.

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

4. Programs of the Office

The Office provides electoral services and this is achieved through two programs and their broad terms are as follows:

Program 1: Parliamentary Electoral Services

- ensure that eligible electors can register their votes effectively and conveniently and have confidence in the management of the electoral process;
- maintain an accurate register of voters;
- ensure 'disadvantaged' electors are not denied the ability to exercise their franchise;
- develop appropriate publicity and education programs to ensure that the public is informed of its democratic rights and obligations;
- provide comprehensive and efficient administrative, human resources, research and education, financial management and computing services.

Program 2: Non-Parliamentary Electoral Services

- provide statutory, industrial and other organisations with a facility capable of meeting their electoral needs economically and effectively;
- provide information to organisations seeking advice on electoral matters;
- conduct elections for and provide electoral service to local government authorities.

5. Employee Expenses

	2005	2004
	\$'000	\$'000
Wages and salaries	938	847
TVSP (refer below)	-	221
Long service leave	180	30
Annual leave	85	78
Employment on-costs	172	177
Total Employee Expenses	1 375	1 353
Targeted Voluntary Separation Packages (TVSPs):		
TVSPs paid to employees during the reporting period	-	221
Recovery from the Department of the Premier and Cabinet	-	(221)
Annual leave and long service leave accrued over the period	-	116
Total TVSPs	-	116
	2005	2004
	Number of	Number of
	Employees	Employees
Total number of employees that were paid TVSPs during the reporting period	-	3

Remuneration of Employees

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

\$120 000 to \$129 999
 \$130 000 to \$139 999
 \$160 000 to \$169 999
 \$170 000 to \$179 999

Total Number of Employees

	2005	2004
	Number of Employees	Number of Employees
	-	1
	1	-
	-	1
	1	-
Total Number of Employees	2	2

The table includes all employees whom received remuneration of \$100 000 or more during the year. The total remuneration received by these employees for the year was \$308 000 (\$294 000), which included payment of leave entitlements of \$69 000 upon resignation of one employee.

The Office on average employed 24 (23) people throughout the year.

6. Supplies and Services

Supplies and services provided by entities within the SA Government:

Rental accommodation services
 Communication and information technology
 Hire and rental

Total Supplies and Services - SA Government Entities

	2005	2004
	\$'000	\$'000
	265	265
	81	61
	19	12
Total Supplies and Services - SA Government Entities	365	338

Supplies and services provided by entities external to the SA Government:

Production and maintenance of electoral rolls
 Education and research
 Printing and stationery
 Postage
 Communications and information technology
 Advertising
 Distribution, storage and hire rental
 Training and development

Total Supplies and Services - Non-SA Government Entities

Total Supplies and Services

	712	695
	126	50
	105	135
	96	136
	73	60
	60	30
	69	29
	30	58
Total Supplies and Services - Non-SA Government Entities	1 271	1 193
Total Supplies and Services	1 636	1 531

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

Below \$10 000

	Number of Consultancies		2005	2004
	2005	2004	\$'000	\$'000
	-	1	-	1

7. Depreciation

Office equipment and furniture and fittings
 Computer equipment
 Leasehold improvements

Total Depreciation

	2005	2004
	\$'000	\$'000
	45	45
	15	25
	26	39
Total Depreciation	86	109

8. Auditor's Remuneration

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

	22	22
--	----	----

Other Services

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

9. Fees and Charges

Fees and charges received/receivable from entities within the SA Government:

Reimbursement of TVSPs paid
 Industrial elections
 User fees and charges

Total Fees and Charges - SA Government Entities

	(129)	221
	98	160
	125	141
Total Fees and Charges - SA Government Entities	94	522

Fees and charges received/receivable from entities external to the SA Government:

Other local government services
 Industrial elections
 Local government elections
 User fees and charges

Total Fees and Charges - Non-SA Government Entities

Total Fees and Charges

	334	322
	84	5
	78	82
	94	91
Total Fees and Charges - Non-SA Government Entities	590	500
Total Fees and Charges	684	1 022

10. Receivables		2005	2004
Current:		\$'000	\$'000
Receivables		41	253
GST receivable		11	27
Total Current Receivables		52	280
Government/Non-Government Receivables:			
Receivables from SA Government entities		5	178
Receivables from Non-SA Government entities		47	102
Total Receivables		52	280
11. Property, Plant and Equipment			
Leasehold Improvements:			
Leasehold Improvements at cost		108	108
Accumulated depreciation		108	82
Total Leasehold Improvements		-	26
Office Equipment and Furniture and Fittings:			
Office equipment and furniture and fittings at cost		471	472
Accumulated depreciation		248	204
Total Office Equipment and Furniture and Fittings		223	268
Computer Equipment and Software:			
Computer equipment and software at cost		303	379
Accumulated depreciation		288	362
Total Computer Equipment and Software		15	17
Total Property, Plant and Equipment		238	311

Reconciliation of Property, Plant and Equipment

The following table shows the movement of property, plant and equipment during 2004-05.

	Office Equipment Furniture and Fittings \$'000	Computer Equipment and Software \$'000	Leasehold Improvements \$'000	2005 Total \$'000
Carrying amount at 1 July	268	17	26	311
Additions	-	13	-	13
Depreciation	(45)	(15)	(26)	(86)
Carrying Amount at 30 June	223	15	-	238

The following table shows the movement of property, plant and equipment during 2003-04.

	Office Equipment Furniture and Fittings \$'000	Computer Equipment and Software \$'000	Leasehold Improvements \$'000	2004 Total \$'000
Carrying amount at 1 July	262	41	65	368
Additions	58	1	-	59
Disposals	(7)	-	-	(7)
Depreciation	(45)	(25)	(39)	(109)
Carrying Amount at 30 June	268	17	26	311

12. Payables		2005	2004
Current:		\$'000	\$'000
Creditors		21	19
Accrued expenses		283	105
Prepaid revenue		-	30
GST payable		3	5
Employment on-costs		41	53
Total Current Payables		348	212
Non-Current:			
Employee on-costs		48	20
Total Non-Current Payables		48	20
Total Payables		396	232

12. Payables (continued)		2005	2004
Government/Non-Government Payables:		\$'000	\$'000
Payables to SA Government entities:			
Creditors		5	-
Accrued expenses		34	46
Total Payables to Other SA Government Entities		39	46
Payables to Non-SA Government entities:			
Creditors		16	19
Accrued expenses		249	59
Prepaid revenue		-	30
GST payable		3	5
Employment on-costs		41	53
Total Payables to Non-SA Government Entities		309	166
Total Non-Current Payables to Non-SA Government Entities		48	20
Total Payables		396	232
13. (a) Employee Benefits			
Current:			
Annual leave		61	44
Long service leave		47	27
Accrued salaries and wages		16	10
Total Current Employee Benefits		124	81
Non-Current:			
Long service leave		265	152
Total Non-Current Employee Benefits		265	152
Total Employee Benefits		389	233
(b) Employee Benefits and Related On-Costs			
Accrued Salaries:			
On-costs included in payables - Current		22	42
Provision for employee benefits - Current		16	10
		38	52
Annual Leave:			
On-costs included in payables - Current		12	7
Provision for employee benefits - Current		61	44
		73	51
Long Service Leave:			
On-costs included in payables - Current		7	4
Provision for employee benefits - Current		47	27
		54	31
On-costs included in payables - Non-current		48	20
Provision for employee benefits - Non-current		265	152
		313	172
Aggregate Employee Benefits and Related On-Costs		478	306
14. Equity			
Balance at 1 July		1 098	1 182
Operating deficit		(543)	(84)
Balance at 30 June		555	1 098

15. Financial Instruments
(a) Terms and Conditions
 Interest on cash at bank is calculated quarterly by DTF and is based on the average end of month balance of the Special Deposit Account. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts which is 5.3 percent as at 30 June 2005.

	2005				2004			
	Floating Interest Rate	Non-Interest Bearing	Total Carrying Amount	Weighted Average Effective Interest Rate Percent	Floating Interest Rate	Non-Interest Bearing	Total Carrying Amount	Weighted Average Effective Interest Rate Percent
<i>Financial Instrument</i>	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	
Financial Assets:								
Cash	938	-	938	5.3	873	-	873	5.1
Receivables	-	52	52		-	280	280	
	938	52	990		873	280	1 153	
Financial Liabilities:								
Payables	-	307	307		-	159	159	
	-	307	307		-	159	159	

(c) Net Fair Values

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

16. Commitments	2005	2004
Operating Lease Commitments	\$'000	\$'000
Commitments under non-cancellable operating leases at the reporting date are not recognised as liabilities in the financial report, are payable as follows:		
Not later than one year	204	138
Later than one year but not later than five years	136	-
Total Operating Lease Commitments	340	138

The Office's operating lease is for office accommodation and leased through Real Estate Management. The lease is non-cancellable and expired in February 2005 with a 2 year right of renewal. The Office did exercise this option and the lease commitments shown against greater than 1 year are up until February 2007. Rent is payable in advance and the lease agreement require the minimum lease payments to be increased every 2 years based on CPI movement. The total amount of rental expense for minimum lease payments was \$204 000 per annum.

17. Cash Flow Reconciliation	2005	2004
Reconciliation of Cash:	\$'000	\$'000
Cash	938	873
Reconciliation of cash inflows (outflows) from operating activities to operating profit:		
Change in net assets	(543)	(84)
Add (Less): Non-cash items:		
Depreciation	86	109
Loss on disposal of fixed assets	-	7
Assets free of charge	(13)	-
Change in assets/liabilities:		
Decrease in receivables	229	497
(Increase) Decrease in inventories	(8)	2
Increase (Decrease) in payables	164	(374)
Increase (Decrease) in employee benefits	150	(99)
Net Cash Inflows from Operating Activities	65	58

**Statement of Administered Revenues and Expenses
for the year ended 30 June 2005**

	2005			2004	
	Electoral Districts Boundaries Commission (Refer Note 18)	Special Acts	Other	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:					
Revenues from SA Government	-	303	-	303	287
Fees and charges	-	-	-	-	1
Total Revenues from Ordinary Activities	-	303	-	303	288
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee expenses	-	254	-	254	294
Fees and charges	-	-	-	-	1
Total Expenses from Ordinary Activities	-	254	-	254	295
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER	-	49	-	49	(7)

**Statement of Administered Assets and Liabilities
as at 30 June 2005**

	2005			2004	
	Electoral Districts Boundaries Commission (Refer Note 18)	Special Acts	Total	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS:					
Cash	2	-	2	2	2
Receivables	-	128	128	128	128
Total Administered Assets	2	128	130	130	130
CURRENT LIABILITIES:					
Payables	-	6	6	12	12
Employee benefits	-	22	22	37	37
Total Current Liabilities	-	28	28	49	49
NON-CURRENT LIABILITIES:					
Payables	-	8	8	14	14
Employee benefits	-	74	74	96	96
Total Non-Current Liabilities	-	82	82	110	110
Total Administered Liabilities	-	110	110	159	159
NET ASSETS	2	18	20	(29)	(29)

NOTES TO AND FORMING PART OF THE ADMINISTERED STATEMENTS**18. Administered Items/Financial Statements*****Administered Items***

In accordance with the DTF model financial statements the Office has included a schedule of administered items as notes to the accounts as it is considered that administered transactions and balances are insignificant in relation to the Office's overall Statement of Financial Performance and Financial Position.

The Office administers, but does not control, certain resources on behalf of the SA Government. The Office is accountable for the transactions involving these administered items, but does not have any discretion to deploy resources for achievement of its objectives. For these items, the Office acts only on behalf of the SA Government.

Transactions and balances relating to these administered items are not recognised as revenues, expenses, assets or liabilities of the Office but are disclosed in the administered schedules.

There are three administered items namely:

- *Electoral Districts Boundaries Commission*
The Office administers the receipts and payments of the Electoral District Boundaries Commission.
- *Special Acts*
The Electoral Commissioner and Deputy Electoral Commissioner are appointed as Statutory Officers pursuant to the provisions of the Act. The Office receives a separate appropriation for the payment of salaries and allowances for Statutory Officers which is an administered item.
- *Other*
Other includes administered revenue which is collected on behalf of other government agencies and forwarded to them when received. Administered revenue comprises non-voter expiation fees as provided in the Act.

STATE OPERA OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The State Opera of South Australia (State Opera) is a body corporate established pursuant to subsection 5(1) of the *State Opera of South Australia Act 1976*. The State Opera is responsible to the Minister for the Arts.

Functions

The functions of the State Opera of South Australia are:

- to promote the art of opera and related theatrical arts by presenting performances;
- commissioning the scoring and writing of operas;
- training people concerned in operatic presentations;
- establishing and conducting educational programs.

The principal focus of operations of the State Opera over recent years has been on producing and presenting the 2004 'Der Ring des Nibelungen (The Ring)'.

Structure

The State Opera operates with a permanent staff of four including a General Director, Finance Director, Office Administrator and Head of Wardrobe. Permanent employees are supplemented by temporary staff as required.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 23(3) of the *State Opera of South Australia Act 1976* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987*, provide for the Auditor-General to audit the accounts of the State Opera for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

During 2004-05, specific areas of audit attention included:

- budgetary control
- accounts payable
- payroll
- revenue, including cash receipting and banking
- general ledger processing.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of the State Opera of South Australia as at 30 June 2005, the results of its operations and cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the State Opera of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the State Opera of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Director. The responses to the management letter were generally considered to be satisfactory. Major matters raised with the State Opera and the related responses are considered herein.

Relationship with the State Supply Board

Over recent years, Audit has noted a number of matters in relation to the application of the principles enunciated by the State Supply Board for procurement and contracting activities carried out by the State Opera. In order to ensure its future activities are consistent with the requirements of the State Supply Board, Audit recommended that the State Opera further explore its relationship with the State Supply Board.

The State Opera responded that its relationship with the State Supply Board would be further explored.

Risk Management

Audit observed that although, as part of the risk management activities of the State Opera, a risk assessment was undertaken in relation to 'The Ring' as well as an Occupational Health, Safety and Welfare audit, the State Opera has not documented a risk assessment in relation to the operation of the Opera Studio or upcoming productions. As a result, the State Opera is not fulfilling the requirements of its own Risk Management Policy.

State Opera responded that the risk assessment activities undertaken to date have been used to develop a new policy document to provide a formal process for the identification, analysis, assessment and treatment of potential risks for future productions.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

An analysis of the change between 2004 and 2005, as detailed in the table below, is provided under Statement of Financial Performance and Statement of Financial Position.

	2005	2004
	\$'million	\$'million
OPERATING REVENUE		
Government grants	3.88	3.74
Box office and production revenue	5.96	0.58
Other revenue	1.74	0.53
Total Operating Revenue	11.58	4.85
OPERATING EXPENDITURE		
Production expenses	14.40	1.63
Administrative expenses	1.27	0.59
Total Operating Expenses	15.67	2.22
(Deficit) Surplus	(4.09)	2.63

	2005 \$'million	2004 \$'million
Net Cash Flows from Operations	(1.49)	(0.61)
ASSETS		
Current assets	1.56	10.06
Non-current assets	0.22	0.24
Total Assets	1.78	10.30
LIABILITIES		
Current liabilities	0.75	5.18
Non-current liabilities	0.17	0.17
Total Liabilities	0.92	5.35
EQUITY	0.86	4.95

Statement of Financial Performance and Statement of Financial Position

Grant funding is recognised in the State Opera's financial statements in the year in which it has been received. Grant funding in 2005 (net of payments to the Adelaide Symphony Orchestra), totalled \$3.9 million (\$3.7 million). Over the past two years, grant funding has remained relatively high although constant reflecting additional funding from the Commonwealth Government in 2004 of \$1.4 million and additional funding from the State Government in 2005 of \$1.5 million for the production of 'The Ring'.

In accordance with the State Opera's accounting policy, in order to bring other revenues and expenses to account in the year in which the opera is presented, corresponding liabilities and assets are reflected until such time as the production occurs. That is, box office and production revenue, and sponsorship for 'The Ring' have been reflected as advance box office and advance sponsorship in prior years. Coupled with associated revenues in 2005, 'The Ring' generated \$5.7 million in box office and production revenue and \$1.4 million in sponsorship (refer table below). In addition, expenses for 'The Ring' have been reflected as prepayments in prior years. Coupled with associated expenses in 2005, the cost of producing and presenting the Ring totalled \$15.1 million (refer table below). The balance as at 30 June 2005 in the liability and asset accounts reflects revenues and expenses for operas to be staged in 2005-06.

The financial statements for State Opera thus bring to account grant funding in the year in which it is received and revenues and expenses relevant to a production in the year in which the production takes place. While the Statement of Financial Performance reflects a net deficit from operations in 2005 of \$4.1 million, as can be seen from the table below, the staging of 'The Ring' resulted in an actual deficit of \$178 000 as the related grant funding was managed through reserves until it was required.

The total revenues and expenses for 'The Ring' as provided by the State Opera is shown in the following table:

The Ring

	Total \$'000
REVENUES	
State Government grants	2 546
Commonwealth Government grants	4 347
Box office and production revenue	5 727
Donations	849
Sponsorship	1 351
Sundry revenue	139
Total Revenues	14 959

	Total \$'000
EXPENSES	
Performers and employee entitlements	5 010
Theatre hire and related expenses	2 599
Costumes and sets	4 757
Advertising	334
Travel and accommodation	1 009
Shipping and freight	202
Administration	994
Other expenses	232
Total Expenses	15 143
OPERATING DEFICIT	(178)

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2005.

	2005 \$'million	2004 \$'million	2003 \$'million	2002 \$'million
Net Cash Flows				
Operations	(1.49)	(0.6)	1.97	0.62
Investing	(0.01)	(0.02)	(0.03)	(0.16)
Financing	-	-	-	-
Change in Cash	(1.5)	(0.62)	1.94	0.46
Cash at 30 June	1.41	2.91	3.53	1.59

The analysis of cash flows demonstrates the significant box office and production receipts and the production, administration marketing and other payments associated with the production of the 2004 Ring. As discussed previously these receipts are recognised as liabilities and the payments are recognised as prepayments.

FURTHER COMMENTARY ON OPERATIONS

Production Statistics

Unaudited statistical details for major productions over the last three years, as provided by the State Opera, are presented in the following table:

	2004-05 Numbers	2003-04 Numbers	2002-03 Numbers
Number of major productions	4	1	3
Number of performances	12	4	14
Total seat capacity	21 552	7 112	25 144
Number of seats sold*	20 260	5 078	17 162
Average number of seats sold per performance	1 688	1 270	1 230
	\$	\$	\$
Production costs per seat sold**	747	248	140
Box office and production revenue per seat sold	283	84	85
Subsidy per seat sold***	465	164	55
Government subsidy per seat sold****	340	159	51

* Seats sold exclude complimentary tickets.

** Excludes Opera Conference support and other production costs.

*** Subsidy per seat sold represents the amount of government grants, private sponsorship and donations received by the State Opera per seat sold.

**** Government subsidy per seat sold represents the amount of State and Commonwealth Government grants received by the State Opera per seat sold.

**Statement of Financial Performance for
the year ended 30 June 2005**

	Note	2005 \$'000	2004 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
State Government grants		2 660	1 369
Less: Payment to Adelaide Symphony Orchestra		(230)	(230)
	3	2 430	1 139
Commonwealth Government grants	3	1 448	2 602
Box office and production revenue	4	5 958	581
Sponsorship	5	1 351	104
Donations	5	229	320
Interest and sundry revenue		167	106
Total Revenues		11 583	4 852
EXPENSES FROM ORDINARY ACTIVITIES:			
PRODUCTION EXPENSES:			
Performers and employee entitlements		5 185	710
Costumes and sets		4 757	116
Theatre hire and related expenses		2 608	364
Travel and accommodation		1 042	90
Advertising		334	106
Shipping and freight		172	78
Other expenses		305	165
Total Production Expenses	6	14 403	1 629
ADMINISTRATION, MARKETING AND FINANCIAL:			
Employee entitlements		774	223
Rental accommodation and service expenses		164	156
Subscription and marketing costs		93	20
Other expenses		238	186
Total Administration, Marketing and Financial	6	1 269	585
Total Expenses		15 672	2 214
(DEFICIT) SURPLUS FROM ORDINARY ACTIVITIES		*(4 089)	2 638
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		(4 089)	2 638

* The two financial years reported in this Statement of Financial Performance covers the majority of the period for the production and presentation of the 2004 Ring. In the financial period 2000-01 a specific Wagner Ring Cycle Reserve was created which accumulated to a balance of \$3 934 000 in the period 2003-04. In the current financial period this reserve has been transferred to accumulated funds. The net effect of this is a loss of \$155 000 which can be attributed to presenting the 2004 Wagner Ring Cycle (refer Note 10).

**Statement of Financial Position
as at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
ASSETS:			
CURRENT ASSETS:			
Cash assets	7, 15	1 405	2 907
Prepayments		102	7 014
Receivables		36	114
Inventories		16	22
Total Current Assets		1 559	10 057
NON-CURRENT ASSETS:			
Investments		158	158
Plant and equipment	8	67	80
Total Non-Current Assets		225	238
Total Assets		1 784	10 295
LIABILITIES:			
CURRENT LIABILITIES:			
Advance box office		426	3 720
Accruals		115	91
Creditors		83	297
Advance sponsorship		66	1 036
Employee benefits	9	51	29
Employment on-costs	9	11	8
Total Current Liabilities		752	5 181
NON-CURRENT LIABILITIES:			
Employee benefits	9	152	146
Employment on-costs	9	21	20
Total Non-Current Liabilities		173	166
Total Liabilities		925	5 347
NET ASSETS		859	4 948
EQUITY:			
Reserves	10	914	4 797
Accumulated (deficit) surplus	10	(55)	151
TOTAL EQUITY		859	4 948
Commitments and Contingent Liabilities	11		

Statement of Cash Flows for the year ended 30 June 2005

		2005	2004
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)
RECEIPTS:	Note	\$'000	\$'000
Grants - State and Commonwealth Government		3 878	3 741
Box office and production		2 664	1 962
Sponsorship		381	520
Donations		229	320
Interest and sundries		173	106
GST collected on sales		195	547
PAYMENTS:			
Performers and employee entitlements		(4 244)	(1 899)
Production, administration, marketing and other payments		(4 570)	(5 355)
GST paid on purchases		(536)	(328)
GST received from (remitted to) Australian Taxation Office		337	(220)
Net Cash used in Operating Activities	16	(1 493)	(606)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for plant and equipment		(9)	(17)
Net Cash used in Investing Activities		(9)	(17)
NET DECREASE IN CASH HELD		(1 502)	(623)
CASH AT 1 JULY		2 907	3 530
CASH AT 30 JUNE	15	1 405	2 907

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. State Opera of South Australia Objectives and Funding

The State Opera of South Australia (the Company) objectives are:

- To promote and develop the State Opera of South Australia as one of Australia's most exciting and innovative performing arts companies.
- To reinforce, through its activities, South Australia's reputation both nationally and internationally as a State recognised for its rich cultural life and artistic excellence.
- To be recognised nationally and internationally as a forward-thinking performing arts company that 'does it differently'.
- To be renowned nationally and internationally as the performing arts company that makes Adelaide a 'Wagner City'.

The State Opera of South Australia's principal source of funds are State Government appropriations, Commonwealth Government grants (through the Australia Council) and box office and production revenues.

2. Statement of Significant Accounting Policies

The significant accounting policies adopted by the Company are stated in order to assist in a general understanding of the financial report. These policies have been consistently applied except as otherwise indicated.

Basis of Accounting

The general purpose financial report has been prepared on the basis of historical cost and in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), Department of Treasury and Finance Accounting Policy Statements and the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*. The accrual method of accounting has been used. The financial statements do not take into account changing money values or, except where stated, the current valuations of non-current assets.

Adoption of Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing 1 January 2005. The State Opera of South Australia will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

The following standard will have some impact on the financial statements, although it is expected that the impact will not be significant.

AASB 119 Employee Benefits: The State Opera of South Australia will adjust employee benefits payable later than 12 months (currently measured at nominal amounts) to present value.

Employee Benefits

Employee benefits include entitlements to salaries, wages, long service leave, annual leave and superannuation benefits.

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

The superannuation expense comprises contributions to accumulation style superannuation schemes for performers and employees. In addition, in accordance with employment agreements, amounts are payable to externally managed funds. The schemes have the responsibility for meeting benefit payments, in accordance with scheme rules.

Sick leave is not provided for as it is non-vesting, however, entitlements are accumulated.

The State Opera of South Australia pay workers compensation insurance premiums to the WorkCover Corporation, and as such no liability for workers compensation has been reflected in the financial report.

Depreciation of Non-Current Assets

Depreciation of plant and equipment is calculated using the straight-line method of allocation and is recognised in the financial report from 1 July following acquisition. All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner, which reflects the consumption of their service potential. Useful lives are reviewed annually. The expected useful lives are as follows:

	Years
Computer equipment	3
Office furniture and equipment	5
Production equipment	6-10

Result of Operations

Revenues for, and production expenses of, future productions and productions in progress at year end are carried forward as advance box office and advance sponsorship revenue and prepayments and are not included in revenues and expenses from ordinary activities for the year. In addition, the cost of sets is expensed unless it is anticipated with certainty that future benefits will be derived.

Operating Grants

The State Government and Australia Council grants are based on the Company's cash flows and as such do not take into account accrued expenses and amounts set aside for depreciation and future employee entitlements.

Economic Dependency

The normal business activities of the State Opera of South Australia are dependent on the continuation of grants from the State Government and the Australia Council at an appropriate level. The State Opera of South Australia, Arts South Australia and the Australia Council have entered into a formal agreement which maintains funding at current levels or better until 31 December 2006.

Financial Instruments

The Company's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2005, are as follows:

Financial Assets

Cash at bank (Note 7) comprises deposits at call with the Commonwealth Bank of Australia. No interest is earned on this account.

Short term deposits (Note 7) comprises deposits at call with the:

- South Australian Government Financing Authority (SAFA)
- Commonwealth Bank - Thora and Frank Pearce Opera Foundation
- Adelaide Bank and Adelaide Bank Managed Funds - Diana Ramsay Fund.

Interest revenues are recognised as they accrue. Interest rates are at market rates and have fluctuated between 3.85 percent and 5.4 percent for the year ended 30 June 2005 (between 3.2 percent and 5.15 percent in 2003-04).

Receivables are reported at amounts due less the provision for doubtful debts.

Investments comprise equity shares and are brought to account at cost and dividends are credited to revenue when they are declared. The fair value of investments as at 30 June 2005 was \$202 000.

Financial Liabilities

Creditors are raised for amounts billed but unpaid and are normally settled within 30 days.

All financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates net fair value with the exception of investments.

Revenue Recognition

Government grants and other revenue are recognised on receipt. Interest revenues are recognised as they accrue. Box office, production and sponsorship revenue is recognised after the service has been provided.

Accounting for the Goods and Services Tax (GST)

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

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

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

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

Tax Status

The activities of the State Opera of South Australia are exempt from Commonwealth income tax but subject to other Commonwealth taxes such as Fringe Benefits Tax, Goods and Services Tax and other State taxes (including payroll tax).

Rounding

All amounts are rounded to the nearest thousand dollars.

Government/Non-Government Disclosures

In accordance with APS 13, the State Opera of South Australia has included details of revenue, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the SA Government in the notes where appropriate.

3. Grant Revenues comprise:	2005	2004
State Government	\$'000	\$'000
From Arts SA for:		
General purpose	930	926
Special purpose relating to The Ring Cycle	1 500	200
Special purpose relating to the opera Undertow	-	13
Orchestral services	230	230
	2 660	1 369
Less: Payment to Adelaide Symphony Orchestra	230	230
	2 430	1 139
Commonwealth Government		
From Australia Council for:		
General purpose	1 178	1 164
Special purpose relating to The Ring Cycle	219	1 429
Other special purpose relating to artist support	20	9
From Austrade:		
Export grant relating to The Ring Cycle	31	-
	1 448	2 602
4. Box Office and Production Revenue	2005	
Comprises revenue for operas and other events staged during the year:	\$'000	
Opera:		
<i>The Ring</i>	6 125	
Events associated with <i>The Ring</i>	218	
<i>Undertow - Overseas tour*</i>	13	
	6 356	
Less: BASS ticket service charges	398	
	5 958	

* contribution towards travel costs for tour scheduled in August 2005

In 2003-04 there were four opera events staged which generated revenue of \$604 000.

5. Sponsorship and Donations		2005	2004	
This comprises money received from:		\$'000	\$'000	
Sponsorship:				
South Australian Government - Australian major events		1 000	-	
Private sector		351	104	
		1 351	104	
Donations from Private Sector:				
Patrons specifically for 2004-05 Wagner Ring Cycle		139	304	
Patrons		56	16	
Thora and Frank Pearce Opera Foundation		34	-	
		229	320	
6. Total Expenses			2005	
Production Expenses:			\$'000	
Production costs which can be directly attributed to operas, staged during the year, other events and other production costs, are as follows:				
<i>Opera:</i>				
<i>The Ring</i>			14 015	
Events associated with <i>The Ring</i>			194	
<i>Undertow</i> - Overseas tour			33	
Contribution to Opera Studio Young Artists Program			9	
Other production costs			152	
			14 403	
South Australian Government - Adelaide Festival Centre Trust.				
Production costs associated with producing <i>The Ring</i> amounted to \$2 345 000.				
In 2003-04 there were four opera events staged at a production cost of \$1 629 000.				
Administration, Marketing and Financial Expenses:		2005	2004	
Total expenses		\$'000	\$'000	
		1 269	585	
South Australian Government - DAIS				
Supply of rental accommodation and service expenses		164	156	
7. Cash Assets				
Cash assets comprise:				
Short term deposits		1 390	2 892	
Cash at bank		12	12	
Cash on hand		3	3	
		1 405	2 907	
8. Plant and Equipment				
Production equipment - At cost		151	148	
Less: Accumulated depreciation		95	80	
		56	68	
Office furniture and equipment- At cost		58	56	
Less: Accumulated depreciation		56	54	
		2	2	
Computer equipment - At cost		61	57	
Less: Accumulated depreciation		52	47	
		9	10	
		67	80	
Movements in Carrying Amounts				
Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:				
	Production Equipment	Office Equipment	Computer Equipment	2005 Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	68	2	10	80
Additions	3	2	4	9
Depreciation expense	(15)	(2)	(5)	(22)
Carrying amount at 30 June	56	2	9	67
9. Employee Benefits and Related On-Costs		2005	2004	
Annual Leave:		\$'000	\$'000	
On-costs included in current liabilities		11	8	
Employee benefits - Current		51	29	
		62	37	

9. Employee Benefits and Related On-Costs (continued)	2005	2004
Long Service Leave:	\$'000	\$'000
On-costs included in non-current liabilities	21	20
Employee benefits - non-current	152	146
	173	166
Aggregate Employee Benefits and Related On-Costs	235	203

As at reporting date, the Company's permanent staff totalled 4 (5). This is supplemented by temporary staff as required.

10. Equity		
Movements during the year were:		
Reserves - Wagner Ring Cycle:		
Balance at 1 July	3 934	1 695
Net transfer (to) from accumulated surplus	(3 934)	2 239
Balance at 30 June	-	3 934
Other Reserves:		
Balance at 1 July	863	547
Net transfer from accumulated surplus	51	316
Balance at 30 June	914	863

Other reserves are for the Diana Ramsay Fund, the Thora and Frank Pearce Opera Foundation and future periods (refer Note 18).

Accumulated Surplus:		
Accumulated Surplus at 1 July	151	68
Operating (deficit) surplus	(4 089)	2 638
Net transfers from (to) reserves	3 883	(2 555)
Accumulated (Deficit) Surplus at 30 June	(55)	151

11. Commitments and Contingent Liabilities		
Operating Lease Commitments		
Commitments under non-cancellable operating leases, related to property, vehicles and equipment, at the reporting date but not recognised as liabilities in the financial report, are payable as follows:		
Not later than one year	265	312
Later than one year but not later than five years	97	309
Total Lease Commitments	362	621
GST included in Operating Lease Commitments	32	56

Production Contracts

The Company, by the nature of its operations, has entered into contracts with artists and theatre proprietors for performances scheduled to take place subsequent to 30 June 2005. The terms and conditions of the contracts may also place a liability on the Company to pay some or all of these amounts should the artist not be engaged or the theatre, hired scenery, or costumes not be used.

These commitments have been made on the basis that ongoing funding will continue from the State and Federal Governments at an appropriate level.

	Due within	Due within	2005	2004
	1 Year	1-5 Years	Total	Total
	\$'000	\$'000	\$'000	\$'000
Performers' salaries, etc	309	82	391	3 017
Construction and hire agreements	233	-	233	680
	542	82	624	3 697
GST included in Construction and hire agreements	21	-	21	62

Contingent Liabilities

The Department of Treasury and Finance through Arts SA provided additional funding of \$1.5 million during 2004-2005 specifically in support of mounting The Ring Cycle production. Part of the conditions of providing this funding is that it be repaid from any future surplus generated from the production, including profits from its sale. On 27 July 2005, the Company received confirmation that \$0.5 million of the funding was to be converted to a grant and as such the conditions would only apply to the remaining \$1 million.

12. Related Party Information

The Board members who have held office during the financial year are:

Mr Ian Kowalick (Chair)	Ms Elizabeth Raupach
Mr Terry Evans	Dr Christine Rothauser
Ms Patricia Lange	Mrs Jeanette Sandford-Morgan OAM
Ms Deborah Morgan	Mr Christopher Stone
Lady Neal AM	

No Board member received any remuneration from the Company during the 12 months to 30 June 2005 (\$nil). All Board members have waived the basic sitting fees as a contribution to the Company. Members of the Board of Management use the services of the Company no more favourably than members of the public, except for the provision of tickets to each staged production.

13. Remuneration of Employees

Remuneration includes salary and other employee entitlements and benefits that form the total remuneration package for an employee. The Company has one employee whose normal remuneration fell within the band \$150 000 - \$160 000. Total remuneration paid to that employee was \$150 000 (\$145 000).

14. Auditors' Remuneration

The amount received or due and receivable by the Auditor-General for auditing the accounts was:	2005 \$'000	2004 \$'000
	22	25

The auditor provided no other services.

15. Reconciliation of Cash

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

Cash at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:	2005 \$'000	2004 \$'000
State Opera - Cash assets	1 149	2 703
Trust funds - Cash assets (refer Note 18)	256	204
	1 405	2 907

16. Reconciliation of Operating Surplus to Net Cash used in Operating Activities

Operating (deficit) surplus	(4 089)	2 638
Depreciation of plant and equipment	22	21
Decrease (Increase) in receivables and prepayments	6 990	(5 084)
Decrease (Increase) in inventory	6	(6)
(Decrease) Increase in advance box office sales and advance sponsorship	(4 264)	1 792
(Decrease) Increase in creditors and accruals	(190)	12
Increase in employee benefits and on-costs	32	21
Net Cash used in Operating Activities	(1 493)	(606)

17. Consultants

Total Expenditure on one consultant amounting to \$8 400 for OHS&W audit and action plan was paid to Sharon Kelsey OH&S Consultant

8	-
----------	---

18. Trust Funds

The State Opera of South Australia holds funds in a trustee capacity. These funds are included in the financial statements as they are effectively controlled by the State Opera.

The State Opera administers the Thora and Frank Pearce Opera Foundation established in August 1999 and the Diana Ramsay Fund established in November 2001. The Foundation and the Fund are both financed by public donations. All funds are to be used exclusively for cultural purposes associated with opera.

The revenues and expenses of controlled Trusts reflected in the Statement of Financial Performance for the year ended 30 June 2005 were:

	Thora and Frank Pearce Opera Foundation	Diana Ramsay Fund	Total
	\$'000	\$'000	\$'000
Revenue from Ordinary Activities:			
Donations	34	-	34
Interest and sundry revenue	3	14	17
Expenses from Ordinary Activities:			
Other expenses	-	-	-
	37	14	51
Represented by:			
Cash assets	124	132	256
Investments	-	158	158
	124	290	414

General Index to Part B

of the

Report

of the

Auditor-General

for the

Year ended 30 June 2005

A

Accounting for Crown Land
Environment and Heritage, Department for, 410

Accrued Liabilities
Police Superannuation Scheme, 878

Acquisition of Land at Victor Harbor
South Australian Water Corporation, 1241

Adelaide Convention Centre Corporation, 3

Adelaide Entertainments Corporation, 18

Adelaide Festival Centre Trust, 32
Control Environment, 34
Review of Computing Environment
and Operations, 35
Solvency - Current Assets and Liabilities, 37
User Charges and Interest, 36

Adelaide Festival Corporation, 51

Administration of Concessions
Families and Communities, Department for, 490

Administration of Grants and Subsidies
Trade and Economic Development,
Department of, 1337

Administrative and Information Services, Department
for, 61
Audit Opinions, 63
Business Resumption Planning, 72
CaseMan (Forensic Branch), 70
Changes to Functions and Structure, 62
Complete Human Resource Management
System (CHRIS), 71
Contract Management, 65
Facilities Asset Management Information
System (FAMIS), 66
Governance, 64
Government Workers Rehabilitation and
Compensation Fund, 114
Masterpiece Accounts Payable (MPAP), 67
Motor Vehicle Fleet Finance Lease, 72
Qualified Audit Opinion, 63
Risk Management, 64, 65
SA Government Commercial Properties, 69
SACREDD DNA Database System
(Forensic Science), 70
Telecommunication Services Agreement, 68

Air Warship Destroyers
Trade and Economic Development,
Department of, 1343

Ambulance Cover Scheme
SA St John Ambulance Service Inc, 975

Art Gallery Board, 121
Heritage Collections, 126

Asset Allocation and Risk
Superannuation Funds Management
Corporation of South Australia, 1309

Asset Classes
Superannuation Funds Management
Corporation of South Australia, 1308

Asset Management System
Public Trustee, 197

Asset Quality
HomeStart Finance, 659, 660

Asset Valuations
Land Management Corporation, 693

Assets and Liabilities Transferred to the Department
Families and Communities, Department for, 493

Attorney-General's Department, 141
Bodies in the Barrel Case, 152
Classification of Expenditure, 143
Classification of Revenue Recoveries, 143
Community Emergency Services Fund, 152
Crown Solicitor's Trust Account, 143
Expenditure Delegations, 143
Gaming Machine Administration, 150
Independent Gaming Corporation
Limited, 151
Recoveries from Offenders, 151
Residential Tenancies Fund, 184
Taxation Receipts, 150
Victims of Crime Fund, 151

Audit Opinions - Qualified
Administrative and Information Services,
Department for, 63
Education and Children's Services,
Department of, 336
Environment and Heritage, Department for, 409
South Australian Forestry Corporation, 1066
South Australian Motor Sport Board, 1166
University of South Australia, 1517

Auditor-General's Department, 234

Austrics - Cessation of Operations
TransAdelaide, 1372

B

Bad and Doubtful Debts Expense
HomeStart Finance, 658

Bank Reconciliations
Education and Children's Services,
Department of, 339

Blueprint 2005 Capital Program
University of South Australia, 1525

Bodies in the Barrel Case
Attorney-General's Department, 152

Budget and Financial Management Consultancy
Health, Department of, 592
Families and Communities, Department for, 488

Business Resumption Planning
Administrative and Information Services,
Department for, 72

Business Risk Management
South Australian Government Financing
Authority, 1128

C

Capital and Distributions
South Australian Government Financing
Authority, 1126

Capital Funding to Community Housing Organisations
South Australian Community Housing
Authority, 1033

Capital Works
Education and Children's Services,
Department of, 351

Capture Adjudication and Reporting System (CARS)
Police Department, 849

CaseMan (Forensic Branch)
Administrative and Information Services
Department for, 70

Catastrophe Reinsurance Program
 South Australian Government Captive Insurance Corporation, 1095

Changes to Functions and Structure
 Administrative and Information Services, Department for, 62
 Health, Department of, 590
 Emergency Services Administrative Unit, 392
 Environment Protection Authority, 460
 Transport, Energy and Infrastructure, Department for, 1389

Common Public Sector Interest Rate (CPSIR)
 South Australian Government Financing Authority, 1127

Community Emergency Services Fund
 Attorney-General's Department, 152

Community Housing Organisations
 South Australian Community Housing Authority, 1028

Community Road Safety Fund
 Transport, Energy and Infrastructure, Department for, 1399

Complete Human Resource Management System (CHRIS)
 Administrative and Information Services, Department for, 71
 Health, Department of, 597

Compulsory Third Party Fund
 Motor Accident Commission, 795

Computer Information Systems Environment
 Education and Children's Services, Department of, 344
 Environment and Heritage, Department for, 411
 Further Education, Employment, Science and Technology, Department of, 570
 Health, Department of, 596

Computer Processing Environment
 Lotteries Commission of South Australia, 772
 SA St John Ambulance Service Inc, 971
 South Australian Superannuation Board, 1183

Construction Industry Training Board, 248

Contract Management
 Administrative and Information Services, Department for, 65

Contract Management and Procurement
 South Australian Water Corporation, 1240

Contract to provide Passenger Transport Services
 TransAdelaide, 1364

Contributions to the Government
 Land Management Corporation, 689
 South Australian Water Corporation, 1245

Control Environment
 Adelaide Festival Centre Trust, 34
 Water, Land and Biodiversity Conservation, Department of, 1557

Corporate Governance
 Administrative and Information Services, Department for, 64
 Correctional Services, Department for, 262
 Education and Children's Services, Department of, 344, 345
 South Australian Superannuation Board, 1182
 TransAdelaide, 1366
 Water, Land and Biodiversity Conservation, Department of, 1556
 Correctional Services, Department for, 261
 Corporate Governance, 262
 Institutional Rostering System, 267
 Risk Management, 262
 Risk Management Plan, 265
 Service Contracts, 270

Country Fire Service Board, 288
 Emergency Services Administrative Unit, 288
Fire and Emergency Services Act 2005, 289

Courts Administration Authority, 307
 E-Lodgement Facility, 309

Crown Lands
 Environment and Heritage, Department for, 415

Crown Solicitor's Trust Account
 Attorney-General's Department, 143

D

Defence Unit – Air Warship Destroyers
 Trade and Economic Development, Department of, 1343

Department for Administrative and Information Services
 see Administrative and Information Services, Department for

Department for Correctional Services
 see Correctional Services, Department for

Department for Environment and Heritage
 see Environment and Heritage, Department for

Department for Families and Communities
 see Families and Communities, Department for

Department for Transport, Energy and Infrastructure
 see Transport, Energy and Infrastructure, Department for

Department of Education and Children's Services
 see Education and Children's Services, Department of

Department of Further Education, Employment, Science and Technology
 see Further Education, Employment, Science and Technology, Department of

Department of Health
 see Health, Department of

Department of Primary Industries and Resources
 see Primary Industries and Resources, Department of

Department of the Premier and Cabinet
 see Premier and Cabinet, Department of the

Department of Trade and Economic Development
 see Trade and Economic Development, Department of

Department of Treasury and Finance
 see Treasury and Finance, Department of

Department of Water, Land and Biodiversity Conservation
 see Water, Land and Biodiversity Conservation, Department of

Distributions to Government
 HomeStart Finance, 660
 Lotteries Commission of South Australia, 775
 South Australian Forestry Corporation, 1070

Dividend Payment
 South Australian Asset Management Corporation, 1011

Driver and Vehicle Licensing
 Transport, Energy and Infrastructure, Department for, 1393

Drivers Review
 Transport, Energy and Infrastructure, Department for, 1393

E

Edinburgh Parks Precinct
Trade and Economic Development,
Department of, 1342
Education and Children's Services,
Department of, 335
Audit Opinions, 336
Bank Reconciliations, 339
Capital Works, 351
Computer Information Systems and
Environment, 344
Employee Attendance Records, 337
Financial Reporting by Government
Schools, 343
Governance, 344, 345
Procurement, 340
Qualified Audit Opinion, 337
Risk Management, 344, 345
Student Enrolments, 350
Workers Compensation, 348
E-Lodgement Facility
Courts Administration Authority, 309
Emergency Services Administrative Unit, 391
Changes to Functions and Structure, 392
Country Fire Service Board, 288
Fire and Emergency Services Act 2005, 392
Overall Comment on the Results of the Audit, 393
Employee Attendance Records
Education and Children's Services,
Department of, 337
Employee Benefits and Workers Compensation
Police Department, 853
Environment and Heritage, Department for, 408
Accounting for Crown Land, 410
Audit Opinions, 409
Computer Information Systems (CIS)
Environment, 411
Crown Lands, 415
Financial Management Framework, 410
Fire Management Program, 415
Procurement Practices, 410
Qualified Audit Opinion, 409
Risk Management, 411
Environment Protection Authority, 459
Changes to Functions and Structure, 460
Transfers on Establishment of Zero Waste SA, 462
Expenditure Delegations
Attorney-General's Department, 143
Expiation Fees
Police Department, 854

F

Facilities Asset Management Information System
(FAMIS)
Administrative and Information Services,
Department for, 66
Families and Communities, Department for, 485
Administration of Concessions, 490
Assets and Liabilities Transferred to the
Department, 493
Budget and Financial Management
Consultancy, 488
Management Reporting, 492
Risk Management, 492
Service Level Agreements, 493
Shared Service Arrangements, 485

Financial Management Framework
Environment and Heritage, Department for, 410
Financial Reporting by Government Schools
Education and Children's Services,
Department of, 343
Fire and Emergency Services Act 2005
Country Fire Service Board, 289
Emergency Services Administrative Unit, 392
South Australian Metropolitan Fire Service, 1148
Fire Management Program
Environment and Heritage, Department for, 415
Fixed Assets - Control and Recognition
Water, Land and Biodiversity Conservation,
Department of, 1564
Flinders University of South Australia, 523
Procurement, 525
Risk Management, 525
Student One Computer Processing
Environment, 526
Funding to Health Services
Health, Department of, 593
Further Education, Employment, Science and
Technology, Department of, 568
Computer Information Systems, 570
Strategic and Business Planning, 569

G

Gaming Machine Administration
Attorney-General's Department, 150
Governance see Corporate Governance
Government Accounting and Reporting Branch
Treasury and Finance, Department of, 1446
Government Workers Rehabilitation and Compensation
Fund
Administrative and Information Services,
Department for, 114
Outstanding Claims, 115
Growing Timber
South Australian Forestry Corporation, 1071
Guarantee by the Treasurer
Local Government Finance Authority of
South Australia, 754

H

Health, Department of, 590
Budget and Financial Management
Consultancy, 592
Changes to Functions and Structure, 590
Complete Human Resources Information
System (CHRIS), 597
Computer Information Systems (CIS)
Environments, 596
DH Communications Network HSNet, 598
Financial Data Mart Review, 598
Funding to Health Services, 593
Health Sector Staffing Statistics, 633
Hospital Activity Statistics, 633
Regionalisation of Metropolitan Health
Services, 600
Shared Services Arrangements, 591
Health Sector Staffing Statistics
Health, Department of, 633
Heritage Collections
Art Gallery Board, 126
Museum Board, 822

History Trust of South Australia, 635
Management of Heritage Collections, 636
HomeStart Finance, 655
Asset Quality – Non-Accrual Loans, 660
Asset Quality - Provision for Doubtful Debts, 659
Bad and Doubtful Debts Expense, 658
Distributions to Government, 660
Loans and Advances, 659
Net Cash Flows, 661
Net Interest Revenue, 657
Hospital Activity Statistics
Health, Department of, 633
Housing Reform
South Australian Community Housing
Authority, 1029

I

Independent Gaming Corporation Limited
Attorney-General's Department, 151
Industrial and Commercial Property Sales
Land Management Corporation, 691
Industrial Commercial Premises
Land Management Corporation, 695
Information Systems Business Continuity
Primary Industries and Resources,
Department of, 924
Institutional Rostering System
Correctional Services, Department for, 267
Internal Control Framework
South Australian Forestry Corporation, 1067
Inventory and Fixed Asset Work in Progress
South Australian Housing Trust, 1146

J

Joint Venture Operations
South Australian Water Corporation, 1240
Joint Venture Relationship
TransAdelaide, 1372
Judges' Pensions Scheme, 678
Transfers to Other Schemes, 680

L

Land held for Resale
Land Management Corporation, 693
Land Management Corporation, 687
Asset Valuations, 693
Contributions to the Government, 689
Industrial and Commercial Property Sales, 691
Industrial Commercial Premises, 695
Land held for Resale, 693
Mawson Lakes Government Infrastructure
Project, 694
Port Adelaide Waterfront Redevelopment, 694
Land, Buildings and Facilities
Transport, Energy and Infrastructure,
Department for, 1392
Legal Services Commission, 714
Legal Aid Expenditure, 715

Libraries Board of South Australia, 732
Net Result from Ordinary Activities, 736
Research and Heritage Collections, 737
Loans and Advances
HomeStart Finance, 659
Local Government Finance Authority of South
Australia, 754
Guarantee by the Treasurer, 754
Provision for Bonus Payments, 759
Tax Equivalent Payments, 759
Lotteries Commission of South Australia, 771
Computer Processing Environment, 772
Distributions to Government, 775
Sales Revenue, 774

M

Masterpiece Accounts Payable (MPAP)
Administrative and Information Services,
Department for, 67
Mawson Lakes Government Infrastructure Project
Land Management Corporation, 694
Motor Accident Commission, 793
Compulsory Third Party Fund, 795
Investment Result, 797
Operating Result, 797
Outstanding Claims, 798
Solvency Level, 799
Underwriting Result, 796
Motor Vehicle Fleet Finance Lease
Administrative and Information Services,
Department for, 72
Museum Board, 818
Heritage Collections, 822

N

National Action Plan for Salinity and Water Quality
Water, Land and Biodiversity Conservation,
Department of, 1563
Natural Gas Authority of South Australia
Primary Industries and Resources,
Department of, 933
Natural Heritage Trust
Water, Land and Biodiversity Conservation,
Department of, 1563
Natural Resources Management Act 2004
Water, Land and Biodiversity Conservation,
Department of, 1564
Network Assets
Transport, Energy and Infrastructure,
Department for, 1391

O

Outstanding Claims
Government Workers Rehabilitation and
Compensation Fund, 115
Motor Accident Commission, 798
South Australian Government Captive Insurance
Corporation, 1092, 1094

P

Parliamentary Superannuation Scheme, 836
 Transfer to Consolidated Account and Other Schemes, 838

PeopleSoft Computer Processing Environment
 University of Adelaide, 1477
 University of South Australia, 1519

Performance Charter
 South Australian Water Corporation, 1244

Police Department, 847
 Capture Adjudication and Reporting System (CARS), 849
 Employee Benefits and Workers Compensation, 853
 Expiation Fees, 854
 Procurement and Contract Management, 848
 Risk Management, 848

Police Superannuation Scheme, 875
 Accrued Liabilities, 878

Port Adelaide Waterfront Redevelopment
 Land Management Corporation, 694

Premier and Cabinet, Department of the, 890
 Department Restructure, 890
 Matters Raised with the Department, 891
 Targeted Voluntary Separation Package Schemes, 917

Primary Industries and Resources, Department of, 922
 Cash at Bank Reconciliation Methodology, 924
 Completeness of the General Ledger, 924
 Financial Systems and Processes Review, 930
 Information Systems Business Continuity, 924
 Natural Gas Authority of South Australia, 933
 Review of Accounts Payable Processing, 926
 Risk Monitoring, 925
 Rural Finance and Development, 932
 South Australian Water Corporation, 933

Procurement
 Education and Children's Services, Department of, 340
 Flinders University of South Australia, 525

Procurement and Contract Management
 Police Department, 848

Procurement Practices
 Environment and Heritage, Department for, 410

Procurement Review
 TransAdelaide, 1367

Production Loans
 South Australian Film Corporation, 1054

Production Statistics
 State Opera of South Australia, 1293

Project and Contract Management
 Transport, Energy and Infrastructure, Department for, 1392

Project Developments and Film Investments
 South Australian Film Corporation, 1054

Provision for Bonus Payments
 Local Government Finance Authority of South Australia, 759

Provision of Financial Assistance to Film Producers
 South Australian Film Corporation, 1053

Public Trustee, 193
 Asset Management System, 197

Q

Qualified Audit Opinion
 Administrative and Information Services, Department for, 63
 Education and Children's Services, Department of, 337
 Environment and Heritage, Department for, 409
 South Australian Forestry Corporation, 1067
 South Australian Motor Sport Board, 1167
 University of South Australia, 1518

R

Recoveries from Offenders
 Attorney-General's Department, 151

Regionalisation of Metropolitan Health Services
 Health, Department of, 600

Research and Heritage Collections
 Libraries Board of South Australia, 737

Residential Tenancies Fund
 Attorney-General's Department, 184

RevenueSA
 Treasury and Finance, Department of, 1445

Review of Ambulance Service
 SA St John Ambulance Service Inc, 976

Risk Management
 Administrative and Information Services, Department for, 64, 65
 Correctional Services, Department for, 262
 Education and Children's Services, Department of, 344, 345
 Environment and Heritage, Department for, 411
 Families and Communities, Department for, 492
 Flinders University of South Australia, 525
 Police Department, 848
 South Australian Government Captive Insurance Corporation, 1095
 South Australian Superannuation Board, 1182
 State Electoral Office, 1274
 State Opera of South Australia, 1291
 Trade and Economic Development, Department of, 1338
 TransAdelaide, 1366
 Water, Land and Biodiversity Conservation, Department of, 1556

Risk Management Plan
 Correctional Services, Department for, 265

Risk Monitoring
 Primary Industries and Resources, Department of, 925

Rural Finance and Development
 Primary Industries and Resources, Department of, 932

S

- SA Government Commercial Properties
 - Administrative and Information Services, Department for, 69
- SA St John Ambulance Service Inc, 969
 - Ambulance Cover Scheme, 975
 - Computer Processing Environment Review, 971
 - Review of Ambulance Service, 976
 - Withdrawal of the Priory in Australia of the Order of St John, 975
- SACREDD DNA Database System (Forensic Science)
 - Administrative and Information Services, Department for, 70
- Save the River Murray Fund
 - Water, Land and Biodiversity Conservation, Department of, 1558, 1564
- Service Level Agreements
 - Families and Communities, Department for, 493
- Shared Service Arrangements
 - Families and Communities, Department for, 485
 - Health, Department of, 591
- South Australian Aboriginal Housing Authority, 990
 - Duplicate Payments, 992
 - Strategic Asset Management Plan, 992
- South Australian Asset Management Corporation, 1009
 - Dividend Payment, 1011
- South Australian Community Housing Authority, 1026
 - Capital Funding to Community Housing Organisations, 1033
 - Capital Program Expenditure, 1028
 - Community Housing Organisations, 1028
 - Housing Reform, 1029
- South Australian Film Corporation, 1049
 - Prepayment of a 'Make good' Provision, 1050
 - Production Loans, 1054
 - Project Developments and Film Investments, 1054
 - Provision of Financial Assistance to Film Producers, 1053
- South Australian Forestry Corporation, 1065
 - Audit Opinions, 1066
 - Distributions to Government, 1070
 - Growing Timber, 1071
 - Internal Control Framework, 1067
 - Qualified Audit Opinion, 1067
 - Valuation of Forest Assets, 1068
- South Australian Government Captive Insurance Corporation, 1087
 - Catastrophe Reinsurance Program, 1095
 - Investments, 1093
 - Net Claims Incurred, 1090
 - Net Premium Revenue, 1090
 - Outstanding Claims, 1092, 1094
 - Risk Management, 1095
- South Australian Government Financing Authority, 1122
 - Business Risk Management, 1128
 - Capital and Distributions, 1126
 - Common Public Sector Interest Rate (CPSIR), 1127
 - Funding of Zero Coupon Bond Repayments, 1124
- South Australian Housing Trust, 1145
 - Inventory and Fixed Asset Work in Progress, 1146
 - Status of Financial Statements, 1145
 - Supplementary Report, 1146
- South Australian Metropolitan Fire Service, 1147
 - Fire and Emergency Services Act 2005*, 1148
- South Australian Motor Sport Board, 1165
 - Audit Opinions, 1166
 - Qualified Audit Opinion, 1167
- South Australian Superannuation Board, 1180
 - Computer Processing Environment Review, 1183
 - Governance and Risk Management, 1182
 - South Australian Superannuation Scheme, 1180
 - Southern State Superannuation Scheme, 1181, 1204
- South Australian Superannuation Scheme, 1185
 - Funding of Benefit Payments, 1188
- South Australian Superannuation Board, 1180
 - South Australian Superannuation Board, 1180
- South Australian Tourism Commission, 1220
- South Australian Water Corporation, 1238
 - Acquisition of Land at Victor Harbor, 1241
 - Contract Management and Procurement, 1240
 - Contributions to the Government, 1245
 - Joint Venture Operations, 1240
 - New Financial Ownership Framework, 1245
 - Performance Charter, 1244
 - Primary Industries and Resources, Department of, 933
 - Revenues from Ordinary Activities, 1242
- Southern State Superannuation Scheme, 1204
 - Contribution Revenue, 1206
 - South Australian Superannuation Board, 1181, 1204
- State Electoral Office, 1272
 - Risk Management, 1274
- State Opera of South Australia, 1290
 - Production Statistics, 1293
 - Risk Management, 1291
 - The Ring, 1292
- Status of Financial Statements
 - South Australian Housing Trust, 1145
- Strategic and Business Planning
 - Further Education, Employment, Science and Technology, Department of, 569
- Student Enrolments
 - Education and Children's Services, Department of, 350
- Student One Computer Processing Environment
 - Flinders University of South Australia, 526
- Superannuation Funds Management Corporation of South Australia, 1303
 - Asset Allocation and Risk, 1309
 - Asset Classes, 1308
 - Income from Investments, 1306
 - Investment Returns, 1309
 - Return Performance by Asset Class, 1310
 - Return Performance by Product, 1310
- Supplementary Report
 - South Australian Housing Trust, 1146

T

Targeted Voluntary Separation Package Schemes
 see Premier and Cabinet, Department of the, 917

Telecommunication Services Agreement
 Administrative and Information Services,
 Department for, 68

The Ring
 State Opera of South Australia, 1292

Trade and Economic Development,
 Department of, 1336
 Administration of Grants and Subsidies, 1337
 Defence Unit – Air Warship Destroyers, 1343
 Edinburgh Parks Precinct, 1342
 Risk Management, 1338
 Transfer of Administration of Industry Assistance
 Contracts, 1343

TransAdelaide, 1364
 Cessation of Operations - Austrics, 1372
 Contract Income - Financial Dependence, 1369
 Contract to provide Passenger Transport
 Services, 1364
 Corporate Governance, 1366
 Joint Venture Relationship, 1372
 Procurement Review, 1367
 Risk Management, 1366

Transfer of Administration of Industry Assistance
 Contracts
 Trade and Economic Development,
 Department of, 1343

Transfer to Consolidated Account and Other Schemes
 Parliamentary Superannuation Scheme, 838

Transfers to Other Schemes
 Judges' Pensions Scheme, 680

Transport, Energy and Infrastructure,
 Department for, 1389
 Changes to Functions and Structure, 1389
 Community Road Safety Fund, 1399
 Driver and Vehicle Licensing, 1393
 Drivers Review, 1393
 Land, Buildings and Facilities, 1392
 Matters Raised with the Department, 1391
 Network Assets, 1391
 Project and Contract Management, 1392

Treasury and Finance, Department of, 1443
 Government Accounting and Reporting
 Branch, 1446
 RevenueSA, 1445

U

Underwriting Result
 Motor Accident Commission, 796

University of Adelaide, 1476
 PeopleSoft Computer Processing
 Environment, 1477

University of South Australia, 1516
 Audit Opinions, 1517
 Blueprint 2005 Capital Program, 1525
 PeopleSoft System Computer Processing
 Environment, 1519
 Qualified Audit Opinion, 1518

V

Valuation of Forest Assets
 South Australian Forestry Corporation, 1068

Victims of Crime Fund
 Attorney-General's Department, 151

W

Water Information Licensing Management Application
 Water, Land and Biodiversity Conservation,
 Department of, 1558

Water, Land and Biodiversity Conservation,
 Department of, 1554
 Control Environment, 1557
 Corporate Governance, 1556
 Fixed Assets – Asset Management, 1558
 Fixed Assets - Control and Recognition, 1564
 National Action Plan for Salinity and
 Water Quality, 1563
 Natural Heritage Trust, 1563
Natural Resources Management Act 2004, 1564
 Risk Management, 1556
 Save the River Murray Fund, 1558, 1564
 Water Information Licensing Management
 Application, 1558

Workers Compensation
 Education and Children's Services,
 Department of, 348

