

SOUTH AUSTRALIA

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

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Part B: Agency Audit Reports

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2006

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

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	19
Adelaide Festival Centre Trust.....	38
Adelaide Festival Corporation	57
Administrative and Information Services — Department for	69
Government Workers Rehabilitation and Compensation Fund	125
Art Gallery Board.....	133
Attorney-General’s Department.....	152
Residential Tenancies Fund	194
Public Trustee	202
Auditor-General’s Department.....	259
Correctional Services — Department for	274
Country Fire Service	298
Courts Administration Authority	318

VOLUME II

Education and Children’s Services — Department of	349
Environment and Heritage — Department for.....	403
Environment Protection Authority	404
Families and Communities — Department for.....	432
Flinders University of South Australia.....	476
Further Education, Employment, Science and Technology — Department of.....	529
Health — Department of.....	553
History Trust of South Australia.....	598
HomeStart Finance	618
Judges’ Pensions Scheme	620
Land Management Corporation.....	629

VOLUME III

Legal Services Commission.....	655
Libraries Board of South Australia.....	674
Local Government Finance Authority of South Australia.....	694
Lotteries Commission of South Australia.....	715
Motor Accident Commission	743
Museum Board	769
Office of Public Employment	786
Parliamentary Superannuation Scheme	799
Police Department	810
Police Superannuation Scheme.....	848

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

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

Page

VOLUME III

Premier and Cabinet — Department of the	861
Primary Industries and Resources — Department of	890
SA Ambulance Service Inc.....	892
South Australian Aboriginal Housing Authority	915
South Australian Asset Management Corporation	934
South Australian Community Housing Authority	947

VOLUME IV

South Australian Fire and Emergency Services Commission.....	973
South Australian Forestry Corporation	995
South Australian Government Captive Insurance Corporation	1024
South Australian Government Captive Insurance Corporation — Section 1	1033
South Australian Government Insurance and Risk Management Fund — Section 2	1052
South Australian Government Financing Authority.....	1062
South Australian Housing Trust.....	1085
South Australian Metropolitan Fire Service	1118
South Australian Motor Sport Board	1137
South Australian State Emergency Service	1153
South Australian Superannuation Board.....	1168
South Australian Superannuation Scheme	1172
Southern State Superannuation Scheme.....	1190
South Australian Tourism Commission	1207
South Australian Water Corporation	1225
State Electoral Office	1264
Superannuation Funds Management Corporation of South Australia	1279

VOLUME V

Trade and Economic Development — Department of	1311
TransAdelaide.....	1339
Transport, Energy and Infrastructure — Department for	1367
Treasury and Finance — Department of	1421
University of Adelaide.....	1457
University of South Australia	1507
Water, Land and Biodiversity Conservation — Department of.....	1554

Appendix

Treasurer's Financial Statements (Statements A-L)	
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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	Current Assets and Liabilities – Solvency	42
	Expenditure Processing	40
Administrative and Information Services – Department for	Across Government Contracts Management	71
	CaseMan (Forensic Branch)	76
	Complete Human Resource Management System (CHRIS)	77
	Electronic Facilities Management System (e-FM)	73
	Facilities Asset Management Information System (FAMIS)	73
	Facilities Management Contract	72
	Management and Control of Information Technology and Systems Operations	76
	SACREDD DNA Database System (Forensic Science)	77
	Service SA	75
	State Procurement Changes	78
Courts Administration Authority	e-Filing Facility Operations and Control	320
	Public, Private Partnership	323
Education and Children’s Services – Department of	Payroll	353
Environment and Heritage – Department for	Status of the Financial Report	403
Environment Protection Authority	Environment Protection Fund Delegations of Authority	405
Families and Communities – Department for	Administration of Concessions	436
	Changes to Function and Structure	433
	Disability Service Governance Reform	439
	Financial Operations of Families SA (formerly CYFS)	437
	Funding to Non-Government Organisations	435
	Weakness in Controls over the Processing of Payroll Transactions	439
	Flinders University of South Australia	Accounts Payable
	Payroll	477
Further Education, Employment, Science and Technology – Department of	Capital Works	532
	Employment Program – ‘Regions at Work’	531
Health – Department of	Budget and Financial Management Consultancy	554
	Complete Human Resource Information System (CHRIS)	563
	Delegations of Authority	561
	DH Communications Network HSNet	564
	Funding to Non-Government Organisations	557
	Interstate Patient Transfers	558
	Payroll	559
Risk Management	556	

Agency	Matter	Page
HomeStart Finance	Status of the Financial Report	619
Judges' Pensions Scheme	Transfers to Consolidated Account.....	622
Land Management Corporation	Asset Valuations.....	635
	Industrial Commercial Premises	636
	Mawson Lakes Government Infrastructure Project	635
	Port Adelaide Waterfront Redevelopment Project.....	636
	Guarantee by the Treasurer.....	694
Local Government Finance Authority of South Australia		
Lotteries Commission of South Australia	Distributions to Government	719
	Sales Revenue	717
	Unclaimed Prizes and Additional Prizes.....	720
Motor Accident Commission	Investment Result	747
	Investments	747
	Operating Result	747
	Outstanding Claims	748
	Solvency Level.....	749
	Underwriting Result	746
	Transfer to Consolidated Account	801
Parliamentary Superannuation Scheme		
Police Department	Capture Adjudication and Reporting System	812
	Public, Private Partnerships – Police Facilities.....	817
	SACREDD DNA Database System	812
Primary Industries and Resources – Department of	Status of the Financial Report	891
SA Ambulance Service Inc	Ambulance Cover Scheme	897
	Withdrawal of the Priory in Australia of the Order of St John	897
	Contributions from Community Housing Organisations	951
South Australian Community Housing Authority	First-time Adoption of Australian equivalents to International Financial Reporting Standards.....	950
	Accounting Systems and Processes.....	976
	Community Emergency Services Fund.....	977
	Legislative Compliance and Governance Arrangements	975
South Australian Fire and Emergency Services Commission	Overall Comment on the Results of the Audit.....	975
	Growing Timber Valuation	998
	Information Technology Management and Systems Operations	997
	Qualified Audit Opinion	997
South Australian Government Captive Insurance Corporation	Catastrophe Reinsurance Program.....	1031
	Outstanding Claims	1029
South Australian Government Financing Authority	Capital and Distributions	1066
	Changes to Functions and Structure	1063
	Common Public Sector Interest Rate.....	1067
South Australian Housing Trust	Changes to Function and Structure.....	1085
	Inventory and Fixed Asset Work in Progress – Weaknesses in Controls over Accounting for Capital Projects Work in Progress.....	1087
	Monitoring and Management of Excessive Annual Leave Balances for Certain Employees	1119
	Qualified Audit Opinion	1139
South Australian Metropolitan Fire Service		
South Australian Motor Sport Board		

Agency	Matter	Page
South Australian Superannuation Board	Changes to Functions.....	1169
South Australian Water Corporation	Contract Management – Economic Development Obligations	1227
	Contributions to the State Government	1231
	Revenue – Customer Service Information System	1226
Southern State Superannuation Scheme	Contribution Revenue	1192
Superannuation Funds Management Corporation of South Australia	Asset Classes.....	1284
	Changes to Functions.....	1279
	Income from Investments	1282
	Return Performance by Asset Class.....	1285
	Return Performance by Product.....	1286
Trade and Economic Development – Department of	Changes to Functions and Structure	1311
	Defence Unit – Air Warship Destroyers.....	1317
TransAdelaide	Contract Income – Financial Dependence	1344
	Contract to provide Passenger Transport Services	1339
	Glenelg Tram Line Infrastructure Sale.....	1346
	Inventory	1341
	Joint Venture Relationship	1346
Transport, Energy and Infrastructure – Department for	Changes to Functions and Structure	1367
	Contract Management.....	1372
	Driver and Vehicle Licensing	1373
	Information Technology Management and System Operations.....	1374
	Mobile Phone Review	1373
	Network Assets	1370
	Purchase of Glenelg Tram Infrastructure	1379
	Qualified Audit Opinion.....	1369
	Reconciliations	1370
Treasury and Finance – Department of	Accrual Appropriation Excess Funds Account.....	1424
	Appropriation of Administered Items.....	1424
University of Adelaide	Payroll	1459
	PeopleSoft Computer Processing Environment.....	1460
	Procurement and Accounts Payable	1459
University of South Australia	Payroll – Validity and Accuracy of Payroll Transactions	1509
	Qualified Audit Opinion.....	1509
Water, Land and Biodiversity Conservation – Department of	Fixed Assets – Asset Management	1557
	Fixed Assets – Control and Recognition	1563
	<i>Natural Resources Management Act 2004</i>	1563
	Natural Resources Management Fund	1557
	Control Environment.....	1556
	Save the River Murray Fund.....	1563
	Water Information Licensing Management Application.....	1558

LEGAL SERVICES COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Legal Services Commission (the Commission) is a Body Corporate established pursuant to subsection 6(1) of the *Legal Services Commission Act 1977* (the Act). Subsection 6(3) of the Act specifies that the Commission is not an instrumentality of the Crown and is independent of the Government.

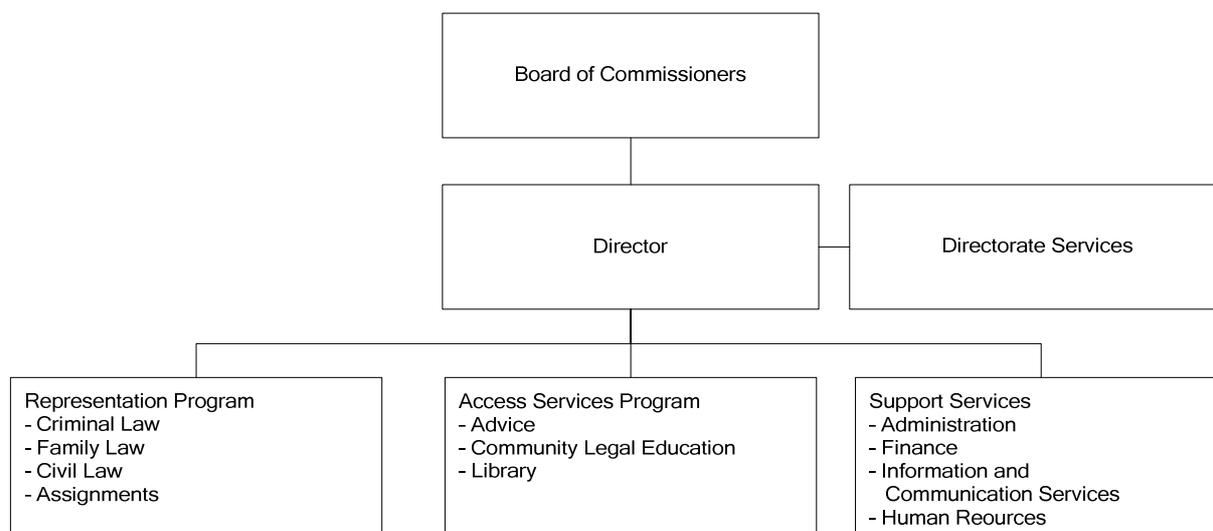
Functions

The Act provides for the Commission to undertake a variety of functions concerning legal assistance including:

- provide, or arrange for legal assistance and determine the criteria under which that assistance is to be granted;
- co operate and make reciprocal arrangements with persons administering schemes of legal assistance in other States and Territories of the Commonwealth or elsewhere;
- initiate and carry out educational programmes to promote an understanding by the public of their rights, powers, privileges and duties under the laws of the Commonwealth or the State;
- perform other functions as the Attorney-General may direct.

Structure

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



Audit and Risk Management Committee

The Commission has an Audit and Risk Management Committee which comprises three Commissioners including the Director and reports to the Board of Commissioners. The Committee's primary function is to monitor and oversee audit and risk management and associated policies and procedures. Representatives of the Auditor-General's Department attend meetings of the Committee as observers.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Section 25 of the *Legal Services Commission Act 1977* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the Commission in respect of each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- payroll
- legal expenditure
- other expenditure
- income
- revenues from government
- cash at bank
- property, plant and equipment.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Commission as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

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

Audit Communications to Management

The audit of the Commission's control environment revealed that internal controls were operating satisfactorily. Notwithstanding this observation, Audit identified opportunities to improve the existing controls. These matters were detailed in a management letter to the Chairperson. The principal matters raised with the Commission are detailed herein.

Segregation of Duties and Access Levels

The audit identified opportunities to improve the segregation of duties in aspects of the Commission's financial processing control environment and limiting access to certain application systems. The Commission submitted a response as to the adequacy of controls in place, however, indicated that it would further consider the matter raised by Audit.

Legal Expenditure

Audit identified opportunities to improve controls where payments were made to legal practitioners in variation to original approvals. The response indicated that the Commission would consider revising policy and communication to practitioners for potential improvements.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT**Highlights of Financial Report**

	2006	2005	Percentage
	\$'million	\$'million	Change
EXPENSES			
Employment expenses	11.9	11.0	8
Legal expenses	13.5	13.2	2
Other expenses	3.2	3.3	(3)
Total Expenses	28.6	27.5	4
INCOME			
Legal Practitioners Act revenue	2.9	2.5	16
Other income	2.3	2.3	-
Total Income	5.2	4.8	8
Net Cost of Providing Services	23.4	22.7	3
REVENUES FROM GOVERNMENT			
Commonwealth Government grants	13.2	13.0	2
State Government grants	12.4	12.2	2
Net Result	2.2	2.5	(12)
Net Cash Flows from Operations	2.4	2.9	(17)
ASSETS			
Current assets	14.3	11.9	20
Non-current assets	4.8	4.4	9
Total Assets	19.1	16.3	17
LIABILITIES			
Current liabilities	2.8	2.4	17
Non-current liabilities	1.9	1.7	12
Total Liabilities	4.7	4.1	15
EQUITY	14.4	12.2	18

Income Statement**Income***Commonwealth Government Grants*

In meeting the cost of providing legal aid, the Commission receives funding from the Commonwealth Government in accordance with an agreement between the Commonwealth and State Governments. The current agreement covers a period to 31 December 2008.

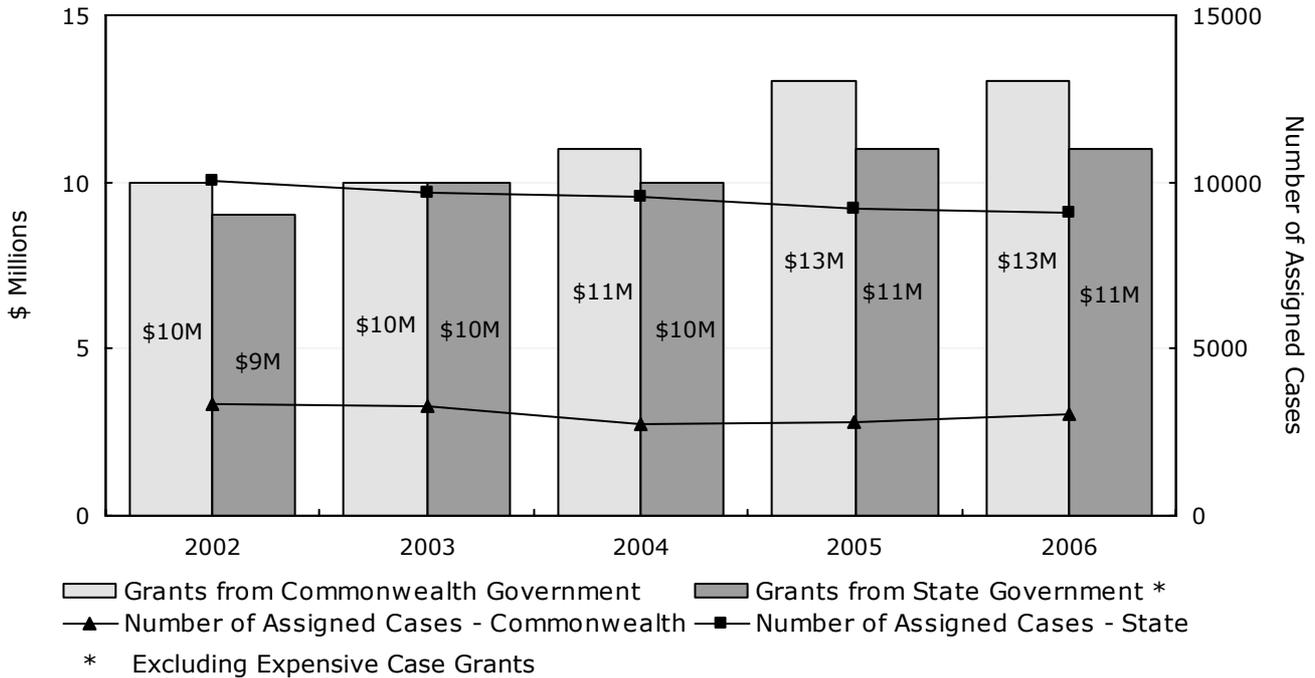
The Commonwealth grants received by the Commission are expended in accordance with the agreement between the Commonwealth and State Governments. Legal assistance is provided within South Australia for matters arising under Commonwealth law which are a matter of priority. The matters are predominantly in the area of family law and to a lesser extent criminal and specific civil matters.

General grants from the Commonwealth Government provided in accordance with the funding agreement, (excluding specific Commonwealth grants) totalled \$12.2 million (\$12.0 million) and comprised 40 percent (40 percent) of total Revenues of the Commission. Further information as to the nature of Commonwealth Government Grants is disclosed in Note 11 to the financial statements.

State Government Grants

The funding provided by the State is determined through the budgetary process of the South Australian Government. The State grants received by the Commission are expended on State Law matters and these are predominately criminal cases, and community advice and education.

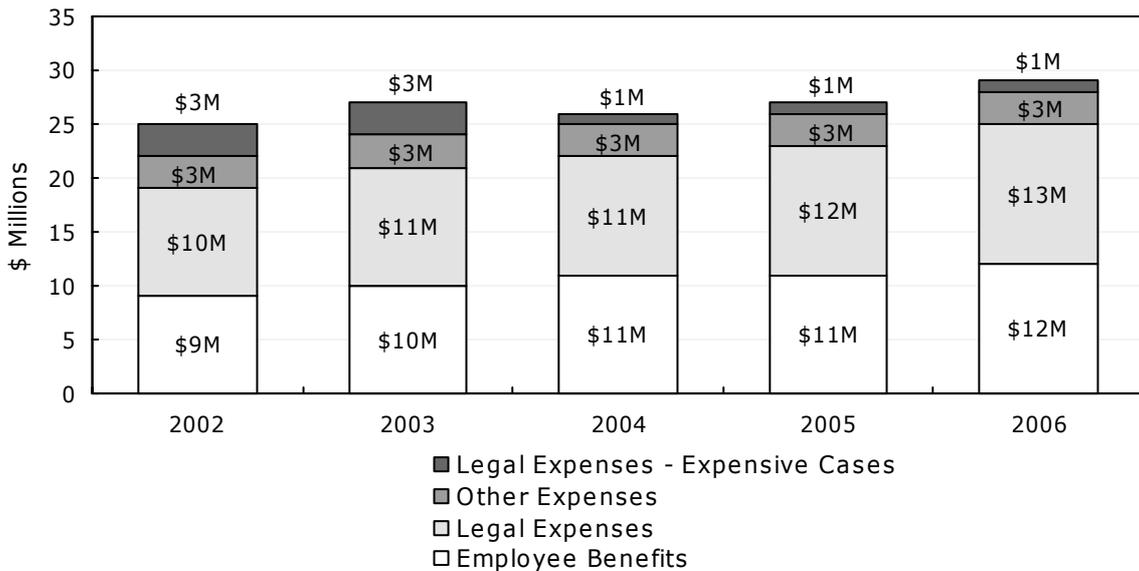
General grants from the State Government 2005-06 totalled \$11.3 million (\$11 million) and comprised 37 percent (37 percent) of total Revenues of the Commission. This amount excludes specific State grants for expensive cases of \$1.1 million (\$1.2 million).



The foregoing chart illustrates, for the past five years, the proportions of State and Commonwealth general grant funding provided (not including expensive case funding). It also illustrates the number of cases that have been assigned that relate to Commonwealth and State grant funding. The chart indicates the significant increase level of Commonwealth Government funding in 2004-05 and 2005-06. This contrasts with a relatively consistent number of Commonwealth assigned cases contributing to the increased operating result and proportionate increase in cash balances in these years.

Operating Expenses

A structural analysis of the main expense items for the Commission is shown in the following chart which illustrates that the composition of the Commission’s expenses has remained relatively constant with a gradual increase in employee benefits and legal expenses.

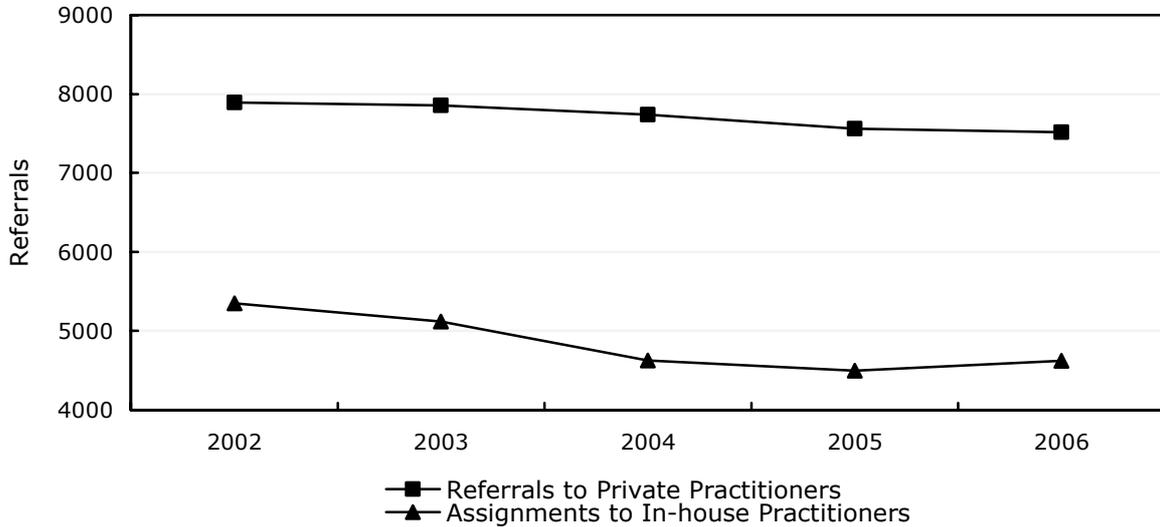


The item ‘Legal Expenses – Expensive Cases’ in the chart above includes expenditure relating to the provision of legal representation to the defendants in the ‘Bodies in the Barrels’ Case. As at 30 June 2006 a total of \$9.2 million has been spent on this case, for which the equivalent amount of State Government grant funding has been received.

Referrals to Private and In-house Practitioners

Referrals to private practitioners for the year totalled 7518 cases (7562) or 62 percent (63 percent) of approvals. Fees to private legal practitioners for these cases (legal expenses) amounted to \$12.5 million (\$12.2 million) and comprised 44 percent (44 percent) of total Expenses. Applications assigned to the in-house practitioners totalled 4620 cases (4495) or 38 percent (37 percent).

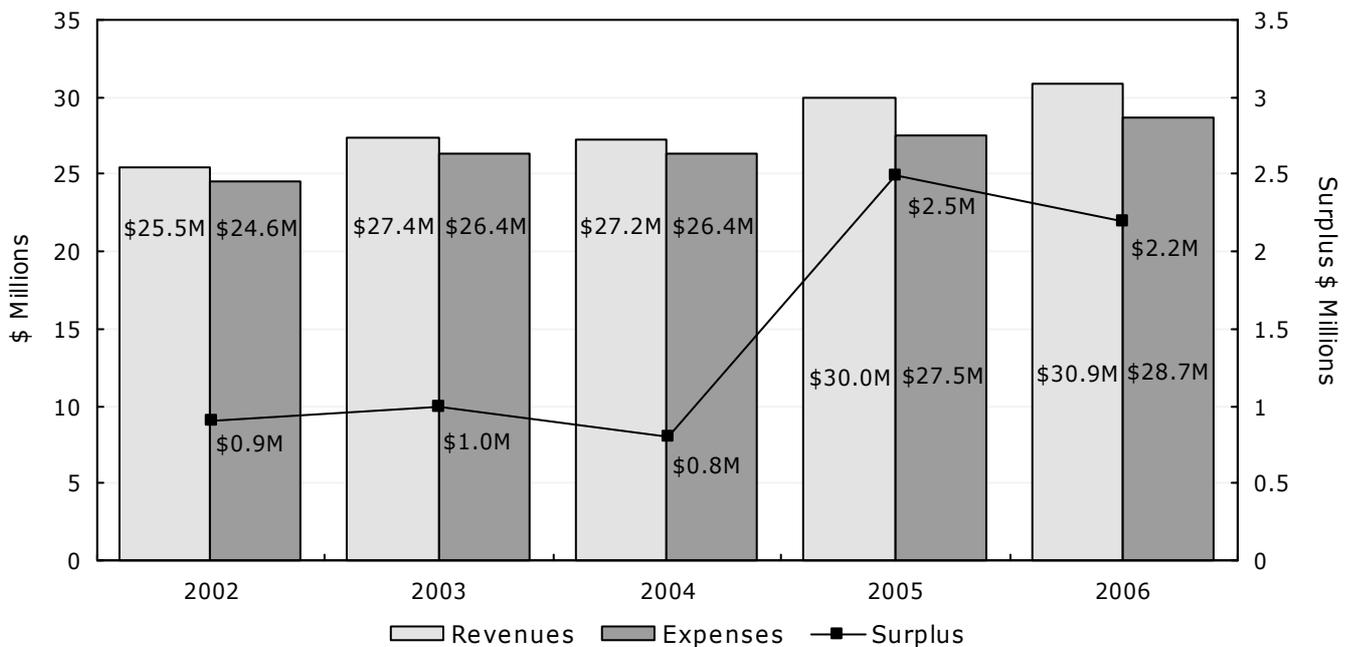
The following chart shows the trend in referrals to private practitioners and assignment to in-house practitioners over the past five years.



Net Result

The Income Statement for the year ended 30 June 2006 reports total revenues of \$30.9 million (\$30.0 million) and total Expenses of \$28.7 million (\$27.5 million), giving a Net Result of \$2.2 million (\$2.5 million).

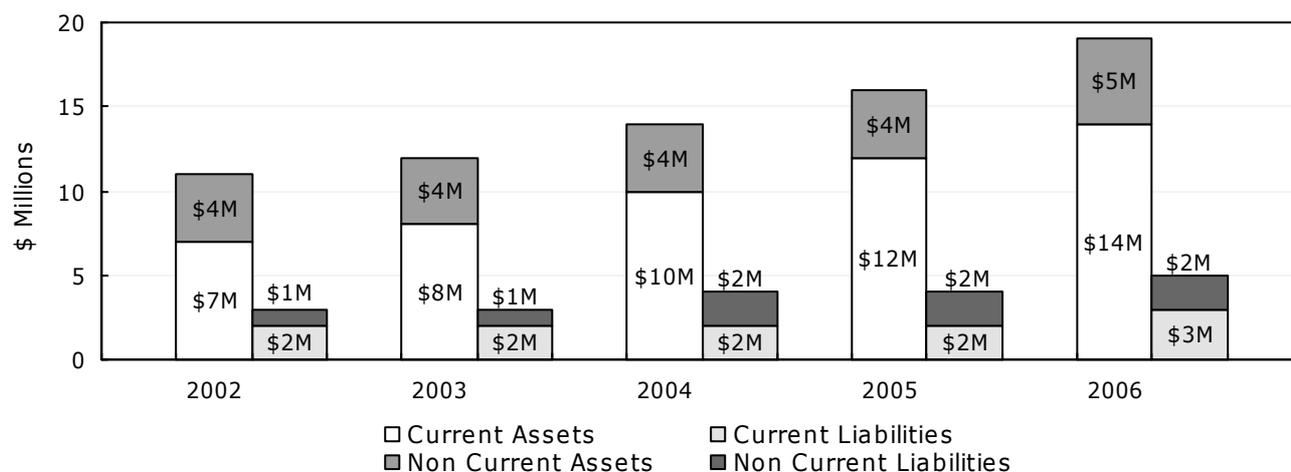
The following chart shows the revenues, expenses and surplus for the five years to 2006.



The chart highlights that the Commission has consistently achieved a surplus every year over the period. The increased surpluses in 2005 and 2006 relate principally to Commonwealth Government funding yet to be expended, resulting in a proportionate increase in cash balances.

Balance Sheet

For the five years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



This analysis shows a gradual increase in assets and minimal change in liabilities over the past four years. Total assets have grown by 58 percent since 2003. This growth is primarily a result of an increase in cash at bank which has grown over the four years by \$5.5 million to \$12.7 million at 30 June 2006.

Cash Flow Statement

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

	2006 \$'million	2005 \$'million	2004 \$'million	2003 \$'million
Net Cash Flows				
Operations	2.4	2.9	1.4	1.1
Investing	(0.6)	(0.3)	(0.3)	(0.4)
Change in Cash	1.8	2.6	1.1	0.7
Cash at 30 June	12.7	10.9	8.3	7.2

The analysis of cash flows shows a gradual increase in cash at the end of each reporting period primarily as a result of a build up in Commonwealth Government funding yet to be expended. This trend is consistent with the operating surpluses achieved each year.

The cash balance of \$12.7 million as at 30 June 2006 is sufficient to meet the Commission's outstanding current liabilities of \$2.8 million, future legal expense commitments of \$3.9 million (as disclosed in Note 19) and other reserves of \$1.9 million allocated for specific purposes (as disclosed in Note 18).

Income Statement for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
EXPENSES:			
Employee expenses	4	11 902	10 959
Private practitioner services	2.15	12 531	12 198
Private practitioner services - Bodies in the Barrels	5	283	425
Private practitioner services - Other expensive State matters	5	640	623
Supplies and services	6	2 996	2 952
Depreciation and amortisation	7	279	328
Bad and doubtful debt		29	19
Total Expenses		28 660	27 504
INCOME:			
<i>Legal Practitioners Act</i> revenue	8	2 946	2 510
Statutory charges		759	949
Interest		788	609
Costs recovered and contributions	9	273	198
Other	10	467	567
Total Income		5 233	4 833
Net Cost of Providing Services		23 427	22 671
REVENUES FROM GOVERNMENTS:			
Commonwealth Government:			
Funding agreement	11	12 215	11 952
Primary dispute resolution	11	317	310
Family duty solicitor service	11	317	310
Child support - Stage One matters	11	293	357
Other income		85	50
State Government:			
Funding	12	11 292	10 962
Expensive cases - Bodies in the Barrels	12	287	655
Expensive cases - Other matters	12	843	565
Total Revenues from Governments		25 649	25 161
NET RESULT		2 222	2 490

Balance Sheet as at 30 June 2006

		2006	2005
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash at bank and on hand	20	12 701	10 887
Receivables	13	1 460	870
Other	14	96	108
Total Current Assets		14 257	11 865
NON-CURRENT ASSETS:			
Property, plant and equipment	15	1 585	1 291
Intangible asset	15.2	29	7
Statutory charge debtors	16	3 236	3 133
Total Non-Current Assets		4 850	4 431
Total Assets		19 107	16 296
CURRENT LIABILITIES:			
Legal payables		1 301	1 144
Employee benefits	17	881	741
Payables		639	539
Total Current Liabilities		2 821	2 424
NON-CURRENT LIABILITIES:			
Employee benefits	17	1 870	1 678
Total Non-Current Liabilities		1 870	1 678
Total Liabilities		4 691	4 102
NET ASSETS		14 416	12 194
EQUITY:			
Asset revaluation reserve	2.12	121	121
Other reserves	18	1 948	1 065
Retained earnings		12 347	11 008
TOTAL EQUITY		14 416	12 194
Commitments, Contingent Liabilities	19, 21, 23		

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

	Asset			Total
	Revaluation Reserve \$'000	Other Reserves \$'000	Retained Earnings \$'000	
Balance at 30 June 2004	121	885	8 698	9 704
Net Result	-	-	2 490	2 490
Total Recognised Income and Expense for 2004-05	-	-	2 490	2 490
Transfer to and from Reserves	-	180	(180)	-
Balance at 30 June 2005	121	1 065	11 008	12 194
Net Result	-	-	2 222	2 222
Total Recognised Income and Expense for 2005-06	-	-	2 222	2 222
Transfer to and from Reserves	-	883	(883)	-
Balance at 30 June 2006	121	1 948	12 347	14 416

Cash Flow Statement for the year ended 30 June 2006

	2006	2005
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee payments	(11 501)	(10 693)
Supplies and services	(3 000)	(2 919)
Private practitioner services	(12 349)	(12 182)
GST payments on purchases	(1 814)	(1 793)
GST remitted to ATO	(165)	(192)
Private practitioner services - Bodies in the Barrels	(248)	(495)
Private practitioner services - Other expensive State matters	(699)	(565)
Cash used in Operations	(29 776)	(28 839)
CASH INFLOWS:		
<i>Legal Practitioners Act</i> receipts	2 498	2 768
Costs recovered and contributions	265	178
Statutory charge receipts	726	590
GST receipts on revenue	150	172
GST from taxation authority	1 711	1 712
Interest	780	599
Other	399	521
Cash generated from Operations	6 529	6 540
CASH FLOWS FROM GOVERNMENTS:		
Commonwealth Government:		
Funding agreement	12 215	11 952
Child support - Stage One matters	293	357
Primary dispute resolution	317	310
Family duty solicitor services	317	310
Other income	60	50
State Government:		
Funding	11 292	10 962
Expensive Cases - Bodies in the Barrels	295	655
Expensive Cases - Other matters	843	565
Total Cash Flows from Governments	25 632	25 161
Net Cash provided by Operating Activities	2 385	2 862
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(571)	(310)
Cash used in Investing Activities	(571)	(310)
NET INCREASE IN CASH HELD	1 814	2 552
CASH AT 1 JULY	10 887	8 335
CASH AT 30 JUNE	12 701	10 887

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Legal Services Commission of South Australia

The Legal Services Commission (the Commission) was established under the *Legal Services Commission Act 1977* (the Act) to provide, or arrange for the provision of legal assistance in accordance with the Act. The objective of the Commission is to provide clients with accessible information, advice and representation to meet their legal needs.

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* (PFAA)
- Applicable Australian Accounting Standards
- Other mandatory professional reporting requirements in Australia

The Commission's Income, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for the valuation of the library, which is at an independent valuation.

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

2.2 Comparative Figures

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

2.3 Rounding

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

2.4 Taxation

The Commission is not subject to income tax. The Commission is endorsed by the Australian Taxation Office (ATO) as an income tax exempt charity and as a Public Benevolent Institution. The Commission is liable for Goods and Services Tax (GST).

Income, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred by the Legal Services Commission of SA as a purchaser is not recoverable from the ATO. Receivables and payables are stated with the amount of GST included.

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

2.5 Income and Expenses

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

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

Government Funding

The Commission receives funding from the State and Commonwealth governments, which are recognised as income when monies are received.

Other Revenues

Other Revenue is recognised as it accrues.

2.6 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Legal Services Commission of SA 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 and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis.

2.8 Depreciation and Amortisation of Non-Current Assets

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

The useful lives of all major assets held by the Legal Services Commission of SA are reassessed on an annual basis.

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

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

<i>Class of Asset</i>	<i>Depreciation Method</i>	<i>Useful Life (Years)</i>
Plant and equipment:		
Computers	Straight Line	3-5
Office equipment	Straight Line	5-13
Furniture and fittings	Straight Line	13
Leasehold improvements	Straight Line	10
Intangibles	Straight Line	3-5

2.9 Payables

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

Creditors represent the amounts owing for goods and services received prior to the ending 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 Legal Services Commission of SA.

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

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

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

The Legal Services Commission of SA makes contributions to several superannuation schemes operated by the State Government and a Commonwealth scheme. 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 South Australian Superannuation Board (SASB). The only liability outstanding at balance date relates to any contributions due but not yet paid to the SASB.

2.10 Employee Benefits

Provision has been made in the financial report for the Commission's liability for employee benefits arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees have been included in the determination of the liability. In accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework* employment on-costs component is included in creditors. The aggregate of employee benefits is disclosed at Note 17.

1. *Annual Leave*
Provision has been made for the unused component of annual leave at balance date. The provision has been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. A salary inflation of 4 percent has been applied to employee benefits which are expected to be settled in the next 12 months.
2. *Sick Leave*
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.
3. *Long Service Leave*
Provision has been made for the Commission's liability for long service leave at balance date in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework*. The short-hand method of determining long service leave entitlements has been adopted and provision has been made for all employees with seven or more years of service, being the benchmark number of years as determined by the Department of Treasury and Finance.

4. *Superannuation*

Salaries and related payments include superannuation contributions paid by the Commission under the following categories:

- (a) The Commission paid an amount to 'Comsuper' towards the accruing government liability in respect of currently employed contributors to the Commonwealth Superannuation Fund. Payments amounted to \$62 000 (\$93 000).
- (b) During 2005-06 the Commission paid \$1 025 000 (\$957 000) to the South Australian Department of Treasury and Finance towards the accruing government liability for superannuation in respect of all employees.

The Commission has no responsibility for benefits in relation to future superannuation payments to employees, as these are assumed by the superannuation funds.

2.11 Workers Compensation

The Commission pays a workers compensation levy to the WorkCover Corporation to cover any claims. The levy rates varies slightly depending on the location of the Commission office or chambers.

2.12 Asset Revaluation Reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets.

2.13 Financial Instruments

The Commission's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2006, are as follows:

Financial Assets

Cash at Bank (Note 20) comprises deposits at call with the South Australian Government Financing Authority and are recorded at cost. Interest revenues are recognised as they accrue. Interest rates are at market rates and have fluctuated between 5.40 percent and 5.78 percent for the year ended 30 June 2006 (5.15 percent and 5.70 percent).

Receivables (Note 13) include client debtors and other debtors and are reported at amounts due.

The Commission is exposed to credit risk associated with amounts due from clients with respect to contributions for legal aid and other sundry charges. The credit risk relating to the financial asset recognised in the Balance Sheet is the carrying amount net of any provision for doubtful debts.

Financial Liabilities

Legal creditors are raised for amounts billed from private practitioners for approved cases undertaken but unpaid. They are normally settled within 30 days.

Creditors are raised for amounts billed but unpaid and are normally settled within 30 days.

All financial instruments are valued at the carrying amount as per the Balance Sheet, which approximates net fair value.

2.14 Property, Plant and Equipment

In accordance with Accounting Policy Framework III *Asset Accounting Framework* and the Commission's revaluation policy, Plant and Equipment are recognised at written down current cost unless the fair value of the group (at the time of acquisition) is greater than \$1 million.

2.15 Private Practitioner Services

Comprise solicitor's fees, counsel fees and disbursements due to private practitioners for approved cases undertaken during the year.

2.16 Trust Funds

Pursuant to the *Legal Practitioners Act 1981* the Commission holds funds in trust on behalf of clients. As at 30 June 2006, the total funds held were \$53 000 (\$38 000).

These funds are not controlled by the Commission. As such they are not recognised in the financial report.

3. Changes in Accounting Policies

Legal Services Commission of South Australia has adopted the Australian equivalents to International Financial Reporting Standards (AIFRS) for the first time for the year ended 30 June 2006.

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement. In addition, a number of Australian Accounting Standards have been issued or amended and are applicable to the Commission but are not yet effective. The Commission has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Commission.

4. Employee Expenses	2006	2005
	\$'000	\$'000
Salaries and wages	10 156	9 357
Superannuation	1 109	1 049
Long service leave	309	285
Payroll tax	260	225
Workers compensation	68	43
Total Employee Expenses	11 902	10 959

Remuneration of Employees

Amounts received or receivable by employees of the Commission whose remuneration is greater than \$100 000. The amounts include salaries and related payments, superannuation benefits and motor vehicle benefits.

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

	Number of Employees	
	2006	2005
\$100 001 - \$110 000	5	3
\$110 001 - \$120 000	5	4
\$120 001 - \$130 000	2	5
\$130 001 - \$140 000	2	-
\$170 001 - \$180 000	1	1
\$210 001 - \$220 000	-	1
\$220 001 - \$230 000	1	-
\$250 001 - \$260 000	-	1
\$260 001 - \$270 000	1	-
Total	17	15

The total remuneration received or due and receivable by these employees was \$2 270 000 (\$2 033 000).

On average, the Commission employed 164 (165) people throughout the reporting period.

5. State Expensive Case Matters

The Commission is required to provide litigation services pursuant to the *Criminal Law (Legal Representation) Act 2001* for State matters that exceed the Commission's prescribed funding cap. These matters are separately funded by the State Government (refer Note 12).

6. Supplies and Services

Supplies and services provided by entities external to SA Government:	2006	2005
	\$'000	\$'000
Accommodation	979	983
Computing and communications	540	437
Travel	80	79
Office requisites	254	260
Loss on disposal of assets	-	5
Library	159	165
Consultancy fees	7	90
Other	307	260
Total Supplies and Services - Non-SA Government Entities	2 326	2 279

Supplies and services provided by entities within SA Government:	2006	2005
	\$'000	\$'000
Accommodation	143	162
Computing and communications	350	348
Travel	51	49
Office requisites	19	23
Other*	107	91
Total Supplies and Services - SA Government Entities	670	673
Total Supplies and Services	2 996	2 952

* Includes Auditor's remuneration of \$48 500 (\$43 000), for auditing the accounts. The auditors provided no other services and received no other benefits.

The number and dollar amount of consultancies paid/payable (included in supplies and service expenses) that fell within the following bands:

	2006		2005	
	Number of Consultancies	\$'000	Number of Consultancies	\$'000
Below \$10 000	1	7	5	19
Between \$10 000 and \$50 000	-	-	1	19
Above \$50 000	-	-	1	52
Total Paid/Payable to the Consultants Engaged	1	7	7	90

6. Supplies and Services (continued)		
Loss on Disposal of Asset	2006	2005
	\$'000	\$'000
Proceeds from disposal	-	-
Book value of asset scrapped	-	5
Loss on Scrapping of Assets	-	5
7. Depreciation and Amortisation		
Depreciation:		
Plant and equipment	199	270
Total Depreciation	199	270
Amortisation:		
Leasehold improvements	73	51
Intangible assets	7	7
Total Amortisation	80	58
Total Depreciation and Amortisation	279	328

8. Legal Practitioners Act Revenue		
In accordance with the <i>Legal Practitioners Act 1981</i> the Commission is entitled to revenue from funds administered by the Law Society of South Australia. Amounts related to the:		
Statutory interest account	1 328	1 126
Interest on legal practitioners trust accounts	1 566	1 352
Legal Practitioners Guarantee Fund	52	32
	2 946	2 510

In July 2006, and as per section 56(6) of the *Legal Practitioners Act 1981*, the Commission received \$955 405 from the Law Society being monies in the Excess Guarantee Fund as at 30 June 2004. This amount has not been recognised in the 2005-06 financial statements.

9. Costs Recovered and Contributions	2006	2005
	\$'000	\$'000
Costs recovered	54	55
Contributions*	219	143
	273	198

* In addition contributions of \$374 000 (\$315 000) in relation to referred cases were paid or are payable directly to private practitioners by clients.

10. Other Income		
Other income from entities external to the SA Government	306	348
Other income from entities within the SA Government	161	219
	467	567

11. Commonwealth Government
A Commonwealth Government Legal Assistance Agreement was entered into between the Commonwealth and State Governments for the provision of legal assistance. The agreement was effective from 1 July 2004. Pursuant to that Agreement:

- the Commonwealth contributed \$12 215 000 (\$11 952 000) in service payments in 2005-06;
- the Commonwealth also contributed \$317 000 (\$310 000) for the provision of Primary Dispute Resolution Services, \$317 000 (\$310 000) for the provision of a Family Law Duty Services and \$293 000 (\$357 000) for the provision of legal assistance in Child Support Stage One carer-parent matters. With the exception of Stage One carer-parent matters funding which is an agreed amount for each year to 2007-08, all other funding will be indexed each year by the factor used in the Australian Government annual budget process;
- the Commonwealth allows up to 25 percent of Commonwealth revenue to be held by the Commission as an allowed surplus in a financial year. Reserves exceeding this level may be returned to the Commonwealth Government.

12. State Government
The State Government increased funding in the normal budget process to maintain the Legal Services Commission overall funding. In 2005-06 the State contributed funding of \$11 292 000 (\$10 962 000).

The Legal Services Commission of South Australia is separately funded by the State Government for matters that exceed the Commission's prescribed funding cap. The matters are funded pursuant to the *Criminal Law (Legal Representation) Act 2001*. The Commission enters into an approved case management agreement with the State Government for these matters.

The State Government provided \$287 000 (\$655 000) to the 'Bodies in the Barrels' case during 2005-06 and provided \$843 000 (\$565 000) for approved expensive cases that exceeded the Commission cap.

13. Receivables		2006		2005
	\$'000	\$'000	\$'000	\$'000
Legal Practitioners Act		955		507
Goods and Services Tax		269		218
Client debtors and other debtors	249		158	
Less: Provision for doubtful debts	13		13	
		236		145
Total Current Receivables		1 460		870
14. Other			2006	2005
			\$'000	\$'000
Prepayments			96	108
15. Property, Plant and Equipment		2006		2005
	\$'000	\$'000	\$'000	\$'000
Leasehold improvements at fair value	838		717	
Less: Accumulated depreciation	214		141	
		624		576
Plant and equipment at fair value	1 414		1 222	
Less: Accumulated depreciation	786		840	
		628		382
Library		333		333
Total Property, Plant and Equipment		1 585		1 291

Valuation of Library

In October 2001, the Commission obtained an independent revaluation of the library at market or market replacement value. The library collection comprises reports/major works, journals, loose-leaf services and a mix of dictionaries, encyclopaedias, statutes etc. The revaluation was undertaken by Lawyers Books, which valued the library at \$333 000.

15.1 Reconciliation of Non-Current Assets

	Leasehold Improve- ments \$'000	Plant and Equipment \$'000	Library \$'000	Total Property, Plant and Equipmt \$'000	Other Computer Software \$'000	Total Intangible Assets \$'000
Balance at 30 June 2005	717	1 222	333	2 272	97	97
Add: Additions	121	445	-	566	29	29
Less: Disposals	-	253	-	253	-	-
Balance at 30 June 2006	838	1 414	333	2 585	126	126
Accumulated Depreciation:						
Balance at 30 June 2005	141	840	-	981	90	90
Less: Disposals	-	253	-	253	-	-
Add: Depreciation expense	73	199	-	272	7	7
Balance at 30 June 2006	214	786	-	1 000	97	97
Net Book Value:						
As at 30 June 2005	576	382	333	1 291	7	7
As at 30 June 2006	624	628	333	1 585	29	29

15.2 Intangible Assets

	2006	2005
	\$'000	\$'000
Other computer software	126	97
Accumulated amortisation	97	90
Total Computer Software	29	7

16. Statutory Charge Debtors

Statutory charge debtors are raised as a result of the Commission registering charges over property owned by some recipients of legal aid to secure legal costs owed on cases undertaken and are reported at amounts due. Debts are recovered when the property is refinanced or sold.

	2006	2005
	\$'000	\$'000
Statutory charge debtors	3 386	3 283
Less: Provision for doubtful debts	150	150
	3 236	3 133

17. Employee Benefits

Current Liabilities:		
Annual leave	760	602
Long service leave	121	139
	881	741
Non-Current Liabilities:		
Long service leave	1 870	1 678
	2751	2 419

17.1 Employee Benefits and Related On-costs	2006	2005
Accrued Salaries and Wages:	\$'000	\$'000
On-costs included in payables - Current	29	24
Creditors - Current	205	155
	234	179
Annual Leave:		
On-costs included in payables - Current	109	78
Provision for employee benefits - Current	760	602
	869	680
Long Service Leave:		
On-costs included in payables - Current	9	13
Provision for employee benefits - Current	121	139
	130	152
On-costs included in payables - Non-Current	126	139
Provision for employee benefits - Non-Current	1 870	1 678
	1 996	1 817
Aggregate Employee Benefits and Related On-costs	3 229	2 828

18. Other Reserves

Movements during the year were:

Asset Replacement Reserve:

Balance at 1 July	522	296
Less: Transfer to retained earnings	522	296
Add: Transfer from retained earnings	1 558	522
Balance at 30 June	1 558	522

Commonwealth Expensive Case Reserve:

Balance at 1 July	100	100
Less: Transfer to retained earnings	-	-
Balance at 30 June	100	100

State Expensive Cases Reserve:

Balance at 1 July	100	100
Less: Transfer to retained earnings	100	-
Balance at 30 June	-	100

State Legal Assistance Scheme Reserve:

Balance at 1 July	343	389
Less: Transfer to retained earnings	53	46
Balance at 30 June	290	343

Total Other Reserves

1 948 1 065

Asset Replacement

The Commission utilised \$522 000 in 2005-06 to upgrade personal computers throughout the Commission and leasehold improvements for the new regional office at Mount Barker.

Commonwealth Expensive Cases

The Commission did not use the Commonwealth Expensive Case allocation in the 2005-06 year. A similar allocation has been retained in the 2006-07 year.

State Expensive Cases

The Commission has not retained the State Expensive Case allocation for specific state matters that exceed the State Guideline cap.

State Legal Assistance Scheme

The Commission utilised \$53 000 of the State Legal Assistance Scheme allocation on State matters pursuant to a policy approved by Commissioners and the Law Society of SA, which includes specific conditions. The balance has been retained in 2006-07.

19. Legal Expense Commitments

As at 30 June 2006, the Commission has a future commitment of \$3 344 000 (\$3 077 000) on legal cases referred to private practitioners which are still to be finalised. In addition the Commission has a future commitment of \$559 000 (\$512 000) on State expensive cases which will be funded separately.

The Commission reviewed outstanding legal commitments and determined that commitments less the underutilisation factor of 22.8 percent Commonwealth and 31.7 percent State would be recognised on all outstanding amounts raised since December 2004 (ie the previous 18 months). Commitments raised prior to this date have been dismissed. If any file prior to this date is reactivated, new commitments will be raised.

In the normal course of business, further commitments may be required on recognised legal cases. It is not possible to quantify that amount.

20. Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash includes cash on hand and at bank. Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the items in the Balance Sheet as follows:

	2006 \$'000	2005 \$'000
Deposits at call - South Australian Financing Authority	12 658	10 870
Cash at bank and on hand	43	17
Cash as recorded in the Balance Sheet	12 701	10 887
Cash as recorded in the Cash Flow Statement	12 701	10 887

Reconciliation of Net Cash provided by Operating Activities to Net Cost of Providing Services

Net cost of providing services	(23 427)	(22 671)
Add: Revenues provided by Government	25 649	25 161
Add/(Less): Non-cash items:		
Depreciation and amortisation	279	328
Bad and doubtful debts	29	19
Microsoft licence - DAIS	-	(54)
Loss on disposal of equipment	-	5
Changes in Assets/Liabilities:		
(Increase) in statutory charge debtors	(103)	(452)
(Increase) Decrease in receivables	(596)	222
Decrease in prepayments	12	36
Increase in employee provisions	332	199
Increase in payables	53	107
Increase (Decrease) in legal payables	157	(38)
Net Cash Inflows from Ordinary Activities	2 385	2 862

21. Commitments for Expenditure

At the reporting date the Commission had the following obligations under non-cancellable operating leases. The obligations are not recognised as liabilities in the Balance Sheet. The operating leases held by the Commission are property leases with penalty clauses equal to the amount of the residual payments remaining for the lease term. The leases are payable one month in advance. The option to renew the lease is held by the Commission. There are no existing contingent rental provisions.

	2006 \$'000	2005 \$'000
Operating lease commitments payable:		
Not later than one year	247	190
Later than one year but not later than five years	329	402
Total Operating Lease Commitments	576	592

	2006 \$'000
Remuneration commitments:	
Not later than one year	2 285
Later than one year but not later than five years	3 399
Total Remuneration Commitments	5 684

The amounts disclosed as remuneration commitments, includes only those commitments arising from written contracts for executive and other written service contracts.

22. Related Party Disclosures

The members of the Commission who have held office during the financial year are:

Ms Dymphna Eszenyi (Chairman)	Appointed 20 January 2005
Ms Rosemary Davey	Appointed 21 July 2005
Mr Michael Dawson	Appointed 16 February 2006
Ms Wendy Purcell	Appointed 16 February 2006
Ms Phuong Chau	
Ms Maurine Pyke	
Mr Michael Burgess	
Mr Hugh Gilmore	
Mr David Meyer	
Dr Deborah McCulloch	
Mr Brian Nitschke	

The members of the Commission are appointed by the Governor in accordance with the provisions of the *Legal Services Commission Act 1977* and include partners of legal firms. In the ordinary course of business the Commission enters into transactions with legal firms, some of which are associated with members of the Commission. Payments made to these firms are in accordance with the Commission's scale of fees and are payments that apply to practitioners generally.

22. Related Party Disclosures (continued)

The number of members whose remuneration received or receivable fell within the following bands was:

	2006	2005
	Number of	Number of
	Members	Members
\$nil	1	1
\$1 - \$10 000	9	10
\$10 001 - \$20 000	1	1

The total remuneration received or due and receivable by these members was \$80 000 (\$66 000).

23. Contingent Liabilities

At balance date and at the date of certification of this financial report by the Commission there was no known contingent liability. However, Legal Expense Commitments existed as disclosed at Note 19.

LIBRARIES BOARD OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Libraries Board of South Australia is appointed pursuant to the *Libraries Act 1982* and is responsible for the administration of the State Library and the public libraries system.

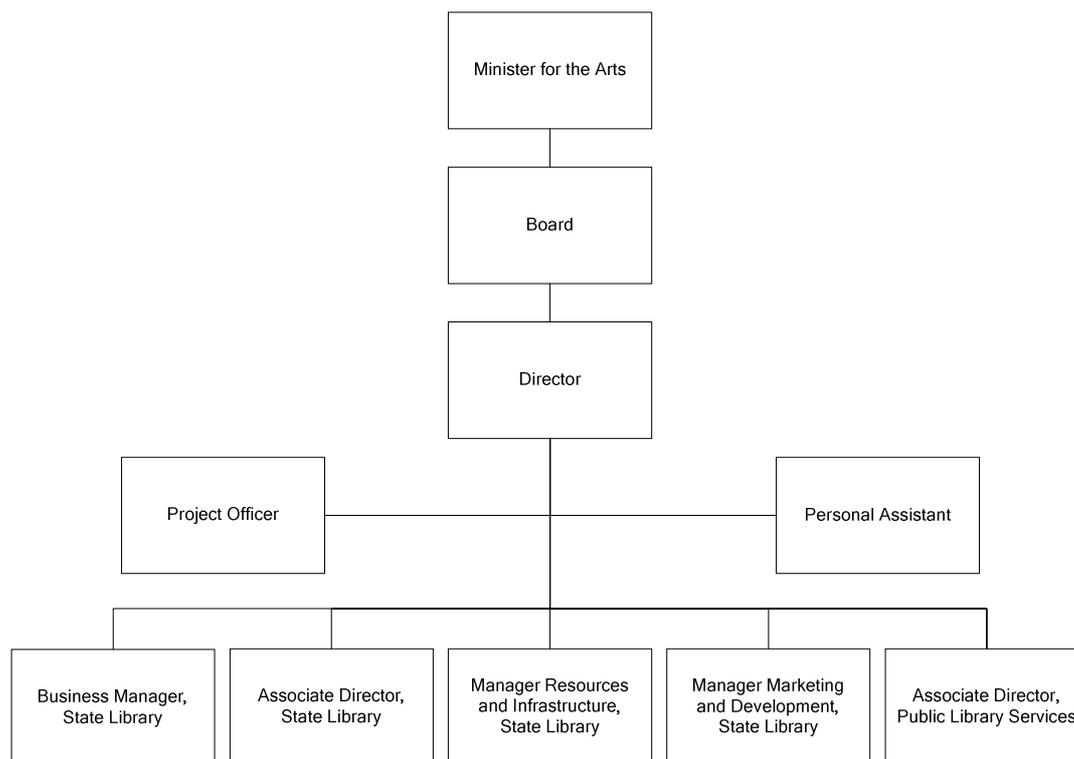
Functions

The functions of the Libraries Board are as follows:

- Formulate policies and guidelines for the provision of public library services.
- Establish, maintain and expand collections of library materials.
- Administer the State Library.
- Promote, encourage and assist in the establishment, operation and expansion of public libraries and public library services by councils and others.

Structure

The structure of the Libraries Board is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 18(2) of the *Libraries Act 1982* provides for the Auditor-General to audit the accounts of the Libraries Board for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- expenditure including accounts payable and salaries and wages
- shop operations
- revenue including cash receipting and banking
- risk management
- subsidy payments to public libraries
- research and heritage collections valuation.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Libraries Board as at 30 June 2006 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

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

Audit Communications with Management

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

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	\$'000	\$'000	Change
INCOME			
Government grants	27.7	27.7	-
Other income	2.9	3.4	(15)
Total Income	30.6	31.1	(2)
EXPENSES			
Employee benefits	10	9.4	6
Subsidies to Public Libraries	11	10.5	5
Other expenses	10.8	10.2	6
Total Expenses	31.8	30.1	6
Net Result	(1.2)	1	n/a

	2006	2005	Percentage
	\$'000	\$'000	Change
Net Cash Flows from Operations	1	3	(67)
ASSETS			
Current assets	2.8	3.8	(26)
Non-current assets	104	104.1	-
Total Assets	106.8	107.9	(1)
LIABILITIES			
Current liabilities	2	2.2	(9)
Non-current liabilities	2.1	1.9	11
Total Liabilities	4.1	4.1	-
EQUITY	102.7	103.8	(1)

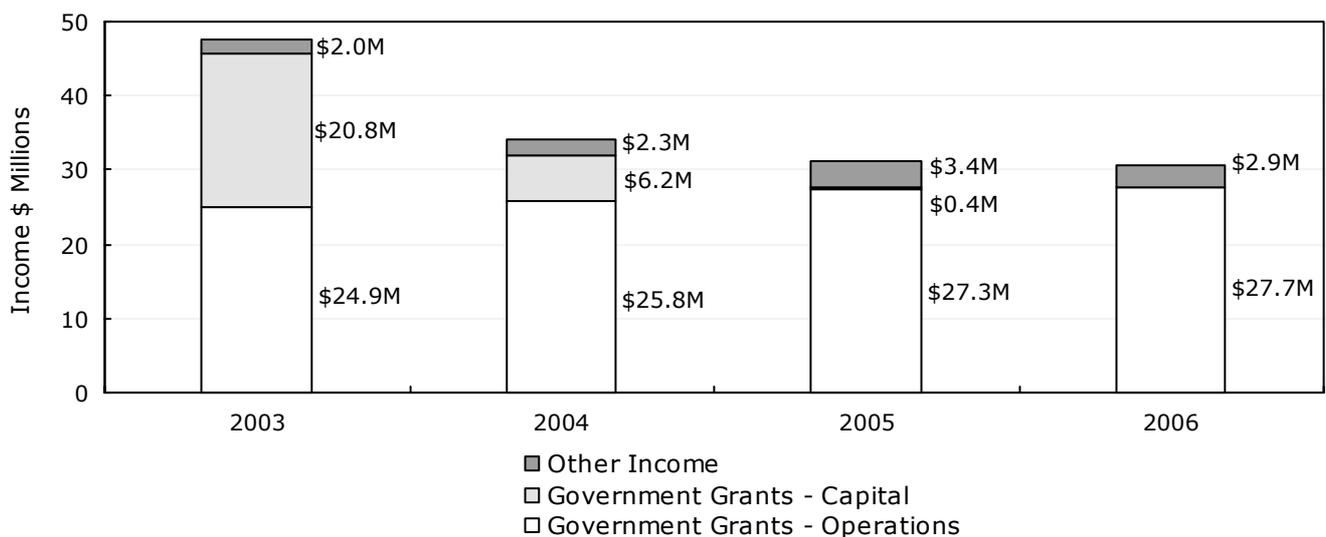
Income Statement

Income

Income from operations decreased by \$416 000 to \$2.9 million. The decrease is mainly the result of a reduction in donations of \$1 million, partly offset by an increase of \$414 000 in interest and dividend income. In 2004-05, donations included \$601 000 from the State Library Foundation to fund a number of projects.

Note 2.19 to the Financial Statements states that the Board is dependent on the ongoing financial support of the State Government. Grants from the State Government for operating and capital purposes totalled \$27.7 million (\$27.7 million).

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

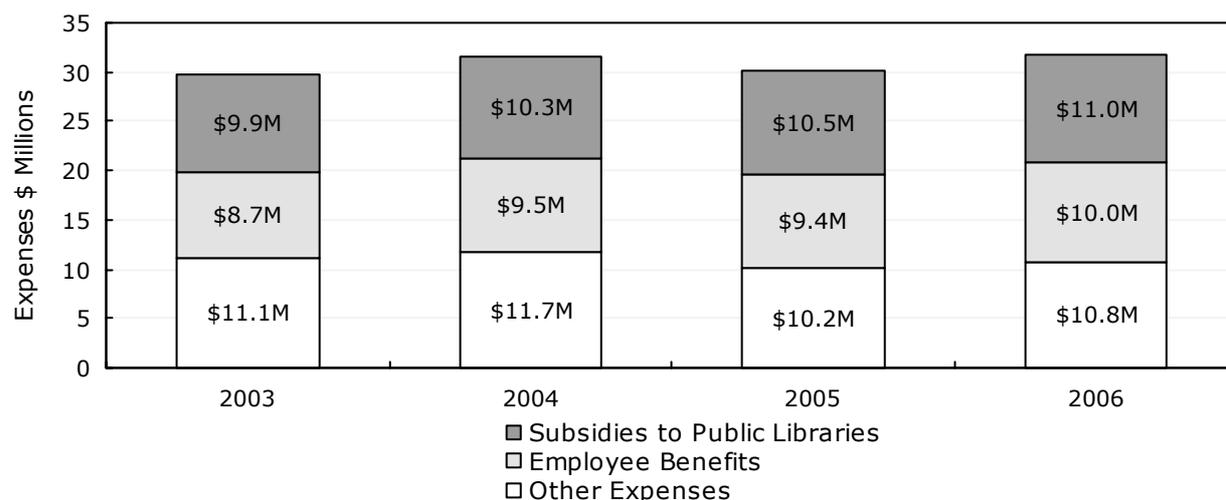


Expenses

Expenses increased by \$1.7 million to \$31.8 million. The principal increases were:

- employee benefits \$642 000
- subsidies to Public Libraries \$514 000
- depreciation \$541 000.

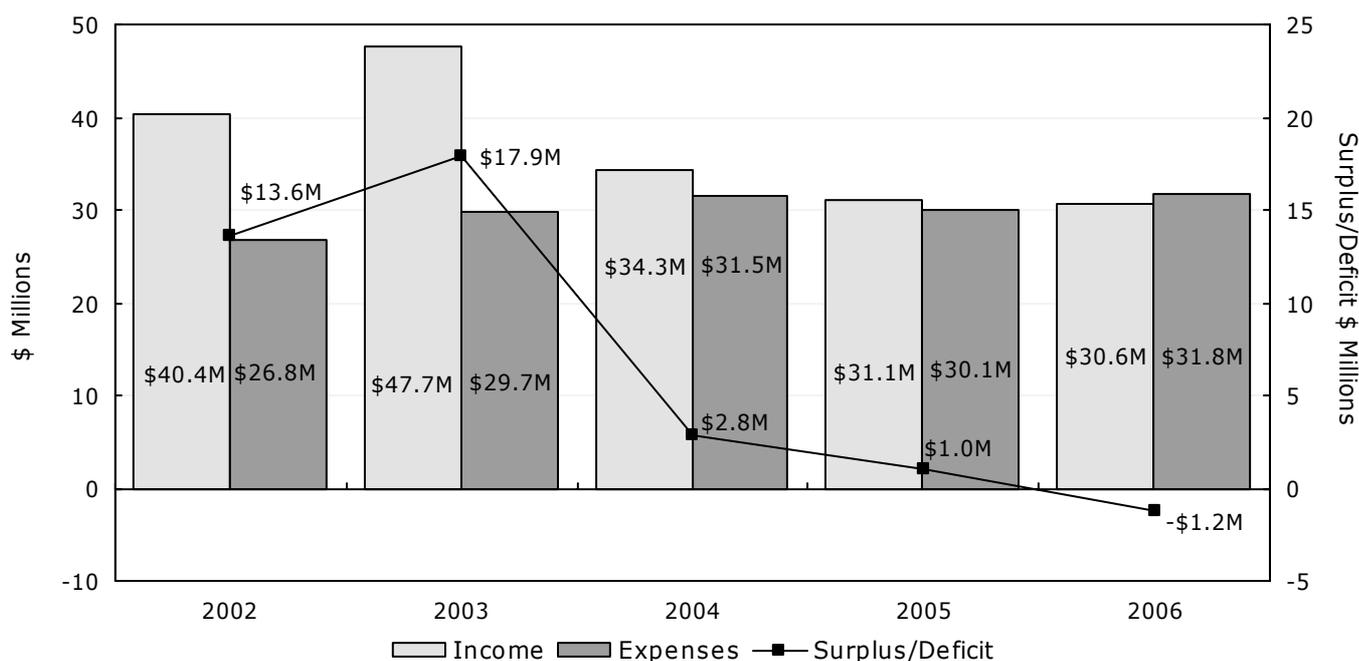
A structural analysis of the operating expense items for the Board is shown in the following chart.



Net Result

The net result for the year was a deficit of \$1.2 million compared to a surplus of \$987 000 in the previous year. The variation was the net effect of an increase in expenses of \$1.7 million and a decrease in income of \$416 000.

The following chart shows income, expenses and surpluses/deficits for the four years to 2006.



Balance Sheet

The total assets of the Libraries Board at 30 June 2006 are \$106.8 million, of which \$53.6 million (50 percent) relates to the Libraries Board’s property, plant and equipment and \$43.7 million (41 percent) relates to the research and heritage collections.

The Library’s liabilities at 30 June 2006 totalled \$4.1 million (\$4.1 million) of which \$2.8 million (\$2.6 million) relates to employee benefits.

Non-Current Assets

Research and Heritage Collections

Research and heritage collections purchased or donated during the year totalled \$900 000. The research and heritage collections were revalued as at 30 June 2006 (refer Note 2.10). This resulted in an increase of \$22 000 in the value of the collections.

**Income Statement
for the year ended 30 June 2006**

	Note	2006	2005
		\$'000	\$'000
EXPENSES:			
Employee benefits	4	9 995	9 353
Supplies and services	5	6 330	6 344
Accommodation and facilities	6	2 144	2 140
Subsidies to public libraries		11 033	10 519
Depreciation	7	2 267	1 726
Net loss from disposal of assets	8	16	7
Total Expenses		31 785	30 089
INCOME:			
Sale of goods		30	37
User charges		639	613
Donations		325	1 332
Council contributions		126	142
Rent and facilities hire		222	223
Resources received free of charge	2.4	66	178
Profit on sale of investments	8	151	-
Interest and investment income	9	951	537
Other income	10	437	301
Total Income		2 947	3 363
NET COST OF PROVIDING SERVICES		(28 838)	(26 726)
REVENUES FROM SA GOVERNMENT:			
Revenue from SA Government - Recurrent operating grant		27 636	27 316
Revenue from SA Government - Capital grant		37	397
Total Revenues from SA Government		27 673	27 713
Net Result		(1 165)	987
THE NET RESULT IS ATTRIBUTABLE TO THE SA GOVERNMENT GOVERNMENT AS OWNER			
		(1 165)	987

Balance Sheet as at 30 June 2006

	Note	2006 \$'000	2005 \$'000
CURRENT ASSETS:			
Cash and cash equivalents	23	2 646	3 349
Receivables	12	176	450
Inventories		29	26
Total Current Assets		2 851	3 825
NON-CURRENT ASSETS:			
Investments	13	6 726	5 973
Property, plant and equipment	14	53 559	55 357
Research and heritage collections	15	43 707	42 785
Total Non-Current Assets		103 992	104 115
Total Assets		106 843	107 940
CURRENT LIABILITIES:			
Payables	16	971	1 198
Short-term employee benefits	17	1 017	920
Short-term provisions	18	48	46
Total Current Liabilities		2 036	2 164
NON-CURRENT LIABILITIES:			
Payables	16	168	185
Long-term employee benefits	17	1 757	1 632
Long-term provisions	18	129	117
Other	19	10	-
Total Non-Current Liabilities		2 064	1 934
Total Liabilities		4 100	4 098
NET ASSETS		102 743	103 842
EQUITY:			
Retained earnings	20	94 520	95 685
Asset revaluation reserve	20	8 223	8 157
TOTAL EQUITY		102 743	103 842
Commitments for Expenditure	21		
Contingent Assets and Liabilities	22		

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

	Asset		
	Revaluation	Retained	
	Reserve	Earnings	Total
Note	\$'000	\$'000	\$'000
Balance at 30 June 2004	5 672	94 698	100 370
Gain on revaluation of land and buildings	2 485	-	2 485
Net income/expense recognised directly in equity for 2004-05	2 485	-	2 485
Net result for 2004-05	-	987	987
Total recognised income and expense for 2004-05	-	987	987
Balance at 30 June 2005	8 157	95 685	103 842
Gain on revaluation of Public Library Collection during 2005-06	66	-	66
Net income/expense recognised directly in equity for 2005-06	66	-	66
Net result for 2005-06	-	(1 165)	(1 165)
Total recognised income and expense for 2005-06	-	(1 165)	(1 165)
Balance at 30 June 2006	8 223	94 520	102 743

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

Cash Flow Statement for the year ended 30 June 2006

	2006	2005
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee benefits	(9 768)	(9 173)
Supplies and services	(6 396)	(5 973)
Accommodation and facilities	(2 142)	(2 180)
Subsidies to public libraries	(10 964)	(10 382)
Cash used in Operations	(29 270)	(27 708)
CASH INFLOWS:		
Sale of goods	30	37
User charges	812	507
Donations	268	1 312
Council contributions	126	142
Rent and facilities hire	216	208
Interest and investment income	776	532
Other	388	291
Cash generated from Operations	2 616	3 029
CASH FLOWS FROM SA GOVERNMENT:		
Receipts from SA Government - Recurrent operating grant	27 636	27 316
Receipts from SA Government - Capital grant	37	397
Cash generated from SA Government	27 673	27 713
Net Cash provided by Operating Activities	1 019	3 034
	23	
CASH FLOWS FROM INVESTING ACTIVITIES:		
CASH OUTFLOWS:		
Purchase of investments	(3 629)	(319)
Purchase of property, plant and equipment	(446)	(1 018)
Purchase of heritage collections	(844)	(1 009)
Cash used in Investing Activities	(4 919)	(2 346)
CASH INFLOWS:		
Proceeds from the sale/maturity of investments	3 197	-
Cash generated from Investing Activities	3 197	-
Net Cash used in Investing Activities	(1 722)	(2 346)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(703)	688
CASH AND CASH EQUIVALENTS AT 1 JULY	3 349	2 661
CASH AND CASH EQUIVALENTS AT 30 JUNE	2 646	3 349
	23	

Activities Schedule of Revenues and Expenses for the year ended 30 June 2006

	2006			2005		
	Activity	Activity	Total	Activity	Activity	Total
	(Refer Note 3)	1		2	1	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses:						
Employee benefits	8 405	1 590	9 995	7 778	1 575	9 353
Supplies and services	3 215	3 115	6 330	3 290	3 054	6 344
Accommodation and facilities	2 020	124	2 144	2 019	121	2 140
Subsidies to public libraries	-	11 033	11 033	-	10 519	10 519
Depreciation	1 885	382	2 267	1 320	406	1 726
Net loss from disposal of assets	12	4	16	4	3	7
Total Expenses	15 537	16 248	31 785	14 411	15 678	30 089
Income:						
Sale of goods	30	-	30	37	-	37
User charges	639	-	639	612	1	613
Donations	325	-	325	1 332	-	1 332
Council contributions	-	126	126	-	142	142
Rent and facilities hire	222	-	222	223	-	223
Resources received free of charge	66	-	66	178	-	178
Profit on sale of investments	151	-	151	-	-	-
Interest and investment income	821	130	951	426	111	537
Other	429	8	437	204	97	301
Total Income	2 683	264	2 947	3 012	351	3 363
Net Cost of providing Services	(12 854)	(15 984)	(28 838)	(11 399)	(15 327)	(26 726)
Revenues from SA Government:						
Recurrent Operating Grant	11 982	15 654	27 636	12 025	15 291	27 316
Capital Grant	37	-	37	397	-	397
Total Revenues from SA Government	12 019	15 654	27 673	12 422	15 291	27 713
NET RESULT	(835)	(330)	(1 165)	1 023	(36)	987

Activities Schedule of Assets and Liabilities as at 30 June 2006

	2006			2005		
	Activity	Activity	Total	Activity	Activity	Total
	(Refer Note 3)	1		2	1	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets:						
Assets	102 906	3 937	106 843	103 661	4 279	107 940
Total Assets	102 906	3 937	106 843	103 661	4 279	107 940
Liabilities:						
Liabilities	2 877	1 223	4 100	2 796	1 302	4 098
Total Liabilities	2 877	1 223	4 100	2 796	1 302	4 098

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Libraries Board (the Board)

The functions of the Libraries Board, as prescribed under the *Libraries Act 1982*, include:

- formulate policies and guidelines for the provision of public library services;
- establish, maintain and expand collections of library materials;
- administer the State Library;
- promote, encourage and assist in the establishment, operation and expansion of public libraries and public library services by councils and others.

2. Summary of Significant Accounting Policies

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 (PFAA)*;
- Applicable Australian Accounting Standards; and
- Other mandatory professional reporting requirements in Australia.

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

The Board's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable. The Cash Flow Statement has been prepared on a cash basis.

2.2 Sources of Funds

The Board's principal source of funds consists of grants from the State Government. In addition, the Libraries Board also receives monies from sales, rent, venue hire, investments, donations, bequests and other receipts, and uses the monies for the achievement of its objectives.

2.3 Changes in Accounting Policies

A number of Australian Accounting Standards have been issued or amended and are applicable to the Board but are not yet effective. The Board has assessed the impact of the new and amended statements and there will be no impact on the accounting policies of the Board

Explanation of Transition to AIFRS

The Board has adopted the AIFRS for the first time for the year ended 30 June 2006. The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement.

2.4 Income and Expenses

Income and expense are recognised in the Board's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured. Income and expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5.

Income

Income from the sale of goods is recognised upon the delivery of goods to customers. Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Income from the rendering of a service is recognised upon the delivery of the service to the customers. Government grants are recognised as income in the period in which the Board obtains control over the grants.

Resources Received Free of Charge

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

Under an arrangement with Arts SA and Artlab Australia, a division of the Department of the Premier and Cabinet, Artlab Australia receives SA Government appropriation to perform conservation services on the Board's heritage collections. The value of this work performed is recognised as resources received free of charge in income and a corresponding amount as Artlab conservation expenditure in Supplies and Services (Note 5).

Transactions with SA Government

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

2.5 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Board has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within the 12 months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.6 Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash at bank and cash on hand. Cash is measured at nominal value.

2.7 Inventories

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

2.8 Investments

Investments are brought to account at cost in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework* APS 2.1.

2.9 Non-Current Asset Acquisition and Recognition

The cost method of accounting is used for the initial recording of all acquisitions of assets. Cost is determined as the fair value of the assets given the consideration plus costs incidental to the acquisition. Assets donated during the year have been brought to account at fair value.

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 7.2 componentisation of complex assets is only performed when the complex asset's fair value at the time of acquisition is greater than \$5 million for infrastructure assets and \$1 million for other assets.

2.10 Revaluation of Non-Current Assets

Land and Buildings

Land and buildings have been valued at fair value. An independent valuation of the land and buildings was conducted as at 30 June 2005 by the Australian Valuation Office. Land and buildings are independently valued every three years.

Plant and Equipment

Plant and equipment including computer equipment and compactus and shelving, on acquisition, has been deemed to be held at fair value.

Public Library Services Collections

The Public Library Services (PLS) collections, consisting of Video and Print Disability collections and Languages other than English collections, were revalued according to fair value methodology as at 30 June 2006 by D Hope, Principal Consultant, Skilmar Systems Pty Ltd.

The revaluation was made on the basis of the average cost of items added to the collection during the 2005-06 financial year including the cost of acquisition and then depreciated, based on the age of the item. For the Language other than English collections, the average cost for 2004-05 was used as no items were added to the collection in 2005-06 and determining an average price for 2005-06 would be both difficult and expensive. Items that have been culled from the collection are valued at zero on the basis that they will be transferred to a public library or similar institution for no consideration.

Items in the Public Library collection are disposed of for no consideration at the end of their useful life to public libraries and similar institutions. On this basis, no residual value is placed on those assets. The Film collection was valued at zero value on the basis that this collection is not being added to, is rarely used and may not be disposed under the terms of its original acquisition.

During the 2006-07 financial year, part of the Public Library collection will be distributed to public libraries.

Research and Heritage Collections

The Libraries Board research and heritage collections were revalued as at 30 June 2006 using the valuation methodology outlined below in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 8.4.

The State Library of South Australia appointed Graeme Addicott, Regional Manager of the Australian Valuation Office (AVO) to undertake the valuation of the Library's collections as at 30 June 2006. The AVO was responsible for the review of valuations undertaken by State Library staff specialists and to perform valuations where external expertise was required.

Internal valuations were carried out by staff specialists in their related fields. The valuations were based on knowledge of the particular collections, an understanding of the valuation techniques and the markets that exist for the collection items. The AVO undertook testing and confirmation of internal valuations.

The fair value applied is represented by the quoted market price in an active and liquid market, where available, or is estimated by reference to the best available market evidence of the price such as current market prices for assets that are similar in use, type and condition or the price of the most recent transaction for the same or a similar asset. Where no market exists or market prices materially differ, the fair value is determined with reference to the asset's market buying price indicated by the replacement cost of the asset's remaining future economic benefits.

Research and Heritage Collections (continued)

Research collections were valued using the linear method of valuation by State Library staff. This method is based on an average cost per volume applied to the size of the collection. This methodology was reviewed and confirmed by the AVO.

Selected heritage collections were valued by an external valuer on a market value basis, with significant and unique objects being valued individually.

Sampling techniques were used to value other less significant elements of the heritage collection with valuations done by both the State Library staff and the AVO.

Additional external valuations were carried out by the following recognised industry experts:

Rare Books	J Burdon
Framed Works	D Hyles

Research and Heritage collections which have been valued are the Rare Books and some Named Collections, Maps, Microfilm Serials, Monographs, Electronic Resources, Family History Collections, Periodicals, Newspapers purchased and Mortlock Use Collections.

A nil valuation was adopted for a number of unique or irreplaceable heritage collections where there is no applicable replacement or reliable market value, or where the materials have been acquired largely through the legal deposit provisions of the *Libraries Act 1982*.

The Mortlock South Australiana Collections are recognised at nil value as they have been considered to be unique and not capable of reliable measurement. Collections which were not valued were the Mortlock Archival Collections, Mortlock Published Collections, Mortlock Special Collections and some unpublished Named and Special Collections.

2.11 Impairment of Assets

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

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

2.12 Depreciation of Non-Current Assets

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each non-current asset over its expected useful life except for land, research and heritage collections, which are not depreciable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

<i>Class of Asset</i>	<i>Useful Life (Years)</i>
Buildings and improvements	Useful life depends on individual asset item
Plant and equipment	5-15
Computer equipment	3-5
Video and Print Disability collections	8
Languages other than English collections	8
Compactus and Lifts	30

The research and heritage collections are kept under special conditions to minimise deterioration and they are anticipated to have very long and indeterminate useful lives. No amount for depreciation has been recognised, as their service potential has not, in any material sense, been consumed during the reporting period. The Public Library collection has been depreciated as indicated above.

2.13 Payables

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

Creditors and accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period. All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

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

2.14 Employee Benefits

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

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

- (i) **Liabilities for Salaries, Wages and Annual Leave**
Liabilities for salaries, wages and annual leave have been recognised as the amount unpaid at the reporting date. The liability for annual leave has been calculated at nominal amounts based on current remuneration rates as at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.
- (ii) **Long Service Leave**
A liability for long service leave is recognised after an employee has completed seven years of service in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework* APS 5.10. An actuarial assessment of long service leave was undertaken by the Department of Treasury and Finance.
- (iii) **Superannuation**
Contributions are made by the Board to several superannuation schemes operated by the State Government and private sector. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes.

2.15 Workers Compensation Provision

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment performed by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

2.16 Leases

The Board has entered into a number of operating lease agreements for accommodation and vehicles where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Income Statement in the periods in which they are incurred.

2.17 Comparative Information

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

2.18 Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred by the Board as a purchaser is not recoverable from the Australian Taxation Office.

The net GST receivable/payable to the Australian Taxation Office is not recognised as a receivable/payable in the Balance Sheet as the Board is a member of an approved GST group of which Arts SA, a division of the Department of the Premier and Cabinet, is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Cash Flow Statement.

2.19 State Government Funding

The financial reports are presented under the assumption of ongoing financial support being provided to the Board by the State Government.

2.20 Rounding

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

2.21 Insurance

The Board has arranged, through the SA Government Captive Insurance Corporation, to insure all major risks of the Board. The excess payable is fixed under this arrangement.

3. Activities of the Libraries Board

The identity and purpose of each major activity undertaken by the Board during the year ended 30 June 2006 is summarised below (refer to the Activities Schedule – Expenses and Income and Assets and Liabilities).

Activity 1: Provision of State Library Services

To provide, through the State Library of South Australia, a comprehensive library and information service for the economic, educational, cultural and social benefit of South Australia and its citizens.

Activity 2: Support of Public Library Services

To provide through PLS (Public Library Services) and the distribution of State subsidies, an equitable and responsible provision of resources, support and services to public libraries and community information agencies.

4. Employee Benefits	2006	2005
	\$'000	\$'000
Salaries and wages	8 103	7 603
Superannuation	884	842
Payroll tax	517	482
Long service leave	318	270
Other employee related expenses	173	156
Total Employee Benefits	9 995	9 353

Remuneration of Employees

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

\$110 000 - \$119 999

\$150 000 - \$159 999

Total Number of Employees

2006	2005
Number of Employees	Number of Employees
2	2
1	-
3	2

The table 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 and other salary sacrifice benefits. The total remuneration received by these employees for the year was \$380 000 (\$228 000).

Targeted Voluntary Separation Packages (TVSPs)

There were no Targeted Voluntary Separation Packages paid to employees during 2005-06 or 2004-05.

Remuneration of Board Members

The number of Board Members who received remuneration from the Board fell within the following bands:

\$0 - \$9 999

\$10 000 - \$19 999

Total Number of Board Members

2006	2005
Number of Board Members	Number of Board Members
2	2
8	8
10	10

The total remuneration received by these Board Members for the year was \$103 000 (\$101 000).

Related Party Disclosures

During the financial year the following persons held a position on the Libraries Board of South Australia:

Dr P Goldsworthy, Chair

Mr G E Coles

Ms J Connolly

Mr John Mc Donnell

Ms Ann Short (appointed 18 February 2006)

Mr P Myhill, Deputy Chair

Mrs J K Nitschke (reappointed 18 February 2006)

Ms B Davidson-Park

Mr T Zappia

Mr Hieu Van Le (to 17 February 2006)

Board members or their related entities have transactions with the Board that occur within a normal customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonably expected the entity would have adopted if the transactions were undertaken with any other entity at arm's length in similar circumstances.

5. Supplies and Services	2006	2005
Supplies and Services provided by entities external to the SA Government:	\$'000	\$'000
Administration expenses	461	475
Board expenses	103	101
Preservation activities	99	202
Library databases	-	91
Reference materials	125	138
Conservation	12	39
Consultant's fees	89	-
Contractor's fees	76	802
Cost of goods sold	17	23
Entertainment	6	6
Communications	990	1 003
Information Technology	484	347
Maintenance	272	103
Marketing and promotion	396	284
Minor equipment purchases and leasing	170	321
Operating lease expenditure	391	312
P2 enhancements	61	104
Travel and accommodation	55	43
Projects	13	-
Overseas travel	7	-
General grant payments	177	70
Other	271	115
Total Supplies and Services - Non-SA Government Entities	4 275	4 579

5. Supplies and Services (continued)	2006	2005
Supplies and Services provided by entities within the SA Government:	\$'000	\$'000
Administration expenses	72	95
Business services charge	443	443
Artlab conservation	187	178
EDS charges	581	617
Insurance and risk management	179	180
Communications	128	135
Information Technology	1	11
Maintenance	151	28
Motor vehicle expenses	7	-
Reference materials	7	-
General grant payments	205	-
Operating lease expenditure	41	46
Other	53	32
Total Supplies and Services - SA Government Entities	2 055	1 765
Total Supplies and Services	6 330	6 344
Payments to Consultants	2006	2005
The dollar amount of consultancy paid/payable that fell within the following band:	Number of	Number of
	Consultants	Consultants
\$0 - \$10 000	2	1
\$10 000 - \$50 000	3	-
Total Number of Consultancies	5	1
The total amount paid/payable to consultants in 2005-06 was \$89 000 (\$375).		
6. Accommodation and Facilities	2006	2005
Accommodation and Facilities provided by entities external to the SA Government:	\$'000	\$'000
Accommodation	706	636
Facilities	5	12
Securities	17	-
Total Accommodation and Facilities - Non-SA Government Entities	728	648
Accommodation and facilities provided by entities within the SA Government:		
Accommodation	172	266
Facilities	810	765
Security	434	461
Total Accommodation and Facilities - SA Government Entities	1 416	1 492
Total Accommodation and Facilities	2 144	2 140
Accommodation expenditure includes operating lease expenditure of \$139 000 (\$114 000).		
7. Depreciation		
Buildings and improvements	1 551	995
Compactus and lifts	77	92
Plant and equipment	186	204
Computer equipment	77	35
Public Library Research Collections	376	400
Total Depreciation	2 267	1 726
8. Net Loss from Disposal of Assets		
Plant and Equipment:		
Proceeds from disposal	-	-
Net book value of assets disposed	16	7
Net Loss from Disposal of Plant and Equipment	(16)	(7)
Investments:		
Proceeds from the sale of investments	3 196	-
Net book value of investments	3 045	-
Net Profit on Sale of Investments	151	-
Total Assets:		
Total proceeds from disposal	3 196	-
Total net book value of assets disposed	3 061	7
Total Net Profit (Loss) from Disposal of Assets	135	(7)
9. Interest and Investment Income		
Interest from entities within the SA Government	287	218
Investment income from entities external to the SA Government	664	319
Total Interest and Investment Income	951	537

10. Other Incomes	2006	2005
Other incomes received/receivable from entities external to the SA Government:	\$'000	\$'000
Refund of imputation credits	38	112
Contribution to IT traineeship project	-	90
Other receipts	54	42
Total Other Income - Non-SA Government Entities	92	244
Other income received/receivable from entities within the SA Government:		
Solar panels project	236	-
Other grants and subsidies	63	-
Salary recoups	14	48
Revaluation increment on heritage collections	22	-
Other receipts	10	9
Total Other Income - SA Government Entities	345	57
Total Other Income	437	301

11. Auditor's Remuneration		
Audit fees paid/payable to the Auditor-General's Department:		
State Library of South Australia	24	20
Support of Public Library Services	12	10
Total Audit Fees - SA Government Entities	36	30

Other Services

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

12. Receivables		
Current:		
Receivables	116	274
Accrued revenues	60	54
Prepayments	-	122
Total Receivables	176	450
<i>Government/Non-Government Receivables</i>		
Receivables from Non-SA Government entities:		
Receivables	41	41
Accrued revenue	42	37
Total Receivables - Non-SA Government entities	83	78
Receivables from SA Government entities:		
Receivables	75	233
Prepayments	-	122
Accrued revenue	18	17
Total Receivables - SA Government entities	93	372
Total Receivables	176	450

Interest Rate and Credit Risk

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

13. Investments	2006	2005
Non-Current:	\$'000	\$'000
Unit trusts - with entities other than SAFA	3 527	5 973
Direct investments with entities other than SAFA	3 199	-
Total Non-Current Investments	6 726	5 973

Investments are carried at cost in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework* APS 2.1. The market value of the Unit Trust investments as at 30 June 2006 was \$3.9 million (\$6.5 million). The Credit Suisse Asset Management Wholesale Fund was redeemed during 2005-06. These funds were reinvested in direct investments. The market value of the direct investments as at 30 June 2006 was \$3.4 million.

14. Property, Plant and Equipment	2006	2005
Land, Buildings and Improvements:	\$'000	\$'000
Land at valuation	5 635	5 635
Buildings and improvements at valuation	58 123	58 123
Accumulated depreciation	(14 480)	(12 929)
Total Land, Buildings and Improvements	49 278	50 829
Compactus and Lifts:		
Compactus and lifts at cost (deemed fair value)	2 322	2 302
Accumulated depreciation	(231)	(154)
Total Compactus and Lifts	2 091	2 148

14. Property, Plant and Equipment (continued)	2006	2005
Plant and Equipment:	\$'000	\$'000
Plant and equipment at cost (deemed fair value)	1 553	1 539
Accumulated depreciation	(820)	(845)
Total Plant and Equipment	733	694
Computer Equipment:		
Computer equipment at cost (deemed fair value)	374	288
Accumulated depreciation	(188)	(110)
Computer Equipment	186	178
Public Library Collections:		
Public library collections at valuation	7 756	6 405
Public library collections at cost	-	740
Accumulated depreciation	(6 485)	(5 637)
Total Public Library Collections	1 271	1 508
Total Property, Plant and Equipment	53 559	55 357

Valuation of Non-Current Assets

The valuation of land, buildings and improvements was performed by the Australian Valuation Office as at 30 June 2005. The valuation of the Public Library collections was performed by Skilmar Systems Pty Ltd as at 30 June 2006.

Reconciliation of Property, Plant and Equipment

	Land \$'000	Bldgs & Imprv- ments \$'000	Compct & Lifts \$'000	Plant & Equip \$'000	Comp. Equip \$'000	Public Library Collctns \$'000	2006 Total \$'000
Carrying amount at 1 July	5 635	45 194	2 148	694	178	1 508	55 357
Additions	-	-	20	237	85	77	419
Disposals	-	-	-	(12)	-	(4)	(16)
Depreciation	-	(1 551)	(77)	(186)	(77)	(376)	(2 267)
Revaluation increments (decrements)	-	-	-	-	-	66	66
Carrying Amount at 30 June	5 635	43 643	2091	733	186	1 271	53 559

15. Research and Heritage Collections	2006			2005		
	At Valuation \$'000	At Cost \$'000	Total \$'000	At Valuation \$'000	At Cost \$'000	Total \$'000
Rare books and named collections	19 173	-	19 173	14 702	578	15 280
Maps	1 197	-	1 197	1 166	20	1 186
Mortlock audio-visual	84	-	84	50	18	68
Microfilm serials	1 519	-	1 519	1 387	77	1 464
Monographs	16 609	-	16 609	16 510	585	17 095
Electronic resources	5	-	5	39	351	390
Family history collection	124	-	124	105	18	123
Periodicals	4 125	-	4 125	4 628	438	5 066
Newspapers purchased	781	-	781	846	206	1 052
Mortlock use collections	90	-	90	81	22	103
CLRC book collection	-	-	-	958	-	958
Total Research and Heritage Collections	43 707	-	43 707	40 472	2 313	42 785

The valuation of the research and heritage collections was performed by the Australian Valuation Office as at 30 June 2006.

Reconciliation of Carrying Amounts of Research and Heritage Collections

	2006			2005		
	Balance 1.7.05	Additions	Revaluation Increment (\$Decrement)	Balance 1.7.04	Additions	Balance 30.6.05
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rare books and named collections	15 280	80	3 813	15 103	177	15 280
Maps	1 186	25	(14)	1 174	12	1 186
Mortlock audio-visual	68	7	9	59	9	68
Microfilm serials	1 464	34	21	1 422	42	1 464
Monographs	17 095	184	(670)	16 825	270	17 095
Electronic resources	390	193	(578)	196	194	390
Family history collection	123	4	(3)	114	9	123
Periodicals	5 066	201	(1 142)	4 862	204	5 066
Newspapers purchased	1 052	131	(402)	946	106	1 052
Mortlock use collections	103	8	(21)	93	10	103
Private archives	-	33	(33)	-	-	-
CLRC book collection	958	-	(958)	958	-	958
Total Carrying Amounts of Research and Heritage Collections	42 785	900	22	43 707	1 033	42 785

16. Payables	2006	2005
Current:	\$'000	\$'000
Creditors and accruals	821	1 063
Employee on-costs	150	135
Total Current Payables	971	1 198
Non-Current:		
Employee on-costs	168	185
Total Non-Current Payables	168	185
Total Payables	1 139	1 383
Payables to Non-SA Government Entities:		
Creditors and accruals	684	960
Total Payables - Non-SA Government Entities	684	960
Payables to SA Government Entities:		
Creditors and accruals	137	103
Employee on-costs	318	320
Total Payables - SA Government Entities	455	423
Total Payables	1 139	1 383

Interest Rate and Credit Risk

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

17. (a) Employee Benefits	2006	2005
Current:	\$'000	\$'000
Annual leave	536	508
Long service leave	322	299
Accrued salaries and wages	159	113
Total Current Employee Benefits	1 017	920
Non-Current:		
Long service leave	1 757	1 632
Total Non-Current Employee Benefits	1 757	1 632
Total Employee Benefits	2 774	2 552

The total current and non-current employee expense (ie aggregate employee benefit plus related on-costs) for 2005-06 is \$1.2 million and \$1.9 million respectively.

In the 2005-06 financial year, the long service leave benchmark contained in the Accounting Policy Framework IV *Financial Asset and Liability Framework* remained the same, based on an actuarial assessment. The benchmark for the measurement of the long service leave liability is seven years.

18. Provisions	2006	2005
Current:	\$'000	\$'000
Provision for workers compensation	48	46
Total Current Provisions	48	46
Non-Current:		
Provision for workers compensation	129	117
Total Non-Current Provisions	129	117
Total Provisions	177	163
Reconciliation of the Provision for Workers Compensation:		
Provision at 1 July	163	175
Increase (Decrease) in provision during the year	14	(12)
Provision for Workers Compensation at 30 June	177	163
19. Other Non-Current Liabilities		
Contract security deposit	10	-
Total Other Non-Current Liabilities	10	-

20. Equity	2006	2005
	\$'000	\$'000
Retained earnings	94 520	95 685
Asset revaluation reserve	8 223	8 157
Total Equity	102 743	103 842
Retained Earnings:		
Balance at 1 July	95 685	94 698
Net result	(1 165)	987
Balance at 30 June	94 520	95 685
Asset Revaluation Reserve:		
Balance at 1 July	8 157	5 672
Increment in public library services collection	66	-
Increment in land, buildings and improvements due to revaluation	-	2 485
Balance at 30 June	8 223	8 157
Total Equity at 30 June	102 743	103 842

21. Commitments for Expenditure
Operating Lease Commitments

Commitments under non-cancellable operating leases at the reporting date not recognised as liabilities in the financial report, are payable as follows:

Not later than one year	382	371
Later than one year and not later than five years	22	371
Total Operating Lease Commitments	404	742

The operating lease commitments comprise:

- A non-cancellable property leases, with rental payable monthly in advance. A contingent rental provision within the lease agreement requires the minimum lease payment to be increased by the Consumer Price Index. An option exists to renew the lease at the end of its term for a further five years.
- Non-cancellable motor vehicle leases, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their terms.
- Non-cancellable photocopier leases, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their terms.

Public Libraries Commitments

Committed orders placed by public libraries through PLS for libraries materials at the reporting date not recognised as liabilities in the financial report, are payable as follows:

	2006	2005
	\$'000	\$'000
Not later than one year	1 473	1 463
Total Public Libraries Commitments	1 473	1 463

Capital Commitments

There were no capital commitments under contracts for 2005-06 or 2004-05 as at the reporting date.

Remuneration Commitments

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2006	2005
	\$'000	\$'000
Not later than one year	140	239
Later than one year and not later than five years	292	491
Total Remuneration Commitments	432	730

Amounts disclosed include commitments arising from executive and other service contracts. The Board does not offer remuneration contracts greater than five years.

22. Contingent Assets and Liabilities

There are no known contingent assets and liabilities as at 30 June 2006.

23. Cash Flow Reconciliation	2006	2005
Reconciliation of Cash and Cash Equivalents	\$'000	\$'000
Cash and cash equivalents as recorded in the Balance Sheet	2 646	3 349
Cash and cash equivalents as recorded in the Cash Flow Statement	2 646	3 349
	<hr/>	<hr/>
Reconciliation of Net Cash provided by Operating Activities to Net Cost of Providing Services		
Net cash provided by operating activities	1 019	3 034
Less: Revenues from SA Government	(27 673)	(27 713)
Add (Less) Non-cash items:		
Depreciation of property, plant and equipment	(2 267)	(1 726)
Profit on sale of investments	151	-
Loss on disposal of plant and equipment	(16)	(7)
Donations of heritage assets	57	20
Revaluation increment on heritage collection	22	-
Changes in Assets and Liabilities:		
(Decrease) Increase in receivables	(103)	180
Increase (Decrease) in inventories	3	(6)
Decrease (Increase) in payables	214	(348)
Increase in employee benefits	(221)	(172)
(Increase) Decrease in provisions	(14)	12
Increase in security deposits	(10)	-
Net Cost of Providing Services	(28 838)	(26 726)
	<hr/>	<hr/>
24. Events After Balance Date		
There were no events occurring after balance date.		

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Authority, a Body Corporate, was established under the *Local Government Finance Authority Act 1983* (the Act). It is managed and administered by a Board of Trustees.

Functions

The functions of the Authority, as specified in subsection 21(1) of the Act, are to develop and implement borrowing and investment programs for the benefit of Councils and prescribed local government bodies; and to engage in such other financial activities as are determined by the Minister, after consultation with the Local Government Association, to be in the interest of local government.

In addition, subsection 21(2a) of the Act provides that the Authority must not make a loan, other than one to a Council or prescribed local government body; make an investment; or enter into a partnership or joint venture or form a company, except with the approval of the Treasurer.

Structure

The Authority operates with a staff of six including a Chief Executive Officer, a Manager Lending, and a Manager Funding and Investment with other staff providing accounting and administrative support.

Guarantee by the Treasurer

Liabilities incurred or assumed by the Authority in pursuance of the Act are guaranteed by the Treasurer pursuant to subsection 24(1) of the Act. As a result of this guarantee the Authority pays an annual guarantee fee to the Treasurer.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31 (1) (b) of the *Public Finance and Audit Act 1987*, provides for the Auditor-General to audit the accounts of a public authority. In addition, subsection 33(2) of the *Local Government Finance Authority Act 1983* specifically provides for the Auditor-General to audit the accounts of the Authority 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 Local Government Finance Authority 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 on the financial statements and internal controls.

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

- Board of Trustee minutes
- budgetary control and management reporting
- investments and investment income
- debenture loans, cash advance debentures and interest income

- short-term borrowings, deposits, borrowings and interest expense
- derivatives transactions
- operating expenses and salaries and wages.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Local Government Finance Authority of South Australia as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the Local Government Finance Authority 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 Local Government Finance Authority of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

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

LGCS – Shared Services

A follow-up review was conducted of audit matters raised in 2004-05 in relation to the loan provided by the Authority to the LGCS Unit Trust, which commenced operations during 2000-01. The Authority has provided the LGCS Unit Trust No. 1 (LGCS), the organisation trading as Local Government Corporate Services, a convertible cash advance debenture facility of \$700 000 of which \$683 000 was drawn down. The loan was due for repayment in January 2006. As LGCS has no major tangible assets, this cash advance debenture is effectively unsecured (unlike council loans which are secured over general revenue of the council) and the recovery of the loan is dependent upon the success of the venture.

Audit reviewed the financial performance of LGCS to assess likely recoverability of the loan and compliance with the new Australian Accounting Standard AASB 128 *Investments in Associates*. The follow-up review included an examination of LGCS's latest available audited financial statements for the year ended 30 June 2005, a review of the recoverability of the loan and compliance with AASB 128. That review revealed that LGCS accumulated losses (as at 30 June 2005) were \$815 000 and its net assets deficiency \$715 000 (liabilities exceeded assets).

The loan was not recovered by January 2006 and therefore under AASB 128, the interest in an associate (LGCS is classified as an Associated Company) should not only include shares but also long-term receivables or loans, therefore the loan to LGCS of \$683 000 should be shown separately and written down by LGFA's half share of the losses of LGCS. The matter was raised in a management letter to the Chief Executive Officer and the recommendation made for the Authority to consider a write-down.

In response to the matter raised, the Chief Executive Officer advised the following:

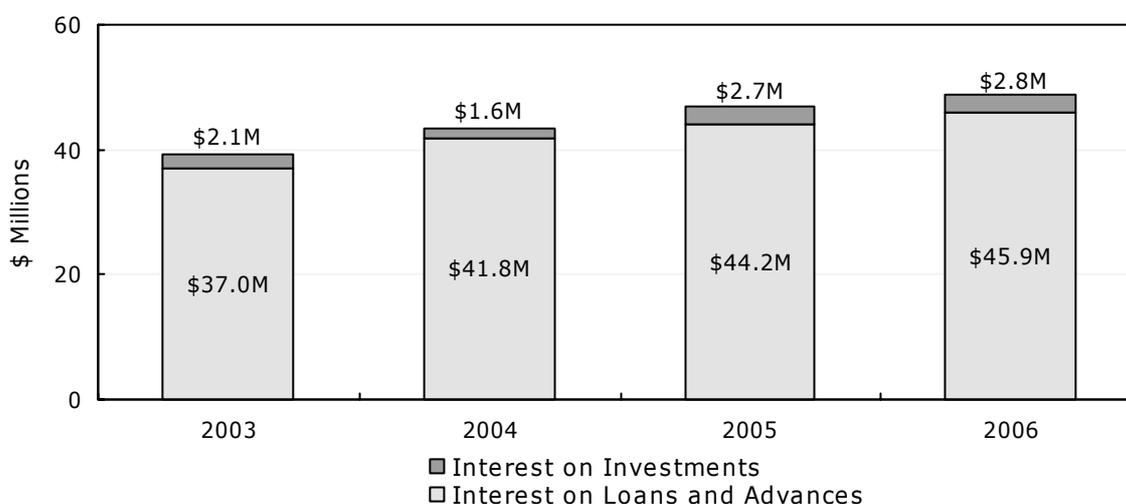
- The loan facility (due in January 2006) was extended (to January 2011) and provides that the loan funds can be repaid on an overnight basis. This therefore does not qualify as a long-term loan (under AASB 128) and the requirement of the standard to bring a half share of losses of LGCS to account under the equity method of accounting does not apply.
- The improved cash flow forecast of LGCS shows that cash surpluses can be used to commence repayments of the loan. To this end a loan repayment of \$50 000 was made by LGCS in June 2006, reducing the balance outstanding to \$633 000.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT**Highlights of Financial Report**

	2006	2005	Percentage
	\$'million	\$'million	Change
OPERATING INCOME			
Interest income	48.7	46.9	4
Total Income	48.7	46.9	4
EXPENSES			
Interest expense	42.6	41.4	3
Guarantee fee, administration and other expenses	2.3	2.1	10
Total Expenses	44.9	43.5	3
Profit before tax	3.8	3.4	12
Income tax expense	1.1	1.0	10
Net Profit	2.7	2.4	13
Net Cash Flows from Operations	2.7	2.8	(4)
ASSETS			
Investments, loans and advances	432.9	404.7	7
Other assets	10.2	16.3	(37)
Total Assets	443.1	421.0	5
LIABILITIES			
Deposits and borrowings	386.0	361.5	7
Other liabilities	7.3	10.8	(32)
Total Liabilities	393.3	372.3	6
EQUITY			
	49.8	48.7	2

Income Statement**Income**

As the Authority is a financial institution servicing Local Government, its main operating revenue is interest income with other income being insignificant. For the four years to 2006 a structural analysis of interest income for the Authority is presented in the following chart.

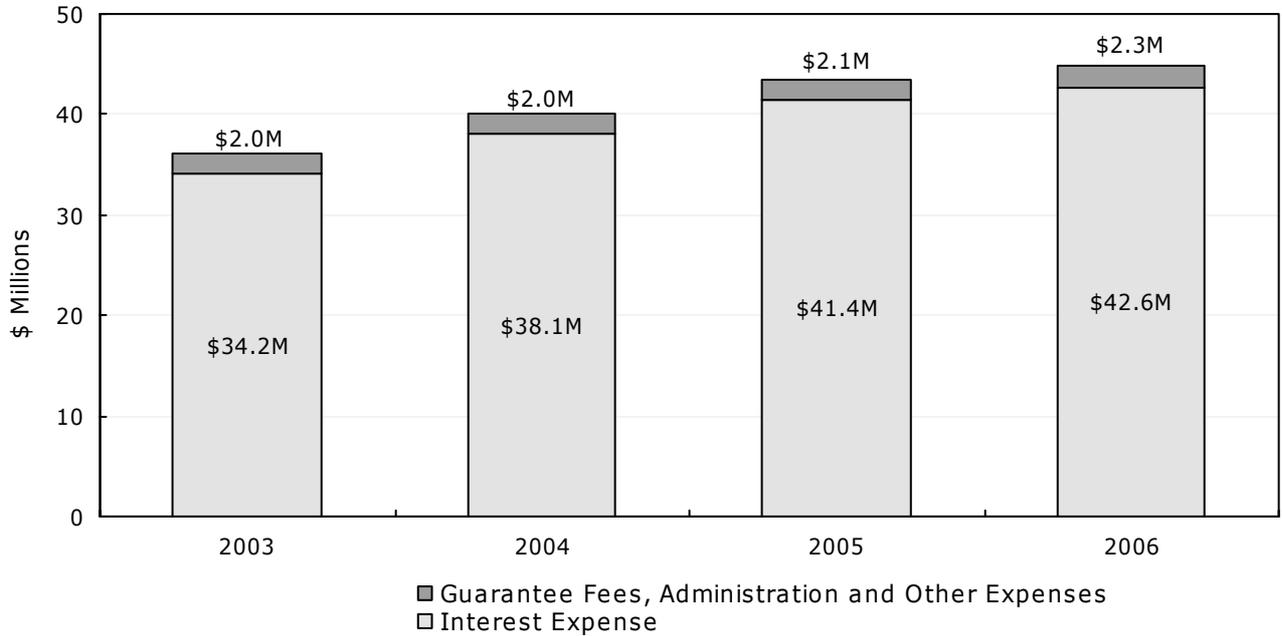


The increase in interest income in 2006 reflects increases in the average balance of loans and advances and the hedge receipts notional balance. Details of interest income, interest rates and balances are provided in Note 24 to the accounts.

Expenses

As the Authority is a financial institution servicing Local Government, its main operating expense is interest expense with guarantee fee, administration and other expenses being less significant.

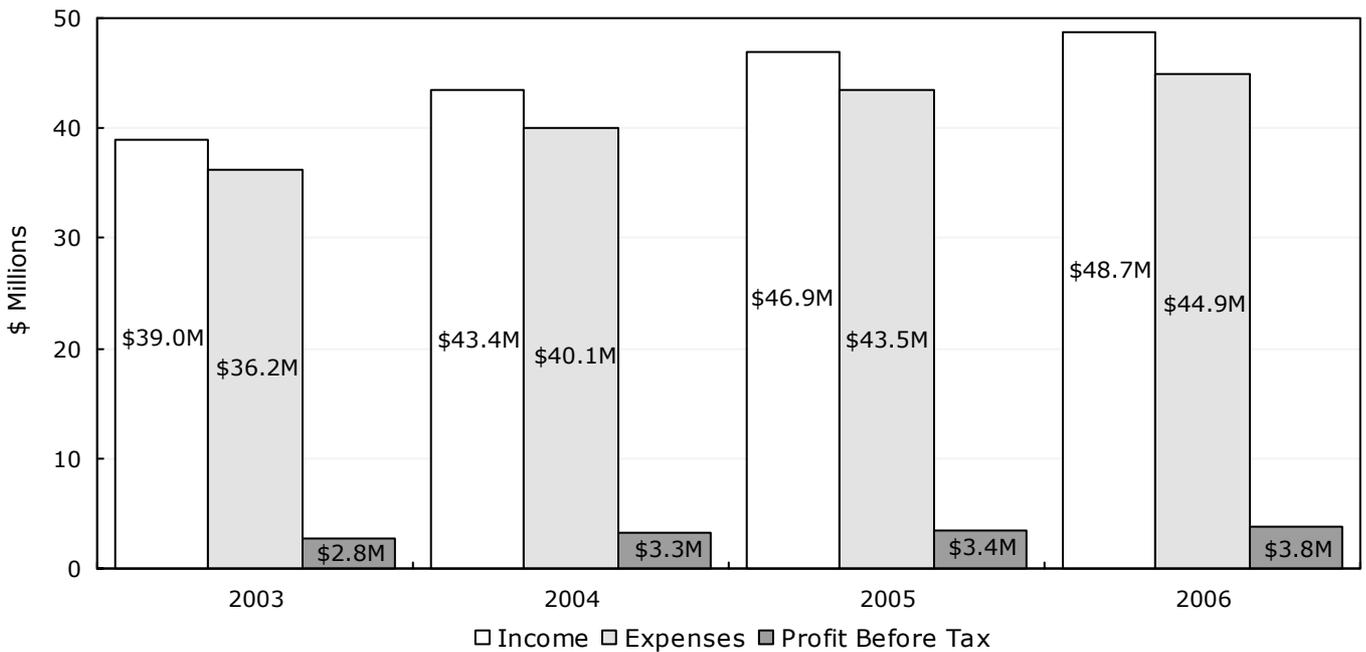
For the four years to 2006 a structural analysis of the main operating expense items for the Authority is shown in the following chart.



The increase in interest expense in 2006 reflects increases in the average balance of deposits and the hedge payments average notional balance. Details of interest expense, interest rates and balances are provided in Note 24 to the accounts.

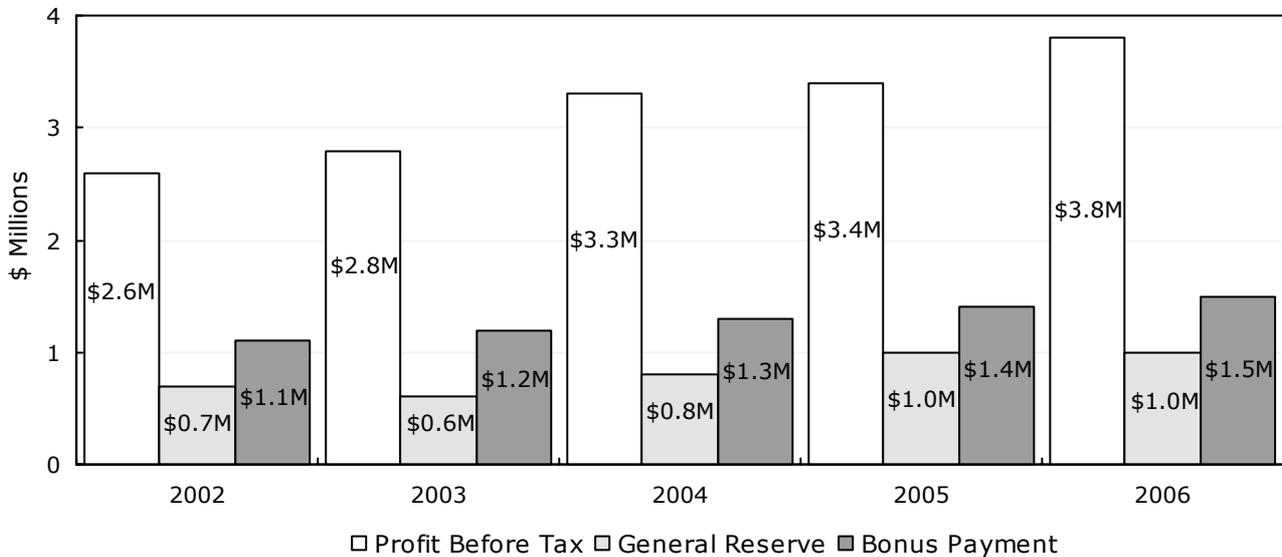
Profit Before Tax

The following chart shows the income, expenses and profit before income tax expense for the four years to 2006.



Profit and Distributions

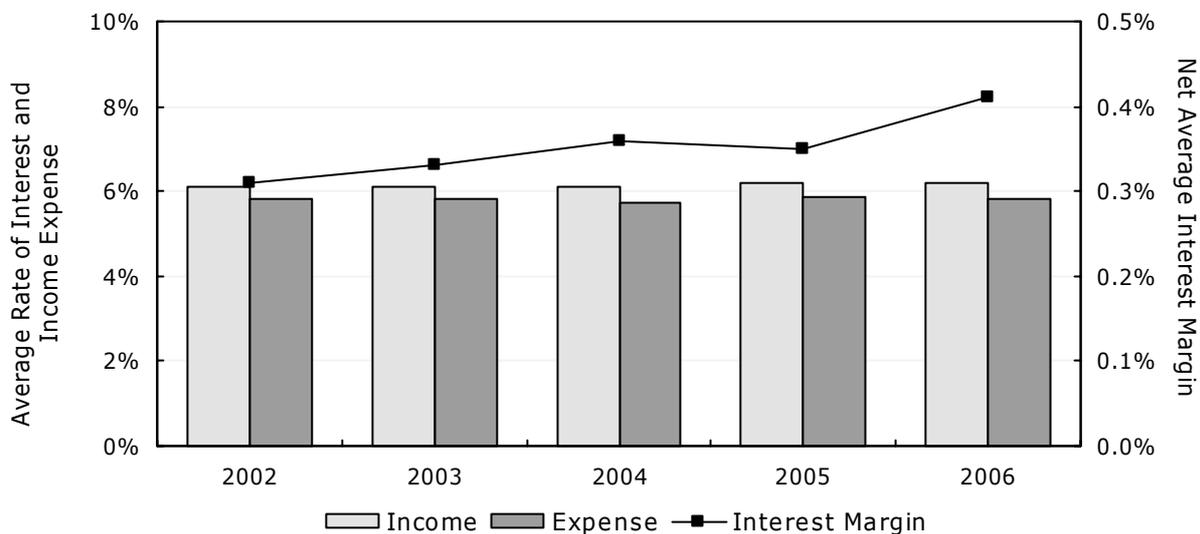
In 2005-06 the Authority achieved a profit before tax of \$3.8 million (\$3.4 million) and a net profit after tax of \$2.7 million (\$2.4 million) which was available for appropriation. The profit and principal distributions from the total profit available for appropriation for the past five years are presented in the following chart.



Profit before tax increased by \$400 000 (12 percent) in 2006 due to interest income increase of \$1.8 million while interest expense only increased by \$1.2 million. That reflects minimal changes in interest rates but some increases in the average balances of loans and deposits (Note 24 refers).

Net Average Interest Margin

The following chart highlights that the Authority has established a net average interest margin of the same order for the past four years.



Details of interest margins are provided in Note 24 to the accounts.

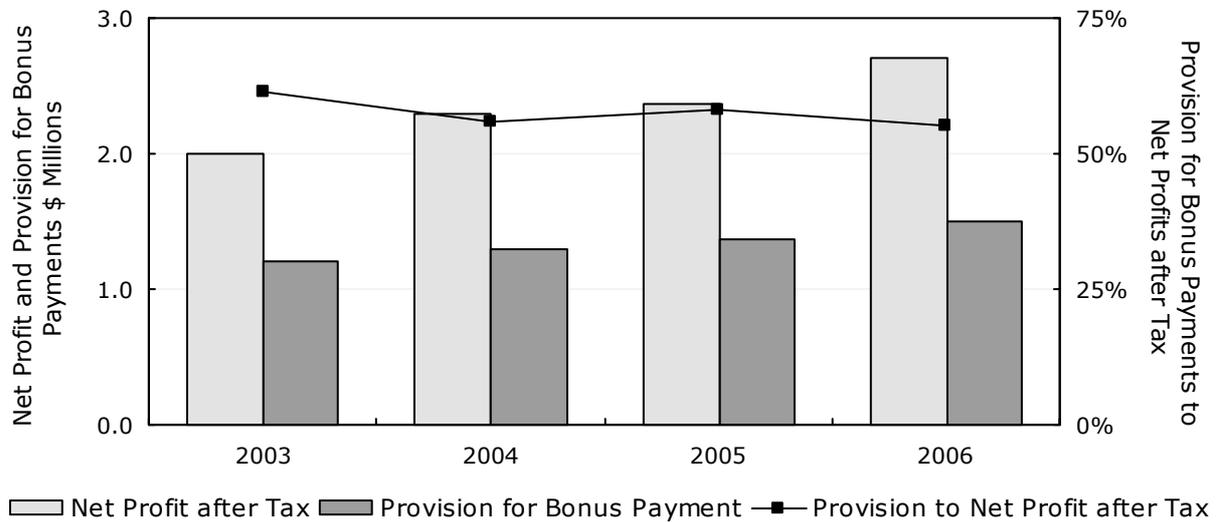
Tax Equivalent Payments

The Authority is required to make payments equivalent to Company Income Tax under the Taxation Equivalent Payments System. The amounts are paid into an account established with the State Treasurer titled the 'Local Government Taxation Equivalents Fund'. The funds are available for local government development purposes as recommended by the Local Government Association of South Australia and agreed by the Minister for Local Government in accordance with section 31A of the *Local Government Finance Authority Act 1983*. For this financial year, the amount payable for income tax equivalent was \$1.1 million.

Provision for Bonus Payments

Under subsection 22(2) of the *Local Government Finance Authority Act 1983*, the Authority has discretion to make distributions from the surplus for the year to Councils and local government bodies. These distributions are recorded as bonus payments in the financial statements. In 2005-06, a provision for a bonus payment of \$1.5 million was made which was consistent with amounts provided in the previous year.

The following chart shows net profit after tax, the provision for bonus payments and the ratio of the provision for bonus payments to net profit after tax for the past four years.

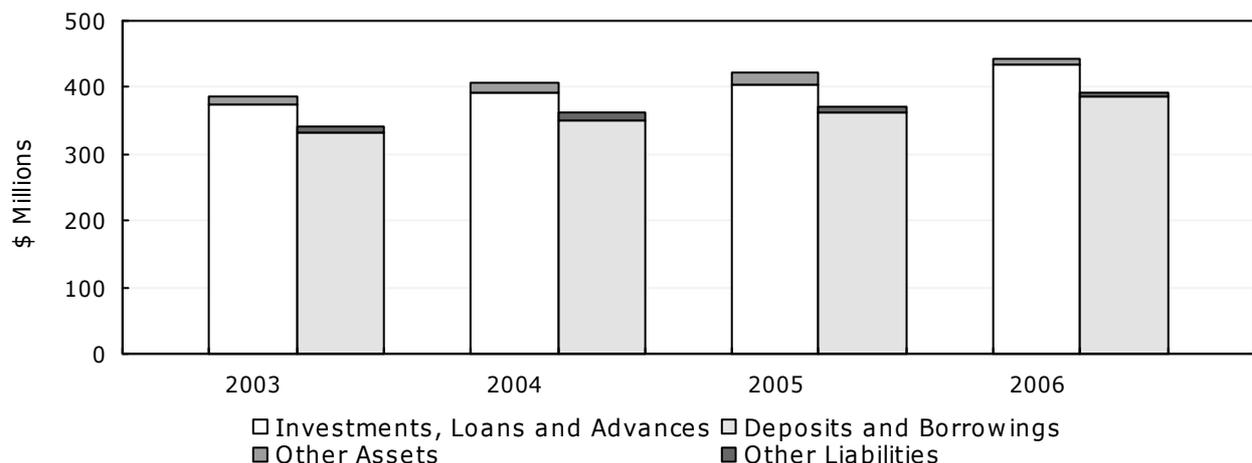


This chart highlights the consistency of the amount of the provision for bonus payments, (average of \$1.3 million per year) for the 2003 to 2006 years.

Balance Sheet

Assets and Liabilities

For the four years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



The Balance Sheet shows assets of \$443 million and liabilities of \$393 million at 30 June 2006 compared with corresponding amounts of \$421 million and \$372 million at 30 June 2005.

The increase in assets and liabilities was due mainly to:

- an increase in the Asset — Net Loans and Advances made to Councils and Local Government Bodies of \$28.1 million (7 percent);
- an increase in the Liability — Deposits from Councils and Local Government bodies of \$52.7 million (19.6 percent) offset by a decrease in borrowings of \$28.1 million (30.1 percent).

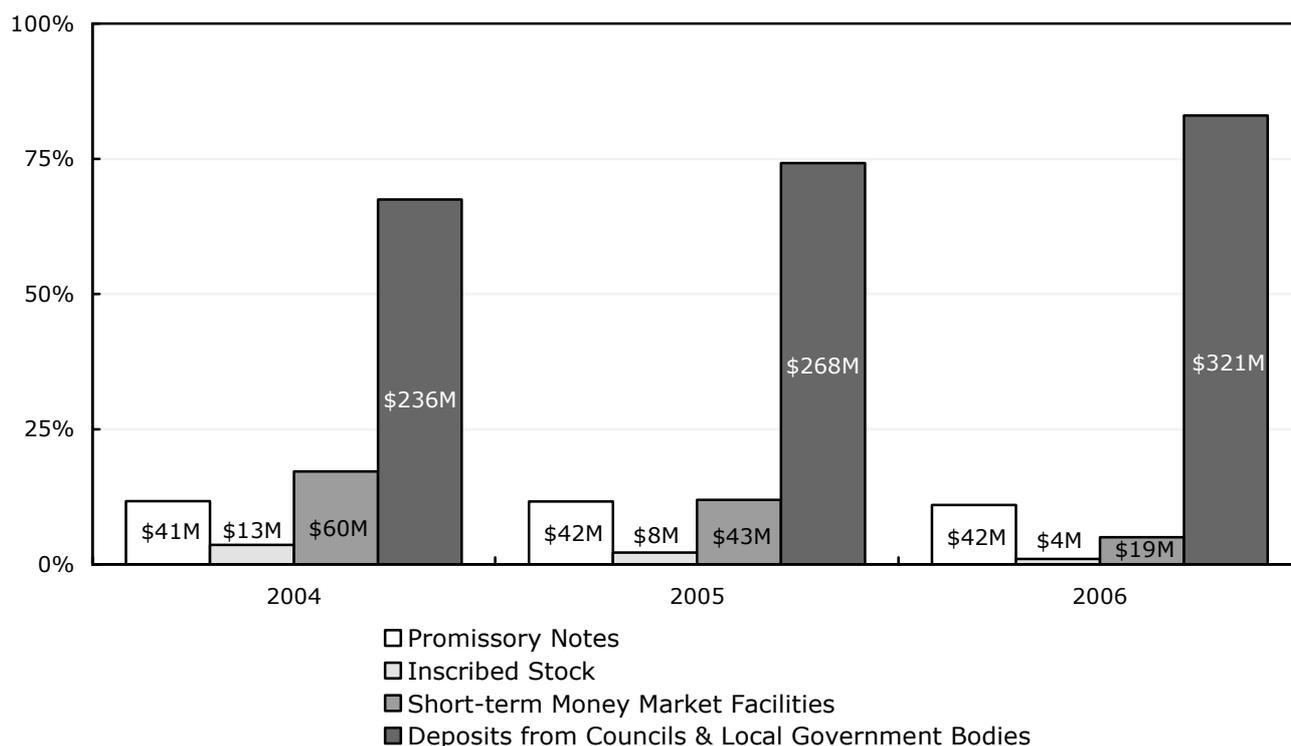
Asset Quality

The Authority predominantly lends to councils and local government bodies on a secured basis. The security is by debentures providing a charge over the Council's general revenue. Note 1(g) and Note 9 to the Financial Report explain the details.

The Authority has not experienced defaults or losses associated with those loans and as a consequence has no provision for doubtful debts against the assets.

Liabilities of the Authority

The following chart displays the variations in the composition of major liabilities over the period 2003-04 to 2005-06. Accrued interest payable, provisions and other liabilities have been excluded from the analysis.



The chart highlights the trend in the composition of the Authority's liabilities.

During recent years, the Authority has moved towards placing more reliance on the funding of loans to Councils via deposits lodged by Councils. Put simply, the Authority borrows short term to take advantage of low interest rates and lends long term. Interest rate exposures are hedged through the use of interest rate swap agreements and futures contracts. The fixed side of the 'swap' is organised so that the Authority achieves a small interest profit margin on each loan. On the variable side of the 'swap', the Authority receives from its derivative financial institution, the 90 day bank bill swap rate which covers the interest paid to Councils for deposits at the at call rate. Therefore, any movements in interest rates are hedged allowing the Authority to achieve a small interest rate margin. Note 21(a) to the Financial Report refers to interest rate risk management.

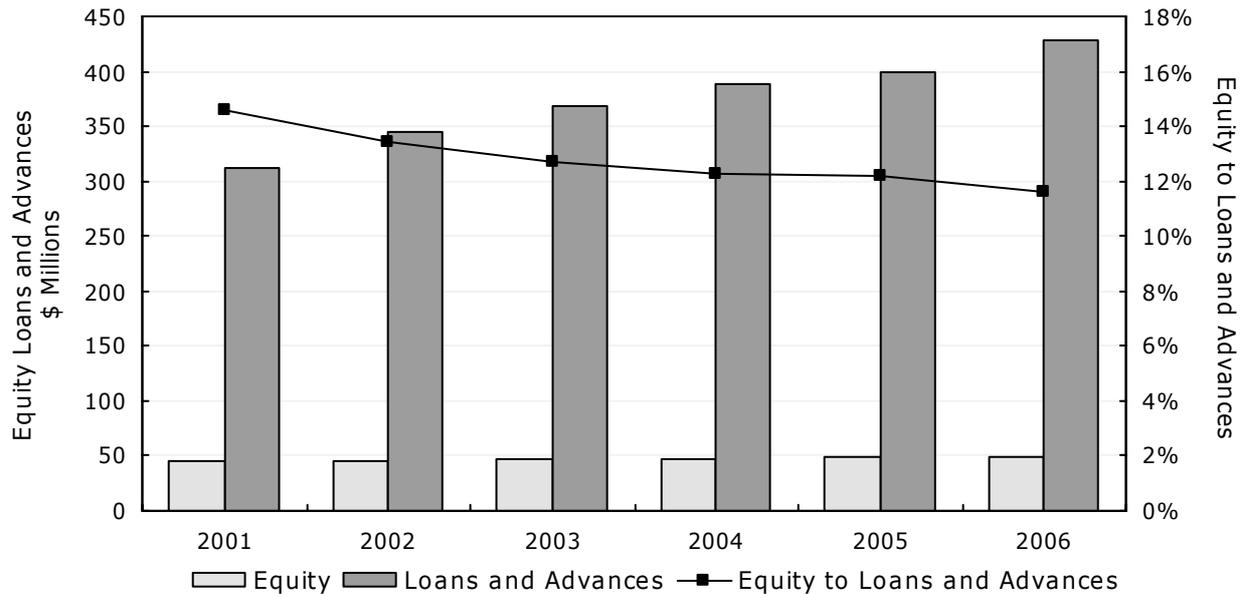
General Reserve and Equity

The Authority appropriated \$1 million from total profit available for appropriation to the General Reserve, resulting in a balance as at 30 June 2006 of \$49.1 million.

Total equity of the Authority amounted to \$49.8 million as compared to total assets of \$443 million. The equity comprises the General Reserve of \$49.1 million, and Retained Profit of \$0.7 million. The earlier produced table titled 'Profit and Distributions' demonstrates the policy of regularly appropriating a significant portion of the profit to the General Reserve (\$4.1 million over the five years to 30 June 2006).

The total equity is invested in financial securities and in loans and advances. Equity has no corresponding cost of capital and generates investment returns. These returns provide a buffer for the Authority against unforeseen unfavourable impacts on revenues and expenses.

The following chart shows the trend of equity to loans and advances over the past six years.



The chart highlights that, notwithstanding the increase in equity through retained profits and transfers to reserves, the ratio has fallen in 2002 through to 2006 with the increase in loans and advances (7 percent in 2006). As indicated previously, the majority of these loans are secured by debentures.

Cash Flow Statement

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

	2006	2005	2004	2003
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	2.7	2.8	2.6	2.5
Investing	(25.3)	(11.2)	(19.6)	(24.5)
Financing	22.0	8.9	17.0	22.1
Change in Cash	0.6	0.5	0.0	0.1
Cash at 30 June	-	0.6	0.1	0.1

The Cash Flow Statement shows that the main inflow in 2006 was financing activities of \$22 million. The main source of this inflow was deposits from Councils and Local Government Bodies of \$52.7 million offset by repayment of short-term money market facilities of \$24.4 million and repayment of inscribed stock of \$3.4 million. These inflows were used to fund investing activities, which mainly represented loans to Councils and Local Government Bodies of \$25.1 million.

Income Statement for the year ended 30 June 2006

		2006	2005
	Note	\$'000	\$'000
INCOME:			
Interest on investments	24	2 780	2 704
Interest on loans and advances	24	45 871	44 225
Other income	3	51	15
Total Income		48 702	46 944
EXPENSES:			
Interest on deposits from councils and local government bodies	24	17 394	15 982
Interest on borrowings	22, 24	25 204	25 405
Fees for the guarantee of the Treasurer of SA on liabilities	22	846	824
Administration expenses	4	1 415	1 342
Total Expenses		44 859	43 553
PROFIT BEFORE INCOME TAX EQUIVALENTS		3 843	3 391
Income tax equivalent expense	1(e), 22	1 153	1 017
NET PROFIT AFTER INCOME TAX EQUIVALENTS IS ATTRIBUTABLE TO OWNERS		2 690	2 374

Balance Sheet as at 30 June 2006

		2006	2005
	Note	\$'000	\$'000
ASSETS:			
Cash and liquid assets	5	1	552
Accrued interest receivable	6	1 174	7 566
Investment securities	1(f), 7	5 139	5 100
Other assets	8	457	7 821
Net loans and advances	1(g), 9	427 720	399 637
Derivatives	1(h), 10	8 294	-
Property, plant and equipment	1(i), 11	308	318
Total Assets		443 093	420 994
LIABILITIES:			
Deposits from councils and local government bodies	1(j), 12	320 717	268 065
Accrued interest payable	13, 22	4 608	8 342
Borrowings	14, 22	65 301	93 440
Provisions	1(k), 15	2 362	2 128
Other liabilities	16	305	351
Total Liabilities		393 293	372 326
NET ASSETS		49 800	48 668
EQUITY:			
General Reserve		49 100	48 100
Asset Revaluation Reserve		(11)	-
Retained profits		711	568
TOTAL EQUITY		49 800	48 668
Commitments	9		
Contingent Liabilities	21		

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

	General Reserve \$'000	Asset Revaluation \$'000	Retained Profits \$'000	Total \$'000
BALANCE AT 1 JULY 2004	47 100	-	569	47 669
Profit after Income Tax Equivalent for 2004-05	-	-	2 374	2 374
Transfer to Bonus Payment provision	-	-	(1 375)	(1 375)
Transfer to General Reserve	1 000	-	(1 000)	-
BALANCE AT 30 JUNE 2005	48 100	-	568	48 668
Changes in Accounting Policy	-	(74)	(72)	(146)
RESTATED BALANCE AT 1 JULY 2005	48 100	(74)	496	48 522
Net Income recognised directly in equity for 2005-06	-	63	-	63
Profit after Income Tax Equivalent for 2005-06	-	-	2 690	2 690
Transfer to Bonus Payment provision	-	-	(1 475)	(1 475)
Transfer to General Reserve	1 000	-	(1 000)	-
BALANCE AT 30 JUNE 2006	49 100	(11)	711	49 800

Cash Flow Statement for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest and bill discounts received		47 861	46 887
Interest paid		(42 081)	(41 057)
Fees paid re guarantee provided by the Treasurer of SA		(843)	(823)
Cash payments to suppliers and employees		(1 253)	(1 190)
Fees received		40	11
Income tax paid		(1 034)	(1 049)
Net Cash provided by Operating Activities	18	2 690	2 779
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans to councils and local government bodies		(25 102)	(11 233)
Payments for property, plant and equipment		(271)	(102)
Proceeds from sale of property, plant and equipment		95	48
South Australian Government Financing Authority		31	47
Net Cash used in Investing Activities		(25 247)	(11 240)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of inscribed stock		(3 389)	(5 079)
Promissory notes		(300)	1 400
Deposits from councils and local government bodies		52 652	31 620
Short-term money market facilities		(24 450)	(16 890)
Bonus payment to councils and local government bodies		(1 375)	(1 300)
Other payments		(1 132)	(806)
Net Cash provided by Financing Activities		22 006	8 945
NET (DECREASE) INCREASE IN CASH HELD		(551)	484
CASH AT 1 JULY		552	68
CASH AT 30 JUNE	18	1	552

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report. The accounts have been prepared in accordance with applicable Australian Accounting Standards, and the requirements of the Treasurer's Instructions relating to financial reporting by statutory authorities which are issued pursuant to the South Australian *Public Finance and Audit Act 1987*.

This is the first general purpose financial report prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

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

Reconciliations explaining the transition to AIFRS as at 1 July 2005 are at Note 2.

The Authority's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain financial instruments that were valued in accordance with the valuation policy applicable.

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

(b) Classification of Financial Instruments

The Authority has taken the exemption available under AASB 1 to apply AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. The Authority has applied AGAAP in the comparative information for financial instruments.

Management determines the classification of its investments at initial recognition and at each reporting date in accordance with AASB 139. The Authority classifies its investments into the following categories, which determines the applicable accounting treatment:

- Loans and receivables – measured at amortised cost. The Authority classifies Loans and Advances which are not part of a Fair Value Hedge and cash at bank and other receivables under this category.
- Held to maturity financial assets – measured at amortised cost. The Authority did not have any assets in this category at balance date.
- Available for sale financial assets – measured at fair value with fair value changes taken to Equity. The Authority classifies certain investment securities (Note 1(f) refer) under this category which are not held for trading but are highly liquid if required to be disposed of.
- Financial assets at fair value through profit and loss -measured at fair value with fair value changes taken to the Income Statement. The Authority classifies derivative instruments which are not defined as effective hedging instruments under this category (Note 1(h) refer).
- Fair Value Hedge – measured at fair value using hedge accounting. The Authority classifies derivative instruments which are effective hedging instruments (Note 1(h) refer) and the corresponding hedged items (Note 1(g)(ii) refer) which are all long-term fixed rate debenture loans under this category.

(c) Interest Income

Interest on Investments

This item includes interest income from assets which are classified as Available for sale financial assets and Financial assets at fair value through profit and loss and deposits held with financial institutions during the year. The interest income is calculated on an accruals basis.

Interest on Loans and Advances

This item includes interest income from assets classified as Loans and Advances as well as interest income from derivatives that are classified under the Fair Value Hedge category. The interest income is calculated on an accruals basis.

(d) Interest Expense

Interest on Deposits from Councils and Local Government Bodies

This item includes interest paid to Councils and local Government Bodies and is calculated on an accruals basis.

Interest on Borrowings

This item includes interest expense on other liabilities used in funding lending activity and interest expense on derivative instruments, and is calculated on an accruals basis.

(e) Income Tax

The Authority is required to make payments equivalent to Company Income Tax under the Taxation Equivalent Payment System. The equivalent Company Income Tax liability is calculated/applied on an accounting profits basis.

(f) Investment Securities

The Authority has investments which are categorised as Available for sale financial assets which have therefore been recorded at fair value with the change in fair value being adjusted against Equity on the Balance Sheet via the Asset Revaluation Reserve.

(g) Loans and Advances

(i) Security

The majority of loan agreements are secured by debentures, providing a charge over Council general revenue. Loans to Prescribed Local Government Bodies (totalling \$21.8 million as at 30 June 2006) are predominantly to Council subsidiaries and rely upon the constitutional obligations of councils in the guarantee of the liabilities incurred or assumed by subsidiaries as per Schedule 2 of the *Local Government Act 1999*.

Due to the high level of security provided by a debenture over the general revenue of Councils, no specific or general provision for doubtful debts has been made.

The Authority has not incurred any bad debts since its inception in 1984.

(ii) **Hedge Accounting**

Loans and advances which are not effectively hedged by a derivative financial instrument are recorded in the accounts on the basis of historical cost. Loans and advances which are effectively hedged by a derivative financial instrument are recorded using hedge accounting.

The Authority uses interest rate swaps to hedge the interest rate risk associated with long-term fixed rate debenture loans to Councils and Prescribed bodies. Hedge Accounting is used where it has been determined that the hedge is highly effective and has been documented according to AASB 139.

The hedges used by the Authority are classified as Fair Value Hedges and the hedged items are all long-term fixed rate debenture loans. The hedged amount of the loan is recorded at fair value with the non-interest rate risk component or credit margin recorded on an accrual accounting basis.

(h) **Derivative Transactions**

The Authority has entered into agreements with high credit status organisations to swap certain rights and obligations (Note 21(a) 'Derivative Financial Instruments' refer).

Interest Rate Swaps are categorised as Fair Value Hedges and Futures Contracts are categorised as Financial assets at fair value through profit and loss.

(i) **Property, Plant and Equipment**

Property, Plant and Equipment are brought to account at cost less, where applicable, any accumulated depreciation.

The depreciable amount of all property, plant and equipment is depreciated on a straight line basis over their estimated useful lives from the time the asset is held ready for use. The useful life of each category is as follows:

	<i>Years</i>
Office equipment	3
Office furniture	5
Computer software	2.5
Motor vehicles	6.7

(j) **Concentration of Deposits**

The Local Government Finance Authority of South Australia is an industry specific financial institution which operates under the *Local Government Finance Authority Act 1983*. The Authority is restricted by legislation to accepting deposits from Councils and Local Government Bodies operating in South Australia.

(k) **Employee Benefits**

A provision is made in respect of the Authority's liability for annual leave, long service leave and related oncosts as at balance date. Long service leave is accrued for all employees from the date of commencement of service.

No provision is made in the accounts for sick leave entitlements.

(l) **Accounting Judgements, Estimates and Assumptions**

Significant Accounting Judgements

In the process of applying the Authority's accounting policies, management has made judgements in the classification of financial instruments which has had a significant effect on the amounts recognised in the financial statements. In particular, the classification of derivatives and long-term fixed rate debenture loans as Fair Value Hedges has enabled management to utilise the hedge accounting provisions of AASB 139.

Significant Accounting Estimates and Assumptions

The fair values of Available for sale financial assets, hedged long-term fixed rate debenture loans and derivatives are based on observable market rates as at balance date and therefore no significant estimates or assumptions are used in their calculation.

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

(i) **Impact on Conversion Date 1 July 2005**

The following reconciliation shows the transitional adjustments attributable to the Balance Sheet as at 30 June 2005 which were effective from 1 July 2005 (Note 1(b) refer). The Authority has taken the exemption from restating comparative information made available under AASB 1. As there are no other transitional adjustments other than those necessary under AASB 139, no further reconciliation is required for the previous financial year.

AGAAP figures prepared as at 30 June 2005 in the table below were prepared under the Australian Accounting Standards prior to AIFRS which were predominantly based on historical cost, with the majority of derivative instruments not recorded on the Balance Sheet, and no other fair value adjustments required.

(i) Impact on Conversion Date 1 July 2005 (continued)

		30.06.2005	AIFRS Transitional Adjustments	1.07.2005 AIFRS
	Note	AGAAP \$'000	\$'000	\$'000
ASSETS:				
Cash and liquid assets		552	-	552
Accrued interest receivable	(a)	7 566	(6 436)	1 130
Investment securities	(b)	5 100	(74)	5 026
Other assets	(c)	7 821	(7 635)	186
Net loans and advances	(d)	399 637	13 111	412 748
Property, plant and equipment		318	-	318
Total Assets		420 994	(1 034)	419 960
LIABILITIES:				
Deposits from councils and local government bodies		268 065	-	268 065
Accrued interest payable	(e)	8 342	(4 013)	4 329
Borrowings		93 440	-	93 440
Provisions		2 128	-	2 128
Other liabilities		351	-	351
Derivatives	(f)	-	3 125	3 125
Total Liabilities		372 326	(888)	371 438
NET ASSETS		48 668	(146)	48 522
EQUITY:				
General reserve		48 100	-	48 100
Asset revaluation reserve	(g)	-	(74)	(74)
Retained profits	(h)	568	(72)	496
TOTAL EQUITY		48 668	(146)	48 522

(a) Accrued Interest Receivable

The fair value calculation of financial instruments includes principal, accrued interest and a fair value adjustment. The accrued interest receivable on Investment Securities, Net Loans and Advances and Derivatives which are required to be recorded at fair value have therefore been transferred to the respective line item.

(b) Investment Securities

AASB 139 requires that investments which are classified in the available for sale category be recorded at fair value. The adjustment made for this line item therefore includes accrued interest receivable and a fair value adjustment for assets in that category.

(c) Other Assets

The fair value calculation of financial instruments includes principal, accrued interest and a fair value adjustment. An amount of swap principal previously shown under the Other Assets line item which relates to the fair value of interest rate swaps has therefore been transferred to the Derivatives line item.

(d) Net Loans and Advances

The Hedge Accounting provisions of AASB 139 require that where effective hedges are classified as Fair Value Hedges then the hedged item is adjusted for the fair value amount attributable to the hedged risk. As the hedged items applicable to the Authority's Fair Value hedges are all long-term fixed rate debenture loans, an adjustment has been made under this line item for accrued interest receivable and a fair value adjustment.

(e) Accrued Interest Payable

The fair value calculation of financial instruments includes principal, accrued interest and a fair value adjustment. The accrued interest payable on Derivatives which are required to be recorded at fair value has therefore been transferred to the respective line item.

(f) Derivatives

AASB 139 requires that all derivatives be recorded at fair value on the Balance Sheet. Therefore a new line item has been created to show the fair value of all derivatives which includes swap principal, accrued interest and a fair value adjustment.

(g) Asset Revaluation Reserve

AASB 139 requires that investments which are classified in the available for sale category be recorded at fair value with the changes in fair value adjusted against Equity. This new line item has been created for this purpose and the adjustment made is for the opening fair value adjustment for assets in that category.

(h) Retained Profits

AASB 1 requires that transitional adjustments made which effect the profit or loss for the previous reporting period should have the applicable amounts adjusted against opening Retained Profits. The adjustment shown for this line item is therefore the net transitional adjustment for fair value adjustments made for Net Loans and Advances under the Hedge Accounting provisions and Derivatives.

(ii) Impact on Financial Year ending 30 June 2007

A number of Australian Accounting Standards have been issued or amended and are applicable to the Authority but are not yet effective. The Authority has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Authority.

3. Other Income	2006	2005
	\$'000	\$'000
Fee income	51	11
Gain on sale of fixed assets	-	4
	51	15
4. Administration Expenses Comprises		
Salaries and on-costs	723	689
Depreciation	136	117
Auditor's fees	53	46
Consultancy fees	23	36
Other expenses	480	454
	1 415	1 342
The amounts received, or due and receivable, in respect of this year by the auditors in connection with auditing the accounts	53	46
5. Cash and Liquid Assets		
Cash at Bank	1	552
6. Accrued Interest Receivable *		
Interest receivable - Loans to councils and local government bodies	1 174	7 513
Interest receivable - Investment securities	-	53
	1 174	7 566

* The accrued interest receivable on Investment Securities, Net Loans and Advances and Derivatives which are required to be recorded at fair value have been transferred to the respective line item.

7. Investment Securities		
Deposits and securities issued by banks - At cost	5 100	5 100
Accrued interest receivable	50	-
Fair value adjustment	(11)	-
	5 139	5 100
Maturity analysis - Investment securities - At cost*:		
At call	-	-
Not longer than 3 months	-	-
Longer than 3 months and not longer than 12 months	-	-
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	5 100	5 100
	5 100	5 100

* The maturity analysis has been calculated based on the repayment of the principal (face value).

The above maturity analysis shows the maximum credit risk exposure for investment securities without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments.

The risk is considered minimal as investments are undertaken in accordance with an investment policy which stipulates the credit ratings of the various financial institutions. Since the inception of the Authority in 1984 no default by an investment institution has occurred.

8. Other Assets	2006	2005
	\$'000	\$'000
Swap principal receivable*	-	7 635
Sundry debtors and prepayments	457	186
	457	7 821

* Swap Principal Receivable on interest rate swaps which are required to be recorded at fair value has been transferred to the Derivatives line item.

9. Net Loans and Advances	2006	2005
	\$'000	\$'000
Advances	25 023	23 310
Term loans	399 685	376 327
Loans and Advances - At Cost	424 708	399 637
Fair Value Adjustment (Hedge Accounting)	3 012	-
Net Loans and Advances	427 720	399 637
Maturity analysis - Loans and advances - At cost*:		
At call	25 023	23 310
Not longer than 3 months	13 991	9 125
Longer than 3 months and not longer than 12 months	37 303	38 407
Longer than 1 year and not longer than 5 years	162 601	153 179
Longer than 5 years	185 790	175 616
	424 708	399 637
* The maturity analysis has been calculated based on the repayment of the principal (face value).		
The above maturity analysis shows the maximum credit risk exposure for loans and without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments.		
As explained in Note 1(g) the risk is considered minimal and in addition, a concentration of credit risk also occurs as under the <i>Local Government Finance Authority Act 1983</i> , loans and advances made are restricted to Councils and Local Government Bodies. The majority of loan agreements are secured by debentures providing a charge over the Council's general revenue and the Authority has not incurred any bad debts since its inception in 1984.		
Commitments - Loans and advances:	2006	2005
	\$'000	\$'000
Unused cash advance facilities	155 439	167 239
Term loans approved not advanced	1 380	1 531
	156 819	168 770
10. Derivatives		
Swap principal receivable	8 497	-
Interest receivable - Interest rate swaps	2 811	-
Interest payable - Interest rate swaps	(4 260)	-
Fair value adjustment	1 161	-
Interest rate swaps*	8 209	-
Futures contracts	85	-
	8 294	-
* Interest rate swaps are shown as the net of the fixed rate leg and the floating rate leg.		
11. Property, Plant and Equipment		
Plant, equipment and motor vehicles:		
At cost	932	894
Less: Accumulated depreciation	624	576
Total Property, Plant and Equipment	308	318
12. Deposits from Councils and Local Government Bodies		
Deposits from councils and local government bodies	320 717	268 065
Maturity analysis - Deposits from Councils and Local Government bodies:		
At call	238 661	203 816
Not longer than 3 months	60 735	53 600
Longer than 3 months and not longer than 12 months	6 528	2 240
Longer than 1 year and not longer than 5 years	14 793	8 409
Longer than 5 years	-	-
	320 717	268 065
13. Accrued Interest Payable		
Interest payable on:		
Deposits from councils and local government bodies	4 142	3 799
Borrowings*	466	4 543
	4 608	8 342

* The accrued interest payable on interest rate swaps which are required to be recorded at fair value has been transferred to the Derivatives line item.

14. Borrowings	2006	2005
	\$'000	\$'000
Short-term money market facilities	18 850	43 300
Promissory notes	42 100	42 400
Inscribed stock	4 351	7 740
	65 301	93 440
Maturity analysis - Borrowings:		
At call	18 850	43 300
Not longer than 3 months	42 482	44 066
Longer than 3 months and not longer than 12 months	1 611	1 777
Longer than 1 year and not longer than 5 years	2 358	4 022
Longer than 5 years	-	275
	65 301	93 440

The liabilities of the Authority in respect of all borrowings of the Authority (including its liabilities in respect to monies accepted on deposit from councils and local government bodies) are guaranteed by the Treasurer of South Australia pursuant to section 24 of the *Local Government Finance Authority Act 1983*.

15. Provisions	2006	2005
Employee benefits	229	214
Fringe benefits tax	14	14
Bonus payment to councils and local government bodies	1 475	1 375
Provision for income tax	644	525
	2 362	2 128

Movements of Major Provisions during the Year

<i>(i) Bonus payment to Councils and Local Government Bodies</i>		
Opening balance 1 July 2005	1 375	1 300
Increase in provision	1 475	1 375
Amounts paid	(1 375)	(1 300)
Closing Balance 30 June 2006	1 475	1 375
<i>(ii) Provision for Income Tax</i>		
Opening balance 1 July 2005	525	557
Increase in provision	1 153	1 017
Amounts paid	(1 034)	(1 049)
Closing Balance 30 June 2006	644	525

16. Other Liabilities	2006	2005
Sundry Creditors	182	213
Payments due to South Australian Government Financing Authority	123	138
	305	351

17. Superannuation Commitments
The LGFA contributes to the Local Government Superannuation Fund, Local Super, in accordance with the rules of that Fund. The Fund provides benefits in the form of lump sum payments for retirement, death, total and permanent disability, and temporary disability.

18. Notes to the Cash Flow Statement
(a) Reconciliation of Cash
Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
	\$'000	\$'000
Cash at Bank	1	552

(b) Cash Flows Presented on a Net Basis
Cash flows arising from the following activities are presented on a net basis in the Cash Flow Statement:

- (i) Client deposits and withdrawals;
- (ii) Sales and purchases of money market securities;
- (iii) Draw down and repayment of loans and investments;
- (iv) Fees paid and received.

(c) Reconciliation of Net Cash provided by Operating Activities to Net Profit after Income Tax Equivalents	2006	2005
	\$'000	\$'000
Net Profit after income tax equivalents	2 690	2 374
Increase in interest payable	526	340
Increase in interest receivable	(815)	(52)
Decrease in sundry creditors	3	12
Increase in provisions	134	(18)
Increase in sundry debtors	(15)	10
Depreciation	136	117
Revaluation loss	15	-
Loss on disposal of fixed assets	16	(4)
Net Cash provided by Operating Activities	2690	2 779

19. Related Party Information

The Local Government Finance Authority of South Australia operates independently under its own legislation and has no other controlled entities.

The name of each person holding the position of Board member during the year is as follows:

Mr John Keough	Councillor Anthony Pederick
Councillor Bert Taylor, AM	Councillor John Sanderson
Mr Hugh Bowers	Mr Peter Fairlie-Jones
Ms Ione Brown	Mr David Posaner
Mr Paul Cohen	Ms Wendy Campana

Ms Ione Brown was replaced by Mr Hugh Bowers as the Appointee of the Minister effective 1 January 2006.

Remuneration, Retirement Benefits and Loans

Board members are entitled to receive an allowance. Payment of allowances in respect of members appointed by the Minister, Treasurer or Executive Director of the Local Government Association of South Australia are made in accordance with section 13 of the *Local Government Finance Authority Act 1983*. The Appointee of the Treasurer presently does not seek fees and the Appointee of the Minister receives fees at the same rate as a Representative Member of the Board until December 2005. The amount payable in respect of the Executive Director of the Local Government Association of South Australia is paid to the Local Government Association of South Australia.

The total amount paid to Board Members for the financial year ended 30 June 2006 was \$43 000, which includes salary sacrificed items and associated fringe benefits tax.

Board Member Related Entities

The Authority had various financial dealings with the following Board member related entities in the normal course of business proceedings:

<i>Board Member</i>	<i>Entity</i>
Councillor Bert Taylor, AM	Corporation of the City of Adelaide
Ms Wendy Campana	Local Government Association of South Australia Local Government Association Workers Compensation Scheme Local Government Association Mutual Liability Scheme Council Purchasing Authority Pty Ltd Local Government Superannuation Scheme LGCS Pty Ltd
Mr Peter Fairlie-Jones	City of Salisbury LGCS Pty Ltd
Councillor Anthony Pederick	Corporation of the Town of Walkerville LGCS Pty Ltd
Mr David Posaner	Department of Treasury and Finance
Councillor John Sanderson	City of Mitcham

All transactions were conducted on a commercial basis and were at arm's length. During Board meetings the relevant interests were declared when necessary.

20. Remuneration of Executives

Remuneration received, or due and receivable by executive officers, whose remuneration is \$100 000 or more.

	2006	2005
	Number of Executives	Number of Executives
The number of executive officers whose remuneration was within the bands:		
\$110 000 - \$120 000	-	1
\$120 000 - \$130 000	2	1
\$240 000 - \$250 000	1	1

The remuneration comprises salary, employer's superannuation costs including superannuation guarantee charge, motor vehicle package and associated fringe benefits tax, car parking and associated fringe benefits tax.

21. Contingent Liabilities

The LGFA incurs contingent liabilities as part of its normal operations in providing borrowing and investment services to Local Government in South Australia as are contemplated by its enabling legislation.

(a) Derivative Financial Instruments

All derivatives entered into by the Authority specifically match and hedge actual financial transactions. The Authority clearly recognises risks relating to the contractual obligations of derivative counterparties and extremely high importance is placed on the credit standing of such counterparties. There has been no default by any counterparty in derivative transactions undertaken by the Authority.

If a favourable (or unfavourable) financial outcome resulted from derivatives used as hedges it would be accounted for on the same basis as a gain or loss on the underlying physical exposures being hedged.

(i) Notional Amounts and Credit Exposures of Derivatives

The notional amounts of derivatives, as summarised below, represent the contract amount of these derivatives. The notional amounts stated do not represent amounts exchanged by the parties and hence are not a measure of credit exposure. The actual amounts to be exchanged will be calculated with reference to the Notional Amounts and other terms of the derivatives, which relate to interest rates. The credit exposure amounts represent the estimated credit-related risk that the Authority is subject to on these amounts to be exchanged under the derivative instruments.

Whilst the Authority has exposure in the event of non-performance by counterparties to financial instruments, it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

The Authority has entered into derivatives in managing its interest rate risk profile as indicated in the following table:

	2006		2005	
	Notional Amount (Face Value) \$'000	Credit Exposure \$'000	Notional Amount (Face Value) \$'000	Credit Exposure \$'000
Interest Rate Swaps	362 063	41 851	342 882	42 717
Interest Rate Futures Contracts	7 000	510	9 000	171

(ii) Interest Rate Risk Management

The Treasurer issued a revised consent dated 10 November 2004, for the Authority to enter into a range of financial arrangements as part of its normal operations of providing borrowing and investments services to Local Government in South Australia.

During the year the Authority used interest rate swaps and interest rate futures contracts to hedge actual financial transactions. All futures contracts are traded on the Sydney Futures Exchange and are closed out on or before maturity without physical delivery of the underlying instrument taking place.

(iii) Liquidity Risk

Liquidity risk can arise if timing differences occur between the receipt of scheduled cash flows and the payment of the Authority's obligation when using derivatives.

Because all cash flows are normally very closely matched and the interest rate risk hedged, it is considered that the Authority has minimal liquidity risk.

(iv) Risk Management Policies

All internal control and hedge activities are conducted within Board approved policy. Comprehensive systems are in place and compliance is monitored closely. The risk management process is subject to regular and close senior management scrutiny, including regular Board and other management reporting.

(b) Financial Guarantee

The LGFA has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of the Workers Rehabilitation and Compensation Corporation of South Australia (WorkCover). The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred. As at 30 June 2006 the amount guaranteed was \$12.383 million.

(c) Performance Bond/Guarantee**(i) Northern Adelaide Waste Management Authority**

LGFA has issued a performance bond/guarantee on behalf of the prescribed local government body, Northern Adelaide Waste Management Authority, a regional subsidiary of the City of Playford, Corporation of the Town of Gawler and City of Salisbury in favour of the Environmental Protection Authority. As at 30 June 2006 the amount guaranteed was \$350 000.

- (ii) *Western Region Waste Management Authority*
 LGFA has issued a performance bond/guarantee on behalf of the prescribed local government body, Western Region Waste Management Authority, a regional subsidiary of the City of Charles Sturt, City of Holdfast Bay, City of Port Adelaide Enfield and City of West Torrens in favour of the Environment Protection Authority and Land Management Corporation. As at 30 June 2006 the amount guaranteed was \$12 million.

Note: Pursuant to Schedule 2 of the *Local Government Act 1999*, liabilities incurred or assumed by a regional subsidiary are guaranteed by the constituent councils.

22. Transactions with South Australian Government	2006	2005
The following transactions were undertaken during the financial year between the Authority and the South Australian Government:	\$'000	\$'000
Promissory notes - Refer Note 14	42 100	42 400
Inscribed stock - Refer Note 14	4 351	7 740
Interest payable - Promissory notes	322	332
Interest payable - Inscribed stock	70	150
Interest paid - Promissory notes	2 360	2 258
Interest paid - Inscribed stock	568	1 053
Fees for the guarantee of the Treasurer of SA on liabilities	846	824
Income tax expense relating to ordinary activities	1 153	1 017

23. Investment in Associate

LGCS Unit Trust No. 1 is incorporated in Australia and the principal activities of the business are the provision of shared services to local government. The most recent audited financial statements of LGCS Unit Trust No. 1 as at 30 June 2005 reveal the following summarised information:

	2005
	\$'000
Revenues from Ordinary Activities	678
Net Profit	24
Total Assets	198
Total Liabilities	913
Net Assets	(715)
Total Equity	(715)

As at 30 June 2006 the Authority held a 50 percent ownership of the LGCS Unit Trust No. 1 in the form of 50 000 fully paid one dollar units. As the Authority does not control the Unit Trust but exercises significant influence, the Trust is accounted for using the equity method under AASB 128 *Investments in Associates*. As at 30 June 2006 the Authority had equity accounted for \$50 000 of the half share of the accumulated losses of LGCS Unit Trust No. 1, leaving a residual loss of \$307 477 which has not been recognised, from the 30 June 2005 accumulated losses.

24. Interest Income and Interest Expense Analysis

Interest income and interest expense are accounted for on an accrual basis.

The following tables provides the average balance and average rate for the major categories of interest bearing assets and liabilities. All averages calculated are daily averages.

	2006				2005			Average Rate Percent
	Average Notional Balance \$'000	Average Balance \$'000	Interest \$'000	Average Rate Percent	Average Notional Balance \$'000	Average Balance \$'000	Interest \$'000	
Interest Income:								
Investments	-	40 941	2 347	5.73	-	45 598	2 534	5.56
Loans and advances	-	393 964	26 309	6.68	-	378 513	25 867	6.83
Hedge receipts	346 165	-	19 995	5.78	332 198	-	18 528	5.58
Total Interest Income	346 165	434 905	48 651	6.23	332 198	424 111	46 929	6.20
Interest Expense:								
Borrowings	-	64 122	3 811	5.94	-	68 701	4 194	6.10
Deposits	-	326 735	17 394	5.32	-	311 828	15 982	5.13
Hedge payments	340 639	-	21 393	6.28	327 176	-	21 211	6.48
Total Interest Expense	340 639	390 857	42 598	5.82	327 176	380 529	41 387	5.85

25. Net Fair Value of Financial Instruments

The book value of financial assets and financial liabilities shown in the table below includes principal, accrued interest and, where applicable, a fair value adjustment. From 1 July 2005 all derivative financial instruments and available for sale financial assets (investment securities) have been recorded at fair value, including accrued interest in the accounts.

The fair value of financial assets and liabilities which are payable on demand as at balance date (ie cash and liquid assets, other assets and provisions) approximate their book value.

The fair value of all other financial assets and financial liabilities is based upon either of the following methods:

- (i) Market prices as at the respective balance date.
- (ii) Discounting cash flows using a zero coupon curve.

25. Net Fair Value of Financial Instruments (continued)

	2006		2005	
	Book Value \$'000	Fair Value \$'000	Book Value \$'000	Fair Value \$'000
Financial Assets:				
Cash and liquid assets	1	1	552	552
Other assets	457	457	7 821	7 821
Investment securities	5 139	5 139	5 153	5 079
Loans and advances	428 893	435 726	404 721	421 194
Financial Liabilities:				
Deposits from councils and prescribed bodies	324 860	324 042	271 294	271 223
Provisions	2 362	2 362	2 128	2 128
Other liabilities	310	312	351	363
Borrowings	65 762	65 817	93 969	94 193
Derivative Financial Instruments:				
Assets:				
Interest rate swaps	8 209	8 209	(1 590)	(10 757)
Futures contracts	85	85	2	2

Where financial assets are carried at an amount above net fair value, the Trustees have not caused those assets to be written down as it is intended to retain those assets to maturity.

It should be noted that most of the abovementioned financial instruments are not readily traded on Financial Markets and therefore the fair market value assigned to them should in no way be interpreted as the realisable value of the Local Government Finance Authority of South Australia as at 30 June 2006.

LOTTERIES COMMISSION OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Lotteries Commission of South Australia (the Commission) is a Statutory Authority established pursuant to the *State Lotteries Act 1966* (the Act) with its principal function being to promote and conduct lotteries for South Australia.

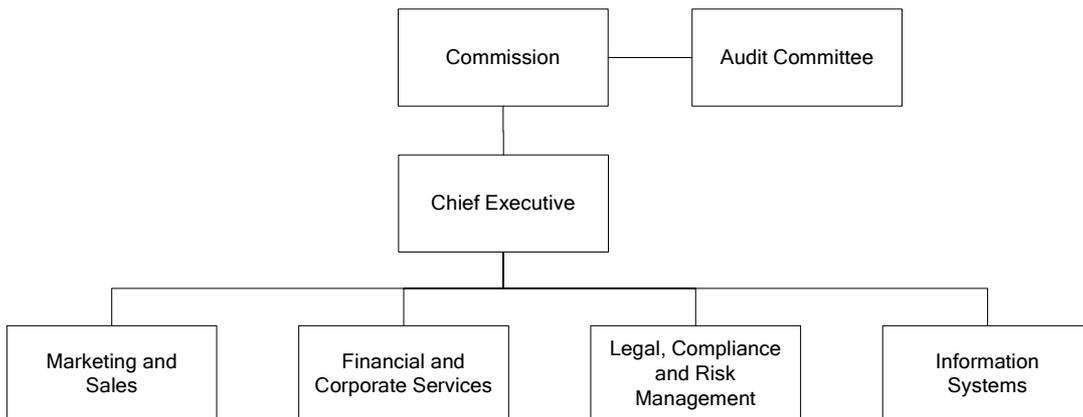
Functions

The functions of the Commission are to administer and promote the following lottery games:

- Monday/Wednesday Lotto
- Oz Lotto
- Powerball
- Lotto
- Super 66
- The Pools
- Keno
- Instant Scratchies.

Structure

The structure of the Lotteries Commission of South Australia is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 18A(2) of the *State Lotteries Act 1966* provide for the Auditor-General to audit the accounts of the Lotteries Commission of South Australia 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 Lotteries Commission 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 2005-06, specific areas of audit attention included:

- expenditure
- payroll
- gaming
- fixed assets
- financial accounting
- computer environment.

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

- fraud detection and prevention
- draw operations and dividend calculations.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Lotteries Commission of South Australia as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the Lotteries Commission 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 Lotteries Commission of South Australia have been conducted properly and in accordance with law.

Audit Communications with Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive and, by arrangement, copies were forwarded to the Chair of the Commission's Audit Committee. Responses to the management letters were considered to be satisfactory. Matters raised with the Commission and the related responses are considered herein.

The main issues related to timely reconciliation of various clearing accounts and various amounts between the general ledger and the on-line gaming system.

In response the Commission indicated that action would be taken to address the issues raised by Audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

The implementation of Australian equivalents to International Financial Reporting Standards (AIFRS) occurred in 2005-06. Data for both 2005-06 and 2004-05 has been prepared using AIFRS. Earlier data has not. Note 4 to the financial statements sets out adjustments arising from the adoption of AIFRS.

Highlights of Financial Report

	2006	2005	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Sales	348	349	-
Less cost of sales	(305)	(304)	-
Other revenue	7	7	-
Total Operating Revenue	50	52	(4)
OPERATING EXPENDITURE			
Supplies and services	14	15	(7)
Employee benefit costs	6	7	(14)
Other expenses	3	4	(25)
Total Operating Expenses	23	26	(12)
Profit after Income Tax Equivalent	19	18	6
Net Cash Flows from Operations	90	90	-
ASSETS			
Current assets	54	51	6
Non-current assets	13	15	(13)
Total Assets	67	66	2
LIABILITIES			
Current liabilities	35	31	13
Non-current liabilities	6	9	(33)
Total Liabilities	41	40	2
EQUITY	26	26	-

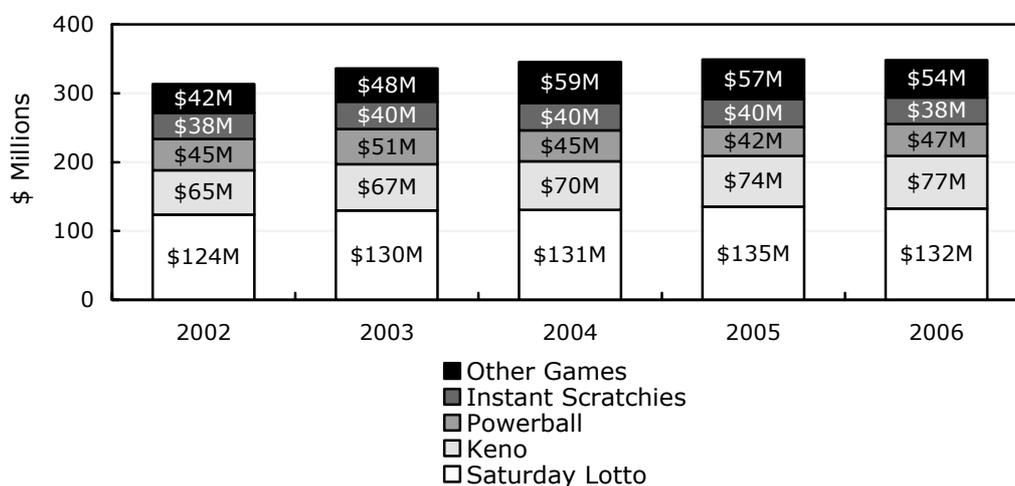
Income Statement

Sales Revenue

A structural analysis of sales revenue generated by the lottery products provided by the Commission in the five years to 2006 is presented in the following chart.

Notably in 2005-06, Saturday Lotto sales were \$132 million and Keno sales were \$77 million, representing 38 percent and 22 percent of sales respectively. These games remain the main individual revenue sources.

The analysis shows that total revenues remained static in 2005-06 following steady increases over the previous four years. In 2005-06 sales of Saturday Lotto decreased by \$3 million and Keno sales increased by \$3 million. Powerball sales increased by \$5 million, reversing the decline in sales experienced in 2004 and 2005.

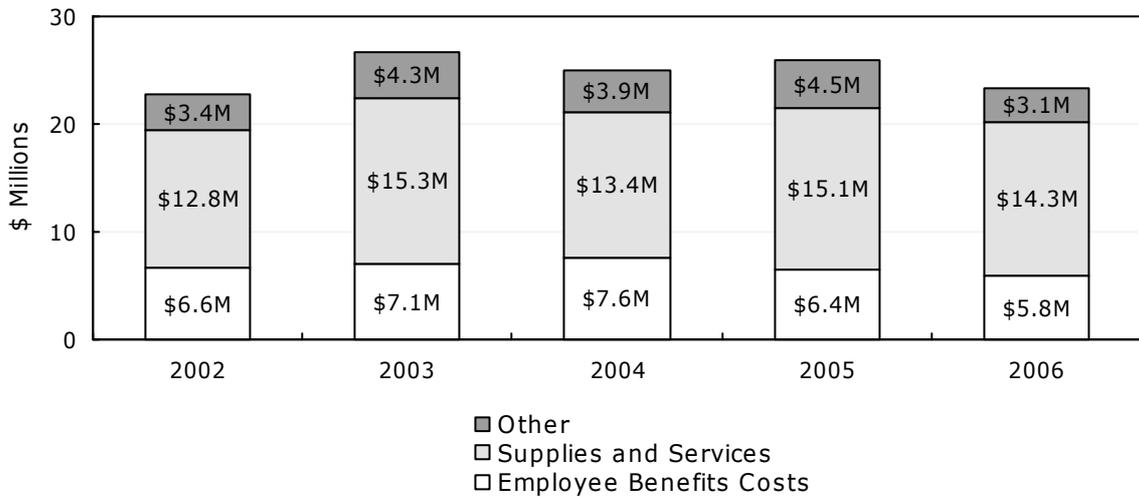


Operating Expenses

A structural analysis of the main operating expense items for the Commission for the five years to 2006 is shown in the following chart.

The operating expenses of the Commission decreased by \$3 million in 2005-06 having been relatively constant over the previous two years. In 2006 employee benefits costs decreased by \$588 000 primarily as a result of changed accounting requirements relating to the net assets of the Commission’s superannuation scheme required upon adoption of AIFRS. The superannuation scheme has a surplus of assets over liabilities and this surplus (which has increased by \$498 000 in 2006) is brought to account as a reduction in the employee benefits costs (refer to Note 10). This change in accounting requirements under AIFRS means in future, the employee benefits costs of the Commission will reflect the fluctuations in the net assets position of the superannuation fund.

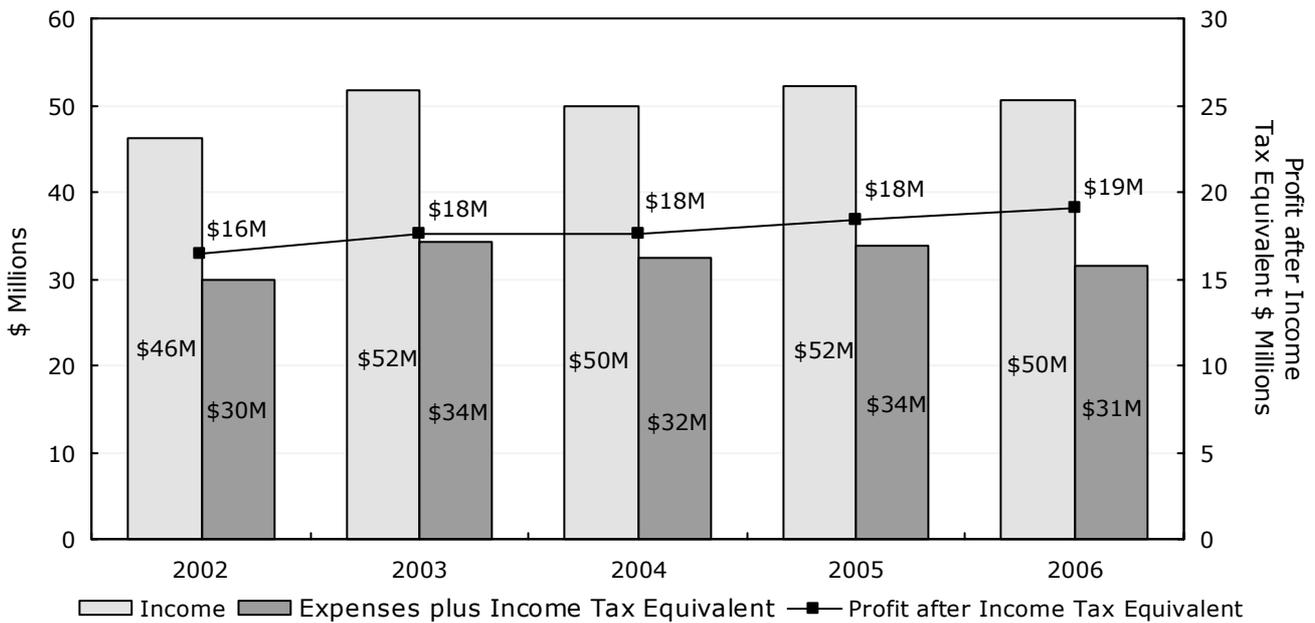
Supplies and services costs reduced by \$834 000 due mainly to decreased computer operations costs (down \$331 000), other occupancy costs (down \$127 000) and gambling tax on other games (down \$296 000). Depreciation and amortisation expense fell by \$699 000 mainly as a result of a decrease in depreciation of the on-line lotteries system following revaluation adjustments.



Operating Result

For the five years to 2006 the Commission’s performance has been stable with profit after income tax equivalent for 2005-06 being \$19 million following on from \$18 million over the previous three years.

The following chart shows the total income, total expenses plus income tax equivalent and profit after income tax equivalent for the five years to 2006.



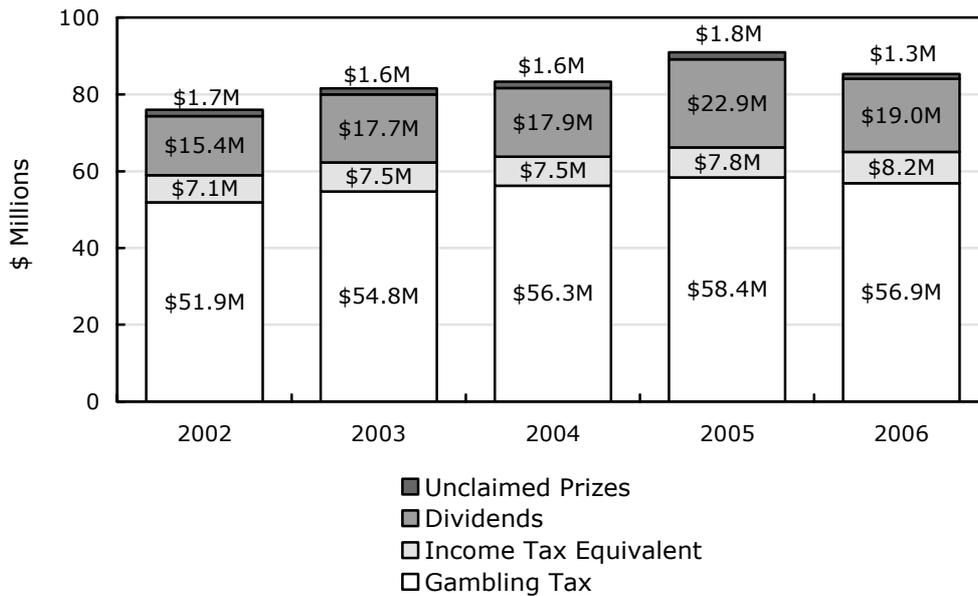
Distributions to Government

The Commission makes payments to the Government in accordance with the requirements of the *State Lotteries Act 1966* and the Treasurer’s Instructions which are detailed in Notes 2(s) and 29 to the Financial Statements. Essentially these payments comprise a gambling tax, an income tax equivalent payment, a dividend which equates to operating profit after income tax equivalent and a percentage of unclaimed prizes.

In 2006 the distribution provided for government amounted to \$85 million, a decrease of \$5.7 million over the previous year. The decrease was due mainly to the provision of a special dividend payment of \$6.5 million in 2004-05 being the proceeds of the sale of the Commission’s former Head Office premises in Rundle Mall.

Over the period under review a total of \$417.1 million has been provided to the Government.

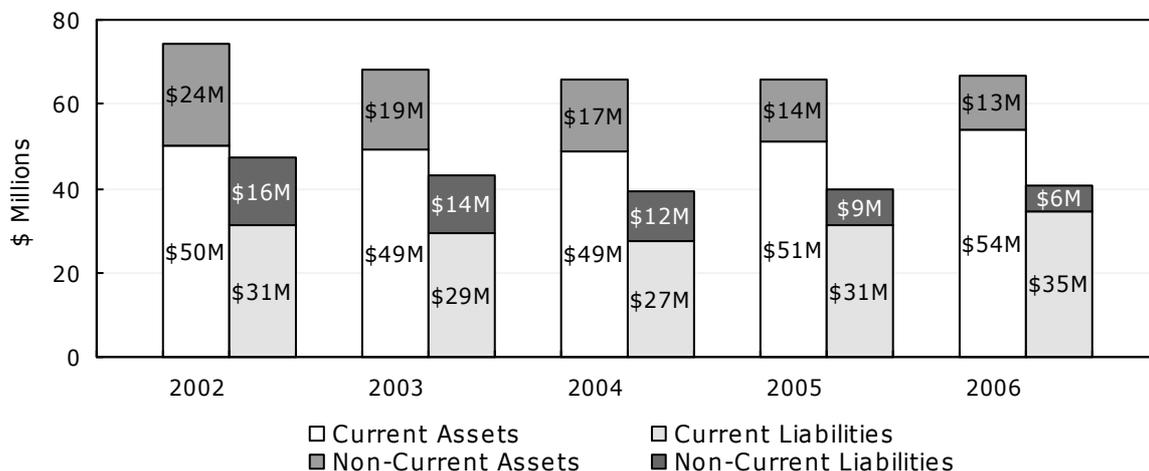
The following chart shows an analysis of the distributions provided to Government over the five years to 2006.



Balance Sheet

For the five years to 2006, a structural analysis of assets and liabilities is shown in the following chart.

The decrease in non-current liabilities over the five years is due mainly to the decrease in the unclaimed prize reserve, resulting from the payment of more promotional and additional prizes and the decrease in borrowings in line with the agreed repayment schedule. Current assets increased in 2005-06 by \$2.6 million primarily as a result of an increase in cash and cash equivalents. Current liabilities increased as a result of an increase in payables of \$1.7 million and an increase in other current liabilities of \$1.7 million. The increase in payables was due to increases in prizes payable (up \$1.4 million) and undistributed funds (up \$906 000) offset by a decrease in creditors and accrued expenses (down \$484 000). The increase in other current liabilities was a result of increases in the prize reserve fund (up \$1 million) as explained in Note 24(i) and sales in advance (up \$628 000).



Cash Flow Statement

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

	2006	2005	2004	2003	2002
	\$'million	\$'million	\$'million	\$'million	\$'million
Net Cash Flows					
Operations	91	91	86	84	79
Investing	(1)	3	(1)	(1)	(1)
Financing	(86)	(91)	(85)	(84)	(76)
Change in Cash	4	3	-	(1)	2
Cash at 30 June	52	48	45	45	46

The table highlights the significant cash generating capacity of the Commission's operations. A large portion of the cash balance at 30 June represents unpaid prizes (\$10 million) and distributions owed to the Government (\$9 million). The financing cash flows in 2006 represent the amount being distributed to the Government, \$84.4 million, and the repayment of borrowings, \$1.6 million.

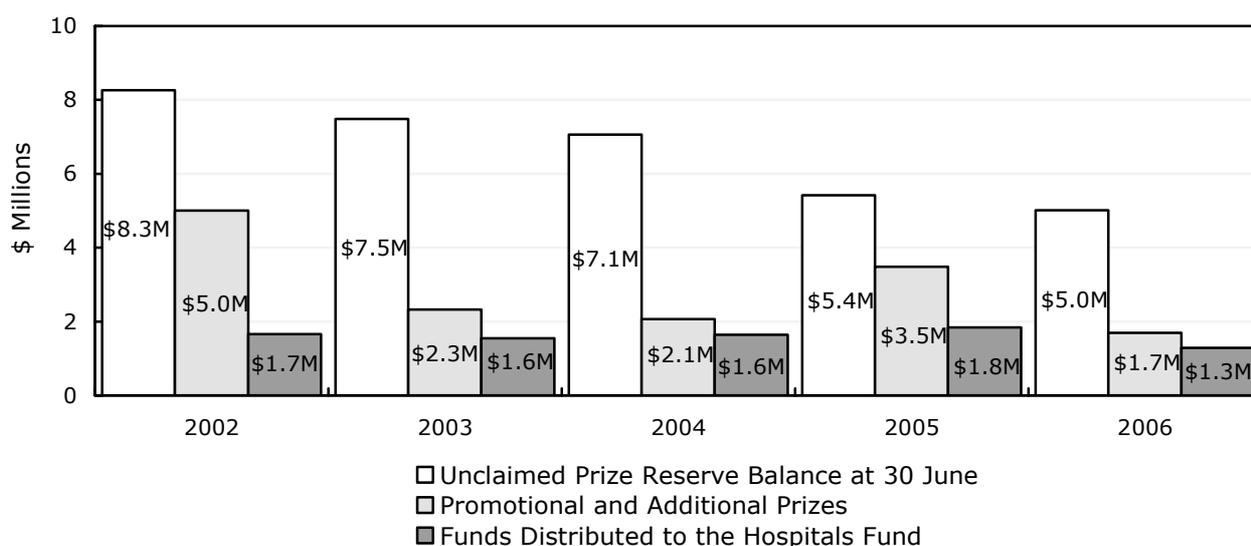
FURTHER COMMENTARY ON OPERATIONS

Unclaimed Prizes and Additional Prizes

In accordance with sections 16B and 16C of the *State Lotteries Act 1966* a prize in a lottery that has not been collected or taken delivery of within 12 months is forfeited to the Commission and transferred to the unclaimed prizes reserve. Of the monies transferred to the unclaimed prize reserve, 50 percent of forfeited prizes are distributed to the Government (for the credit of the Hospitals Fund), whilst the Commission may apply the remaining 50 percent for the purposes of providing additional or increased prizes in subsequent lotteries, providing prizes in promotional lotteries or making ex-gratia payments.

An analysis of the trend in the unclaimed prize reserve, promotional and additional prizes and payments to the Hospitals Fund over the past five years is shown in the following chart.

The analysis shows that the balance remaining in the unclaimed prize reserve has continued to fall over the period under review. In 2006 the amount of monies paid out to players from the unclaimed prize reserve in promotional and additional prizes decreased by \$1.8 million to \$1.7 million. Payments to the Hospitals Fund were \$1.3 million, a decrease of \$548 000 from the previous year and are at the lowest level over the period under review.



**Income Statement
for the year ended 30 June 2006**

	Note	2006 \$'000	2005 \$'000
INCOME:			
Sales revenue	6	348 088	348 818
Less cost of sales	7	304 644	303 918
Gross Margin		43 444	44 900
Interest revenue	8	2 793	2 681
Other revenues	9	4 246	4 613
Total Income		50 483	52 194
EXPENSES:			
Employee benefits costs	10	5 837	6 425
Supplies and services	11	14 268	15 102
Depreciation and amortisation expense	12	2 929	3 628
Borrowing costs	13	213	323
Net loss on disposal of non-current assets	14	2	500
Total Expenses		23 249	25 978
PROFIT BEFORE INCOME TAX EQUIVALENT		27 234	26 216
Income tax equivalent expense		8 170	7 865
NET PROFIT AFTER INCOME TAX EQUIVALENT		19 064	18 351
NET PROFIT AFTER INCOME TAX EQUIVALENT IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			

**Balance Sheet
as at 30 June 2006**

	Note	2006	2005
		\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	16	51 713	48 263
Receivables	17	1 665	2 525
Inventories		453	473
Total Current Assets		53 831	51 261
NON-CURRENT ASSETS:			
Property, plant and equipment	18	12 197	14 258
Intangible assets	19	129	-
Other non-current assets	20	788	71
Total Non-Current Assets		13 114	14 329
Total Assets		66 945	65 590
CURRENT LIABILITIES:			
Payables	21	21 728	19 996
Short-term borrowings	22	1 738	1 637
Short-term employee benefits	23	627	533
Other current liabilities	24	10 556	8 886
Total Current Liabilities		34 649	31 052
NON-CURRENT LIABILITIES:			
Payables	21	47	103
Long-term borrowings	22	512	2 250
Long-term employee benefits	23	616	767
Other non-current liabilities	24	5 016	5 421
Total Non-Current Liabilities		6 191	8 541
Total Liabilities		40 840	39 593
NET ASSETS		26 105	25 997
EQUITY:			
Funds retained for capital purposes		636	636
Reserves		25 469	25 361
Retained earnings		-	-
TOTAL EQUITY		26 105	25 997
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments for expenditure	26		
Contingent assets and liabilities	27		

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

	Funds Retained for Capital Purposes \$'000	Asset Revaluation Reserve \$'000	Building Maint- enance Reserve \$'000	Capital Asset Reserve (Note 25) \$'000	Keno Prize Reserve \$'000	Retained Earnings \$'000	Total \$'000
BALANCE AT 30 JUNE 2004	2 976	8 089	94	14 657	920	-	26 736
Change in accounting policy (Note 4)	-	-	-	-	-	(148)	(148)
RESTATED BALANCE 1 JULY 2004	2 976	8 089	94	14 657	920	(148)	26 588
Profit after income tax equivalent for 2004-05	-	-	-	-	-	18 351	18 351
Transfers:							
from retained earnings	-	-	-	2 000	913	(2 913)	-
to retained earnings	(2 340)	(4 187)	-	(1 094)	-	7 621	-
Gain on revaluation of property, plant and equipment in 2004-05	-	3 969	-	-	-	-	3 969
Dividend contribution to SA Government	-	-	-	-	-	(22 911)	(22 911)
BALANCE AT 30 JUNE 2005	636	7 871	94	15 563	1 833	-	25 997
Profit after income tax equivalent for 2005-06	-	-	-	-	-	19 064	19 064
Transfers:							
from retained earnings	-	-	-	2 000	1 176	(3 176)	-
to retained earnings	-	-	-	(1 300)	(1 768)	3 068	-
Dividend contribution to SA Government	-	-	-	-	-	(18 956)	(18 956)
BALANCE AT 30 JUNE 2006	636	7 871	94	16 263	1 241	-	26 105

All changes in equity are attributable to SA Government as owner

Cash Flow Statement for the year ended 30 June 2006

		2006		2005	
		Inflows (Outflows) \$'000	Inflows (Outflows) \$'000	Inflows (Outflows) \$'000	Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note				
CASH INFLOWS:					
Receipts from customers		328 184		329 203	
Interest received		2 781		2 660	
GST receipts on sales		439		801	
Cash generated from Operations			331 404		332 664
CASH OUTFLOWS:					
Prizes paid		(206 385)		(207 052)	
Payments to suppliers and employees (excluding GST)		(21 351)		(21 144)	
GST payments to Australian Taxation Office		(8 939)		(9 413)	
GST payments on purchases		(4 142)		(4 264)	
Interest paid		(213)		(358)	
Cash used in Operations			(241 030)		(242 231)
Net Cash provided by Operating Activities	28		90 374		90 433
CASH FLOWS FROM INVESTING ACTIVITIES:					
CASH INFLOWS:					
Proceeds from sale of property, plant and equipment		-		5 631	
CASH OUTFLOWS:					
Purchase of property, plant and equipment		(871)		(2 441)	
Purchase of intangible assets		(17)		-	
Net Cash (used in) provided by Investing Activities			(888)		3 190
CASH FLOWS FROM FINANCING ACTIVITIES:					
CASH OUTFLOWS:					
Repayment of borrowings		(1 637)		(1 542)	
Distribution to the Hospitals Fund and Recreation and Sport Fund:					
Gambling tax	29	(57 397)		(57 120)	
Dividends	29	(17 943)		(23 097)	
Unclaimed prizes	29	(1 358)		(1 676)	
Distribution to the Hospitals Fund for income tax equivalent	29	(7 701)		(7 274)	
Net Cash used in Financing Activities			(86 036)		(90 709)
NET INCREASE IN CASH AND CASH EQUIVALENTS			3 450		2 914
CASH AND CASH EQUIVALENTS AT 1 JULY			48 263		45 349
CASH AND CASH EQUIVALENTS AT 30 JUNE	16		51 713		48 263

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of SA Lotteries

The Lotteries Commission of South Australia (SA Lotteries) commenced operations on 15 May 1967 with the primary function of promoting and conducting lotteries in South Australia in accordance with the provisions of the *State Lotteries Act 1966*.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report. The financial report has been prepared in accordance with applicable Australian Accounting Standards and Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987* (PFAA).

The PFAA and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards.

Accounting Policy Statements issued pursuant to Treasurer's Instructions may modify or clarify accounting standards application, disclosure, format and wording to provide certainty and to ensure consistency and appropriate reporting across the public sector. For example, AASB 116 *Property, Plant and Equipment* requires non-current tangible assets to be measured at cost or fair value; an Accounting Policy Statement mandates the fair value option.

Where modification is required and has a material effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the Notes.

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

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

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are at Note 4.

SA Lotteries' Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

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

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

The Reporting Entity comprises the Lotteries Commission of South Australia only.

(b) Comparative Information

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

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

Note 4 provides a detailed analysis of comparative amounts that have been reclassified as a result of adoption of AIFRS.

(c) Rounding

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

(d) Taxation

Tax Equivalent Regime

In accordance with Treasurer's Instruction 22 *Tax Equivalent Payments*, SA Lotteries is required to pay to the State Government an income tax equivalent. The income tax liability is based on the Treasurer's accounting profits method, which requires that the corporate income tax rate be applied to the net profit. Temporary differences do not arise. The current income tax equivalent liability (included in undistributed funds liability) relates to the income tax equivalent expense outstanding for the current period.

SA Lotteries is liable for payroll tax, fringe benefits tax, goods and services tax, emergency services levy, land tax equivalent and local government rate equivalent.

Goods and Services Tax (GST)

SA Lotteries, as a gambling operator, is required to pay GST of one eleventh of net gambling revenue (NGR), defined as gross sales less total monetary prizes, direct to the Australian Taxation Office (ATO). The GST on NGR is treated as a cost of sales.

Income, expenses and assets are recognised net of the amount of GST (except where the amount of GST incurred by SA Lotteries as a purchaser is not recoverable from the ATO). 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 Balance Sheet.

Cash flows from operating activities are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing activities in capital equipment which is recoverable from the ATO is classified as operating cash flows.

(e) Income and Expenses

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

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

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

Revenues

Revenues are measured at fair value of consideration received or receivable. Revenue is recognised for major activities as follows:

Sales revenue for Saturday Lotto, Monday/Wednesday Lotto (formerly SA Lotto), Oz Lotto, Powerball, Keno, Super 66 and The Pools is recognised as at the date of the draw or competition. For these games, sales revenue as at 30 June for draws or competitions subsequent to that date is treated as sales in advance. Sales revenue for Instant Scratchies is recognised daily.

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

Revenues from services and fees and charges are derived from the provision of goods and services to third parties. This revenue is recognised upon delivery of the goods or services to the recipients.

Expenses

Borrowing costs are recognised as an expense.

The net loss on disposal of non-current assets is recognised when control of the asset has passed to the buyer and is determined by comparing proceeds with carrying amount. When revalued assets are sold, the revaluation increments are transferred to retained earnings in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 3.11.

(f) Current and Non-Current Classification

Assets and liabilities are characterised as either current or non-current in nature. SA Lotteries has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle, even when they are not expected to be realised within 12 months after the reporting date, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(g) Cash and Cash Equivalents

Cash and cash equivalents recorded in the Balance Sheet and Cash Flow Statement includes cash on hand, deposits held at call and other short-term, highly liquid investments that are used in the cash management function on a day-to-day basis.

Short-term deposits are held with the South Australian Government Financing Authority (SAFA) in At Call Deposit and Cash Management Fund accounts. Interest is earned at a minimum of SAFA's overnight at call deposit rate. The deposits principally reflect funds available for unclaimed prizes and for distribution to the Hospitals Fund and the Recreation and Sport Fund.

Cash is measured at nominal value.

(h) Receivables

Receivables include amounts receivable from agents and other parties, prizes receivable from Blocs, and prepayments. Receivables (other than prepayments) are raised for all goods and services provided for which payment has not been received.

Debtor Agents and Sundry Receivables

Debtor agents and sundry receivables are settled within seven days and 14 days respectively and are carried at amounts due. All debts considered bad or doubtful are written off to bad debt expense in the year in which they are recognised as irrecoverable.

Prizes Receivable from Blocs

Saturday Lotto, Monday/Wednesday Lotto, Oz Lotto, Powerball, Super 66 and The Pools are games supported by inter-jurisdictional prize pooling arrangements. State lottery operators participating in individual games form Blocs for the relevant games. Amounts receivable from Blocs represent monies due from other jurisdictions for prizes won in South Australia. Settlement of amounts receivable from Bloc members are normally due 14 days after the date of the draw.

(i) Inventories

Inventories are measured at the lower of actual cost or their net realisable value.

Inventories are held for distribution and include Instant Scratchies tickets, on-line coupons, ticket rolls and ribbons.

(j) Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost, plus any incidental cost involved with the acquisition.

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APSs 2.15, 2.16 and 7.2:

- all non-current assets with a value of \$2 000 are capitalised;
- componentisation of the on-line lotteries system (a complex asset) has been performed as the asset's fair value at the time of acquisition was greater than \$1 million.

(k) Revaluation of Non-Current Assets

In accordance with Accounting Policy Framework III *Asset Accounting Framework*:

- all non-current tangible assets are valued at fair value;
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

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

SA Lotteries has taken the exemption available under Accounting Policy Framework III *Asset Accounting Framework* APS 3.10 to take asset revaluation adjustments to the asset revaluation reserve on a class basis rather than an individual asset basis.

(l) Impairment

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

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

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

(m) Depreciation and Amortisation of Non-Current Assets

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

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

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

Land is not depreciated.

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

<i>Class of Assets</i>	<i>Depreciation Method</i>	<i>Estimated Useful Life</i>
Building	Straight Line	20 years
Plant and equipment	Straight Line	3 - 10 years
On-Line Lotteries System	Straight Line	4.5 years
Leasehold improvements	Straight Line	10 years
Intangibles (software)	Straight Line	5 years

(n) Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost.

The acquisition of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets*.

(o) Payables

Payables include creditors, accrued expenses, prizes payable, undistributed funds (owing to SA Government), and employment on-costs.

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 SA Lotteries.

Creditors and Accrued Expenses (continued)

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

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

Prizes Payable

Prizes payable represent amounts due to be paid to customers for prizes won in South Australia and to lottery operators in other States participating in inter-jurisdictional prize pooling arrangements. State lottery operators have formed Blocs to conduct the games of Saturday Lotto, Monday/Wednesday Lotto, Oz Lotto, Powerball, Super 66 and The Pools.

Amounts payable for prizes won in South Australia are generally available for settlement the day following the draw, or in the case of Instant Scratchies and minor Keno prizes, on the date of sale or draw. Division 1 and 2 prizes for Lotto type games are normally settled 14 days after the date of draw in accordance with the Lotteries Rules. Amounts payable to Blocs represent monies due to other lottery operators for prizes won in interstate jurisdictions. Settlement of amounts payable to Bloc members are normally due 14 days after the date of the draw.

Employment On-Costs

Employment on-costs include superannuation contributions, payroll tax, workers compensation, and vehicle costs with respect to outstanding liabilities for salaries, long service leave and annual leave. Employment on-costs are settled when the respective employee benefit that they relate to is discharged.

(p) Borrowings

Borrowings are brought to account at their principal amounts. Interest is accrued over the period it becomes due and is recorded as part of creditors and accrued expenses. Borrowing costs are recognised as expenses in the period in which they are incurred. No borrowing costs have been capitalised in the financial period.

The carrying amount for borrowings approximates fair value.

(q) Employee Benefits

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

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

The liability for salaries is measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. No salaries or annual leave are expected to be payable later than 12 months.

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

The portion of the long service leave provision classified as current represents the amount that may be expected to be paid as leave taken or paid on termination of employment during SA Lotteries' normal operating cycle.

(r) Unclaimed Prizes Reserve

If a prize in a lottery has not been collected or taken delivery of within 12 months of the date of the draw or relevant day, the prize is forfeited to SA Lotteries and transferred to the Unclaimed Prizes Reserve. Subsection 16C(4) of the *State Lotteries Act 1966* requires SA Lotteries to pay:

- 50 percent of the amount derived from unclaimed prizes in The Pools (and other sports lotteries or special lotteries) to the Recreation and Sport Fund;
- 50 percent of the amount derived from unclaimed prizes in other lotteries to the Hospitals Fund.

The balance in the Reserve is applied by SA Lotteries from time to time for the purposes of providing additional or increased prizes in a subsequent lottery or lotteries, providing prizes in promotional lotteries or making ex-gratia payments.

(r) Unclaimed Prizes Reserve (continued)

The *State Lotteries Act 1966* provides for an ex-gratia payment to a person who satisfies SA Lotteries that they are a winner of a prize in a lottery conducted by SA Lotteries, despite the fact that a prize has been forfeited to SA Lotteries, the winning ticket has been lost or destroyed or a notice of a claim for the prize has not been complied with in accordance with the Lotteries Rules.

Ex-gratia payments are charged to the Unclaimed Prizes Reserve. Subsequent payments to either the Hospitals Fund or Recreation and Sport Fund are reduced by an amount equivalent to 50 percent of the ex-gratia payment, depending on the game played.

(s) Distribution of Funds to Government

In accordance with subsection 16(3) of the *State Lotteries Act 1966*, SA Lotteries is required to pay to the Hospitals Fund the balance of surplus funds remaining after payment of gambling tax and GST on NGR, making allowances for operating and capital expenses, applying the net proceeds and gambling tax of The Pools to the Recreation and Sport Fund and retaining funds for certain designated purposes.

As detailed in Note 2(d), SA Lotteries is required to make tax equivalent payments as a result of the application of the tax equivalent regime. In recognition of the provisions of the *State Lotteries Act 1966*, and in accordance with Schedule 1 of Treasurer's Instruction 22 *Tax Equivalent Payments*, the transfer of funds to the Hospitals Fund is reflected in the financial statements in the form of:

- (i) a gambling tax of 41 percent on NGR in respect of all lotteries conducted by SA Lotteries except sports lotteries and special lotteries;
- (ii) an income tax equivalent payment (calculated on the accounting profits method), recorded as an expense item in the Income Statement;
- (iii) a net profit after income tax equivalent payment, recorded as dividend;
- (iv) unclaimed prizes.

The composition of all amounts due and payable to Government on account of the Hospitals Fund and Recreation and Sport Fund is detailed in Note 29.

(t) Foreign Currency

Exchange differences arising up to the date of purchase are included in the measurement of the purchase and are reported in the Income Statement.

(u) Operating Leases

SA Lotteries has an accommodation lease agreement for its Head Office premises at 24-25 Greenhill Road, Wayville and an operating lease agreement for a remote computer site at Kidman Park.

In respect of these operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased assets. Operating lease payments are recognised as an expense on the basis that they are representative of the pattern of benefits derived from the leased assets.

Novated Leases

As an employer, SA Lotteries is party to motor vehicle leasing arrangements, with certain obligations of the lessee (the employee) novated to it. SA Lotteries has a right to fully offset the amount paid to the lessor against the amount of the employee's salary sacrifice. The substance of these arrangements is that the employees retain control of and the rights to the motor vehicles. These arrangements are not classified as finance leases, nor is a commitment disclosed due to the right of full set-off.

(v) Insurance

SA Lotteries has arranged, through SA Government Captive Insurance Corporation (SAICORP), to insure all major risks of the organisation. The excess payable under this arrangement varies depending on each class of insurance held.

(w) Superannuation

SA Lotteries has an established superannuation plan for its employees, being the Lotteries Commission of South Australia Superannuation Plan (the Plan), which is a sub-plan of the Mercer Super Trust. The Plan provides lump sum benefits on retirement, death, disablement. Some categories of members receive only defined contribution, accumulation style benefits. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits. The withdrawal benefit for defined benefit members may be taken immediately or deferred until preservation age.

The liability for this Plan has been determined via an actuarial valuation by Kathryn Daniels, FIAA (Mercer Investment Nominees Limited) using the projected unit credit method. The report was dated 9 August 2006.

Actuarial gains and losses are recognised in full, directly in profit and loss in the period in which they occur, and are presented in the Income Statement.

(w) Superannuation (continued)

The superannuation expense of the defined benefit plan is recognised as and when the contributions fall due and consist of current service cost; interest cost; actuarial gains and losses; and past service cost.

The defined benefit superannuation plan asset recognised in the Balance Sheet represents the surplus of the fair value of the defined benefit superannuation plan assets over the present value of the defined benefit obligation to members. The expected payment to settle the obligation has been determined using national government bond market yields with terms and conditions that match, as closely as possible, to estimated cash outflows.

SA Lotteries also contributes to other externally managed superannuation plans.

(x) Funds Retained for Capital Purposes

SA Lotteries has retained funds which represent the historical cost of the investment in land and buildings at 26 Payneham Road, Stepney.

(y) Reserves

Asset Revaluation Reserve

This reserve was established to record increments and decrements in relation to the revaluation of land and buildings and the on-line lotteries system.

Building Maintenance Reserve

This reserve was established to meet future major building maintenance costs.

Capital Asset Reserve

This reserve was established to contribute to the financing of the cost of replacement/upgrade of the on-line lotteries system hardware and software, and the purchase of other non-current assets.

Keno Prize Reserve

This reserve was established to meet all Keno Spot 10 prizes. The value of the Keno Spot 10 prize won is to be returned to the Hospitals Fund as a Dividend. The reserve is funded from retained earnings at the rate of 23.32 percent of all Keno Spot 10 net sales (being gross sales less agents' commission) through SA Lotteries' Agents and ACTTAB Limited.

3. Financial Risk Management

SA Lotteries is exposed to a variety of financial risks, market risk (foreign exchange and price), credit risk and liquidity risk.

Risk management is carried out by all areas of the organisation and risk management policies and practices are in accordance with the Australian Risk Management Standard (AS/NZ 4360) and internal written policies approved by the Commission.

SA Lotteries has non-interest bearing assets (cash on hand and at call, receivables and inventories) and liabilities (payables and other liabilities) and interest bearing assets (investments) and interest bearing liabilities (borrowings from the SA Government).

SA Lotteries' exposure to foreign exchange risk and cash flow interest risk is minimal. SA Lotteries is exposed to price risk for changes in interest rates that relate to long-term debt obligations and investments at fair value.

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

In relation to liquidity/funding risk, the continued existence of SA Lotteries in its present form, and with its present segment/service, is dependent on Government policy to maintain SA Lotteries' asset base.

4. Changes in Accounting Policies

Explanation of Transition to AIFRS

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

	At 1 July 2004			At 30 June 2005		
	Previous GAAP \$'000	Adjustments \$'000	AIFRS \$'000	Previous GAAP \$'000	Adjustments \$'000	AIFRS \$'000
Current assets	48 576	-	48 576	51 261	-	51 261
Non-current assets	17 419	-	17 419	14 258	71	14 329
Current liabilities	(27 322)	-	(27 322)	(30 981)	(71)	(31 052)
Non-current liabilities	(11 937)	-	(11 937)	(8 541)	-	(8 541)
Net Assets	26 736	-	26 736	25 997	-	25 997
Funds retained for capital purposes	2 976	-	2 976	636	-	636
Reserves	23 760	-	23 760	25 361	-	25 361
Retained earnings	-	-	-	-	-	-
Total Equity	26 736	-	26 736	25 997	-	25 997
Profit after income tax equivalent		(104)		18 198	153	18 351
Total Cash Flows		-		2 914	-	2 914

Explanation of Transition to AIFRS (continued)

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement at 1 July 2004 or 30 June 2005.

Under previous GAAP, defined benefit superannuation plan obligations were recognised as an expense as they became payable. In accordance with AASB 119 *Employee Benefits*, the defined benefit superannuation plan asset or liability (representing the difference between the fair value of the defined benefit superannuation plan assets over the present value of the defined benefit obligation to members) has been recognised in the Balance Sheet and the superannuation expense (including actuarial gains and losses) has been recognised in the Income Statement. The effect is to:

- Increase the liability and expense for Employee Benefits by \$148 000 at 1 July 2004. Dividend contribution to the SA Government has been decreased as a result of the changes to Retained Earnings at 1 July 2004, with a corresponding decrease in Undistributed funds owing to the SA Government as at that date.
- Increase Receivables (which includes an asset for the defined benefit superannuation plan) and decrease Employee Benefits expense by \$219 000 at 30 June 2005 and by a further \$717 000 at 30 June 2006. Income tax equivalent expense and Dividend contribution to the SA Government have been increased as a result of the changes in Net Profit each year, with a corresponding increase in Undistributed funds owing to the SA Government as at the end of each year.

5. Segment Reporting

SA Lotteries' business operations are conducted in the one main business and geographical segment - selling lottery games within the economic environment of South Australia.

SA Lotteries has not established any partnership, body corporate or trust to carry out any function of its business operations.

6. Sales Revenue

	2006	2005
	\$'000	\$'000
Saturday Lotto	132 388	135 176
Monday/Wednesday Lotto*	35 936	40 670
Oz Lotto	16 495	14 641
Powerball	46 519	42 248
Keno	76 581	73 821
Instant Scratchies	38 383	40 343
Super 66	1 228	1 333
The Pools	558	586
Total Sales Revenue	348 088	348 818

Sales revenue includes agents' commission.

All sales revenue was received/receivable from parties external to the SA Government.

* Prior to 27 April 2006, sales revenue refers to SA Lotto.

7. Cost of Sales

Prizes	209 439	207 172
Gambling tax on net gambling revenue	56 846	58 074
Agents' commission	25 755	25 795
GST on net gambling revenue	12 604	12 877
Total Cost of Sales	304 644	303 918

Cost of sales provided to entities within the SA Government:

Gambling tax on net gambling revenue	56 846	58 074
Total Cost of Sales - SA Government Entities	56 846	58 074

Cost of sales provided to entities external to the SA Government:

Prizes	209 439	207 172
Agents' commission	25 755	25 795
GST on net gambling revenue	12 604	12 877
Total Cost of Sales - Non-SA Government Entities	247 798	245 844

8. Interest Revenue

Total Interest Revenue	2 793	2 681
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All interest revenue was received/receivable from entities within the SA Government.

9. Other Revenues

Agents' fees and charges	3 459	3 685
Easisplay Club service fee	341	336
Sundry	446	592
Total Other Revenues	4 246	4 613

All other revenues were received/receivable from entities external to the SA Government.

10. Employee Benefit Costs		2006	2005
	Note	\$'000	\$'000
Salaries (including annual leave)		5 316	5 332
Long service leave		131	195
Employment on-costs - Superannuation contributions	32(j)	598	589
Increase in asset for defined benefit superannuation plan	32(e)	(717)	(219)
Employment on-costs - Other		398	415
Commission Members' fees		111	113
Total Employee Benefit Costs		5 837	6 425

Targeted Voluntary Separation Packages (TVSPs)

No employees were paid TVSPs during the year.

Remuneration of Employees

The remuneration of all employees who received remuneration of \$100 000 or more during the year includes all costs of employment including salaries, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits.

The number of employees whose remuneration paid or payable was within the following bands:	2006	2005
	Number of Employees	Number of Employees
\$100 000 - \$109 999	2	-
\$150 000 - \$159 999	-	1
\$160 000 - \$169 999	1	1
\$190 000 - \$199 999	1	-
\$270 000 - \$279 999	1	1
Total Number of Employees	5	3

The total remuneration received or receivable by employees whose remuneration was \$100 000 or more	2006	2005
	\$'000	\$'000
	852	599

Commission Members' Remuneration

Remuneration received or receivable includes fees, superannuation payments and professional indemnity insurance paid on behalf of Commission Members.

The number of Commission Members whose remuneration was within the following bands:	2006	2005
	Number of Members	Number of Members
\$0 - \$9 999	1	-
\$20 000 - \$29 999	4	4
\$30 000 - \$39 999	1	1
Total Number of Commission Members	6	5

The total remuneration received or receivable by Commission Members	2006	2005
	\$'000	\$'000
	137	137

Key Management Personnel Compensation

The key management personnel compensation is as follows:

Short-term employee benefits	831	640
Post-employment benefits*	(35)	75
Other long-term benefits	16	20
Total Key Management Personnel Compensation	812	735

* Post-employment benefits include an allocation of the change in the defined benefit superannuation plan asset to key management personnel based on the share of the defined benefit obligation at the balance sheet date.

Related Party Disclosure

All amounts provided by SA Lotteries to related parties are provided on an arm's length terms.

11. Supplies and Services		2006	2005
	Note	\$'000	\$'000
Advertising and marketing		6 417	6 279
Computer operations		3 221	3 552
Tickets, coupons, terminal rolls and ribbons		1 598	1 620
Operating leases		570	552
Other occupancy costs		520	647
Agent distribution costs		219	209
External audit fees	15	177	156
Training costs		88	101
Gambling tax - other		42	338
Bad debts		-	1
Other		1 416	1 647
Total Supplies and Services		14 268	15 102

11. Supplies and Services (continued)	2006	2005
	\$'000	\$'000
Supplies and services provided by entities within the SA Government:		
Advertising and marketing	72	81
Other occupancy costs	10	152
External audit fees	177	156
Gambling tax - other	42	338
Other	191	276
Total Supplies and Services - SA Government Entities*	492	1 003

* The total includes supplies and services paid or payable to SA Government entities where the amount paid or payable to the SA Government entity was less than \$100 000.

Supplies and services provided by entities external to the SA Government:		
Advertising and marketing	6 345	6 198
Computer operations	3 221	3 552
Tickets, coupons, terminal rolls and ribbons	1 598	1 620
Operating leases	570	552
Other occupancy costs	510	495
Agent distribution costs	219	209
Training costs	88	101
Bad debts	-	1
Other	1 225	1 371
Total Supplies and Services - Non-SA Government Entities	13 776	14 099

Consultancies				
The number and dollar amount of Consultancies paid/payable (included in Supplies and Services) that fell within the following bands:	2006		2005	
	Number	\$'000	Number	\$'000
Below \$10 000	12	30	7	38
\$10 000 - \$50 000	6	182	6	146
Above \$50 000	1	96	2	295
Total Amount Paid/Payable to Consultants Engaged	19	308	15	479

12. Depreciation and Amortisation Expense	2006	2005
Depreciation:	\$'000	\$'000
Buildings	24	116
Plant and equipment	297	360
On-line lotteries system	2 382	3 065
Total Depreciation	2 703	3 541
Amortisation:		
Leasehold improvements	226	87
Total Amortisation	226	87
Total Depreciation and Amortisation Expense	2 929	3 628

Revision in Accounting Estimates

Depreciation on On-line Lotteries System assets differed between 2006 and 2005 because of a reassessment of the useful lives of these assets. This has resulted in a decrease of \$298 000 in the amount of depreciation calculated on these assets in the 2006 financial year.

13. Borrowing Costs	2006	2005
	\$'000	\$'000
Total Borrowing Costs	213	323

All borrowing costs were paid/payable to entities within the SA Government.

14. Net Loss on Disposal of Non-Current Assets		
Land and buildings:		
Proceeds from disposal	-	5 631
Less: Net book value of assets disposed	-	5 908
Net Loss from Disposal of Land and Building	-	(277)
Other non-current assets:		
Proceeds from disposal	-	4
Less: Net book value of assets disposed	2	227
Net Loss from Disposal of Plant and Equipment	(2)	(223)
Total assets:		
Proceeds from disposal	-	5 635
Less: Net book value of assets disposed	2	6 135
Total Net Loss from Disposal of Assets	(2)	(500)

15. Auditor's Remuneration	2006	2005
	\$'000	\$'000
Audit fees paid/payable to the Auditor-General's Department.	177	156
No other services were provided by the Auditor-General's Department.		
16. Cash and Cash Equivalents		
Bank balances and cash on hand	(493)	(407)
Cash deposits	10 206	6 670
Cash management accounts	42 000	42 000
Total Cash and Cash Equivalents	51 713	48 263
Bank balances comprise unrepresented cheques net of outstanding deposits and cash on hand.		
Reconciliation of Cash and Cash Equivalents		
Balance Sheet	51 713	48 263
Cash Flow Statement	51 713	48 263
17. Receivables		
Debtor agents	535	1 403
Prizes receivable from Blocs	272	53
Sundry receivables	358	433
GST receivable	414	455
Prepayments	86	181
	1 665	2 525
Receivables from SA Government entities:		
Sundry receivables	245	233
Receivables from Non-SA Government entities:		
Debtor agents	535	1 403
Prizes receivable from Blocs	272	53
Sundry receivables	113	200
GST receivable	414	455
Prepayments	86	181
	1 420	2 292
Interest Rate Risk		
All receivables are non-interest bearing.		
Credit Risk		
It is not anticipated that counterparties will fail to discharge their obligations. In addition, there is no concentration of credit risk.		
Net Fair Values		
The carrying amount of Receivables approximates net fair value due to being receivable on demand.		
18. Property, Plant and Equipment	2006	2005
	\$'000	\$'000
Land and Buildings:		
Land at fair value	560	560
Buildings at fair value	480	480
Accumulated depreciation	(48)	(24)
Total Land and Buildings	992	1 016
Plant and Equipment:		
Plant and equipment at cost (deemed fair value)	2 236	3 744
Accumulated depreciation	(1 626)	(2 990)
Total Plant and Equipment	610	754
On-line Lotteries System:		
On-line lotteries system at cost (deemed fair value)	829	119
Accumulated depreciation	(93)	-
On-line lotteries system at fair value	10 168	10 168
Accumulated depreciation	(2 289)	-
Total On-Line Lotteries System	8 615	10 287
Leasehold Improvements:		
Leasehold improvements at cost (deemed fair value)	2 293	2 288
Accumulated amortisation	(313)	(87)
Total Leasehold Improvements	1 980	2 201
Total Property, Plant and Equipment	12 197	14 258

Valuation of Property, Plant and Equipment

- Fair values for freehold land and buildings were obtained in June 2004. The valuation of the 24-26 Payneham Road, Stepney property was obtained from Nick Bell B.Bus.Prop. (Val.), AAPI, Certified Practising Valuer of Knight Frank Valuations SA and was determined on an in-use value, assuming a fully tenanted (subject to a notional five plus five year lease back) basis.

The valuation of the 21-23 Rundle Mall, Adelaide property was obtained from James Pledge B.Bus.Prop., AAPI, Certified Practising Valuer of Knight Frank Valuations SA and was determined on an in-use value, assuming a fully tenanted (subject to a notional five plus five year lease back) basis.

- Fair value for the on-line lotteries system was obtained in June 2005 from Andrew Lucas, MBA, BAppSc (Val), AAPI, ASA, Certified Practising Valuer of Valcorp Australia Pty Ltd and represents the market value of items in this group of assets.

The carrying amount of property, plant and equipment that would have been recognised if these assets were stated at cost is:	2006	2005
	\$'000	\$'000
Land and buildings	397	415
Plant and equipment	610	754
On-line lotteries system	2 422	3 543
Leasehold improvements	1 980	2 201
Total Carrying Amount of Property, Plant and Equipment that would have been recognised if these Assets were stated at Cost	5 409	6 913

Carrying Amount of Plant and Equipment

The gross carrying value of plant and equipment includes \$883 000 of fully depreciated assets still in use.

Impairment

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

Reconciliation of Property, Plant and Equipment

	2006					
	Land	Buildings	Plant and Equipment	Online Lotteries System	Leasehold Improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July	560	456	754	10 287	2 201	14 258
Additions	-	-	155	710	5	870
Disposals	-	-	(2)	-	-	(2)
Depreciation and amortisation	-	(24)	(297)	(2 382)	(226)	(2 929)
Carrying Amount at 30 June	560	432	610	8 615	1 980	12 197

	2005					
	Land	Buildings	Plant and Equipment	Online Lotteries System	Leasehold Improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July	4 110	2 930	974	9 405	-	17 419
Additions	-	-	226	119	2 288	2 633
Disposals	(3 550)	(2 358)	(86)	(141)	-	(6 135)
Revaluation increment	-	-	-	3 969	-	3 969
Depreciation and amortisation	-	(116)	(360)	(3 065)	(87)	(3 628)
Carrying Amount at 30 June	560	456	754	10 287	2 201	14 258

19. Intangible Assets		2006	2005
Software:	Note	\$'000	\$'000
Software at cost		129	-
Total Intangible Assets		129	-

Reconciliation of Intangible Assets

The following table shows the movement of Intangible Assets during 2004-05 and 2005-06.

Carrying amount at 1 July	-	-
Additions	129	-
Carrying Amount at 30 June	129	-

20. Other Non-Current Assets		2006	2005
Defined benefit superannuation plan asset	32(d)	788	71
Total Other Non-Current Assets		788	71

21. Payables		2006	2005
Current:			
Creditors and accrued expenses		1 748	2 232
Prizes payable		9 956	8 558
GST payable		1 206	1 275
Undistributed funds	29	8 739	7 833
Employment on-costs		79	98
Total Current Payables		21 728	19 996

21. Payables (continued)	2006	2005
	\$'000	\$'000
Non-Current:		
Employment on-costs	47	103
Total Non-Current Payables	47	103
Total Payables	21 775	20 099
Payables to SA Government Entities:		
Current:		
Creditors and accrued expenses	237	595
Undistributed funds	8 739	7 833
Employment on-costs	30	-
Total Current Payables to SA Government Entities	9 006	8 428
Non-Current:		
Employment on-costs	16	61
Total Non-Current Payables to SA Government Entities	16	61
Total Payables to SA Government Entities	9 022	8 489
Payables to Non-SA Government Entities:		
Current:		
Creditors and accrued expenses	1 511	1 637
Prizes payable	9 956	8 558
GST payable	1 206	1 275
Employment on-costs	49	98
Total Current Payables to Non-SA Government Entities	12 722	11 568
Non-Current:		
Employment on-costs	31	42
Total Non-Current Payables to Non-SA Government Entities	31	42
Total Payables to Non-SA Government Entities	12 753	11 610

Interest Rate Risk

All payables are non-interest bearing.

Net Fair Values

The carrying amount of payables approximates net fair values due to the amounts being payable on demand.

22. Borrowings	2006	2005
	\$'000	\$'000
Current:		
Borrowings from SA Government entities	1 738	1 637
Total Current Borrowings	1 738	1 637
Non-current:		
Borrowings from SA Government entities	512	2 250
Total Non-Current Borrowings	512	2 250
Total Borrowings	2 250	3 887

The loans are provided by the Department of Treasury and Finance. The loans are unsecured and repayable over eight years with six monthly repayments on a credit foncier loan basis.

23. Employee Benefits	2006	2005
Current:		
Annual leave	325	278
Short-term long service leave	200	118
Accrued salaries	102	137
Total Current Employee Benefits	627	533
Non-Current:		
Long-term long service leave	616	767
Total Non-Current Employee Benefits	616	767
Total Employee Benefits	1 243	1 300
The total current and non-current employee costs (ie aggregate employee benefit (above plus related employment on-costs (Note 21)) is:	1 369	1 501

24. Other Liabilities	2006	2005
Current:		
Prize Reserve Fund ⁽ⁱ⁾	8 292	7 250
Unearned revenue - Sales in advance	2 264	1 636
Total Current Other Liabilities	10 556	8 886
Non-Current:		
Unclaimed Prizes Reserve ⁽ⁱⁱ⁾	5 016	5 421
Total Other Liabilities	15 572	14 307

(i) <i>Prize Reserve Fund</i>	2006	2005
	\$'000	\$'000
Balance at 1 July	7 250	5 192
Allocated to prize reserve fund	11 150	10 833
	18 400	16 025
Applied to additional or increased prizes	(10 108)	(8 775)
Balance at 30 June	8 292	7 250

The Prize Reserve Fund allocation comprises the following percentages of net sales (gross sales revenue less agents' commission) for the following games:

	Percent
Lotto (was 10 percent up to 26 April 2006 for SA Lotto)	5.0
Oz Lotto and Super 66	3.5
Powerball	2.5
The Pools	2.0

These funds are distributed from time to time as additional or increased prizes in subsequent lottery draws in the respective games.

(ii) <i>Unclaimed Prizes Reserve</i>	2006	2005
	\$'000	\$'000
Balance at 1 July	5 421	7 061
Unclaimed monies forfeited	2 584	3 679
	8 005	10 740
Monies provided for distribution to the Hospitals Fund	(1 290)	(1 838)
Monies provided for distribution to the Recreation and Sport Fund	(1)	(1)
Applied to additional or increased prizes in subsequent lottery draws, tickets and prizes in promotional lotteries or ex-gratia payments	(1 698)	(3 480)
Balance at 30 June	5 016	5 421

25. Capital Asset Reserve

Capital asset reserve comprises:

Capital Fund account	10 428	9 427
Capital Fund assets (at written-down value)	5 835	6 136
	16 263	15 563

Capital Fund Account:

Balance at 1 July	9 427	10 060
Transfer from retained earnings	2 000	2 000
Assets financed	(999)	(2 633)
Balance at 30 June	10 428	9 427

Capital Fund Assets:

Written-down value at 1 July	6 136	4 597
Assets financed	999	2 633
Depreciation	(1 298)	(1 094)
Written down value of assets disposed of	(2)	-
Written-down Value at 30 June	5 835	6 136

26. Commitments for Expenditure Capital and Other Commitments

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

Within one year	1 521	1 958
Later than one year but not later than five years	309	1 275
Total Capital Commitments	1 830	3 233

Operating Lease Commitments

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:

Within one year	666	627
Later than one year and not later than five years	2 483	2 289
Later than five years	1 846	2 462
Total Operating Lease Commitments	4 995	5 378

Representing:

Non-cancellable Operating Leases	4 995	5 378
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26. Commitments for Expenditure (continued)

The 10 year accommodation operating lease at 24-25 Greenhill Road, Wayville (Head office) is non-cancellable with rent payable monthly in advance. Contingent rental provisions within the lease agreement require lease payments to be increased by 3 percent per annum with a rent review after 5 years. The option for renewal of a further term of 5 years is available prior to the expiration of the current term.

The operating lease for the remote computer site at Kidman Park is non-cancellable with rental payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased by 5 percent per annum.

27. Contingent Assets and Liabilities

SA Lotteries is not aware of any contingent assets or liabilities. SA Lotteries has made no guarantees.

28. Cash Flow Reconciliation

Reconciliation of Profit before Income Tax Equivalent	2006	2005
to Net Cash provided by Operating Activities:	\$'000	\$'000
Profit before income tax equivalent	27 234	26 216
Add: Gambling tax	56 888	58 412
Add (Less): Non-cash items:		
Depreciation and amortisation expense	2 929	3 628
Net loss on disposal of non-current assets	2	500
Increase in defined benefit superannuation plan asset	(717)	(219)
Changes in assets/liabilities:		
Decrease in receivables	860	247
Decrease (Increase) in inventories	20	(15)
Increase (Decrease) in payables	659	(705)
(Decrease) Increase in employee benefits	(57)	111
Increase in other liabilities	2 556	2 258
Net Cash provided by Operating Activities	90 374	90 433

29. Distribution of Funds to SA Government

	Balance 01.07.05	Distribution Provided	Distribution Paid	Balance 30.06.06
	\$'000	\$'000	\$'000	\$'000
Gambling tax	5 883	56 888	57 397	5 374
Income tax equivalent	527	8 170	7 701	996
Dividend	1 007	18 956	17 790	2 173
Unclaimed prizes	263	1 291	1 358	196
Special dividend	153	-	153	-
	7 833	85 305	84 399	8 739
Comprising:				
Distribution to Hospitals Fund:				
Gambling tax	5 832	56 796	57 317	5 311
Income tax equivalent	527	8 170	7 701	996
Dividend	1 001	18 868	17 716	2 153
Unclaimed prizes	263	1 290	1 357	196
Special dividend	153	-	153	-
	7 776	85 124	84 244	8 656
Distribution to Recreation and Sport Fund:				
Gambling tax	51	92	80	63
Dividend	6	88	74	20
Unclaimed prizes	-	1	1	-
	57	181	155	83
Total 2005-06	7 833	85 305	84 399	8 739
Total 2004-05	5 973	91 027	89 167	7 833

30. Financial Instruments

(a) Interest Rate Risk

The effective weighted average interest rate risk is outlined below for the following financial assets and liabilities.

Financial Instrument	2006						Weighted Average Interest Rate Percent
	Floating Interest Rate	Fixed Interest Maturing in:			Non- Interest Bearing	Total Amount	
	\$'000	1 year or Less \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	\$'000	\$'000	
Financial Assets:							
Cash	51 631	-	-	-	82	51 713	5.61
Receivables	-	-	-	-	1 665	1 665	
Total	51 631	-	-	-	1 747	53 378	
Financial Liabilities:							
Payables	-	-	-	-	21 775	21 775	
Borrowings	-	1 738	512	-	-	2 250	6.99
Total	-	1 738	512	-	21 775	24 025	

(a) Interest Rate Risk (continued)

Financial Instrument	Floating Interest Rate \$'000	2005 Fixed Interest Maturing in:			Non-Interest Bearing \$'000	Total Amount \$'000	Weighted Average Interest Rate Percent
		1 year or Less \$'000	1 to 5 Years \$'000	More than 5 Years \$'000			
Cash	48 181	-	-	-	82	48 263	5.46
Receivables	-	-	-	-	2 525	2 525	
Total	48 181	-	-	-	2 607	50 788	
Financial Liabilities:							
Payables	-	-	-	-	20 099	20 099	
Borrowings	-	1 637	2 250	-	-	3 887	7.12
Total	-	1 637	2 250	-	20 099	23 986	

Terms and Conditions of Financial Liabilities

SA Lotteries has six loans from the Department of Treasury and Finance, with fixed interest rates ranging from 5.59 percent to 7.21 percent together with a 0.75 percent guarantee fee (0.65 percent from 1 July 2006). All loans are repayable over eight years and the maturity schedule as at 30 June is set out above.

(b) Foreign Exchange Risk

SA Lotteries entered into forward exchange contracts to limit its exposure to movements in foreign exchange rates applicable to anticipated purchase commitments in US dollars.

The following table sets out the gross value to be paid under forward exchange contracts, the weighted average contracted exchange rates and the settlement periods of the outstanding contracts.

	2006 Weighted Average Rate	2005 Rate	2006 \$'000	2005 \$'000
Buying US Dollars:				
Less than one year	0.67	0.67	751	751
Between one year and two years	-	0.67	-	751
			751	1 502

(c) Credit Risk

SA Lotteries' maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet. Credit risk represents the loss that would be recognised if parties holding financial assets of SA Lotteries at balance date fail to honour their obligations under contract.

SA Lotteries minimises its credit risk on debtor agents by undertaking its sales transactions with a large number of agents and requiring those agents to remit outstandings on a twice weekly basis. As a result, SA Lotteries is not significantly exposed to credit risk and there are no significant concentrations of credit risk at the balance sheet date.

(d) Net Fair Values

The aggregate net fair values of recognised financial assets and financial liabilities at the balance date are equal to the carrying values as per the Balance Sheet.

31. Related Party Disclosures

Commission Members

The following persons held the position of Member of the Lotteries Commission of South Australia for the full financial year unless otherwise stated:

- Mr H J Ohff, FIEAust, CPEng, BA (Hons) (Presiding Member);
- Mr D P LeMessurier, Ass Dip (Man) SIA (Aff), FAICD, MSDIA, MBA - term expired on 31 March 2006 ;
- Ms S J Mackenzie, BComm (Accounting), LLB (Hons);
- Mr S K Shirley, BEc, FCA, CPA, FTIA;
- Ms C M Crago, Ass Dip (Bus) BBus (Mktg);
- Mr W R Jackson, BEc, FASA - appointed 25 May 2006.

Details of Commission Members' remuneration are set out in Note 10.

No Commission Member has entered into a material contract with SA Lotteries since the end of the previous financial year and there were no material contracts involving Commission Members' interests subsisting at the end of the financial year.

32. Superannuation	2006	2005
	\$'000	\$'000
(a) Expense (Income) Recognised in the Income Statement		
Amounts recognised as expense (income) in respect of the defined benefit superannuation plan as follows:		
Current service cost	373	383
Interest cost	303	329
Expected return on plan assets	(433)	(405)
Actuarial loss (gain)	(625)	(151)
Superannuation Expense (Income)	(382)	156
The expense (income) is recognised in the following item in the Income Statement:		
Employee Benefits Costs	(382)	156
(b) Reconciliation of the Present Value of the Defined Benefit Obligation		
Present value of defined benefit obligation at 1 July	6 994	6 600
Current service cost	373	383
Interest cost	303	329
Contributions by plan participants	202	209
Actuarial loss (gain)	(59)	283
Benefits paid	(1 858)	(688)
Taxes, premiums and expenses paid	(106)	(122)
Transfers in	3	-
Present Value of Defined Benefit Obligation at 30 June	5 852	6 994
(c) Reconciliation of the Fair Value of Defined Benefit Plan Assets		
Fair value of plan assets at 1 July	7 065	6 452
Expected return on plan assets	433	405
Actuarial gains (losses)	566	434
Employer contributions	335	375
Contributions by plan participants	202	209
Benefits paid	(1 858)	(688)
Taxes, premiums and expenses paid	(106)	(122)
Transfers in	3	-
Fair Value of Plan Assets at 30 June	6 640	7 065
The fair value of Plan assets includes no investments over which SA Lotteries retains ownership control relating to:		
• any of SA Lotteries' own financial instruments; or		
• any property occupied by, or other assets used by, SA Lotteries.		
(d) Reconciliation of the Asset Recognised in the Balance Sheet		
Defined benefit obligation	5 852	6 994
Fair value of plan assets	6 640	7 065
Surplus (deficit)	788	71
Net Superannuation Asset (Liability)	788	71
The amount included in the Balance Sheet arising from SA Lotteries' net superannuation asset in respect of its defined benefit plan is as follows:		
Other Non-Current Assets (Note 20)		
Defined Benefit Superannuation Plan Asset	788	71
(e) Movement in Asset Recognised in the Balance Sheet		
Net superannuation asset (liability) at 1 July	71	(148)
Income (expense) recognised in Income Statement	382	(156)
Employer contributions	335	375
Net movement	717	219
Net Superannuation Asset (Liability) at 30 June	788	71
(f) Plan Assets		
The percentage invested in each asset class at the balance sheet date:		
	Percentage Invested	Plan Assets
	2006	2005
	Percent	Percent
Australian equity	34	36
Overseas equity	28	23
Fixed income	15	16
Property	8	8
Cash	15	17
Total Plan Assets	100	100
		2006
		\$'000
		2 258
		1 625
		1 130
		531
		1 202
		6 640
		7 065

(Asset allocation as at 30 June 2006 was not available. The asset allocation at 31 May 2006 has been used as an approximation of the allocation as at the balance sheet date.)

(g) Expected Rate of Return on Plan Assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets in each class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax, investment fees, and asset-based administration fees.

	Expected Rate of Return	
	2006 Percent	2005 Percent
The expected rate of return for each asset class at 30 June is as follows:		
Australian equity	7.5	7.5
Overseas equity	7.0	7.0
Fixed income	4.3	4.3
Property	6.3	6.3
Cash	3.8	3.8
Weighted Average Expected Return	6.3	6.3

(h) Actual Return on Plan Assets

	2006 \$'000	2005 \$'000
Actual Return on Plan Assets	999	839

(i) Principal Actuarial Assumptions

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2006 Percent Per Annum	2005 Percent Per Annum
Discount rate (active members)	4.9	4.3
Expected rate of return on plan assets (active members)	6.3	6.3
Expected salary increase rate	3.5	4.0

(j) Contributions

Contributions paid/payable by SA Lotteries to superannuation plans:

	2006 \$'000	2005 \$'000
Defined benefit members	335	375
Defined contribution (accumulation) members	248	214
Private funds	15	-
Total Contributions	598	589

(k) Historical Information

Present value of defined benefit obligation
Fair value of plan assets

	2006	2005
Present value of defined benefit obligation	5 852	6 994
Fair value of plan assets	6 640	7 065
Surplus (Deficit) in Plan	788	71
Experience adjustments gain (loss) - plan liabilities	(170)	20
Experience adjustments gain (loss) - plan assets	566	434

(l) Expected Employer Contributions

The estimated employer contributions expected to be paid to the Plan during the year beginning after the balance sheet date

	2006	2005
	324	380

(m) Funding Arrangements for Employer Contributions

(i) Surplus/Deficit

The following is a summary of the most recent financial position of the Lotteries Commission of South Australia Superannuation Plan calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*. Note that the figures below relate to the defined benefit members of the Plan only.

	As at 30 June 2003
Accrued benefits	6 740
Net market value of plan assets	6 487
Net Surplus (Deficit)	(253)
Accumulation Members' Assets and Benefits were	530

(The Plan is subject to a triennial review and is externally managed. The last full actuarial investigation was conducted as at 30 June 2003 by Paul Gilbert, FIAA and Richard R Codron, FIAA Superannuation Actuaries. The report was dated 24 February 2004.)

(ii) Contribution Recommendations

The current contribution recommendations, as set out in the report of the most recent actuarial valuation of the Plan as at 30 June 2003, are:

- 16.5 percent and 14.5 percent of Category A and B members' salaries respectively;
- at the Superannuation Guarantee rate for accumulation members.

SA Lotteries is currently contributing at these rates.

(iii) *Funding Method*

The method used to determine the employer contribution recommendations at the last actuarial review was the projected accrued benefit method. The method adopted affects the timing of the cost to SA Lotteries.

Under the projected accrued benefit method, the employer contribution rate is determined with the aim of maintaining the assets at or close to the value of Accrued Benefits and above the total of the leaving service benefits by a margin sufficient to give security against adverse circumstances.

(iv) *Economic Assumptions*

The long-term economic assumptions adopted for the last actuarial review of the Plan as at 30 June 2003 were:

Expected rate of return on assets (discount rate)	Weighted-Average Assumptions 8.5 percent in the 2002-03 year 6.5 percent per annum thereafter
Expected salary increase rate	4.0 percent per annum

(n) ***Nature of Asset/Liability***

SA Lotteries has recognised an asset in the Balance Sheet in respect of its defined benefit superannuation arrangements. If a surplus exists in the Plan, SA Lotteries may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary.

SA Lotteries (the employer) may at any time by notice to the Trustee terminate its contributions. In this case the employer has a liability to pay the monthly contributions due prior to the effective date of the notice, but subject to any statutory obligations, there is no requirement for the employer to pay any further contributions, irrespective of the financial condition of the Plan.

The Plan does not impose a legal liability on SA Lotteries to cover any deficit that exists in the Plan if it is wound up. The Master Deed of the Mercer Super Trust and the Participation Agreement of the Plan state that if the Plan winds up, the remaining assets must be paid to Members, Dependants, former Members, deceased Members' Dependants or legal personal representative in proportions the Trustee in its discretion determines is appropriate.

MOTOR ACCIDENT COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Motor Accident Commission (the Commission) is a statutory authority established pursuant to the *Motor Accident Commission Act 1992*.

Functions

The functions of the Motor Accident Commission are as follows:

- To provide policies of compulsory third party insurance under Part 4 of the *Motor Vehicles Act 1959*, and to be the sole approved insurer under that Part until such time as the Minister responsible for the administration of that Act forms the view that it would be in the best interests of the State to invite and approve other persons or bodies of persons to be insurers under that Part.
- To maintain the Compulsory Third Party Fund.
- To perform the functions of the nominal defendant while the Commission holds that office under Part 4 of the *Motor Vehicles Act 1959*.
- To provide financial or other support for and promote programs designed to reduce the incidence or impact of road accidents and road accident injuries.
- To carry on any other residual insurance business arising from its earlier operations as the State Government Insurance Commission (but only in order to wind up that business).
- To perform any functions of a kind prescribed by regulation.
- To perform any functions that are necessary or convenient for or incidental to the performance of functions referred to above.

The principal objectives of the Commission in providing compulsory third party insurance are to:

- achieve and maintain a sufficient level of solvency in the Compulsory Third Party Fund;
- minimise premium charges having regard to the Commission's objective of achieving and maintaining a sufficient level of solvency in the Fund;
- deal with claims for compensation in accordance with law as expeditiously as possible.

Pursuant to section 18 of the *Motor Accident Commission Act 1992*, the Minister must prepare, in consultation with the Commission, a Charter, which may limit the functions or powers of the Commission.

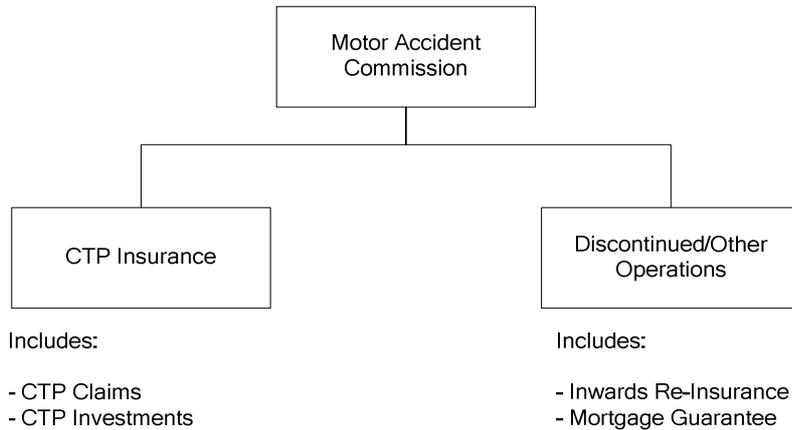
The Commission's Charter specifies that the Commission is empowered to undertake the following classes of insurance:

- Compulsory third party (CTP) insurance (in accordance with the *Motor Vehicles Act 1959*).
- Mortgage insurance, credit enhancements, and guarantees insurance.
- Financial risk insurance.

The latter two classes of insurance are in 'run-off' mode.

Structure

The structure of the Motor Accident Commission is illustrated in the following organisation chart.



With the exception of the CTP insurance business, no new policies were underwritten by the Commission for all other insurance activities. These activities are in 'run-off' mode and will cease once the Commission's obligations under the existing policies have expired or have been settled.

The administration and management of the CTP claims insurance business is undertaken on the Commission's behalf by Allianz Australia Insurance Limited (Allianz). Investments are managed by a number of external fund managers with the exception of the direct property portfolio which is managed 'in house'.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 28(3) of the *Motor Accident Commission Act 1992* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts and financial statements of the Commission in respect of each financial year.

Assessment of Controls

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

Scope of Audit

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

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

- investment assets
- investment income
- claims payable
- premiums
- management agreements (CTP)
- provisions for outstanding claims
- accounts payable
- receivables.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Motor Accident Commission as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Motor Accident 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 Motor Accident 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. Major matters raised with the Commission and the related responses are considered herein.

Claims Management - Compulsory Third Party Fund

The results of the audit indicated the claims manager Allianz had a satisfactory level of internal controls in place. However, there were several areas where controls in relation to the computerised claims management system used by Allianz could be improved. The main areas related to controls over access to the system and delegations of authority.

In response the Commission indicated that Allianz have undertaken to implement action to address the issues raised by Audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

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

Highlights of Financial Report

	2006 \$'million	2005 \$'million	Percentage Change
UNDERWRITING RESULT			
Net premium revenue	386	378	2
Net claims	(369)	(359)	3
Other underwriting expenses	(81)	(74)	9
Underwriting Loss	(64)	(55)	16
INVESTMENT RESULT			
Net investment revenue	137	91	51
Investment market value movements	33	67	(51)
Revenue from Investment Activities	170	158	8
Net Profit	106	103	3
Net Cash Flows from Operations	(25)	10	-
ASSETS			
Current assets	239	242	(1)
Non-current assets	1 717	1 548	11
Total Assets	1 956	1 790	9
LIABILITIES			
Current liabilities	495	480	3
Non-current liabilities	1 135	1 090	4
Total Liabilities	1 630	1 570	4
EQUITY	326	220	48

The Commission's financial performance is significantly influenced by two inter-related aspects of its business as outlined below:

- Underwriting result — Underwriting operations are influenced by premium income, the number of claims and the estimated costs of settling those claims. The underwriting result is determined as premium revenue less claims expense (after the cost and recoveries associated with reinsuring a portion of the insurance portfolio's risk with third parties) and other underwriting costs.

- Investment result — Investment operations is an integral part of any insurance business as the estimated return on invested funds is a significant component of the pricing strategy employed by the business.

Australian Accounting Standards Board AASB 1023 *General Insurance Contracts* requires that 'market value accounting' be adopted in the accounting for and valuation of investments. This means that the investment result includes not only interest and related income received, but also changes in the market values of investments held at balance date. Changes in the market values of investments can be subject to wide fluctuations and it is important to emphasise that investment market value movements recognised in the Commission's financial statements are unrealised. That is, until such time as the investments are sold, no gain or loss is actually received or incurred by the Commission.

Income Statement

Underwriting Result

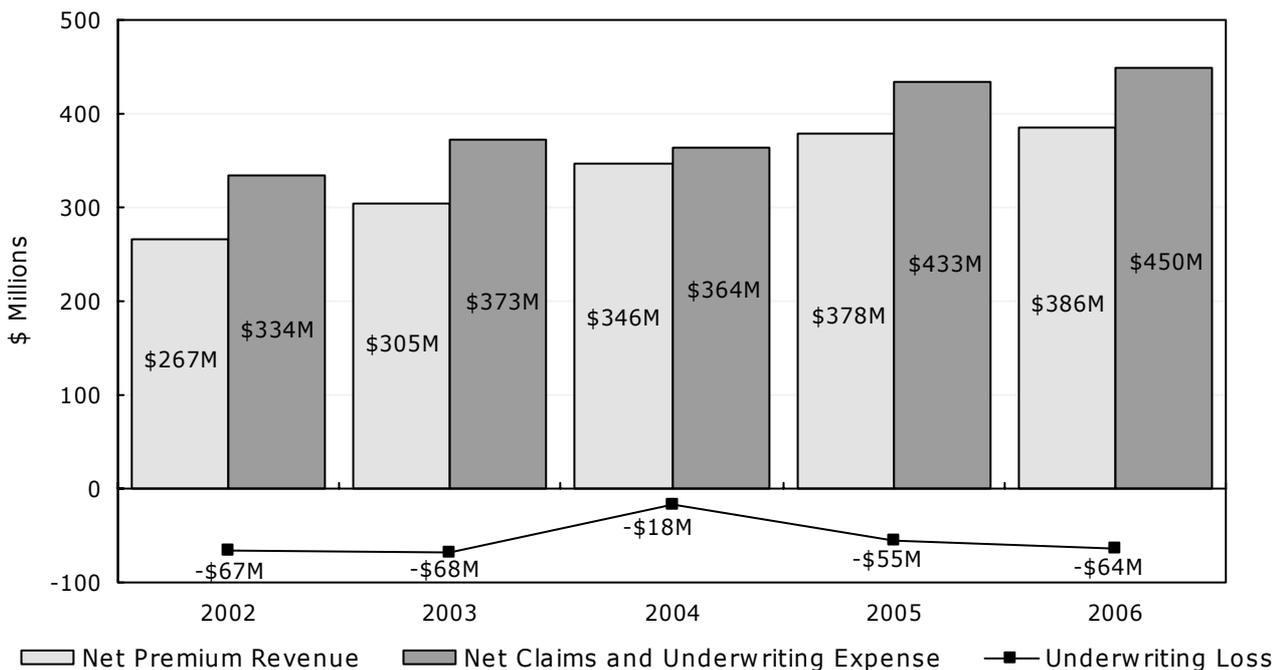
The underwriting loss increased by \$9 million in 2006 to a loss of \$64 million partly as a result of other underwriting expenses increasing by \$4.9 million due to an increase in collection charges.

Another contributing factor to the increased underwriting loss was a new provision embodied in AASB 1023 which requires that a liability adequacy test be undertaken annually. The test is to determine whether the net unearned premium reserve is sufficient to cover future claims expense, including an appropriate prudential margin and associated claims management expenses. If the liability adequacy test is not met then additional provisioning must be included. An actuarial determination of the sufficiency of the net unearned premium reserve indicated that an additional \$6.7 million was required, an increase of \$1.8 million over the previous year.

Net premium revenue increased in 2006 by \$7.6 million or 2 percent. This small increase reflects the decision by the Third Party Premium Committee to decrease premiums by 2.7 percent for the 2005-06 financial year. Net premium revenue has increased steadily since 2002. Details of premium increases over the five years to 2006 is provided under the heading 'Solvency Level' herein.

Net claims and underwriting expenses have increased steadily over the same period except for 2004 when a decrease of \$9.1 million was experienced. Net claims expense is a combination of actual claim payments and the movement in outstanding claims provision. The claims expense for 2006 was \$369 million, an increase of \$8.3 million and comprised gross claim payments of \$286 million (\$264 million) coupled with the increase in the outstanding claims provision of \$83 million (\$97 million).

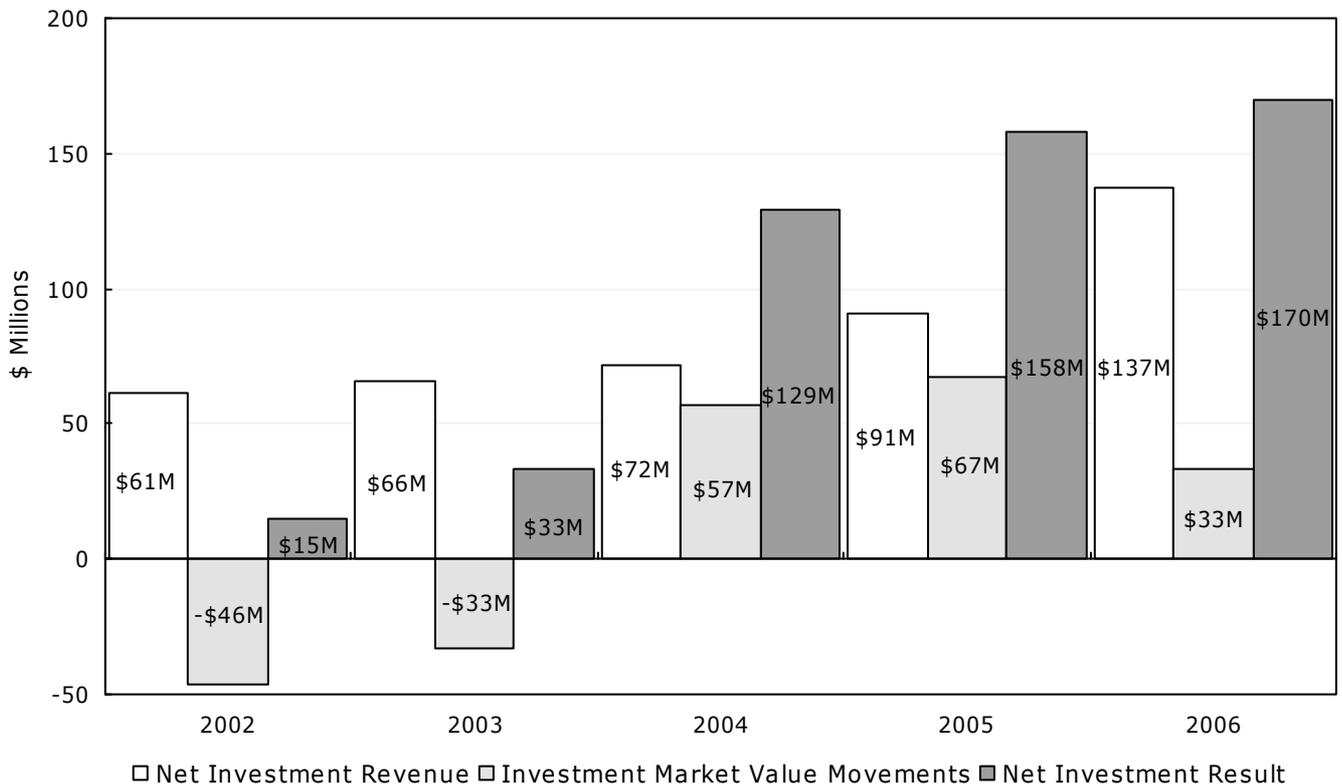
An analysis of the underwriting result for the Commission for the five years to 2006 is presented in the following chart.



Investment Result

The investment result has improved markedly in the last three years compared with the previous two years. Net investment revenue increased by \$46 million in 2006 compared with a \$19 million increase the previous year. The value of investment market value movements was \$33 million in 2005, a decrease of \$34 million over the previous year. The overall investment result has improved by \$12 million in 2006 which is reflective of the continued strong performance in investment markets over the last three years.

An analysis of the investment result for the Commission for the five years to 2006 is shown in the following chart.



In 2006 MAC achieved a return on its investment portfolio of 10.2 percent (10.8 percent) which compares with its internal benchmark of 9.4 percent (10.3 percent).

Operating Result

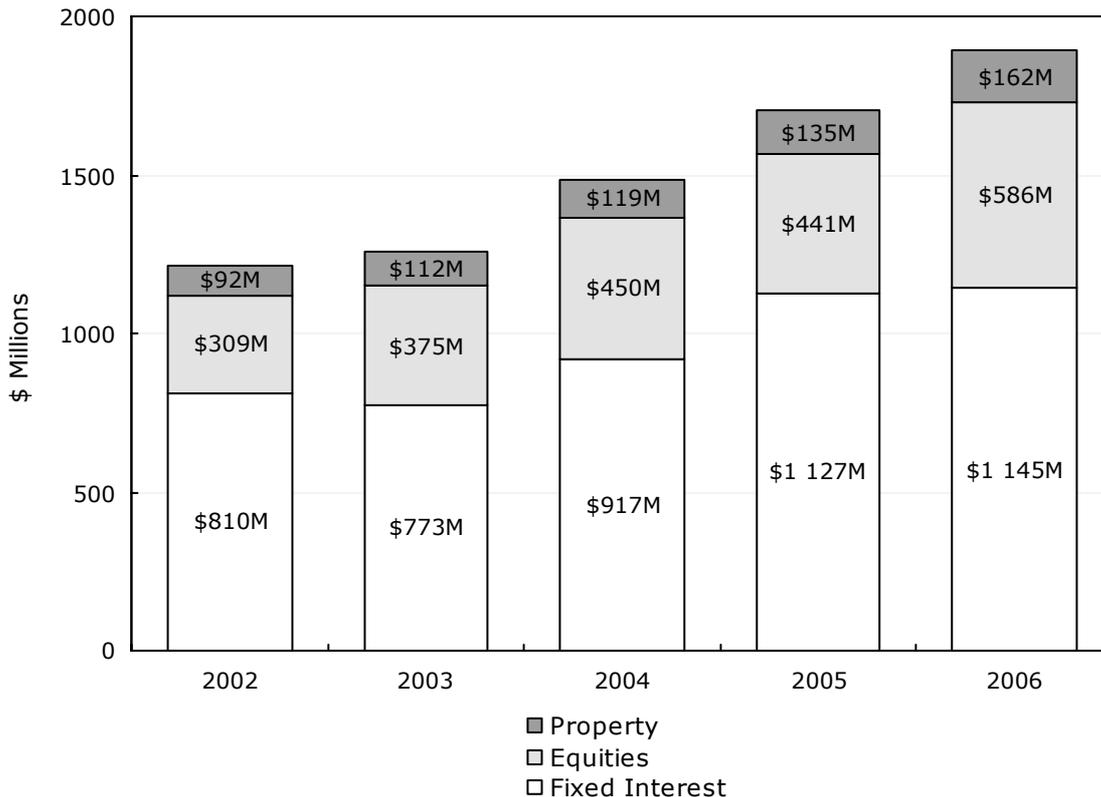
The Commission has recorded an operating profit of \$106 million in 2006. This is an increase of \$3 million over the previous year and continues the significant improvement over the losses incurred in 2002 and 2003. The turnaround in operating result over the last three years is due mainly to the effects of the positive movement in the market value of investments and improved investment revenue, together with an increase in premium revenue offset by an increase in claims expense.

Balance Sheet

Investments

The total value of investment assets has increased by \$682 million over the five years to 2006 with investments totalling \$1.9 billion as at 30 June 2006. The portfolio mix over the last two years has been relatively constant with a slight shift away from fixed interest and into equity in 2006. As at 30 June 2006 fixed interest investments accounted for 60 percent, equity 31 percent and property 9 percent of the investment portfolio.

For the five years to 2006 a structural analysis of investment assets is shown in the following chart.



Outstanding Claims

The primary liability of the Commission is for outstanding claims. The liability covers claims reported but not yet paid, incurred but not reported, the anticipated direct and indirect costs of settling those claims and estimated reinsurance and other insurance costs.

Calculation of the liability is an estimation process and a range of factors, including economic assumptions, affect the calculation. There is therefore a need for professional actuaries to undertake the calculation and for reporting purposes detailed disclosure of a range of the assumptions made in the calculation to be included in the notes to the financial statements.

The liability calculation is reviewed by independent actuaries for the Commission. Detail of the calculation is provided in Notes 2(e) and 16 to the financial statements.

The provision for outstanding claims has increased by \$340 million over the last five years. In 2006 the provision increased by \$82 million to \$1.45 billion. The movement in the provision is a combination of the estimated cost of settling claims incurred in 2005-06, any changes in the estimated cost of settling claims incurred in previous years, together with any payments made to settle claims. Factors considered by the Actuary which impact the estimate of amounts required to settle claims include the:

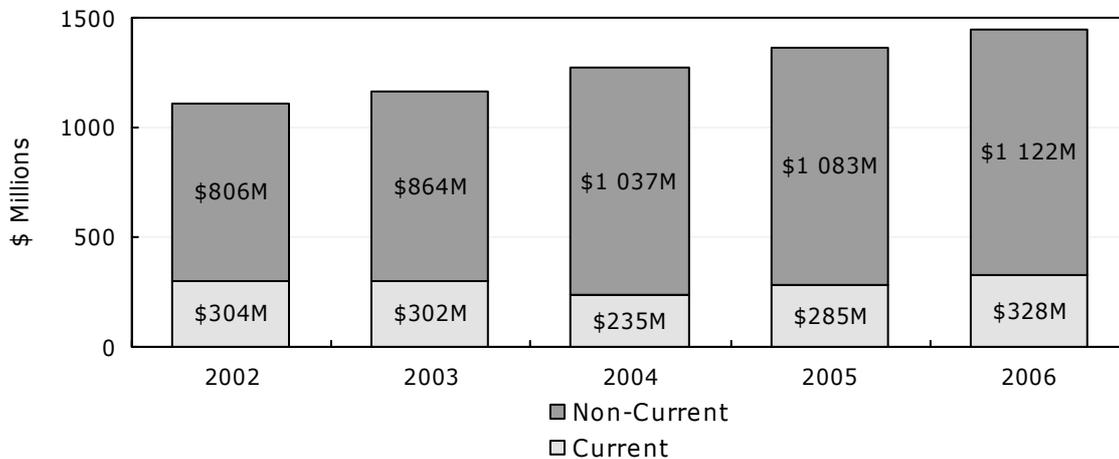
- number of claims incurred;
- length of time taken to settle the claim;
- average amount of claim payments;
- inflation and discount rates used.

Over the past three years there have been other specific factors which have impacted on the calculation of the provision resulting in a lesser increase in the provision than would otherwise have been experienced. These include:

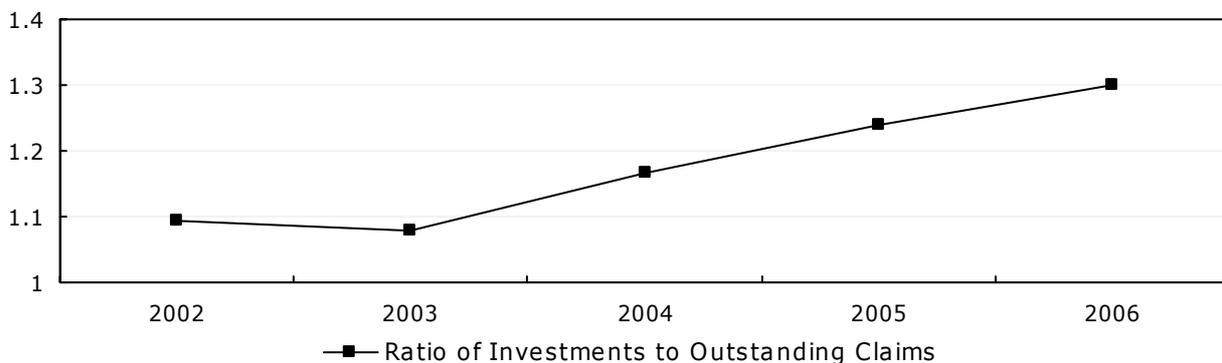
- the introduction of lower speed limits in various areas of South Australia;
- the implementation of a lower scale of payments for pain and suffering for minor injuries;
- a change in the administrative procedures regarding management of claims.

Also impacting on the calculation of the outstanding claims liability is the solvency requirements promulgated by the Treasurer pursuant to the *Motor Accident Commission Act 1992* which require a greater risk margin to be included in the provision than in previous years. The risk margin is required to achieve an 80 percent probability that the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority nominated target of 75 percent probability of sufficiency, as set out in Prudential Standard GPS 210. Refer to further commentary provided under the section 'Solvency Level' herein.

The following chart sets out details of the liability for the five years to 2006.



The ratio of investments to outstanding claims liability is shown in the following chart. The ratio shows that the value of the Commission's assets are sufficient to cover the value of its outstanding claims. The ratio has continued to increase in 2006 as growth in the value of investment assets held as at 30 June 2006 has exceeded growth in the value of outstanding claims.



Solvency Level

Subsection 14(3) of the *Motor Accident Commission Act 1992* (the Act) requires the Commission to seek to achieve and maintain a sufficient level of solvency for the CTP fund in accordance with a formula determined by the Treasurer.

The primary aim of establishing a benchmark level of solvency is to ensure that the fund can reasonably expected to meet all of its liabilities as they fall due and essentially reflects the target level of reserves deemed by the Treasurer to be appropriate for the CTP fund to provide comfort that the scheme will endure future market turbulence with minimal risk of falling into a negative net assets position.

In May 2006 the Treasurer changed the formula used for determining the required level of solvency pursuant to the Act. The new formula specifies that the CTP fund will have a sufficient level of solvency if its assets exceed the sum of:

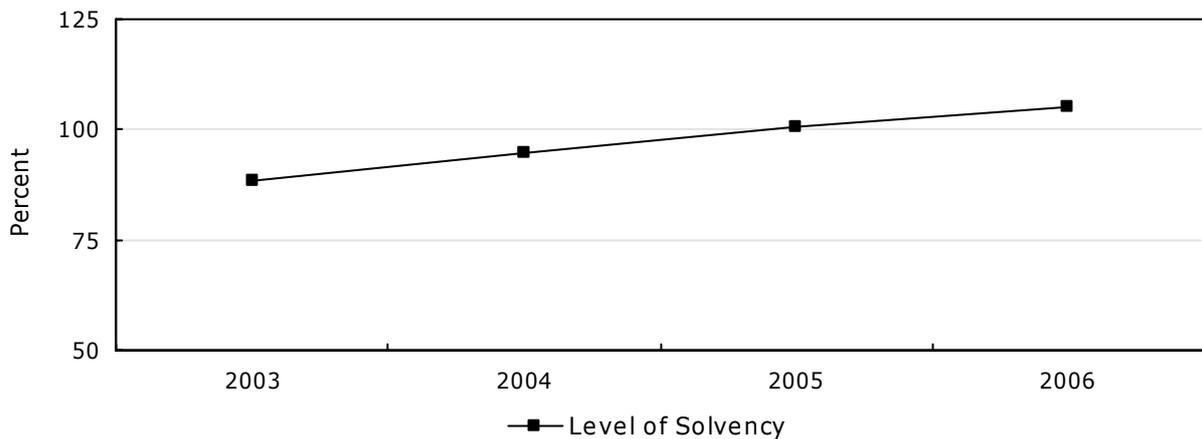
- the fund's liabilities;
- 10 percent of the outstanding claims liabilities provision;
- 10 percent of the premium liabilities provision; and
- 10 percent of the investments in equities and property.

The Treasurer also requires that the provisions for outstanding claims liabilities and premium liabilities include a prudential margin which will be calculated by reference to an 80 percent probability that the provisions will be adequate as reported in actuarial reports to the Commission and also that the calculation of these provisions comply with the requirements of:

- Accounting Standard AASB 1023 *General Insurance Contracts*;
- Professional Standard Number 300, *Actuarial Reports and Advice on Outstanding Claims in General Insurance* issued by the Institute of Actuaries of Australia;
- Australian Prudential Regulation Authority GPS 210 in respect of the outstanding claims liabilities and premium liabilities (with the exception that the risk margins adopted are to be at the 80 percent probability of sufficiency compared with the 75 percent probability APRA requires).

As at 30 June 2006 the target level of reserves, as determined by application of the formula, was \$1862.4 million. The assets of the CTP fund as at that date were \$1954.2 million or 104.9 percent of the target level of solvency, a surplus of \$91.8 million.

The following chart shows the level of solvency achieved over the period since the solvency targets were initially set. All amounts were calculated using the revised formula promulgated by the Treasurer. The chart highlights a gradual improvement in performance over the four year period. The achievement of the required level of solvency in the last two years coincides with the improvement in investment market returns and also the increases in premiums being at the level recommended by the independent Third Party Premium Committee (TPPC) (refer to the table below for more details on recent premium increases).



The recent history regarding the implementation of premium increases recommended by the TPPC is outlined below:

	2006	2005	2004	2003	2002
	Percent	Percent	Percent	Percent	Percent
TPPC:					
Recommended rise (effective for the financial year)	(2.7)	5.5	16.4	21.7	13.6
Actual rise	(2.7)	5.5	16.4*	15.5	4.7
Difference	-	-	-	6.2	8.9

* The increase for some premium classes was capped at 9 percent.

As can be seen from the foregoing table, since 2004 the premiums recommended by the TPPC were approved by the Treasurer whereas in the previous two years a lesser rise was approved. Subsection 25(3a) of the Act requires that subject to any direction of the Treasurer to the contrary, the Commission must not, while there is less than sufficient level of solvency in the CTP Fund, fix its third party insurance premiums at amounts less than those determined by the TPPC. Application of this subsection since its promulgation in 2002 has contributed to the improved solvency level to the point where since 2005 the desired level of solvency has been achieved and in 2005-06 allowed for a decrease in premiums charged.

Under the provisions of the *Motor Accident Commission Act 1992*, two of the principal objectives of the Commission in providing compulsory third party insurance are to achieve and maintain a sufficient level of solvency in the CTP Fund; and to minimise premium charges having regard to the Commission's objective of achieving and maintaining a sufficient level of solvency in the CTP Fund. The TPPC considers these two objectives when making its premium recommendation which is determined based on the circumstances prevailing at the time in relation to expected premium income, projected claim costs and investment returns. For the year commencing 1 July 2006 the TPPC recommended an average decrease in premiums of 0.9 percent which was adopted by the Treasurer.

Cash Flow Statement

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

	2006	2005	2004	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000
Net Cash Flows					
Operations	(24 783)	9 624	12 858	(30 212)	29 514
Investing	(37)	51	(168)	(33)	270
Financing	-	-	(5 000)	(10 000)	-
Change in Cash	(24 820)	9 675	7 690	(40 245)	29 784
Cash at 30 June	61 065	85 885	76 210	68 520	108 765

The analysis of cash flows shows that the Commission's cash position has reduced in 2006 primarily as a result of cash used in operating activities although there is still a significant cash balance as 30 June 2006.

Cash flows from operating activities decreased by \$34.4 million from the previous year and was impacted by a decrease in the net cash generated in the course of operations (\$35 million, down \$35.6 million from 2005) offset by an increase in the net cash used in the purchase of investments (\$129.4 million, up \$11.4 million from 2005). The decrease in the net cash generated in the course of operations in 2006 has resulted from decreased cash received from premiums offset by an increase in claim payments made during the year.

Income Statement for the year ended 30 June 2006

	Note	CTP		MAC	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Premium revenue	5	389 187	381 483	389 187	381 483
Outwards reinsurance expense		(3 617)	(3 517)	(3 617)	(3 517)
NET PREMIUM		385 570	377 966	385 570	377 966
Claims expense	6	(369 196)	(360 877)	(369 192)	(360 872)
Reinsurance and other recoveries	5	500	2 434	506	2 439
NET CLAIMS	19	(368 696)	(358 443)	(368 686)	(358 433)
Unexpired risk expense	9	(6 700)	(4 900)	(6 700)	(4 900)
Other underwriting expenses	7	(74 192)	(69 276)	(74 278)	(69 338)
UNDERWRITING LOSS		(64 018)	(54 653)	(64 094)	(54 705)
Investment revenue	5	139 938	93 285	140 022	93 340
Other revenue	5	(2)	(3)	-	(5)
Investment management fee		(3 312)	(2 236)	(3 312)	(2 236)
NET INVESTMENT REVENUE		136 624	91 046	136 710	91 099
PROFIT BEFORE MARKET VALUE MOVEMENTS		72 606	36 393	72 616	36 394
Investment market value movements (AASB 1023)	5	33 099	67 106	33 099	67 106
NET PROFIT		105 705	103 499	105 715	103 500

**THE NET PROFIT IS ATTRIBUTABLE TO THE
SA GOVERNMENT AS OWNER**

Balance Sheet as at 30 June 2006

		CTP		MAC	
		2006	2005	2006	2005
CURRENT ASSETS:	Note	\$'000	\$'000	\$'000	\$'000
Cash		3 451	2 502	4 788	3 778
Receivables	8	27 724	51 413	27 784	51 435
Reinsurance and other recoveries receivable	10	3 323	2 541	3 323	2 541
Other financial assets	11	188 016	169 279	188 087	169 345
Prepayments		15 162	15 377	15 162	15 377
Total Current Assets		237 676	241 112	239 144	242 476
NON-CURRENT ASSETS:					
Reinsurance and other recoveries receivable	10	10 793	12 856	10 793	12 856
Other financial assets	11	1 585 259	1 445 895	1 585 259	1 445 895
Investment property	12	119 581	87 350	119 581	87 350
Property, plant and equipment	13	-	-	188	197
Prepayments		899	1 499	899	1 499
Total Non-Current Assets		1 716 532	1 547 600	1 716 720	1 547 797
Total Assets		1 954 208	1 788 712	1 955 864	1 790 273
CURRENT LIABILITIES:					
Payables	14	33 078	59 326	32 967	59 173
Unearned income	15	133 265	135 814	133 265	135 814
Outstanding claims	16	327 669	284 929	327 671	284 931
Unexpired risk liability	9	812	343	812	343
Provisions	17	-	-	205	171
Total Current Liabilities		494 824	480 412	494 920	480 432
NON-CURRENT LIABILITIES:					
Unearned income	15	1 683	1 453	1 683	1 453
Outstanding claims	16	1 122 191	1 083 273	1 122 268	1 083 354
Unexpired risk liability	9	10 788	4 557	10 788	4 557
Provisions	17	-	-	103	90
Total Non-Current Liabilities		1 134 662	1 089 283	1 134 842	1 089 454
Total Liabilities		1 629 486	1 569 695	1 629 762	1 569 886
NET ASSETS		324 722	219 017	326 102	220 387
EQUITY:					
Retained profit		324 722	219 017	326 102	220 387
TOTAL EQUITY		324 722	219 017	326 102	220 387
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER					
Commitments	20				
Contingent Assets and Liabilities	26				

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

	CTP \$'000	MAC \$'000
Retained Earnings at 30 June 2004	115 518	116 887
Net result for 2004-05	103 499	103 500
Retained Earnings at 30 June 2005	219 017	220 387
Net result for 2005-06	105 705	105 715
Retained Earnings at 30 June 2006	324 722	326 102

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

Cash Flow Statement for the year ended 30 June 2006

		CTP		MAC	
		2006 Inflows (Outflows)	2005 Inflows (Outflows)	2006 Inflows (Outflows)	2005 Inflows (Outflows)
CASH FLOWS FROM OPERATING					
ACTIVITIES:	Note	\$'000	\$'000	\$'000	\$'000
Cash receipts in the course of operations		423 476	428 721	423 556	428 721
Cash payments in the course of operations		(388 548)	(358 372)	(388 523)	(358 130)
Proceeds from sale of investments		1 452 735	2 055 006	1 452 735	2 055 005
Payment for investments		(1 582 101)	(2 173 014)	(1 582 101)	(2 173 014)
Taxes paid		(12 655)	(17 738)	(12 662)	(17 749)
Dividends received		6 389	7 089	6 389	7 089
Interest and other investment income		75 823	67 643	75 823	67 702
Net Cash Inflows (Outflows) from Operating Activities	24	(24 881)	9 335	(24 783)	9 624
CASH FLOWS FROM INVESTING					
ACTIVITIES:					
Payment for property, plant and equipment		-	-	(37)	(89)
Proceeds from deregistration of controlled entities		-	-	-	120
Investment market movements - Realised		-	-	-	20
Net Cash Inflows (Outflows) from Investing Activities		-	-	(37)	51
NET (DECREASE) INCREASE IN CASH HELD		(24 881)	9 335	(24 820)	9 675
CASH AND CASH EQUIVALENTS AT 1 JULY		84 609	75 274	85 885	76 210
CASH AND CASH EQUIVALENTS AT 30 JUNE	2(r), 24	59 728	84 609	61 065	85 885

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Activities of the Motor Accident Commission

The Motor Accident Commission's (MAC's) principal activity is the underwriting of Compulsory Third Party (CTP) Insurance in South Australia. Other businesses managed in run-off include Inwards Reinsurance and Mortgage Guarantee Insurance.

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

This financial report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, relevant Treasurer's Instructions (TI) issued under the *Public Finance and Audit Act 1987* and other mandatory professional requirements.

It has been prepared on an accrual basis and is in accordance with the historical cost convention, except for certain assets that are valued in accordance with the valuation policy applicable.

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

(b) Premium Revenue

The earned portion of premiums received and receivable, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Unearned premium is determined by apportioning the premiums written prior to year-end on a daily pro-rata basis.

(c) Investment Income

Fees and discounts are amortised over the period to which they relate. Interest and dividends are taken to income on an earned basis. Investment income is reported after deducting costs and expenses relating to management, operation and maintenance of the investment portfolio.

(d) Outwards Reinsurance

Premiums paid to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance is treated at balance date as a prepayment.

(e) Claims

Claims expense and a liability for outstanding claims are recognised in respect of the direct insurance and inwards reinsurance businesses. The liability covers claims reported but not yet paid, incurred but not reported (IBNR) claims, the anticipated direct and indirect costs of settling those claims and estimated reinsurance and other insurance recoveries. Claims outstanding are based on average or individual claim file estimates, with IBNRs and settlement costs calculated using statistics from past experience and trends.

(i) CTP Claims

The liability for outstanding CTP claims is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and superimposed inflation. The expected future payments are discounted to present value at balance date and a margin is included to provide sufficient confidence that the provision is adequate. The outstanding claims liability is subject to actuarial assessment.

A risk margin is added to the outstanding claims provision to increase the probability that the net liability is adequately provided to a sufficiency level of 80 percent.

(ii) Other Claims

In the insurance and inwards reinsurance businesses, delays occur in the notification of information normally used in the calculation of claims provisions. The directors, having due consideration for the nature of the risks involved and any material event that would adversely affect the operating results, have provided an amount for claims in the accounts that is sufficient to cover known events and at the same time, assist to maintain prudential reserves.

(f) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable used in the calculation of claims provisions are brought to account where they can be reliably measured. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

(g) Unexpired Risk

AASB 1023 *General Insurance Contracts* requires an assessment of the net unearned premium reserve to ensure that it is at least equal to the future claims expense, inclusive of a prudential margin and associated claims management expenses. If this is not so, then additional provisioning is included such that this condition is met.

An assessment of the expected future claims relating to the unexpired risk period represented by the unearned premium has been undertaken by the Actuaries as at 30 June 2006.

In order to meet the Liability Adequacy Test, additional provisioning has been included at a probability of sufficiency of 80 percent.

(h) Collection Charges

Costs incurred in obtaining and recording policies of insurance are recognised as collection costs and have been brought to account during the financial year as they do not represent a future benefit.

(i) Levies and Charges

A liability for levies and charges is recognised on business written to balance date. Levies and charges payable by MAC are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

(j) Receivables

(i) Trade Debtors

Trade debtors principally relate to premiums collected by the Department for Transport, Energy and Infrastructure (DTEI), an agent of MAC, not yet passed over to the Fund. The settlement of these amounts occurs within seven working days.

(ii) Investment Debtors

Investment debtors consist of securities for which contracts for sale had been completed but for which settlement had not been received at balance date together with interest, dividends and rental due on other investments.

The collectability of debts is assessed at balance date and specific allowance is made for any doubtful debts.

(k) Derivatives

The entity's activities expose it to changes in interest rates, foreign exchange rates, inflation and the general level of volatility derived from financial investment performance. It is also exposed to credit, liquidity and cash flow risks from its operations.

It is the entity's policy to consider derivative financial instruments to enhance performance and to hedge cash flows subject to interest rate, foreign exchange rate and general consumer price risks. Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

(l) Other Financial Assets

AASB 1023 requires that assets backing insurance liabilities are required to be measured at fair value with any changes in value taken to the Income Statement. All assets of an investment nature held by the CTP Fund are considered to be for the purpose of backing insurance liabilities.

(i) Listed Equities and Securities

By market quotations as at 30 June 2006.

(ii) Other Investments

Other investments are valued based on current economic conditions, market interest rates and the latest available information on the investments as considered appropriate by the directors.

(m) Investment Properties

Investment Properties are properties which are held for long-term rental yields or for capital appreciation or both. Investment properties are measured at fair value, being the amounts for which the properties could be exchanged between willing parties in an arms length transaction, based on current prices in an active market for similar properties. The 2006 revaluations were based on independent assessments made by members of the Australian Property Institute.

Changes in fair value are recognised in the Income Statement. Rental income is recognised in the Income Statement on a straight line basis over the term of the lease.

(n) Employee Benefits

A liability for employee benefits has been accrued as at 30 June 2006.

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

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

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

(n) Employee Benefits (continued)

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

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

(o) Taxation

MAC is an income tax exempt organisation pursuant to section 24AK of the *Income Tax Assessment Act 1936*.

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

Income, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred by MAC as a purchaser is not recoverable from the Australian Taxation Office. Receivables and payables are stated with the amount of GST included.

(p) Property, Plant and Equipment

MAC has adopted the fair value method of valuing its property, plant and equipment assets. Plant and equipment and building fit out are recorded at cost and depreciated over their estimated useful lives using the reducing balance method of depreciation. The rates of depreciation are detailed below. Land and buildings are treated as investments and are consequently not subject to depreciation.

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

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

Asset Class	Depreciation Method	Depreciation Rate
		Percent
Plant and equipment	Diminishing value	20.0
Building fit out	Diminishing value	20.0

(q) 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 and that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Motor Accident Commission.

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

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or the date the invoice is first received in accordance with TI 11 *Payment of Creditors' Accounts*.

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

(r) Cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and at bank, and short term deposits at call, net of bank overdrafts.

3. Changes In Accounting Policies

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

Item:	At 01.07.04			At 30.06.05		
	Previous \$'000	Adjustments \$'000	AIFRS \$'000	Previous \$'000	Adjustments \$'000	AIFRS \$'000
Current assets	389 761	-	389 761	242 476	-	242 476
Non-current assets	1 135 833	-	1 135 833	1 547 743	54	1 547 797
Current liabilities	(370 324)	-	(370 324)	(480 089)	(343)	(480 432)
Non-current liabilities	(1 038 383)	-	(1 038 383)	(1 084 897)	(4 557)	(1 089 454)
Net Assets	116 887	-	116 887	225 233	(4 846)	220 387
Equity:						
Retained profit at 1 July	10 555	-	10 555	116 887	-	116 887
Net profit	111 332	-	111 332	108 346	(4 846)	103 500
Dividend paid to SA Government	(5 000)	-	(5 000)	-	-	-
Total Equity	116 887	-	116 887	225 233	(4 846)	220 387

3. Changes In Accounting Policies (continued)

In accordance with the general insurance standard AASB 1023, an assessment of the net unearned premium reserve to ensure that it is at least equal to the future claims expense, inclusive of a prudential margin and associated claims management expenses is required. If this is not so, then additional provisioning is included such that this condition is met.

An assessment of the expected future claims relating to the unexpired risk period represented by the unearned premium has been undertaken by the Actuaries as at 30 June 2006. In order to meet the Liability Adequacy Test, additional provisioning has been included at a probability of sufficiency of 80 percent. This resulted in an adjustment of \$4.9 million split between current and non-current liabilities.

In addition, AASB 1023 requires that assets backing insurance liabilities are required to be measured at fair value. All assets of an investment nature held by the CTP Fund are considered to be for the purpose of backing insurance liabilities.

The standard requires that the valuation in relation to financial investments be at the latest bid price rather than last sale price. As at 1 July 2005, the result of this change was a reduction in the value of the portfolio in the order of \$1.178 million.

Property assets are also valued at fair value, exclusive of legal and selling costs. The result of this change as at 1 July 2005 is an increase in the value of the property portfolio of \$1.232 million.

The net effect of the above two adjustments on non-current assets is an increase of \$0.054 million with an overall impact from all adjustments of a \$4.8 million decrease in Net Profit.

4. Profit

Profit is arrived at after crediting and charging the following specific items:

	CTP		MAC	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Credits:				
Interest received/receivable:				
Other persons and/or corporations	66 281	61 427	66 281	61 427
Dividends received/receivable:				
Other persons and/or corporations	9 304	9 252	9 304	9 252
Charges:				
Amounts set aside to provide for:				
Employee benefits	-	-	52	58
Bad and doubtful debts	-	(41)	-	(41)
Depreciation of property, plant and equipment	-	-	46	45

5. Revenue

Premium Revenue:

Direct	389 187	381 483	389 187	381 483
	389 187	381 483	389 187	381 483
Reinsurance and Other Recoveries:				
Other	500	2 434	506	2 439
	500	2 434	506	2 439
Investment Revenue:				
Dividends	9 304	9 252	9 304	9 252
Interest	65 168	61 427	65 252	61 487
Rentals	8 983	6 825	8 983	6 825
Profit - Investments realised	56 483	15 781	56 483	15 776
	139 938	93 285	140 022	93 340
Investment Market Value Movements				
- Unrealised gains (losses):				
Fixed interest	(17 748)	19 043	(17 748)	19 043
Equities	44 168	43 293	44 168	43 293
Properties	6 586	4 780	6 586	4 780
Futures	93	(10)	93	(10)
	33 099	67 106	33 099	67 106
Other Revenue:				
Foreign exchange gains (losses)	(2)	(3)	-	(5)
Total Revenue	562 722	544 305	562 814	544 363

6. Claims Expense	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Direct*	369 196	360 877	369 191	360 872
Inwards reinsurance	-	-	1	-
	369 196	360 877	369 192	360 872

* Claim expenses includes supplies and services paid or payable to SA Government entities as follows:

	2006 \$'000	2005 \$'000
Ambulance and helicopter rescue services	6 704	6 704

7. Other Underwriting Expenses	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Management expenses*	23 333	22 266	23 419	22 328
Levies and charges	42 009	41 177	42 009	41 177
Collection charges	8 850	5 833	8 850	5 833
	74 192	69 276	74 278	69 338

* Management expenses includes supplies and services paid or payable to SA Government entities as follows:

	2006 \$'000	2005 \$'000
Audit services	107	106
Road safety supplies and services	2 829	3 448

In relation to Levies and charges and Collection charges, the entire amount was paid or payable to SA Government entities.

8. Receivables	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current:				
Trade debtors	2 951	1 619	2 962	1 630
Other debtors	-	-	42	5
	2 951	1 619	3 004	1 635
Investment debtors	24 773	49 802	24 780	49 808
Allowance for doubtful debts	-	(8)	-	(8)
	24 773	49 794	24 780	49 800
	27 724	51 413	27 784	51 435

Other debtors generally arise from transactions outside the usual operating activities of the entity.

Investment debtors consists of equities listed on stock exchanges for which contracts of sale had been completed but for which settlement had not been received at balance date together with interest, dividends and rental due on other investments.

9. **Unexpired Risk**
AASB 1023 requires a Liability Adequacy Test (LAT) which is an assessment of the net unearned premium reserve to ensure that it is at least equal to the future claims expense, inclusive of a prudential margin and associated claims management expenses. If this is not so, then additional provisioning is included such that this condition is met.

An assessment of the expected future claims relating to the unexpired risk period represented by the unearned premium has been undertaken by the Actuaries as at 30 June 2006.

	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Central estimate of present value of future claims	105 100	101 200	105 100	101 200
Risk margin	26 300	25 300	26 300	25 300
Present Value of Expected Future Claims	131 400	126 500	131 400	126 500
Unearned premium liability	134 900	136 900	134 900	136 900
Related reinsurance asset	(500)	(500)	(500)	(500)
Prepaid licence fees	(14 600)	(14 800)	(14 600)	(14 800)
	119 800	121 600	119 800	121 600
Unexpired Risk Liability	11 600	4 900	11 600	4 900

9. Unexpired Risk (continued)

In order to meet the Liability Adequacy Test, additional provisioning for the premium liability has been included at a probability sufficiency of 80 percent (80 percent) which results in a risk margin of 25 percent (25 percent). This risk margin is based on the Actuaries knowledge of industry practice for CTP insurance portfolios which they consider are appropriate for MAC. As MAC has only one class of insurance, no allowance has been made for diversification of insurance classes.

	CTP		MAC	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Unexpired Risk Liability:				
Opening balance	4 900	-	4 900	-
Unexpired risk expense	6 700	4 900	6 700	4 900
Closing Balance	11 600	4 900	11 600	4 900
Unexpired Risk Liability:				
Current	812	343	812	343
Non-current	10 788	4 557	10 788	4 557
Total Liability	11 600	4 900	11 600	4 900

10. Reinsurance and Other Recoveries Receivable

Expected future recoveries (undiscounted)	17 811	19 428	17 811	19 428
Discount to present value*	(3 695)	(4 031)	(3 695)	(4 031)
Reinsurance and other recoveries receivable	14 116	15 397	14 116	15 397
Reinsurance and other recoveries receivable:				
Current	3 323	2 541	3 323	2 541
Non-Current	10 793	12 856	10 793	12 856
Total	14 116	15 397	14 116	15 397

* Refer to Note 16(b) for details of the inflation and discount rates used in the determination of this discounting adjustment.

11. Other Financial Assets

Current:				
Fixed Interest:				
Deposits at call	56 277	82 107	56 277	82 107
Bank bills	36 776	29 914	36 776	29 914
Foreign currency	-	-	71	66
Floating rate notes	20 324	-	20 324	-
Corporate bonds	73 092	42 376	73 092	42 376
Futures	346	384	346	384
Capital indexed bonds	-	7 398	-	7 398
Property:				
Deposits with vendor	1 201	7 100	1 201	7 100
Total Current Other Financial Assets	188 016	169 279	188 087	169 345
Non-Current:				
Fixed Interest:				
Government securities	497 580	576 851	497 580	576 851
Corporate bonds	228 332	193 303	228 332	193 303
Commercial mortgages	4 290	4 628	4 290	4 628
Floating rate notes	-	20 377	-	20 377
Capital indexed bonds	227 986	169 584	227 986	169 584
Equities:				
Listed on stock exchanges	431 637	300 030	431 637	300 030
International equities	154 145	140 984	154 145	140 984
Property:				
Domestic listed property trusts	41 289	40 138	41 289	40 138
Total Non-Current Other Financial Assets	1 585 259	1 445 895	1 585 259	1 445 895
Total Other Financial Assets	1 773 275	1 615 174	1 773 346	1 615 240

12. Investment Property

At Fair Value:				
Balance at 1 July	87 350	81 813	87 350	81 813
Acquisitions	23 364	-	23 364	-
Capitalised subsequent expenditure	2 281	757	2 281	757
Net gain from fair value adjustments	6 586	4 780	6 586	4 780
Balance at 30 June	119 581	87 350	119 581	87 350

12. Investment Property (continued)	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts recognised in the Income Statement for investment property:				
Rental income	13 234	10 851	13 234	10 851
Direct operating expenses	(6 479)	(4 824)	(6 479)	(4 824)
Total Amount Recognised	6 755	6 027	6 755	6 027

Valuation Basis

Investment properties are measured at fair value being the amounts for which the properties could be exchanged between willing parties in an arms length transaction, based on current prices in an active market for similar properties. The 2006 revaluations were based on independent assessments made by members of the Australian Property Institute.

Leasing Arrangements

Commitments under non-cancellable operating leases at the reporting date are payable as follows:	2006	
	CTP \$'000	MAC \$'000
Not later than one year	12 592	12 592
Later than one year but no later than five years	60 161	60 161
Later than five years	47 636	47 636
	120 389	120 389

These operating leases are not recognised in the Balance Sheet as assets. Comparative figures for 2005 were not available.

The non-cancellable leases are property leases with numerous tenants for a variety of terms where the rent payable is monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased by various methods including CPI, fixed increases and to market. Options exist to renew some of the leases at the end of the term of those leases. We have utilised the assumptions provided by our valuers regarding the likely renewal of leases in the multiple leased premises.

13. Property, Plant and Equipment	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Building fit out	-	-	232	213
Accumulated depreciation	-	-	(77)	(39)
	-	-	155	174
Plant and equipment	-	-	57	39
Accumulated depreciation	-	-	(24)	(16)
	-	-	33	23
Total Property, Plant and Equipment	-	-	188	197
Building Fit out:				
Carrying amount at 1 July	-	-	174	266
Additions	-	-	19	89
Disposals	-	-	-	(142)
Depreciation	-	-	(38)	(39)
Carrying amount at 30 June	-	-	155	174
Plant and Equipment:				
Carrying amount at 1 July	-	-	23	29
Additions	-	-	18	-
Depreciation	-	-	(8)	(6)
Carrying amount at 30 June	-	-	33	23
14. Payables				
Current:				
Trade creditors	-	-	47	63
Investment creditors	22 730	52 171	22 730	52 171
Other creditors and accruals	9 921	6 713	10 190	6 939
Due to related parties	427	442	-	-
	33 078	59 326	32 967	59 173
15. Unearned Income				
Current:				
Unearned premium	133 175	135 541	133 175	135 541
Unearned rental income	90	273	90	273
	133 265	135 814	133 265	135 814
Non-Current:				
Unearned premium	1 683	1 363	1 683	1 363
Unearned rental income	-	90	-	90
	1 683	1 453	1 683	1 453
	134 948	137 267	134 948	137 267

16. Outstanding Claims

	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Expected future claims payments (undiscounted)	1 554 996	1 463 007	1 555 075	1 463 090
Risk margin applied (undiscounted)	245 949	216 537	245 949	216 537
Discount to present value:				
Central estimate	(303 170)	(271 258)	(303 170)	(271 258)
Risk margin applied	(47 915)	(40 084)	(47 915)	(40 084)
Liability for Outstanding Claims	1 449 860	1 368 202	1 449 939	1 368 285
Current	327 669	284 929	327 671	284 931
Non-Current	1 122 191	1 083 273	1 122 268	1 083 354
Liability for Outstanding Claims	1 449 860	1 368 202	1 449 939	1 368 285

(b) The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:

	CTP		MAC	
	2006 Percent	2005 Percent	2006 Percent	2005 Percent
For the succeeding year:				
Inflation rate	7.25	6.75	7.25	6.75
Discount rate	5.90	5.20	5.90	5.20
For subsequent years:				
Inflation rate	7.25	6.75	7.25	6.75
Discount rate	5.90	5.20	5.90	5.20

(c) The weighted average expected term to settlement of the outstanding claims from balance date is estimated to be:

	CTP		MAC	
	2006 Years	2005 Years	2006 Years	2005 Years
	4.2	4.4	4.2	4.4

The method of calculating outstanding claims is set out in detail in Note 2(e).

The claims provision as at 30 June 2006 for the Compulsory Third Party Fund has been reviewed by the Fund actuaries, Mr L C Brett B.Sc, FIA, FIAA and Mr B A Watson B.Sc, FIAA of Brett & Watson Pty Ltd. The directors have adopted a central estimate plus a risk margin as determined by the actuary to achieve an 80 percent probability that the provision will prove to be adequate. A risk margin of 16 percent (15 percent) has been applied and is based on the actuaries knowledge of industry practice for CTP insurance portfolios. As MAC only includes one class of insurance, no allowance has been made for diversification of insurance classes.

For Inwards Reinsurance, the directors have adopted an internal valuation of the estimated outstanding liability.

17. Provisions

	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current:				
Employee benefits	-	-	205	171
Non-Current:				
Employee benefits	-	-	103	90
	-	-	103	90
	-	-	308	261

18. Additional Financial Instrument Disclosures**(1) Derivative Financial Instruments***Options*

The entity may enter into options that give it the right but not the obligation to purchase or sell specified securities and financial instruments. Options are entered into as a hedge against market risk. As at balance date there were no options held.

Fair Values

The fair values of the entity's derivative financial instruments which are traded on organised markets at balance date are those disclosed below under Interest Rate Risk. All exchange traded financial instruments are carried at fair value.

(2) Foreign Exchange Risk

The entity enters into forward exchange contracts to hedge certain financial assets and claims liabilities denominated in foreign currencies (principally United States dollars). The terms of these commitments are rarely more than three months.

As at 30 June 2006, the entity held no open forward foreign exchange contracts however it did hold physical foreign currency deposits as a hedge against liabilities denominated in foreign currencies.

As part of a diversified investment strategy, MAC has investments in Funds investing in international markets. To maximise the diversification benefits of this strategy and reduce overall portfolio risk, these exposures are unhedged.

(3) Interest Rate Risk

The entity's exposure to interest rate risk, repricing maturities and the weighted average effective interest rates on financial assets and liabilities at balance date is set out below:

	Floating Interest Rate \$'000	Fixed Interest Rate Maturities			Non-Interest Bearing \$'000	2006 Total \$'000
		Less than 1 Year \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
Financial Assets:						
Cash	61 065	-	-	-	-	61 065
Debtors	-	-	-	-	27 784	27 784
Bonds	-	-	229 783	267 797	-	497 580
Corporate bonds	-	73 092	109 576	118 756	-	301 424
Floating rate notes	20 324	-	-	-	-	20 324
Indexed annuities	-	-	-	4 290	-	4 290
Capital indexed bonds	-	-	30 315	197 671	-	227 986
Non-callable deposits and promissory notes	-	36 776	-	-	-	36 776
Foreign currency	-	71	-	-	-	71
Futures	-	-	-	-	346	346
Shares and other equity instruments	-	-	-	-	627 071	627 071
Deposits with vendor	-	-	-	-	1 201	1 201
Total Financial Assets	81 389	109 939	369 674	588 514	656 402	1 805 918

Weighted average interest rate (percent)	5.22	6.05	5.79	4.84
--	------	------	------	------

Financial Liabilities:						
Creditors	-	-	-	-	32 967	32 967
Total Financial Liabilities	-	-	-	-	32 967	32 967
Net Financial Assets	81 389	109 939	369 674	588 514	623 435	1 772 951

	Floating Interest Rate \$'000	Fixed Interest Rate Maturities			Non-Interest Bearing \$'000	2005 Total \$'000
		Less than 1 Year \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
Financial Assets:						
Cash	85 885	-	-	-	-	85 885
Debtors	-	-	-	-	58 977	58 977
Bonds	-	19 938	436 279	140 572	-	596 789
Corporate bonds	-	42 370	147 373	45 936	-	235 679
Floating rate notes	20 377	-	-	-	-	20 377
Commercial mortgages	-	-	-	4 628	-	4 628
Capital indexed bonds	-	7 398	-	169 585	-	176 983
Non-callable deposits and promissory notes	-	9 975	-	-	-	9 975
Foreign currency	-	66	-	-	-	66
Futures	-	-	-	-	384	384
Shares and other equity instruments	-	-	-	-	481 152	481 152
Total Financial Assets	106 262	79 747	583 652	360 721	540 513	1 670 895

Weighted average interest rate (percent)	5.02	5.30	5.36	4.12
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Financial Liabilities:						
Creditors	-	-	-	-	59 615	59 615
Total Financial Liabilities	-	-	-	-	59 615	59 615
Net Financial Assets	106 262	79 747	583 652	360 721	480 898	1 611 280

(3) Interest Rate Risk (continued)

<i>Reconciliation of Net Financial Assets</i>	2006	2005
	\$'000	\$'000
Net Financial Assets	1 772 951	1 611 280
<i>Add:</i>		
Reinsurance and other recoveries receivable	14 116	15 397
Prepayments	16 061	16 876
Investments - Property assets	119 581	87 350
Property, plant and equipment	188	197
<i>Less:</i>		
Unearned income	134 948	137 267
Outstanding claims	1 449 939	1 368 285
Unexpired risk provision	11 600	4 900
Provisions	308	261
Net Assets	326 102	220 387

(4) Credit Risk

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

Recognised Financial Instruments

The carrying amounts of financial assets included in the Balance Sheet represent the entity's maximum exposure to credit risk to these assets. The entity minimises concentrations of credit risk by undertaking transactions with a large number of counterparties. The entity is not materially exposed to any individual counterparty.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the entity.

(5) Market Risk

In addition to the effects of movements in interest rates, the CTP Fund is exposed to market risks influencing investment valuations.

Market risk represents the risk of adverse movements in markets for derivatives, or the underlying asset or index to which the derivative relates. Market risk analysis is conducted on a regular basis and before any new positions are put into place. It is conducted on a total portfolio basis, incorporating both physical investments and the effective exposure of all derivative positions.

In managing market risks, the entity aims to reduce the impact of short term fluctuations on the reported profit or loss for the period. Over the longer term, sustained variations in economic variables will have an ongoing impact on the reported results.

As at 30 June 2006, it is estimated that an increase of 0.5 percent in interest rates would result in a reduction in the entities reported profit of approximately \$7.9 million (\$6.9 million).

It is estimated that a one percent fall in Australian equity markets, as measured by the ASX 300 index, would result in a fall of \$3.1 million (\$3.1 million) in value of the investment portfolio. A similar fall in International equity markets would result in a loss of approximately \$1.6 million (\$1.4 million) to the Fund.

(6) Liquidity and Cash Flow Risk

The liquidity risks associated with the need to satisfy requests for redemptions are mitigated by maintaining sufficient cash reserves to satisfy usual levels of demand and ensuring a very high proportion of the Fund is invested in securities that are actively traded and highly liquid. Liquidity risks are minimised through trading with approved exchanges and counterparties.

19. Net Claims Incurred

Current period 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.

	2006					
	Current Year \$'000	CTP Prior Years \$'000	Total \$'000	Current Year \$'000	MAC Prior Years \$'000	Total \$'000
Direct Business						
Gross claims incurred and related expenses - Undiscounted	430 446	(21 510)	408 936	430 446	(21 510)	408 936
Reinsurance and other recoveries - Undiscounted	(4 140)	3 980	(160)	(4 140)	3 980	(160)
Net Claims Incurred - Undiscounted	426 306	(17 530)	408 776	426 306	(17 530)	408 776
Discount and discount movement - Gross claims incurred	(89 940)	50 200	(39 740)	(89 940)	50 200	(39 740)
Discount and discount movement - Reinsurance and other recoveries	940	(1 280)	(340)	940	(1 280)	(340)
Net Discount Movement	(89 000)	48 920	(40 080)	(89 000)	48 920	(40 080)
Net Claims Incurred	337 306	31 390	368 696	337 306	31 390	368 696

	2005					
	Current Year \$'000	CTP Prior Years \$'000	Total \$'000	Current Year \$'000	MAC Prior Years \$'000	Total \$'000
Direct Business						
Gross claims incurred and related expenses - Undiscounted	394 974	(95 873)	299 101	394 974	(95 873)	299 101
Reinsurance and other recoveries - Undiscounted	(3 915)	1 055	(2 860)	(3 915)	1 055	(2 860)
Net Claims Incurred - Undiscounted	391 059	(94 818)	296 241	391 059	(94 818)	296 241
Discount and discount movement - Gross claims incurred	(78 140)	139 916	61 776	(78 140)	139 916	61 776
Discount and discount movement - Reinsurance and other recoveries	688	(262)	426	688	(262)	426
Net Discount Movement	(77 452)	139 654	62 202	(77 452)	139 654	62 202
Net Claims Incurred	313 607	44 836	358 443	313 607	44 836	358 443

20. Commitments**Operational Expenditure Commitments**

Sponsorship Expenditure*:

Contracted but not provided for and payable:

Not later than one year

Later than one year and no later than five years

Later than five years

	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Not later than one year	500	500	500	500
Later than one year and no later than five years	2 000	2 000	2 000	2 000
Later than five years	500	1 000	500	1 000
	3 000	3 500	3 000	3 500

* The amounts indicated above are contract amounts and do not allow for CPI adjustments.

Management Agreements

Pursuant to a CTP Operations Contract, MAC has contracted Allianz Australia Insurance Limited (AAL) to manage the claims management operations of the Fund for a period of 5½ years, commencing on 1 July 2003. A base management fee is payable each year to AAL until the contract concludes. AAL is part of Allianz AG.

21. Segment Information

The entity's predominant operation is that of the Compulsory Third Party insurer in South Australia.

22. Auditors' Remuneration

Amounts received or due and receivable for auditing the accounts of the entity:

Auditor-General's Department

	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Auditor-General's Department	96	95	107	106

The auditors provided no other services to the entity during the financial year.

23. Employee Benefits	CTP		MAC	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Aggregate liability for employee benefits including on-costs:				
Current:				
Employee benefits provision:				
Annual Leave	-	-	205	171
On-costs	-	-	44	39
	-	-	249	210
Non-Current:				
Employee benefits provision:				
Long service leave	-	-	103	90
	-	-	103	90
	-	-	352	300
24. Reconciliation of Net Cash				
(1) Reconciliation of Cash				
Cash	3 451	2 502	4 788	3 778
Deposits at call	56 277	82 107	56 277	82 107
	59 728	84 609	61 065	85 885
(2) Reconciliation of Net Cash Inflows from Operating Activities				
Net profit	105 705	103 499	105 715	103 500
Add (Less): Non-cash items:				
Depreciation	-	-	46	45
(Profit) loss on disposal of assets	-	-	-	142
Amounts set aside to provisions	(8)	(41)	(8)	(41)
(Profit) Loss on sale and revaluation to market value of investments	(89 582)	(82 834)	(89 582)	(82 834)
Net foreign exchange loss	-	(3)	-	(8)
Decrease in taxes payable and provisions	-	-	(2)	(1)
Net cash inflows from operating activities before changes in assets and liabilities	16 115	20 621	16 169	20 803
Change in assets and liabilities:				
(Increase) Decrease in investments	(131 319)	(120 939)	(131 324)	(120 928)
(Increase) Decrease in receivables	(78)	(1 066)	(101)	(1 075)
Increase (Decrease) in payables and provisions	9 511	(332)	9 587	(216)
Increase (Decrease) in outstanding claims	82 936	96 525	82 932	96 514
Increase (Decrease) in unearned premium	(2 046)	14 526	(2 046)	14 526
Net Cash Inflows (Outflows) from Operating Activities	(24 881)	9 335	(24 783)	9 624

25. Sufficient Level of Solvency

Subsection 14(3) of the *Motor Accident Commission Act 1992* defines as one of the principal objectives of the Commission, the objective of achieving and maintaining a Sufficient Level of Solvency in the CTP Fund. A revised formula to calculate a Sufficient Level of Solvency was issued by the Treasurer on 17 May 2006 and subsequently published in the South Australian Government Gazette. The revised formula specifies that the Fund will have a Sufficient Level of Solvency if its assets exceed the sum of the Fund's liabilities plus 10 percent of the outstanding claims liabilities, 10 percent of the premium liabilities provision and 10 percent of the investments in equities and property.

Under the revised formula, provisions for outstanding claims liabilities and premium liabilities include prudential margins which are calculated by reference to an 80 percent probability of sufficiency that the provisions will be adequate.

As at 30 June 2006, the Sufficient Solvency target was \$1 862.4 million (\$1 776.7 million) which compares to the Fund's assets of \$1 954.2 million (\$1 788.7 million) and this equates to 104.9 percent (100.7 percent) of the required level of Sufficient Solvency.

The accounts are prepared on a going concern basis after consideration of the following issues:

- The Fund reports positive net assets as at 30 June 2006;
- The Fund's investment strategy ensures adequate liquidity to meet liabilities as and when they fall due;
- The Fund's investment strategy is designed to assist in maintaining Sufficient Solvency;
- MAC is supported by a Government guarantee pursuant to subsection 21(1) of the *Motor Accident Commission Act 1992*.

26. Contingent Assets and 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. Occasionally certain claims may require legal judgment to determine a suitable settlement. The result of such legal arbitration may result in a liability to the entity different to that incorporated in these accounts.

27. External Consultants used during the Financial Year	2006	2005
Total income received, or due and receivable by external consultants during the financial year:	\$'000	\$'000
	313	287

The number and value of consultancies were:	2006	2005
	Number of	Number of
	Consultancies	Consultancies
\$0 - \$9 999	5	8
\$10 000 - \$19 999	2	1
\$20 000 - \$29 999	-	1
\$30 000 - \$39 999	3	2
\$40 000 - \$49 999	-	1
\$110 000 - \$119 999	-	1
\$160 000 - \$169 999	1	-

28. Directors' Remuneration

The names of each person holding the position of director of the entity during the financial year are:

R J McKay	B G Rowse
J H Brown	R N Sexton
R A Cook	Y Sneddon
A M Gallacher	D J Watkins
C L Harris	K A Weir
J T Hill	

Total income paid or payable, or otherwise made available, to all directors of the entity from the entity:	2006	2005
	\$'000	\$'000
	321	333

The number of directors of the entity whose income from the entity falls within the following bands:	2005	2004
	Number of	Number of
	Directors	Directors
\$0 - \$9 999	2	1
\$20 000 - \$29 999	1	-
\$30 000 - \$39 999	7	8
\$40 000 - \$49 999	1	1

Directors of the entity receive income in the form of statutory fees. A director who is employed by the State Government of South Australia does not receive income from the entity.

Superannuation and Retirement Benefits

Directors of the entity are not paid superannuation or retirement benefits for their activities associated with the entity other than the amount set aside by the entity in compliance with the Superannuation Guarantee Charge of \$27 000 (\$28 000).

29. Employees' and Executives' Remuneration

Salaries and wages	2006	2005
Long service leave	\$'000	\$'000
Annual leave	1 137	1 185
Employment on-costs:	12	13
Superannuation	40	45
Other	262	256
Board fees	74	66
Total Employee Benefit Costs	297	307
	1 822	1 872

Total income in respect of the financial year received, or due and receivable, from the entity by executive officers of the entity whose income is \$100 000 or more:	486	774
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The number of MAC executive officers whose remuneration from MAC falls within the following bands:	2006	2005
	Number of	Number of
	Executive	Executive
	Officers	Officers
\$120 000 - \$129 999	1	2
\$130 000 - \$139 999	1	1
\$170 000 - \$179 999	-	1
\$210 000 - \$219 999	-	1
\$220 000 - \$229 999	1	-

30. Related Parties

Apart from the details disclosed in this Note, no director has entered into a contract with the entity since the end of the previous financial year and there were no contracts involving directors' interests existing at year-end.

Directors' Transactions with the Entity

The entity sold CTP insurance to directors of the entity or their director-related entities during the year within a normal customer relationship on terms and conditions no more favourable than those available on similar transactions to other members of the public.

Directors of the entity may hold positions in other entities in which the entity invests funds in the ordinary course of business. The terms and conditions of those transactions with director-related entities are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

MUSEUM BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Museum Board is a Statutory Authority established pursuant to the *South Australian Museum Act 1976*.

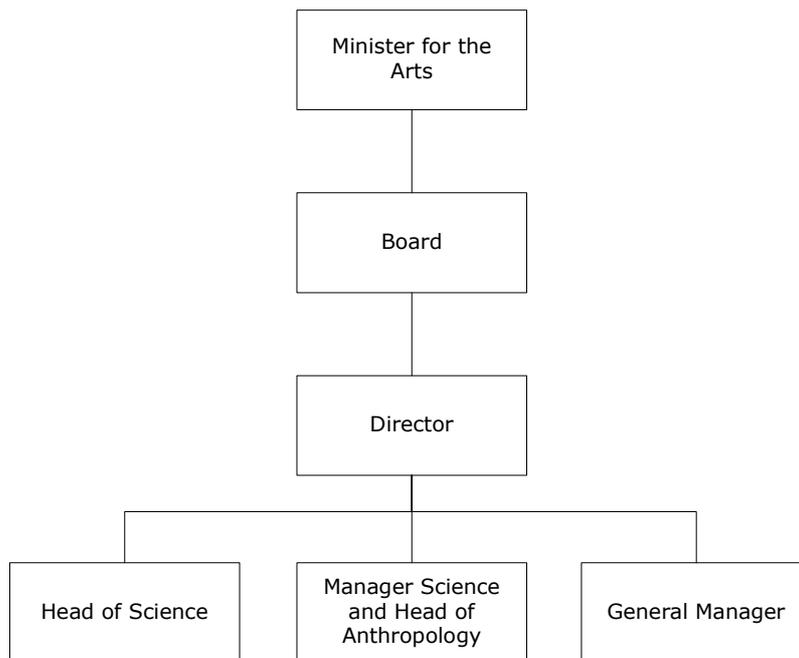
The Museum Board is responsible for the management of the South Australian Museum.

The role of the South Australian Museum is to:

- increase knowledge and understanding of the State's natural and cultural heritage;
- serve the community by acquiring, preserving, interpreting and presenting to the public, material evidence concerning people and nature;
- provide opportunities for study, education and enjoyment.

Structure

The structure of the Museum Board is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 16(2) of the *South Australian Museum Act 1976* provides for the Auditor-General to audit the accounts of the Museum Board for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- revenue, including receipting and banking
- expenditure, including accounts payable and salaries and wages
- property, plant and equipment
- heritage collections revaluation
- Museum Shop operations.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Museum Board as at 30 June 2006 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

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

Audit Communications to Management

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

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 \$'000	2005 \$'000	Percentage Change
INCOME			
State Government grants	8.2	8.8	(7)
Other revenue	4.2	3.5	20
Total Income	12.4	12.3	1
EXPENSES			
Employee benefits	4.8	4.6	4
Other expenses	7.9	7.7	3
Total Expenses	12.7	12.3	3
Net Result	(0.3)	-	n/a
Net Cash Flows from Operations	1.1	0.9	22

	2006	2005	Percentage
	\$'000	\$'000	Change
ASSETS			
Current assets	4.0	3.6	11
Non-current assets	175.2	144.0	22
Total Assets	179.2	147.6	21
LIABILITIES			
Current liabilities	0.9	0.8	12
Non-current liabilities	0.9	0.9	-
Total Liabilities	1.8	1.7	6
EQUITY	177.4	145.9	22

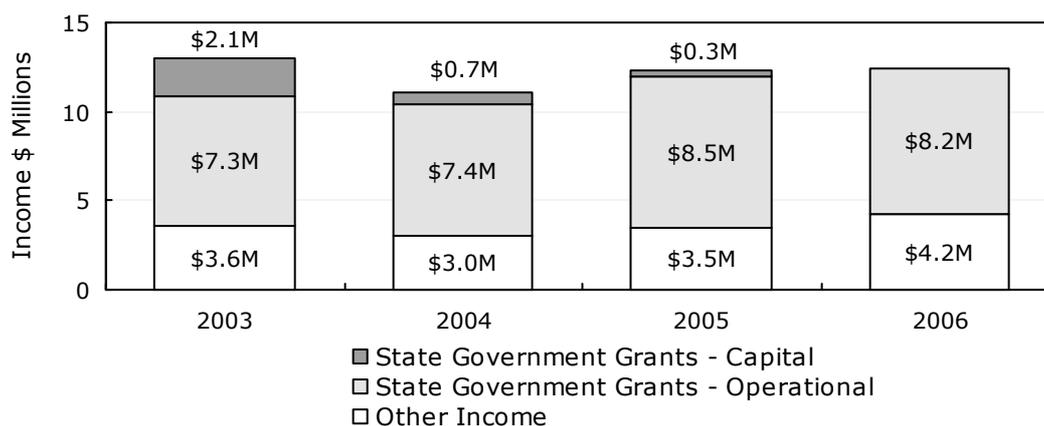
Income Statement

Income

Income from operations for the year increased by \$626 000 to \$4.2 million.

As expressed in Note 2.19 to the Financial Statements, the Board is dependent on the ongoing financial support of the State Government. Grants from the State Government for operating, capital and other purposes totalled \$8.2 million (\$8.8 million).

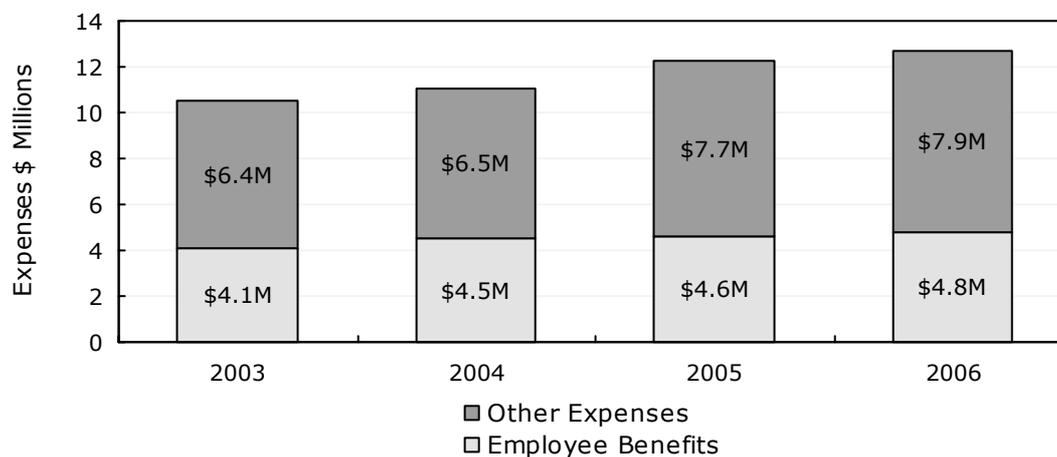
A structural analysis of the income, both from operations and from Government, for the four years to 2006 is presented in the following chart.



Expenses

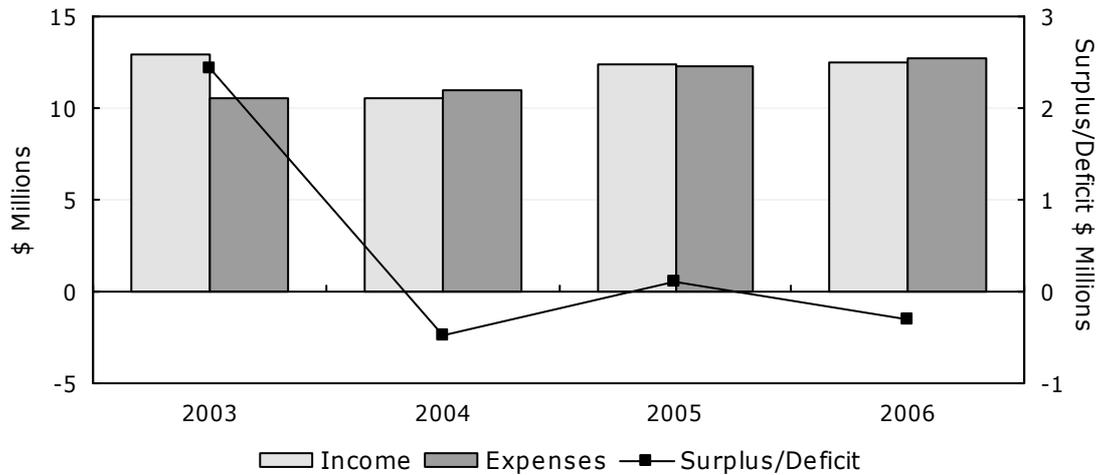
Expenditure for the year increased by \$436 000 to \$12.7 million.

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



Net Result

The Museum recorded a deficit of \$322 000, as compared with a surplus of \$99 000 last year.



Balance Sheet

The total assets of the Museum Board at 30 June 2006 are \$179 million, of which \$143 million (80 percent) relates to the Museum’s heritage collections.

The Museum’s liabilities at 30 June 2006 totalled \$1.8 million (\$1.7 million) of which \$1.3 million (\$1.2 million) relates to employee benefits.

Non-Current Assets

Heritage Collections

The heritage collections were revalued as at 30 June 2006. This resulted in an increase of \$31.8 million in the value of the collections. Note 12 to the Financial Statements provides details of the components comprising this asset.

**Income Statement
for the year ended 30 June 2006**

	Note	2006	2005
		\$'000	\$'000
EXPENSES:			
Employee benefits	3	4 765	4 564
Supplies and services	4	4 279	3 640
Accommodation and facilities	5	2 403	2 516
Depreciation	6	1 126	978
Grants and subsidies		128	339
Debit on revaluation of buildings	2.10	-	228
Total Expenses		12 701	12 265
INCOME:			
Grants	8	891	1 049
Sale of goods		496	457
User charges		886	255
Donations		521	181
Sponsorships		540	461
Interest		176	144
Resources received free of charge	2.4	66	260
Recoup of recoverables		304	371
Other	9	265	341
Total Income		4 145	3 519
NET COST OF PROVIDING SERVICES		(8 556)	(8 746)
REVENUES FROM SA GOVERNMENT:			
Revenue from SA Government - Recurrent operating grant		8 209	8 536
Revenue from SA Government - Capital grant		19	302
Revenue from SA Government - Accrual appropriation		6	7
Total Revenues from SA Government		8 234	8 845
NET RESULT		(322)	99
THE NET RESULT IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER		(322)	99

**Balance Sheet
as at 30 June 2006**

	Note	2006	2005
		\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	19	3 610	2 695
Receivables	10	276	615
Inventories		129	129
Other current assets		-	199
Total Current Assets		4 015	3 638
NON-CURRENT ASSETS:			
Property, plant and equipment	11	31 778	32 742
Heritage collections	12	143 395	111 245
Total Non-Current Assets		175 173	143 987
Total Assets		179 188	147 625
CURRENT LIABILITIES:			
Payables	13	298	267
Employee benefits	14	531	438
Provision for workers compensation	15	28	27
Total Current Liabilities		857	732
NON-CURRENT LIABILITIES:			
Payables	13	75	81
Employee benefits	14	782	781
Provision for workers compensation	15	75	68
Total Non-Current Liabilities		932	930
Total Liabilities		1 789	1 662
NET ASSETS		177 399	145 963
EQUITY:			
Retained profits	16	133 205	133 527
Asset revaluation reserve	16	44 194	12 436
TOTAL EQUITY		177 399	145 963
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments for Expenditure	17		
Contingent Assets and Liabilities	18		

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

	Asset		Total \$'000
	Revaluation Reserve \$'000	Retained Earnings \$'000	
Balance at 30 June 2004	13 957	133 428	147 385
Loss on revaluation of property	(1 521)	-	(1 521)
Net result	-	99	99
Balance at 30 June 2005	12 436	133 527	145 963
Gain on revaluation of heritage collections	31 758	-	31 758
Net result	-	(322)	(322)
Balance at 30 June 2006	44 194	133 205	177 399

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

Cash Flow Statement for the year ended 30 June 2006

	Note	2006 Inflows (Outflows) \$'000	2005 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Employee benefits		(4 635)	(4 396)
Supplies and services		(4 097)	(3 444)
Accommodation and facilities		(2 389)	(2 494)
Grants and subsidies		(128)	(339)
Cash used in Operations		(11 249)	(10 673)
CASH INFLOWS:			
Grants		1 057	874
Sale of goods		494	459
User charges		881	198
Donations		129	69
Sponsorships		733	307
Interest		172	142
Recoup of recoverables		331	307
Other		295	385
Cash generated from Operations		4 092	2 741
CASH FLOWS FROM SA GOVERNMENT:			
Receipts from SA Government - Recurrent operating grant		8 209	8 536
Receipts from SA Government - Capital grant		19	302
Receipts from SA Government - Accrual appropriation		6	7
Cash generated from SA Government		8 234	8 845
Net Cash provided by Operating Activities	19	1 077	913
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Payments for property, plant and equipment		(162)	(484)
Payments for Heritage Collections		-	(277)
Net Cash used in Investing Activities		(162)	(761)
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD		915	152
CASH AND CASH EQUIVALENTS AT 1 JULY		2 695	2 543
CASH AND CASH EQUIVALENTS AT 30 JUNE	19	3 610	2 695

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Museum Board

The functions of the Museum Board, as prescribed under the *South Australian Museum Act 1976*, are as follows:

- Undertake the care and management of the Museum;
- Manage all lands and premises vested in, or placed under the control of, the Board;
- Manage all funds vested in, or under the control of, the Board and to apply those funds in accordance with the terms and conditions of any instrument of trust or other instrument affecting the disposition of those moneys;
- Carry out, or promote, research into matters of scientific and historical interest;
- Accumulate and care for objects and specimens of scientific or historical interest;
- Accumulate and classify data in regard to any such matters;
- Disseminate information of scientific or historical interest;
- Perform any other functions of scientific, educational or historical significance that may be assigned to the Board by regulation.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

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

These financial statements are the first statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) and the adoption has not resulted in any changes.

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

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

2.2 Sources of Funds

The Museum's principal source of funds consists of grants from the State Government. In addition, the Museum also receives monies from sales, admissions, donations, bequests, sponsorships and other receipts, and uses the monies for the achievement of its objectives.

2.3 Changes in Accounting Policies

A number of Australian Accounting Standards have been issued or amended and are applicable to the Museum but are not yet effective. The Museum has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Museum.

2.4 Income and Expenses

Income and expense are recognised in the Board's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured. Income and expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5.

Income

Income from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Income from the rendering of a service is recognised upon the delivery of the service to the customers. Government grants are recognised as revenues in the period in which the Museum obtains control over the grants.

Resources Received Free of Charge

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

Under an arrangement with Arts SA and Artlab Australia, a division of the Department of the Premier and Cabinet, Artlab Australia receives SA Government appropriation to perform conservation services on the Board's heritage collections. The value of this work performed is recognised as resources received free of charge in income and a corresponding amount as Artlab conservation expenditure in Supplies and Services (Note 4).

Transactions with SA Government

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

2.5 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Museum has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within the 12 months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.6 Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash at bank and cash on hand. Cash is measured at nominal value.

2.7 **Receivables**

Receivables include amounts receivable from trade, prepayments and other accruals.

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

2.8 **Inventories**

Inventories are valued at the lower of cost or net realisable value.

2.9 **Non-Current Asset Acquisition and Recognition**

The cost method of accounting is used for the initial recording of all acquisitions of assets. Cost is determined as the fair value of the assets given the consideration plus costs incidental to the acquisition.

In accordance with Accounting Policy Framework III APS 7.2 componentisation of complex assets is only performed when the complex asset's fair value at the time of acquisition is greater than \$5 million for infrastructure assets and \$1 million for other assets.

2.10 **Revaluation of Non-Current Assets**

Land and Buildings

Land and buildings have been valued at fair value. Valuations of land and buildings were determined as at 30 June 2005 by the Australian Valuation Office. Land and buildings are independently valued every three years.

Plant and Equipment

Plant and equipment, including computer equipment, on acquisition has been deemed to be held at fair value.

Heritage Collections

The Museum collections were revalued as at 30 June 2006 using the valuation methodology outlined below in accordance with fair value principles adopted under AASB 116 *Property, Plant and Equipment*. These valuations were undertaken by both external valuers and internal specialists.

The Collections were broadly valued on the following basis:

<i>Collection</i>	<i>Method of Valuation</i>
Heritage Collections	Net Market Valuation
Natural History Collections	Cost of Recovery

Heritage Collections status applies to those collections where an established market exists. The Net Market Valuation applied has been assessed either by valuation undertakings by staff and valuers or by applying valuations determined under the Taxation Incentives for the Arts Scheme.

Cost of recovery valuation has been applied to those collections that were previously valued at zero under deprival value methodology. These collections have been valued at fair value on the basis of the cost of fieldwork, preparation and documentation to replace the material in its present condition.

Internal valuations were carried out by staff specialists in their related fields. These valuations were based on a knowledge of the particular collections, an understanding of valuation techniques and the markets that exist for the collection items. Independent external valuers were engaged to review the methodology adopted for valuation and to verify the valuations applied by internal specialists via sampling techniques, and to carry out independent valuation where required.

Heritage Collections deemed to have market value are Australian Ethnology, Foreign Ethnology, Malacology, Butterflies, Industrial History Collection, Mineralogy, Museum Library and Rare Books.

Natural History collections valued at cost of recovery are the Australian Biological Tissue Bank, the Australian Helminthological Collection, Entomology, Arachnology, Marine Invertebrates, Ichthyology, Herpetology, Ornithology and Mammalogy.

The Australian Polar Collection has been recognised for the first time in 2005-06 at fair value.

The external valuations were carried out by the following recognised industry experts:

<i>Collection</i>	<i>Industry Expert</i>
Australian Ethnology	Macaulay Partners
Museum Library and Rare Books	M Treloar and P Horn
Malacology (Marine Invertebrates)	W Rumble
Butterflies (Terrestrial Invertebrates)	L Mound
Mammalogy	R Schodde
Australian Polar Collection	M Treloar

Collections deemed to be culturally sensitive including human remains or items which are secret and sacred to Aboriginal communities have not been included within the current valuation and are deemed to be at zero valuation. These collections are Human Biology, Secret Sacred, Archives, Palaeontology and Archaeology.

2.11 Impairment of Assets

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

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

2.12 Depreciation of Non-Current Assets

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each non-current asset over its expected useful life, except for land, research and heritage collections, which are not depreciable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

<i>Class of Asset</i>	<i>Useful Life (Years)</i>
Buildings and improvements	Useful life depends on individual asset
Plant and equipment	5 -15
Computer equipment	3 -5

Heritage collections are kept under special conditions so that there is no physical deterioration and they are anticipated to have very long and indeterminate useful lives. No amount for depreciation has been recognised, as their service potential has not, in any material sense, been consumed during the reporting period.

2.13 Payables

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

Creditors and accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period. All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

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

2.14 Employee Benefits

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

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

(i) Liabilities for Salaries, Wages and Annual Leave

Liabilities for salaries, wages and annual leave have been recognised as the amount unpaid at the reporting date. The liability for annual leave has been calculated at nominal amounts based on current remuneration rates as at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

(ii) Long Service Leave

A liability for long service leave is recognised after an employee has completed seven years of service in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework*. An actuarial assessment of long service leave was undertaken by the Department of Treasury and Finance.

(iii) Superannuation

Contributions are made by the Museum to several superannuation schemes operated by the State Government and private sector. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes.

2.15 Workers Compensation Provision

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment performed by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

2.16 Leases

The Museum has entered into a number of operating lease agreements for accommodation and vehicles where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Income Statement in the periods in which they are incurred.

2.17 Comparative Figures

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

2.18 Accounting for the Goods and Services Tax (GST)

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

The amount of GST incurred by the Museum as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or part of an item of expense.

The net GST receivable/payable to the Australian Taxation Office is not recognised as a receivable/payable in the Balance Sheet as the Museum is a member of an approved GST group of which Arts SA, a division of the Department of the Premier and Cabinet, is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Cash Flow Statement.

2.19 State Government Funding

The financial reports are presented under the assumption of ongoing financial support being provided to the Museum by the State Government.

2.20 Rounding

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

2.21 Insurance

The Museum has arranged, through the SA Government Captive Insurance Corporation, to insure all major risks of the Board. The excess payable is fixed under this arrangement.

3. Employee Benefits

	2006	2005
	\$'000	\$'000
Salaries and wages	3 917	3 662
Superannuation	435	401
Payroll tax	239	227
Annual and long service leave	124	219
Other employee related expenses	50	55
Total Employee Expenses	4 765	4 564

Remuneration of Employees

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

	2006	2005
	Number of	Number of
	Employees	Employees
\$100 000 - \$109 999	-	1
\$110 000 - \$119 999	1	-
\$180 000 - \$189 999	1	1
Total Number of Employees	2	2

The table 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 and other salary sacrifice benefits. The total remuneration received by these employees for the year was \$304 000 (\$300 000).

Targeted Voluntary Separation Packages (TVSPs)

There were no TVSPs paid in either 2005-06 or 2004-05.

Remuneration of Board Members

The number of Board Members who received income from the Board fell within the following bands:

	2006	2005
	Number of	Number of
	Board	Board
	Members	Members
\$0 - \$9 999	7	9
Total Number of Board Members	7	9

The total income received by these Board Members for the year was \$18 000 (\$20 000).

Related Party Disclosures

During the financial year the following persons held a position on the Museum Board:

Mr John ElliceFlint - Chair	
Mr A Simpson	Mr P Ah Chee
Mr R Edwards	Dr S Carthew
Ms N Bensimon	Ms E D Perry

Related Party Disclosures (continued)

Board members or their related entities have transactions with the Museum that occur within a normal customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonably expected the entity would have adopted if the transactions were undertaken with any other entity at arm's length in similar circumstances.

4. Supplies and Services	2006	2005
Supplies and services provided by entities external to the SA Government:	\$'000	\$'000
Cost of goods sold	277	44
Hire	116	-
Marketing	323	210
Administration	246	220
IT services and communications	104	141
Maintenance	14	45
Collections	54	44
Exhibitions	116	175
Research	440	290
Travel and accommodation	202	145
Contractors	374	325
Motor vehicle expenses	29	16
Minor equipment	156	113
Fees	349	110
Other	218	198
Total Supplies and Services - Non-SA Government Entities	3 018	2 076
Supplies and services provided by entities within the SA Government:		
Insurance and risk management	363	350
Cost of goods sold	-	200
Hire	2	-
Marketing	2	38
Administration	269	292
IT services and communications	223	138
Maintenance	16	30
Collections	-	3
Artlab conservation work	265	260
Exhibitions	5	68
Research	32	105
Travel and accommodation	-	5
Motor vehicle expenses	60	46
Minor equipment	-	1
Fees	9	-
Other	15	28
Total Supplies and Services - SA Government Entities	1 261	1 564
Total Supplies and Services	4 279	3 640
Payments to Consultants	2006	2005
The dollar amount of consultancies paid/payable that fell within the following bands:	Number of Consultants	Number of Consultants
\$0 - \$9 999	2	1
\$10 000 - \$50 000	2	-
Total Number of Consultancies	4	1
The total amount paid/payable to consultants in 2005-06 was \$46 000 (\$1 000).		
5. Accommodation and Facilities	2006	2005
Accommodation and facilities provided by entities external to the SA Government:	\$'000	\$'000
Accommodation	312	308
Facilities	4	3
Total Accommodation and Facilities - Non-SA Government Entities	316	311
Accommodation and facilities provided by entities within the SA Government:		
Accommodation	339	294
Facilities	974	1 144
Security	774	767
Total Accommodation and Facilities - SA Government Entities	2 087	2 205
Total Accommodation and Facilities	2 403	2 516
6. Depreciation		
Buildings and improvements	1 060	907
Plant and equipment	63	67
Computer equipment	3	4
Total Depreciation	1 126	978

7. Auditor's Remuneration	2006	2005
	\$'000	\$'000
Audit fees paid/payable to the Auditor-General's Department	21	23
Total Audit Fees - SA Government Entities	21	23
Other Services		
No other services were provided by the Auditor-General's Department to the Museum.		
8. Grants		
State Government grants	268	325
Other general grants	230	369
Commonwealth grants	393	355
Total Grants	891	1 049
9. Other Income		
Other income received/receivable from entities external to the SA Government:		
Rent	56	52
Other	208	269
Total Other Income - Non-SA Government Entities	264	321
Other income received/receivable from entities within the SA Government:		
Other	1	20
Total Other Income - SA Government Entities	1	20
Total Other Income	265	341
10. Receivables		
Receivables from entities external to the SA Government	265	450
Total Receivables - Non-SA Government Entities	265	450
Receivables from entities within the SA Government	11	165
Total Receivables - SA Government Entities	11	165
Total Receivables	276	615
Interest Rate and Credit Risk		
Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days. Trade receivables, prepayments and accrued income are non-interest bearing. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivable approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.		
11. Property, Plant and Equipment	2006	2005
	\$'000	\$'000
Land, Buildings and Improvements:		
Land at valuation	5 480	5 480
Buildings and improvements at valuation	51 052	51 052
Buildings and improvements at cost	243	-
Works in progress	84	189
Accumulated depreciation	(25 231)	(24 171)
Total Land, Buildings and Improvements	31 628	32 550
Plant and Equipment:		
Plant and equipment at cost (deemed fair value)	1 267	1 276
Accumulated depreciation	(1 126)	(1 090)
Total Plant and Equipment	141	186
Computer Equipment:		
Computer equipment at cost (deemed fair value)	38	41
Accumulated depreciation	(29)	(35)
Total Computer Equipment	9	6
Total Property, Plant and Equipment	31 778	32 742

Valuation of Non-Current Assets

Valuation of land, buildings and improvements was performed by the Australian Valuation Office as at 30 June 2005.

Reconciliation of Property, Plant and Equipment

	Land \$'000	Buildings and Improvements \$'000	Works in Progress \$'000	Plant and Equipment \$'000	Computer Equipment \$'000	2006 Total \$'000
Carrying amount at 1 July	5 480	26 881	189	186	6	32 742
Additions	-	-	138	18	6	162
Transfers to buildings and improvements	-	243	(243)	-	-	-
Depreciation expense	-	(1 060)	-	(63)	(3)	(1 126)
Carrying Amount at 30 June	5 480	26 064	84	141	9	31 778

12. Heritage Collections

	2006			2005		
	At Valuation \$'000	At Cost \$'000	Total \$'000	At Valuation \$'000	At Cost \$'000	Total \$'000
Social/Industrial History	239	-	239	222	-	222
Australian Aboriginal Ethnographic	20 211	-	20 211	18 721	70	18 791
Foreign Ethnology	6 963	-	6 963	6 254	-	6 254
Australian Polar Collection	3 258	-	3 258	-	-	-
Minerals	16 878	-	16 878	11 682	70	11 752
Malacology	4 110	-	4 110	3 642	-	3 642
Butterflies	35	-	35	33	-	33
Australian Biological Tissue Bank	7 352	-	7 352	5 192	-	5 192
Australian Helminthological Collection	11 727	-	11 727	8 376	-	8 376
Entomology	31 686	-	31 686	26 134	-	26 134
Arachnology	4 795	-	4 795	4 013	-	4 013
Marine Invertebrates	8 913	-	8 913	5 660	-	5 660
Ichthyology	1 819	-	1 819	1 136	-	1 136
Herpetology	4 200	-	4 200	2 972	-	2 972
Ornithology	8 939	-	8 939	7 834	-	7 834
Mammalogy	5 962	-	5 962	4 223	-	4 223
Fossil	700	-	700	-	250	250
Library	5 608	-	5 608	4 761	-	4 761
Total Heritage Collections	143 395	-	143 395	110 855	390	111 245

Reconciliation of Heritage Collections	Balance 01.07.05 \$'000	Additions \$'000	Revaluat'n Increment \$'000	Balance 30.06.06 \$'000	Balance 01.07.04 \$'000	Additions \$'000	Balance 30.06.05 \$'000
Social/Industrial History	222	-	17	239	222	-	222
Australian Aboriginal Ethnographic	18 791	47	1 373	20 211	18 721	70	18 791
Foreign Ethnology	6 254	21	688	6 963	6 254	-	6 254
Australian Polar Collection	-	-	3 258	3 258	-	-	-
Minerals	11 752	268	4 858	16 878	11 682	70	11 752
Malacology	3 642	-	468	4 110	3 642	-	3 642
Butterflies	33	-	2	35	33	-	33
Australian Biological Tissue Bank	5 192	-	2 160	7 352	5 192	-	5 192
Australian Helminthological Collection	8 376	-	3 351	11 727	8 376	-	8 376
Entomology	26 134	56	5 496	31 686	26 134	-	26 134
Arachnology	4 013	-	782	4 795	4 013	-	4 013
Marine Invertebrates	5 660	-	3 253	8 913	5 660	-	5 660
Ichthyology	1 136	-	683	1 819	1 136	-	1 136
Herpetology	2 972	-	1 228	4 200	2 972	-	2 972
Ornithology	7 834	-	1 105	8 939	7 834	-	7 834
Mammalogy	4 223	-	1 739	5 962	4 223	-	4 223
Fossil	250	-	450	700	-	250	250
Library	4 761	-	847	5 608	4 761	-	4 761
	111 245	392	31 758	143 395	110 855	390	111 245

13. Payables

Current:	2006 \$'000	2005 \$'000
Creditors and accruals	218	192
Employee on-costs	80	75
Total Current Payables	298	267
Non-Current:		
Employee on-costs	75	81
Total Non-Current Payables	75	81
Total Payables	373	348
Payables to Non-SA Government Entities:		
Creditors and accruals	93	104
Total Payables - Non-SA Government Entities	93	104

13. Payables (continued)	2006	2005
Payables to SA Government Entities:	\$'000	\$'000
Creditors and accruals	125	88
Employee on-costs	155	156
Total Payables - SA Government Entities	280	244
Total Payables	373	348

Interest Rate and Credit Risk

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

14. Employee Benefits	2006	2005
Current:	\$'000	\$'000
Annual leave	318	314
Long service leave	143	68
Accrued salaries and wages	70	56
Total Current Employee Benefits	531	438
Non-Current:		
Long service leave	782	781
Total Non-Current Employee Benefits	782	781
Total Employee Benefits	1 313	1 219

The total current and non-current employee expense (ie aggregate employee benefit plus related on costs) for 2005-06 is \$611 000 and \$857 000 respectively.

In the 2005-06 financial year, the long service leave benchmark contained in the Accounting Policy Framework IV *Financial Asset and Liability Framework* remained the same, based on an actuarial assessment. The benchmark for the measurement of the long service leave liability is seven years.

15. Provisions	2006	2005
Current:	\$'000	\$'000
Provision for workers compensation	28	27
Total Current Provisions	28	27
Non-Current:		
Provision for workers compensation	75	68
Total Non-Current Provisions	75	68
Total Provisions	103	95

Reconciliation of the Provision for Workers Compensation

Provision at 1 July	95	103
Increase (Decrease) in provision during the year	8	(8)
Provision for Workers Compensation at 30 June	103	95

16. Equity		
Retained profits	133 205	133 527
Asset revaluation reserve	44 194	12 436
Total Equity	177 399	145 963
Retained Profits:		
Balance at 1 July	133 527	133 428
Net result from ordinary activities	(322)	99
Balance at 30 June	133 205	133 527
Asset Revaluation Reserve:		
Balance at 1 July	12 436	13 957
Increment in heritage collections due to revaluation	31 758	-
Decrement in land, buildings and improvements due to revaluation	-	(1 521)
Balance at 30 June	44 194	12 436
Total Equity at 30 June	177 399	145 963

17. Commitments for Expenditure		
Operating Lease Commitments		
Commitments under non-cancellable operating leases at the reporting date not recognised as liabilities in the financial report, are payable as follows:		
	2006	2005
	\$'000	\$'000
Not later than one year	387	393
Later than one year and not later than five years	37	621
Total Operating Lease Commitments	424	1 014

Operating Lease Commitments (continued)

The operating lease commitments comprise:

- Non-cancellable property leases, with rental payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased by the Consumer Price Index. Options exist to renew the leases at the end of their terms for a further five years.
- Non-cancellable motor vehicle leases, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their terms.
- A non-cancellable photocopier lease, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreement and no option to renew the lease at the end of its term.

Capital Commitments

Capital commitments under contract at the reporting date, but not recognised as liabilities in the financial report, are payable as follows:

	2006 \$'000	2005 \$'000
Not later than one year	1 502	-
Total Capital Commitments	1 502	-

Remuneration Commitments

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2006 \$'000	2005 \$'000
Not later than one year	308	297
Later than one year and not later than five years	750	1 022
Total Remuneration Commitments	1 058	1 319

Amounts disclosed include commitments arising from executive and other service contracts. The Board does not offer remuneration contracts greater than five years.

18. Contingent Assets and Liabilities

There are no known contingent assets and liabilities as at 30 June 2006.

19. Cash Flow Reconciliation**Reconciliation of Cash and Cash Equivalents**

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and at bank. Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the items in the Balance Sheet as follows:

	2006 \$'000	2005 \$'000
Deposits with Treasurer	3 597	2 682
Cash on hand	13	13
Cash as Recorded in the Balance Sheet	3 610	2 695

Interest Rate Risk

Cash and cash equivalents is recorded at its nominal amount. Interest is calculated based on the average daily balances of the interest bearing funds. The interest bearing funds of the Museum are the Special Deposit Account titled 'Arts South Australia Operating Account' and the Deposit Account titled 'Museum Board Bequests Account'. Deposits with the Treasurer are bearing a floating interest rate between 5.35 percent and 5.43 percent.

Reconciliation of Net Cash provided by Operating Activities to Net Cost of Providing Services

	2006 \$'000	2005 \$'000
Net cash provided by operating activities	1 077	913
Less: Revenues from SA Government	(8 234)	(8 845)
Add (Less): Non-cash items:		
Depreciation of property, plant and equipment	(1 126)	(978)
Donations of heritage collections	392	113
Revaluation increments (decrements)	-	(228)
Changes in Assets and Liabilities:		
(Decrease) Increase in receivables	(339)	405
Increase (Decrease) in inventories	-	(12)
(Decrease) Increase in other assets	(199)	-
(Increase) Decrease in payables	(25)	41
Increase in employee benefits	(94)	(163)
(Increase) Decrease in provisions	(8)	8
Net Cost of Providing Services	(8 556)	(8 746)

20. Events After Balance Date

There were no events occurring after balance date.

OFFICE OF PUBLIC EMPLOYMENT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Office of Public Employment was established on 1 July 2005 and is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*.

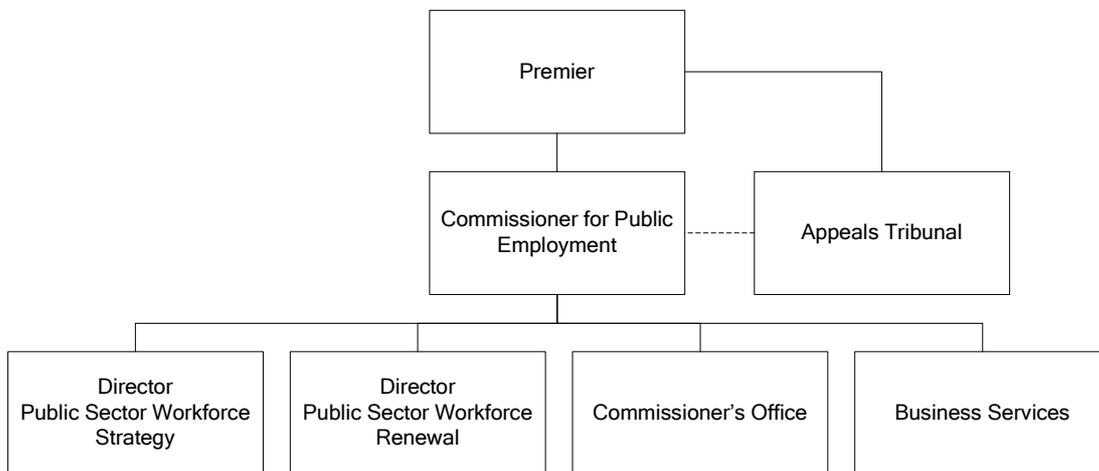
Functions

The goal of the Office of Public Employment is to be a client focused, strategic partner in creating a skilled, dynamic and responsive public sector workforce through innovation and collaboration.

Its vision is to foster an inclusive, ethical, high performing and accountable public sector.

Structure

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



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Office of Public Employment 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 Office of Public Employment in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

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

Scope of Audit

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

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

- expenditure
- revenue
- payroll
- budgetary control
- assets and liabilities
- general ledger.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Office of Public Employment as at 30 June 2006 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the Office of Public Employment 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 Office of Public Employment have been conducted properly and in accordance with law.

Audit Communications with Management

The results of the audit were satisfactory and no matters were raised with management.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

On establishment of the Office of Public Employment on 1 July 2005, there was a net asset deficiency of \$1.1 million (refer to Note 23). This deficiency has increased to \$1.7 million at 30 June 2006 due principally to an increase in the liability for employee benefits following resolution, during the year, of staffing requirements.

**Income Statement
for the year ended 30 June 2006**

	Note	2006 \$'000
EXPENSES:		
Employee benefits	6	5 103
Supplies and services	7	2 380
Depreciation expense	8	4
Grants and subsidies	9	13
Net loss from disposal of assets	10	2
Other	11	133
Total Expenses		7 635
INCOME:		
Fees and charges	13	982
Commonwealth revenues		128
Interest		45
Other	14	291
Total Income		1 446
NET COST OF PROVIDING SERVICES		(6 189)
REVENUES FROM SA GOVERNMENT:		
Revenues from SA Government	15	5 557
NET RESULT BEFORE RESTRUCTURE		(632)
Net expense from restructure	23	(1 117)
NET RESULT AFTER RESTRUCTURE		(1 749)
NET RESULT AFTER RESTRUCTURE IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER		

**Balance Sheet
as at 30 June 2006**

		2006
	Note	\$'000
CURRENT ASSETS:		
Cash	16	(154)
Receivables	17	270
Total Current Assets		116
Total Assets		116
CURRENT LIABILITIES:		
Payables	19	237
Employee benefits	20	521
Provisions	21	11
Total Current Liabilities		769
NON-CURRENT LIABILITIES:		
Payables	19	93
Employee benefits	20	972
Provisions	21	31
Total Non-Current Liabilities		1 096
Total Liabilities		1 865
NET ASSETS		(1 749)
EQUITY:		
Retained earnings		(1 749)
TOTAL EQUITY		(1 749)
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER		
Commitments	22	
Contingent assets and liabilities	24	

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

	Retained Earnings \$'000
Net income/expense recognised for 2005-06	(632)
Net result from restructure for 2005-06	(1 117)
Net result after restructure for 2005-06	(1 749)
Balance at 30 June 2006	(1 749)

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

Cash Flow Statement for the year ended 30 June 2006

	Note	2006 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee benefit payments		(4 519)
Supplies and services		(2 260)
Grants and subsidies		(13)
Other payments		(94)
Cash used in operations		(6 886)
CASH INFLOWS:		
Fees and charges		863
Receipts from Commonwealth		24
Interest received		39
Other receipts		249
Cash generated from Operations		1 175
CASH FLOWS FROM SA GOVERNMENT:		
Receipts from SA Government		5 557
Net Cash used in Operating Activities	25	(154)
NET DECREASE IN CASH HELD		(154)
CASH AT 1 JULY		-
CASH AT 30 JUNE	16	(154)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Office of Public Employment

The objectives of the Office of Public Employment are to promote and foster an independent, ethical and high performing public sector.

The statutory Office of Public Employment was established by the *Public Sector Management Act 1995*. The role of the Commissioner under the Act is to :

- establish the framework for human resource management in the public sector;
- ensure the health of the system through monitoring, reviewing and reporting and the protection of merit and equity;
- provide input into significant matters arising in relation to the employment of individual public servants;
- provide standards, determinations, guidelines and directions on personnel management, remuneration structures and employment conditions to the public sector;
- provide advice on personnel management to the public sector;
- monitor and review personnel management and industrial relations practices in the public sector; and
- undertake reviews at the Minister's or his/her own initiative and report annually on such matters to the public sector.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

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

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

2.1 Basis of Accounting (continued)

The Office of Public Employment's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention. The Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a 12 month operating cycle and is presented in Australian currency. The continued existence of the Office of Public Employment in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for the Office of Public Employment's administration and outputs.

2.2 Reporting Entity

The financial report encompasses all Office of Public Employment activities transacted through an interest bearing Special Deposit Account titled 'Office of Public Employment Operating Account'. The Office of Public Employment's principal source of funds consists of monies appropriated by Parliament.

2.3 Transferred Functions

The former division of the Department of the Premier and Cabinet known as Office for the Commissioner for Public Employment has been dissolved. A new agency was established on 1 July 2005 known as the Office of Public Employment. The Office of Public Employment has taken on certain assets and liabilities of the previous Office for the Commissioner for Public Employment.

2.4 Comparative Information

In the 2005-06 financial statements there is no comparative information as the Office of Public Employment was established on 1 July 2005.

2.5 Rounding

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

2.6 Taxation

The Office of Public Employment is not subject to income tax. The Office of Public Employment is liable for payroll tax, fringe benefits tax, goods and services tax, emergency services levy, land tax equivalents and local government rate equivalents.

2.7 Accounting for the Goods and Services Tax

Income, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred by the Office of Public Employment as a purchaser is not recoverable from the Australian Taxation Office.

The net GST receivable/payable to the Taxation Office is not recognised as a receivable/payable in the Balance Sheet as the Office of Public Employment is part of an approved GST group of the Department of the Premier and Cabinet, which is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Cash Flow Statement.

2.8 Income and Expenses

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

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

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

All contributions received by the Office of Public Employment have been contributions with unconditional stipulations attached and have been recognised as an asset and income upon receipt. All contributions paid by the Office of Public Employment have been contributions with unconditional stipulations attached.

2.9 Revenues from SA Government

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

2.10 Current and Non-Current Items

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

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, the Office of Public Employment has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

2.11 Cash

For the purposes of the Cash Flow Statement, cash includes deposits with the Treasurer.

2.12 Receivables

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

Receivables are normally settled within 30 days.

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

2.13 Non-Current Asset Acquisition and Recognition

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

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APSs 2.15 and 7.2, all non-current tangible assets with a value of \$5 000 or greater are capitalised.

2.14 Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of remaining useful lives are reviewed on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

<i>Class of Asset</i>	<i>Useful Life (Years)</i>
Office equipment	3

2.15 Payables

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

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

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period.

All amounts are measured at their nominal amount and are normally settled within 30 days, in accordance with Treasurer's Instruction 11 *Payment of Creditor's Accounts*, after the Office of Public Employment 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 of Public Employment makes contributions to several State Government superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board.

2.16 Employee Benefits

(i) *Wages and Salaries*

Liabilities for wages and salaries are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) *Annual Leave*

A liability for annual leave is calculated by determining the amount unpaid at the reporting date and estimating the nominal amount that is expected to be paid when the obligation is settled, as directed in the Accounting Policy Framework. In the unusual event where annual leave is payable later than 12 months, the liability will be measured at present value.

(iii) *Long Service Leave*

A liability for long service leave is calculated by using the product of the current liability in time for all employees who have completed seven or more years of service and the current rate of remuneration for each of these employees respectively. The seven years has been based on an actuarial calculation as stated in Accounting Policy Framework IV *Financial Assets and Liabilities*.

(iv) *Superannuation*

The Office of Public Employment makes contributions to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payment to beneficiaries as they have been assumed by the Superannuation Funds. The only liability outstanding at balance date related to any contribution due but not yet paid to the superannuation schemes.

(v) *Employment On-Costs*

The liability for employment on-costs includes superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave. These amounts are classified under Payables.

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.

2.17 Leases

The Office of Public Employment has entered into a number of operating lease agreements for buildings and office equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Income Statement in the periods in which they are incurred.

3. Financial Risk Management

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

In relation to liquidity/funding risk, the continued existence of the Office of Public Employment in its present form, and with its present program, is dependent on Government policy and on continuing appropriations by Parliament for the Office of Public Employment's administration and program.

4. Changes in Accounting Policies

A number of Australian Accounting Standards have been issued or amended and are applicable to the Office of Public Employment but are not yet effective. The Office of Public Employment has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Office of Public Employment.

5. Programs of the Office of Public Employment

Programs are defined as goods or services produced, provided to or acquired for external customers. The Office of Public Employment has identified one major class of program that it delivers. The identity and description of the major program class for the Office of Public Employment during the year ended 30 June 2006 is summarised below.

Program 1: Public Sector Human Resources Management

This Program provides strategic human resource management planning, policy development, monitoring and reporting to facilitate a skilled, dynamic and responsive public sector workforce.

The expenses and income relating to the Program are the same as detailed in the Income Statement.

6. Employee Benefits

	2006
	\$'000
Salaries and wages	3 241
TVSPs (refer below)	74
Long service leave	547
Annual leave	321
Employment on-costs - Superannuation	497
Employment on-costs - Other	415
Board fees	8
Total Employee Benefit Costs	5 103

Targeted Voluntary Separation Packages (TVSPs)

Amount paid to these employees:

TVSPs	74
Annual leave and long service leave accrued over the period	10
	84
Recovery from the Department of Treasury and Finance	74

Number of employees that were paid TVSPs during the reporting period was 1.

Remuneration of Employees

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

	2006
	Number of Employees
\$110 000 - \$119 999	2
\$150 000 - \$159 999	1
\$180 000 - \$189 999	1
\$240 000 - \$249 999	1
Total Number of Office for Public Employment Employees	5
Unattached Unit	
\$110 000 - \$119 999	1
\$120 000 - \$129 999	1
\$130 000 - \$139 999	1
\$140 000 - \$149 999	1
Total Number of Unattached Unit Employees	4
Total Number of Employees	9

Remuneration of Employees (continued)

The table includes all employees who received remuneration of \$100 000 or more during the year paid by the Office of Public Employment. The total remuneration received by these employees for the year was \$1.3 million.

Unattached Unit consists of *Public Sector Management Act 1995* employees who are unable to be placed in government agencies and authorities. The Unattached Unit was transferred to the Office of Public Employment on 1 July 2005 from the former Department of the Premier and Cabinet division known as the Office for the Commissioner for Public Employment.

7. Supplies and Services	2006
Supplies and Services provided by entities within the SA Government:	\$'000
Accommodation	364
Telecommunication	64
Staff development and recruitment	12
General administration and consumables	66
Promotion and marketing	1
Repairs, maintenance and minor equipment purchases	1
Service level agreements	72
IT and computing charges	24
Total Supplies and Services - SA Government Entities	604
Supplies and Services provided by entities external to the SA Government:	
Accommodation	8
Telecommunication	7
Staff development and recruitment	235
General administration and consumables	509
Promotion and marketing	120
Repairs, maintenance and minor equipment purchases	27
IT and computing charges	207
Contractors	558
Consultants	80
Temporary and casual staff	24
Other	1
Total Supplies and Services - Non-SA Government Entities	1 776
Total Supplies and Services	2 380
	2006
The number and dollar amount of consultancies paid/payable (included in supplies and services) that fell within the following bands:	Number of Consultants
Below \$10 000	\$'000
Between \$10 000 - \$50 000	3
	13
	2
	67
Total Paid/Payable to the Consultants Engaged	5
	80
8. Depreciation Expense	2006
Depreciation:	\$'000
Office equipment	4
Total Depreciation	4
9. Grants and Subsidies	
Grants and subsidies paid/payable to entities within the SA Government:	
Recurrent grant	12
Total Grants and Subsidies - SA Government Entities	12
Grants and subsidies paid/payable to entities external to the SA Government:	
Recurrent grant	1
Total Grants and Subsidies - Non-SA Government Entities	1
Total Grants and Subsidies	13
10. Net Loss from Disposal of Assets	
Office Equipment:	
Proceeds from disposal	-
Net book value of assets disposed	2
Net Loss from Disposal of Office Equipment	2
11. Other Expenses	
Other expenses paid/payable to entities within the SA Government:	
Projects	104
Total Other Expenses - SA Government Entities	104
Other expenses paid/payable to entities external to the SA Government:	
Projects	28
Other	1
Total Other Expenses - Non-SA Government Entities	29
Total Other Expenses	133

12. Auditor's Remuneration	2006
	\$'000
Audit fees paid/payable to the Auditor-General's Department	<u>21</u>
Total Audit Fees	<u>21</u>
Other Services	
No other services were provided by the Auditor-General's Department.	
13. Fees and Charges	
Fees and Charges received/receivable from entities within the SA Government:	
Salaries charged to other entities	351
Other fees and charges	<u>500</u>
Total Fees and Charges - SA Government Entities	<u>851</u>
Fees and Charges received/receivable from entities external to the SA Government:	
Salaries charged to other entities	6
Other fees and charges	<u>125</u>
Total Fees and Charges - Non-SA Government Entities	<u>131</u>
Total Fees and Charges	<u>982</u>
14. Other Income	
TVSP reimbursements	74
Library services recoup	66
Recruitment recoup	70
Licensing of website recoup	59
Other	<u>22</u>
Total Other Income	<u>291</u>
15. Revenues from SA Government	
Revenues from SA Government:	
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	<u>5 557</u>
Total Revenues	<u>5 557</u>
16. Cash	
Deposits with the Treasurer	<u>(154)</u>
Total Cash	<u>(154)</u>
The financial activities of the Office of Public Employment are transacted through an interest bearing Special Deposit Account titled 'Office of Public Employment Operating Account'.	
17. Receivables	
Current:	
Receivables	265
Accrued revenues	<u>5</u>
Total Current Receivables	<u>270</u>
Government/Non-Government Receivables:	
Receivables from SA Government entities:	
Receivables	139
Accrued revenues	<u>5</u>
Total Receivables from SA Government Entities	<u>144</u>
Receivables from Non-SA Government entities:	
Receivables	126
Less: Provision for doubtful debts	<u>-</u>
Total Receivables from Non-SA Government Entities	<u>126</u>
Total Receivables	<u>270</u>

Interest Rate and Credit Risk

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

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

Bad and Doubtful Debts

The Office of Public Employment has not recognised any bad and doubtful debts expense in the Income Statement.

18. Property, Plant and Equipment

The Office of Public Employment held no property, plant and equipment with a book value greater than \$5 000 as at 30 June 2006.

19. Payables

	2006
	\$'000
Current:	
Creditors and accrued expenses	159
Employment on-costs - Superannuation	47
Employment on-costs - Other	31
Total Current Payables	237
Expected to be paid more than 12 months after reporting date:	
Employment on-costs - Superannuation	37
Employment on-costs - Other	56
Total Non-current Payables	93
Total Payables	330
Government/Non-Government Payables:	
Payables to SA Government entities:	
Creditors and accrued expenses	96
Employment on-costs - Superannuation	84
Total Payables to Other SA Government Entities	180
Payables to Non-SA Government entities:	
Creditors and accrued expenses	63
Employment on-costs - Other	87
Total Payables - Non-SA Government Entities	150
Total Payables	330

Interest Rate and Credit Risk

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

20. Employee Benefits

	2006
	\$'000
Current:	
Annual leave	284
Long service leave	178
Accrued salaries and wages	59
Total Current Employee Benefits	521
Non-Current:	
Long service leave	972
Total Non-Current Employee Benefits	972
Total Employee Benefits	1 493

The total current and non-current employee expense (ie aggregate employee benefit plus related on costs) for 2005-06 is \$0.6 million and \$1.06 million respectively.

21. Provisions

Current:	
Provision for workers compensation	11
Total Current Provisions	11
Non-Current:	
Provision for workers compensation	31
Total Non-Current Provisions	31
Total Provisions	42
Carrying amount at 1 July	-
Additional provisions recognised	42
Carrying Amount at 30 June	42

22. Commitments for Expenditure**Capital Commitments**

There are no capital commitments for the Office of Public Employment.

Remuneration Commitments

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2006
	\$'000
Within one year	784
Later than one year and not later than five years	1 600
Total Remuneration Commitments	2 384

Amounts disclosed include commitments arising from executive and other service contracts. The Office of Public Employment does not offer remuneration contracts greater than five years.

Operating Lease Commitments

Commitments in relation to non-cancellable operating leases contracted for at the reporting date are not recognised as liabilities are payable as follows:

	2006
	\$'000
Within one year	323
Later than one year and not later than five years	913
Total Operating Lease Commitments	1 236

At the reporting date, the Office of Public Employment's operating leases are for the lease of office accommodation and office equipment.

- Office accommodation is leased from the Real Estate Management business unit of the Department for Administrative and Information Services (DAIS). The lease is non-cancellable with a term of six years. The rental amount is based on floor space and the time period of the lease, with the rental rate reviewed taking into account movements in market rental values or CPI. Rental is payable in advance.
- Office equipment leases are non-cancellable with rental payable in arrears. No contingent rental provisions exist within the lease arrangement and no options exist to renew the leases at the end of their term.

23. Transferred Functions

The former division of the Department of the Premier and Cabinet known as the Office for the Commissioner for Public Employment was dissolved at 30 June 2005 and a new agency, the Office of Public Employment commenced as at 1 July 2005. Certain assets and liabilities relating to the agency were transferred from the Department of the Premier and Cabinet to the new Office of Public Employment as at 1 July 2005.

	01.07.05
Current Assets:	\$'000
Cash	-
Receivables	-
Non-Current Assets:	
Property, plant and equipment	6
Total Assets	6
Current Liabilities:	
Payables	51
Employee costs	357
Provisions	6
Non-Current Liabilities:	
Payables	70
Employee costs	623
Provisions	16
Total Liabilities	1 123
Net Assets	(1 117)

24. Contingent Assets and Liabilities

The Office of Public Employment is not aware of any contingent assets or liabilities that exists as at 30 June 2006.

25. Cash Flow Reconciliation	2006
Reconciliation of Cash - Cash as per:	\$'000
Cash Flow Statement	(154)
Balance Sheet	(154)
	<hr/>
Reconciliation of Net Cash used in Operating Activities to	
Net Cost of Providing Services:	
Net cash used in operating activities	(154)
Less: Revenues from SA Government	(5 557)
Add (Less): Non-Cash Items:	
Depreciation of property, plant and equipment	(4)
Net loss from disposal of assets	(2)
Changes in Assets and Liabilities:	
Increase in receivables	270
Increase in employee benefits	(1 493)
Increase in payables	(330)
Increase in provisions	(42)
Liabilities transferred	1 123
	<hr/>
Net Cost of Providing Services	(6 189)
	<hr/>

PARLIAMENTARY SUPERANNUATION SCHEME

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Parliamentary Superannuation Scheme (the Scheme) and the South Australian Parliamentary Superannuation Board (the Board) were established under the *Parliamentary Superannuation Act 1974* (the Act).

Functions

The Board is responsible for the administration of the Scheme which provides for the payment of benefits to persons who have served as members of Parliament and also makes provisions for the families of such persons.

The Scheme is administered through the Parliamentary Superannuation Fund (the Fund). The Fund, established under the Act, records as income to the Fund, members' and the Government's contributions and revenue derived from the investment of those monies, and also records benefit payments and administration costs.

Amendments to the Act came into operation on 15 September 2005 effectively creating a new component of the Scheme. The Scheme now has three components:

- PSS 1 (old scheme) — a compulsory superannuation scheme for the provision of pension based benefits which was closed to new members in 1995;
- PSS 2 (new scheme) — a compulsory superannuation scheme for the provision of pension based benefits which was closed to new members in 2005;
- PSS 3 (current scheme) — an employer sponsored contributory superannuation scheme for new members. The PSS 3 also allows members to make contributions.

Further information on these components is provided in Note 1(d) of the financial report.

The investment management responsibility for the Fund is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA) under the Act.

The Board utilises the services of the Department of Treasury and Finance - Superannuation Office (Super SA) to administer the Scheme.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Parliamentary Superannuation 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 by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

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

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an audit opinion on the financial report and internal controls.

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

- contributions from members and employers
- pension payments
- liability for accrued benefits.

The audit did not include a review of the investment and management of the Scheme assets as these areas were reviewed as part of the audit of Funds SA.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards, and other mandatory professional reporting requirements in Australia, the financial position of the Parliamentary Superannuation Scheme as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised over the Parliamentary 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 Parliamentary 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.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Contributions	4.2	4.1	2
Net investment earnings	25.8	19.0	36
Total Operating Revenue	30.0	23.1	30
OPERATING EXPENDITURE			
Transfer to Consolidated Account	17.0	8.0	n/a
Benefits and other expenses	12.3	19.1	(36)
Total Operating Expenses	29.3	27.1	8
Operating Result	0.7	(4.0)	n/a
Net Cash Flows from Operations	(22.9)	(9.7)	n/a
ASSETS			
Investments	138.1	135.1	2
Other assets	0.2	0.3	(33)
Total Assets	138.3	135.4	2
LIABILITIES			
Liability for accrued benefits	134.1	131.7	2
Other liabilities	0.6	0.7	(14)
Total Liabilities	134.7	132.4	2
EXCESS OF NET ASSETS OVER LIABILITIES	3.6	3.0	20

Operating Statement

Operating Revenues

Investment activity for the year resulted in a net return of \$25.8 million (\$19 million). Investment returns are further discussed in the commentary for Funds SA.

Operating Expenses

Benefits expense decreased by \$6.8 million to \$12.1 million for the year. Benefits expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. An actuarial review is undertaken every three years but the assumptions from this review are used to calculate the accrued liability in years between reviews.

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. In 2006 the same assumptions were applied, increasing the Liability for Accrued Benefits by \$2.4 million (\$13.2 million). Refer to Note 7 'Liability for Accrued Benefits'.

Transfer to Consolidated Account

After an actuarial assessment for the employer estimated accrued liabilities, the Treasurer approved a transfer of \$17 million (\$8 million) to the Consolidated Account.

Operating Result

The year's result represents the excess of net investment revenue of \$25.8 million and contributions of \$4.2 million over benefits expense of \$12.1 million and a transfer to the Consolidated Account of \$17 million.

Statement of Financial Position

As at 30 June 2006, there was an excess of net assets over liabilities of \$3.6 million (\$3 million); the Scheme is therefore fully funded. The estimated liability for accrued benefits increased by \$2.4 million to \$134.1 million (\$131.7 million) for which net assets of \$137.7 million (\$134.6 million) were available to pay benefits. Refer to 'Operating Expenses' for an explanation of the increase.

In comparison the vested benefits as at 30 June 2006 were \$150.2 million. Vested benefits represent benefits which members are entitled to receive had their membership been terminated at reporting date. Vested benefits are greater than accrued benefits by \$16.1 million as vested benefits are based on the involuntarily expiration of services. As a result members would be entitled to the benefits immediately.

FURTHER COMMENTARY ON OPERATIONS

Pensioners

The number of pensioners, and pensions paid for the past four years, was:

	2006	2005	2004	2003
Pensioners	112	97	101	103
Pensions paid (\$'000)	5 659	5 307	5 292	5 018

Contributions by Members

The number of contributors, and contributions received from members for the past four years, was:

	2006	2005	2004	2003
Contributors	69	69	69	69
Contributions received (\$'000)	1 047	1 065	1 070	962

**Operating Statement
for the year ended 30 June 2006**

		2006	2005
	Note	\$'000	\$'000
INVESTMENT REVENUE	5	26 682	18 966
INTEREST INCOME		25	4
CONTRIBUTION REVENUE:	1(d)		
Contributions by members		1 047	1 065
Contributions by employers		3 015	3 012
Rollovers from other schemes		155	-
		4 217	4 077
DIRECT INVESTMENT EXPENSE	5	(934)	-
ADMINISTRATION EXPENSE	5	(183)	(149)
CONSULTANCY EXPENSE	14	(3)	(3)
AUDIT EXPENSE	15	(13)	(27)
TRANSFERS TO CONSOLIDATED ACCOUNT	4	(17 000)	(8 000)
BENEFITS EXPENSE	7	(12 122)	(18 965)
OPERATING RESULT FOR THE PERIOD		669	(4 097)

**Statement of Financial Position
as at 30 June 2006**

	Note	2006 \$'000	2005 \$'000
INVESTMENTS:	2(b)		
Inflation linked securities		11 827	13 710
Property		13 046	10 721
Australian equities		46 138	47 043
International equities		46 206	46 643
Fixed interest		6 042	7 740
Diversified strategies - Growth		4 713	3 313
Diversified strategies - Income		5 080	2 432
Cash		5 043	3 519
		138 095	135 121
FIXED ASSETS		6	8
OTHER ASSETS:			
Cash and deposits at Treasury	11	28	265
Cash and deposits at Treasury - Funds SA		26	9
Contributions receivable	3	200	-
Interest, dividends and rent due - Funds SA		5	13
Sundry debtors	12	13	7
		272	294
Total Assets		138 373	135 423
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		15	25
Sundry creditors	13	236	293
Benefits payable		125	87
		376	405
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		256	369
Total Liabilities		632	774
NET ASSETS AVAILABLE TO PAY BENEFITS	6	137 741	134 649
<i>Less:</i> LIABILITY FOR ACCRUED BENEFITS	7	134 123	131 700
EXCESS OF NET ASSETS OVER LIABILITIES		3 618	2 949

Statement of Cash Flows for the year ended 30 June 2006

		2006	2005
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Contributions Received:			
Contribution by members		1 000	1 065
Contribution by employers		2 862	3 012
Rollovers from other schemes		155	-
		4 017	4 077
Bank interest received		25	4
GST recoup from Australian Taxation Office		6	5
Benefits Paid:			
Pension		(5 659)	(5 307)
Commutation of pension benefits		(3 920)	(371)
Refunds to members		(53)	-
Lump sum employer component		(28)	-
		(9 660)	(5 678)
Administration expense		(288)	(70)
Consultancy expense		(3)	(3)
Audit expense		(13)	(13)
Transfer to Consolidated Account		(17 000)	(8 000)
Net Cash used in Operating Activities	10	(22 916)	(9 678)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from Funds SA		26 480	12 370
Payments to Funds SA		(3 801)	(2 450)
Net Cash provided by Investing Activities		22 679	9 920
NET (DECREASE) INCREASE IN CASH HELD		(237)	242
CASH AT 1 JULY		265	23
CASH AT 30 JUNE	11	28	265

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) **Parliamentary Superannuation Scheme**

The Parliamentary Superannuation Scheme (the Scheme) is a compulsory superannuation scheme which exists pursuant to the *Parliamentary Superannuation Act 1974* (the Act). The Act provides for the payment of superannuation benefits to persons who have served as members of Parliament and makes provisions for the families of such persons.

The *Parliamentary Superannuation (Scheme for New Members) Amendment Act 2005* (the Amendment Act) was proclaimed to come into operation on 15 September 2005. The Amendment Act amended the principal Act by closing the existing scheme (new scheme) and now known as the PSS2 scheme. PSS1 (old scheme) was closed to new entrants in 1995. The current scheme is known as PSS3.

Contributions are deposited by the Treasurer into the Parliamentary Superannuation Fund, established under section 13 of the Act. A separate division of the Fund has been established for the PSS3 scheme. The Fund is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

PSS1 and PSS2 members are entitled to pension based benefits determined in accordance with the Act to be a percentage of the members' salary. A member may elect to commute to a lump sum a percentage of their pension entitlement. PSS3 members are entitled to an accumulation style benefit.

(b) The South Australian Parliamentary Superannuation Board

The South Australian Parliamentary Superannuation Board (the Board) a body corporate, is established under section 8(1) of the Act.

(c) Superannuation Funds Management Corporation of South Australia

Funds SA, a body corporate, was established for the purpose of managing and investing the accounts of various public sector superannuation schemes. Funds SA is responsible for the management and investment of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Scheme, reference should be made to the financial report of Funds SA. The investment assets, liabilities, income and expense contained in this financial report are related to the investment activities of Funds SA, an SA Government entity.

(d) Funding Arrangements

Under section 39(1) 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 period ended 30 June 2006 payments were made from a Special Deposit Account.

For PSS1 and PSS2 members, section 14A of the Act requires every member of Parliament with less than 20 years and one month's service, to make contributions of 11.5 percent of their basic salary (including any additional salary) to the Treasurer. Section 14A(2) requires members of Parliament with 20 years and one month's service or over, to make contributions of 5.75 percent of their basic salary and 11.5 percent of any additional salary. PSS3 members may elect to make contributions based on a percentage of the combined value of their salary and any additional salary ranging from 0 percent to 10 percent under section 14B of the Act. A separate contribution account is maintained for each member. Members' contributions are paid to the Treasurer who deposits those contributions into the Parliamentary Superannuation Fund, with \$1 047 000 (\$1 065 000) being credited during the year ended 30 June 2006.

Employer contributions are paid to the Treasurer from SA Government entities to fund emerging superannuation liabilities. For PSS1 and PSS2 members, the employer contribution is 2.75 times the member's contribution. For PSS3 members, the employer contribution is 9 percent of salary where the member has elected to contribute less than 4.5 percent of salary. Where a 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 PSS3 member. These contributions are deposited into the Scheme, with \$3 015 000 (\$3 012 000) being credited during the year ended 30 June 2006.

Since 30 June 1994, the Government has undertaken a process of funding its accrued past service liabilities and the scheme assets have broadly matched liabilities since 1997. The small size of the scheme, the nature of the way member benefits accrue, the effect of elections and variations in investment performance mean that deficits and surpluses will arise from year to year.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with applicable Australian Accounting Standards, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements, except as provided below.

This is the first financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AAS 25 *Financial Reporting by Superannuation Plans* is the principal standard applied in preparing this financial report. Other Accounting Standards are also applied where necessary except to the extent that they differ from AAS 25. There has been no material impact to the financial report in the transition to AIFRS. In addition, a number of Australian Accounting Standards have been issued or amended and may be applicable to the Scheme but not yet effective. The impact of the new and amended standards has been assessed and there will be no impact on the accounting policies.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of AAS 25 where relevant. The Directors of Funds SA believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The inflation linked securities portfolio comprises two sub-sectors:

- *Internally Managed*
These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer, Macquarie Bank Limited.

- (i) *Inflation Linked Securities (continued)*
- *Externally Managed*
The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.
- (ii) *Property*
The Property portfolio comprises three sub-sectors:
- *Directly Held Property*
The value of Funds SA's directly held property has been determined having regard to the contractual arrangements in place over the property.
 - *Listed Property Trusts*
The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at balance date.
 - *Unlisted Property Vehicles*
The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.
- (iii) *Australian Equities*
The Australian Equities portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.
- (iv) *International Equities*
The International Equities portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at 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 balance date where applicable.
- (v) *Fixed Interest*
The Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.
- (vi) *Diversified Strategies (Growth)*
The Diversified Strategies (Growth) portfolio comprises investments in domestic and overseas private equity funds and domestic and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (November 2005). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.
- (vii) *Diversified Strategies (Income)*
The Diversified Strategies (Income) portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.
- (viii) *Cash*
Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.
- (ix) *Fixed Assets*
Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. It is considered that this provides a reasonable estimate of net market value.
- (x) *Other Assets and Liabilities*
These items have been assessed and it is considered that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) Taxation

The Scheme is constitutionally protected under the Regulations to the *Income Tax Assessment Act 1936* and is exempt from income tax.

(d) Operation of Investment Portfolio

Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2006, Funds SA managed six separate investment options distinguished by differing strategic asset allocations, namely:

- High Growth;
- Growth;
- Balanced;
- Conservative;
- Capital Defensive; and
- Cash.

During the financial year all of the above investment options were available to PSS3 members. The assets of the remainder of the Parliamentary Superannuation Scheme 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 the Fund holds in the unitised investment portfolio is disclosed in the respective Statement of Net Assets Under Management in Note 25 of the Financial Report of Funds SA. The allocation of total net investment income is disclosed in the respective Statement of Changes in Net Assets Under Management in Note 25 of the Financial Report of Funds SA.

(e) 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.

(f) Revenue

Superannuation contributions and other revenue are brought to account on an accrual basis.

3. Contributions Receivable	2006	2005
	\$'000	\$'000
Contributions from members	47	-
Contributions from employers	153	-
	200	-

4. Transfers to Consolidated Account

After an actuarial assessment of the employer estimated accrued liabilities, the Treasurer approved a transfer of \$17 million (\$8 million) to the Consolidated Account in 2005-06.

5. Administration and Investment Expense

Costs of administering the Schemes comprise those costs incurred by Funds SA (Investment Expense) and the Department of Treasury and Finance (Administration Expense).

Investment Expense has not been reported separately in prior financial years, but had been deducted from revenue ie investment revenue was reported net of direct investment expense. For the year ended 30 June 2006 these costs are now shown separately as Direct Investment Expense. The comparative has not been changed as the information was not readily available.

Administration Expense comprises the costs incurred by the Department of Treasury and Finance in administering the Schemes, which are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Schemes.

6. Net Assets Available to Pay Benefits	2006	2005
(a) PSS1 and PSS2 Division	\$'000	\$'000
Funds held at 1 July	134 649	125 546
Add:		
Contributions by members	1 045	1 065
Contributions by employers	2 948	3 012
Investment revenue	26 682	18 966
Other income	25	4
	30 700	23 047

(a) PSS1 and PSS2 Division (continued)	2006	2005
Less:	\$'000	\$'000
Benefits paid	9 699	5 765
Transfer to Consolidated Account	17 000	8 000
Administration expense	101	149
Consultancy expense	3	3
Audit expense	13	27
Direct investment expense	934	-
	27 750	13 944
Funds held at 30 June	137 599	134 649
(b) PSS3 Division		
Funds held at 1 July	-	-
Add:		
Contributions by members	2	-
Contributions by employers	67	-
Rollovers from other schemes	155	-
	224	-
Less:		
Administration expense	82	-
Funds held at 30 June	142	-
Total Net Assets	137 741	134 649

7. Liability for Accrued Benefits

For PSS1 and PSS2 members, the accrued liabilities are the present value of expected future benefit payments arising from membership of the scheme up to 30 June 2006. For PSS3 members, the accrued liability is the balance of the employee and employer contribution accounts as at 30 June 2006.

The expected future benefit payments have been determined using the same pensioner mortality assumptions as the 2004 triennial review of the South Australian Superannuation Scheme. 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 Australian Accounting Standard AAS 25, the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 4.5 percent per annum above the CPI has been applied.

The accrued superannuation liability as determined by State Superannuation Office of the Department of Treasury and Finance is estimated at \$134.1 million (\$131.7 million) as at 30 June 2006.

	2006	2005
	\$'000	\$'000
Liability for accrued benefits at 1 July	131 700	118 500
Add: Benefits expense ⁽ⁱ⁾	12 122	18 965
Less: Benefits paid and payable	9 699	5 765
Liability for Accrued Benefits at 30 June	134 123	131 700
Represented by:		
PSS1 and PSS2 division	133 899	131 700
PSS3 division	224	-
Liability for Accrued Benefits at 30 June	134 123	131 700

(i) This figure represents the change in liability for accrued benefits plus benefits paid for the year.

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. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date. The value of vested benefits is greater than the Liability for Accrued Benefits, as vested benefits are based on the involuntary expiration of service, and this would result in an entitlement to benefits occurring immediately.

	2006	2005
	\$'000	\$'000
Vested benefits - PSS1 and PSS2 Division	150 000	148 000
Vested benefits - PSS3 Division	224	-
	150 224	148 000

9. Guaranteed Benefits

The entitlements of members are specified by the *Parliamentary Superannuation Act 1974*.

10. Reconciliation of Operating Result to Net Cash used in Operating Activities	2006	2005
	\$'000	\$'000
Operating result	669	(4 097)
Benefits expense	12 122	18 965
Benefits paid	(9 699)	(5 678)
Increase in sundry debtors	(7)	(6)
(Decrease) Increase in sundry creditors	(91)	104
Increase in contributions receivable	(200)	-
Investment revenue	(26 682)	(18 966)
Direct investment expense	934	-
Increase in benefits payable	38	-
Net Cash used in Operating Activities	(22 916)	(9 678)

11. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2006	2005
	\$'000	\$'000
Cash and deposits at Treasury	28	265

12. Sundry Debtors

Sundry debtors - Funds SA	-	1
GST recoup from ATO	13	6
	13	7

13. Sundry Creditors and Provisions

Funds SA sundry creditors	223	190
Administration fees	-	90
Audit fees	13	13
	236	293

14. Consultancy Expense

Consultancy fees for the 2005-06 financial year have been deducted from the Scheme. These fees relate to Superannuation Policy and Actuarial advice received.

15. 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 year ended 30 June 2006 total \$13 000 (\$13 000). No other services were provided by the auditors.

16. Financial Instruments

The specific disclosure requirements of Australian Accounting Standard AASB 132 *Financial Instruments: Presentation* are fully set out in the Notes to the Financial Report of Funds SA and have not been repeated in this financial report.

17. Related Parties**(a) Board Members**

The following are members of the Parliamentary Superannuation Board who served during the course of the 2005-06 financial year, along with the period served:

Ron Roberts	Chairman	1 July 2005 - 17 March 2006
Robert Such	Member	1 July 2005 - 17 March 2006
Robert Schwartz	Member	1 July 2005 - 30 June 2006
Robert Sneath	Chairman	27 April 2006 - 30 June 2006
Jack Snelling	Member	27 April 2006 - 30 June 2006

(b) Board Member's Remuneration

Board members do not receive fees for their Board membership.

POLICE DEPARTMENT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Police Department is an Administrative Unit established under the *Public Sector Management Act 1995*.

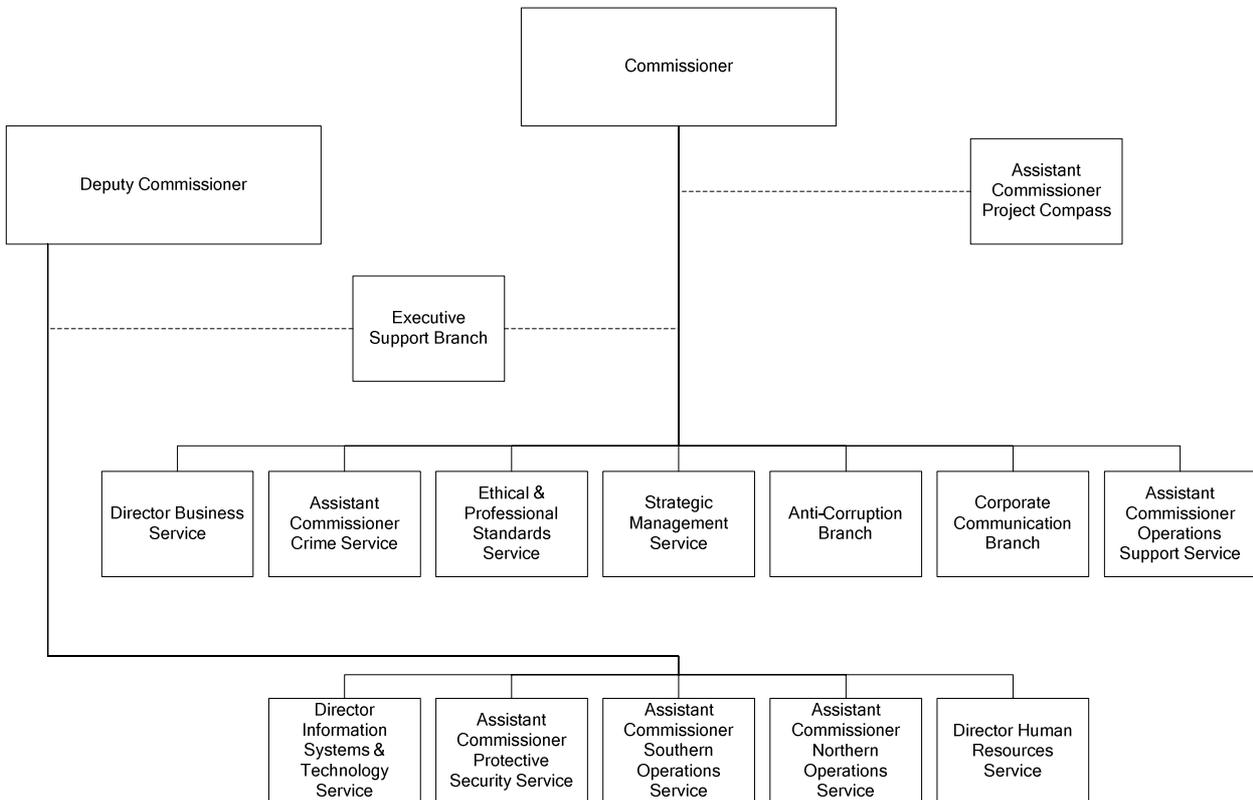
Functions

The functions of the Police Department are as follows:

- Uphold the law.
- Preserve the peace.
- Prevent crime.
- Assist the public in emergency situations.
- Coordinate and manage responses to emergencies.
- Regulate road use and prevent vehicle crime.

Structure

The structure of the Police Department is illustrated in the following organisation chart.



Changes to Functions and Structure

Protective Security Service was established in October 2005 as the SAPOL organisational response to the current level of new responsibilities from national counter terrorism measures and changes to emergency management and police security services. Its role in preventing, protecting, preparing and planning for terrorist threats or major emergency situations at the local and national level also includes response and recovery.

Protective Security Service consists of the Police Security Services Branch, which monitors and disseminates information and intelligence and provides investigation and analytical capability to investigate State based terrorist acts or other suspected criminal activity; and the State Protective Security Branch, which provides alarm monitoring and security officers for government agencies and when designated, critical infrastructure sites.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

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

Assessment of Controls

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

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

Scope of Audit

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

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

- the Department's corporate governance framework
- expenditure, including procurement and contract management
- payroll, including workers compensation and sick leave
- property, plant and equipment
- firearms registration and licence fees
- expiation notices
- police security services fees
- cash and general ledger processing
- public, private partnerships.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of the Police Department as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

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

Audit Communications with Management

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

Risk Management

The Financial Management Framework (FMF) requires each Chief Executive to ensure that risk management practices continue to be effective and relevant to the issues facing an organisation.

Specifically, the FMF requires that Chief Executives must also identify, assess and manage risk by carrying out an assessment of any material new risk, or changes to existing risks in a timely manner as circumstances change.

Review of the Police Department's risk management practices revealed that that the Risk Register has not been formally updated since 2002 and that the Department's Risk Management Policy does not refer to the current Risk Management Standard issued by Standards Australia.

It is acknowledged that management are aware of these issues and have considered the revision of these documents.

Procurement and Contract Management

The prescribed elements of the FMF require Chief Executives to ensure expenditure is effectively and efficiently managed including the letting of contracts and monitoring the performance of contracts. A contract register is fundamental in achieving this.

Review of the Police Department contract register revealed a number of contracts that:

- were not recorded in the contract register;
- did not record the latest terms and conditions of existing contracts;
- a copy was not held by the Procurement and Contract Management Branch.

The Department have advised that the contract register will be reviewed to ensure that all material contracts and conditions are included in the register.

SACREDD DNA Database System

The South Australian Criminal Reference and Evidence DNA Database (SACREDD) system is a Laboratory Information Management System which tracks and manages samples through the entire analytical process and allows for the searching and matching of nominated DNA profiles.

The SACREDD system is operated by Forensic Science SA of the Department for Administrative and Information Services (DAIS), under delegations and a Memorandum of Understanding with the Commissioner of Police.

Audit commentary in my Supplementary Report of November 2005 to Parliament titled 'Government Management and the Security Associated with Personal and Sensitive Information', identified a number of important matters of principle and practice that were required to be addressed to meet the expected high standards of management and operational control for such a critical system as the SACREDD DNA database system. These matters related to compliance with governing legislation, effectiveness of the administrative arrangements between the agencies involved in the management of the DNA database system, and security and control issues associated with maintaining the integrity of the system and information, including proper custody and use of system information.

In June 2006, Audit sought an update status position regarding the corrective actions being implemented by the DAIS/Forensic Science SA and the Police Department.

In the section of Part B of this Report, titled 'Department for Administrative and Information Services', audit commentary provides an update position on corrective actions being taken in relation to the operations of the SACREDD DNA database system. One such action concerned the preparation of a legislative submission by the Police Department. In relation to that submission, the Police Department advised in July 2006 of a number of specific recommendations which would be included in the legislative submission.

The status of these matters will be further examined by Audit in 2006-07.

Capture Adjudication and Reporting System (CARS)

The 2004-05 Report included commentary in regard to a review that was undertaken in 2005 of the Department's Capture Adjudication and Reporting System (CARS). CARS is an integrated software and hardware system which has been developed to provide computerised film scanning, adjudication, archiving, document management and reporting services and to incorporate technologies such as digital film processing and optical character recognition. An external service provider is responsible for development and support of aspects of the system.

The salient observations arising from the 2005 review principally related to the alignment of Department security policies and procedures to the Government's Information Security Management Framework requirements, finalisation of service level agreements between the Department and the external service provider, operating system and database security strengthening, information access security and integrity issues, business continuity and disaster recovery planning, and deficiencies with operational documentation. In addition, Audit recommended revisiting the monitoring of usage of intellectual property by the external service provider regarding the CARS architecture to ensure the Department's rights were protected.

Last year's report also advised that the Department had identified a range of measures to be taken in relation to the matters raised by Audit and that the proposed action to be taken would be subject to follow up review.

During the year, a follow up review was undertaken to obtain an update status of resolution of action items from the 2005 review. The update status revealed that the main areas have been satisfactorily addressed, as follows:

- Department security policies and procedures have been approved and user awareness undertaken.
- Opinion regarding specific audit access clauses within the service level agreements between the Department and the external service provider was sought from the Crown Solicitor's Office and the agreements finalised.
- Operating system and database security strengthening matters had been addressed with the external service provider with review of the Local Area Network conducted by the Department and EDS Australia.
- A password synchronisation system to enforce password standards across all systems was undergoing implementation.
- User access management issues have been addressed.
- Business continuity and disaster recovery plans were implemented and 'walk through' tested in late 2005. Further testing is planned for November 2006.
- Change management forms and guidelines had been adopted.

In relation to the matter of intellectual property rights, the Department had sought a status update from the external service provider.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 \$'million	2005 \$'million	Percentage Change
EXPENSES			
Employment benefits costs	410	381	7
Other expenses	105	100	5
Total Expenses	515	481	7
INCOME			
Revenue from fees and charges	15	14	7
Other revenue	14	13	8
Total Income	29	27	7
Net Cost of Providing Services	486	454	7
REVENUES FROM/PAYMENTS TO SA GOVERNMENT			
Revenues from SA Government	480	444	8
Payments to SA Government	17	-	-
Net Result	(23)	(10)	130
Cash generated from Operations	36	28	29

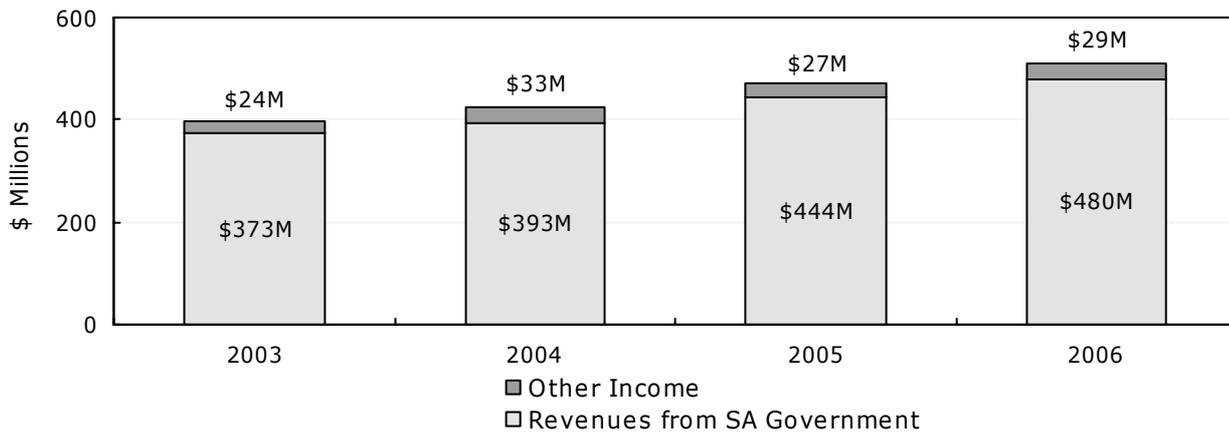
	2006	2005	Percentage
	\$'million	\$'million	Change
ASSETS			
Current assets	46	58	(21)
Non-current assets	170	169	1
Total Assets	216	227	(5)
LIABILITIES			
Current liabilities	59	52	13
Non-current liabilities	149	138	8
Total Liabilities	208	192	8
EQUITY	8	35	(77)

Income Statement

Income

Revenues from the State Government increased by \$36 million or 8 percent to \$480 million principally as a result of additional funding for the implementation of the Enterprise Bargaining Agreement for police officers and for increases in the workforce.

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

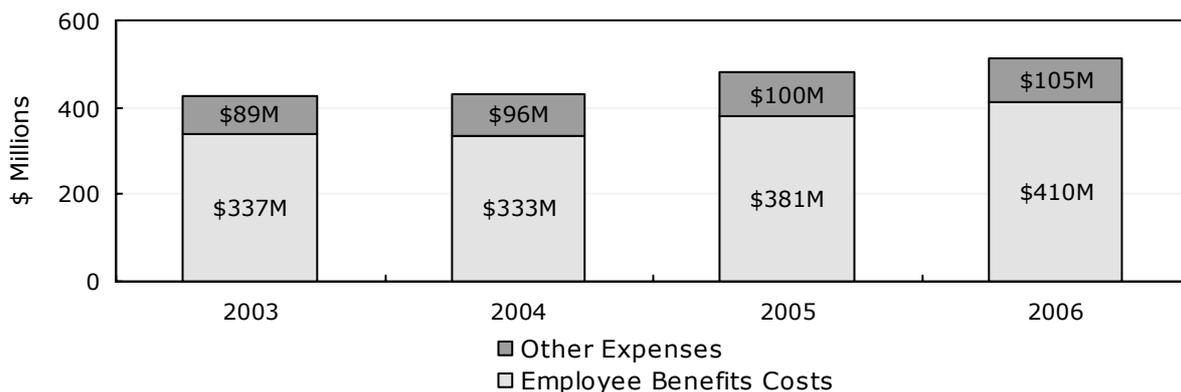


Expenses

Employee benefit costs increased by \$29 million or 7 percent to \$410 million due largely to an increase in the number of full time equivalents and the impact of increases associated with the Enterprise Bargaining Agreement for police officers.

Other expenses increased by \$5 million to \$105 million. Increases in the cost of rent, computing expenses, operating leases, communication expenses and building repairs and maintenance account for the majority of this increase.

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



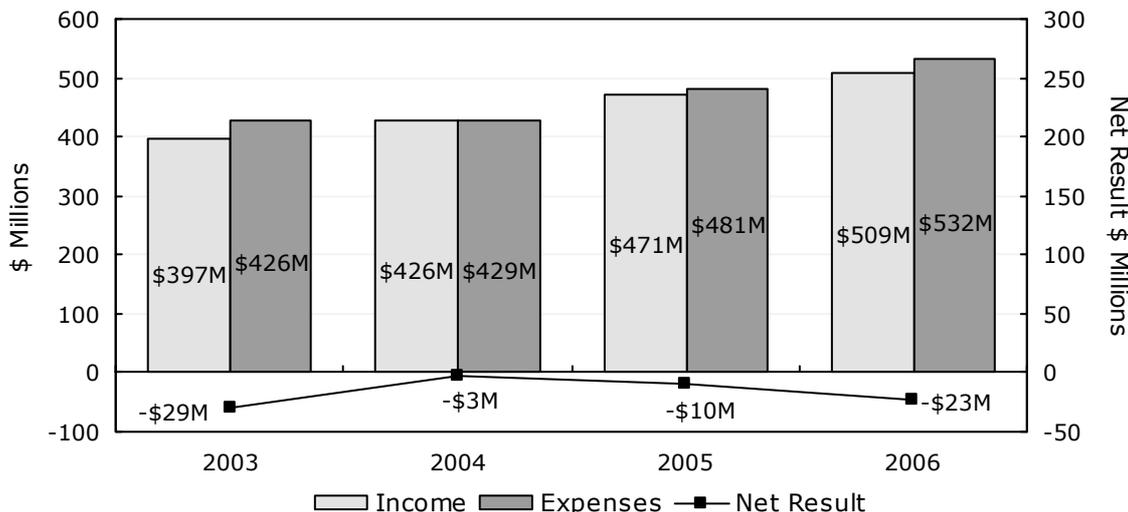
Net Result

The Department receives government funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources.

The net result deficit of \$22.9 million reflects a \$17 million payment to government, taken through the Income Statement pursuant to the Cash Alignment Policy.

The Department recorded operating deficits in 2005 and 2004 and the deficit reported in 2003 reflected a significant increase in the provision for workers compensation.

The following chart shows the income, expenses and net result for the four years to 2006.



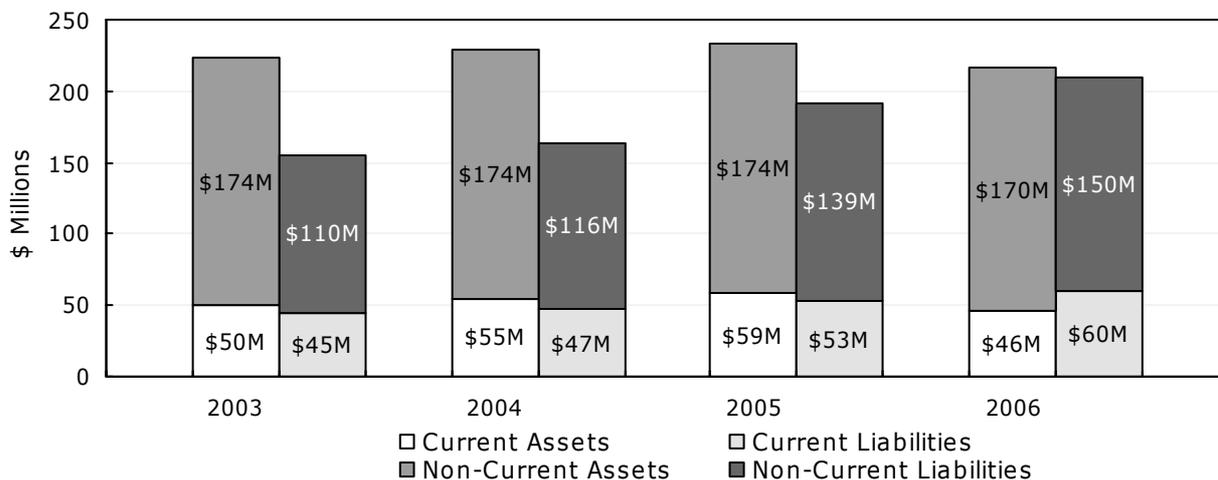
Balance Sheet

Current assets decreased by \$12 million to \$45.9 million during 2006 due to a reduction in cash and cash equivalents. Pursuant to the Cash Realignment Policy, the Department made payments to Government of \$23.3 million, reducing contributed capital by \$6.3 million to \$nil and reflecting the balance of \$17 million as an expense. This was partially offset by the accumulation of cash from operations during year.

The Department’s non-current assets have remained relatively constant over the four year period to 2006. The minor decrease in 2005 was primarily the result of land transfers at nil consideration to the Department under Public, Private Partnership arrangements.

Non-current liabilities have increased each year since 2003 due mainly to increases in employee benefit entitlements and the provision for workers compensation. The increase in employee benefit entitlements, consistent with the reasons for the increase in employee expenses, is mainly as a result of the increase in the number of full time equivalents and the impact of the implementation of the Enterprise Bargaining Agreement for police officers. The significance of employee benefits costs and related expenses is discussed later.

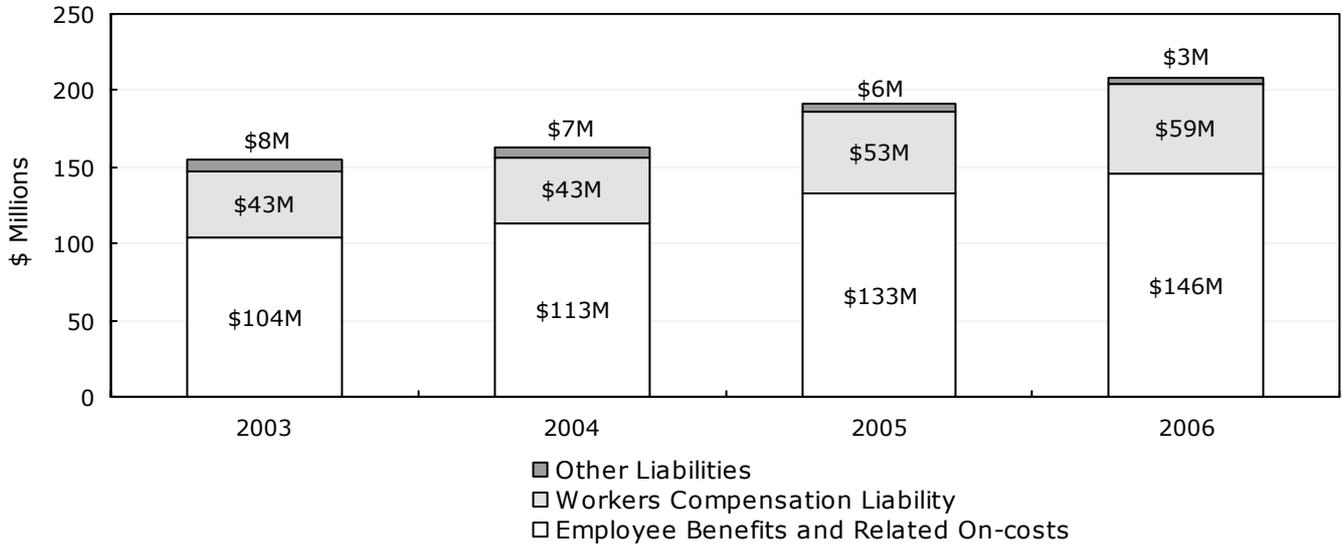
For the four years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



Employee Benefits and Workers Compensation

Employee benefits, related on-costs and workers compensation liabilities totals \$204 million and represents 98 percent (97 percent) of total liabilities. At June 2006, the workers compensation liability of \$58.7 million (\$53 million) represented 28 percent (28 percent) of total liabilities of \$208 million (\$192 million).

The significance of employee related liabilities compared to total liabilities is shown in the following chart.



Cash Flow Statement

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

	2006 \$'million	2005 \$'million	2004 \$'million	2003 \$'million
Net Cash Flows				
Operating Activities	4	29	15	10
Investing Activities	(9)	(10)	(10)	(5)
Financing Activities	(6)	(19)	0	0
Change in Cash	(11)	0	5	5
Cash at 30 June	39	49	49	44

The analysis of cash flows shows that significant funds have been held over the past four years.

The Department of Treasury and Finance (DTF) introduced a Cash Alignment Policy in 2004-05 designed to ensure that government agencies have adequate cash to meet their approved expenditure requirements while discouraging the accumulation of large cash balances. At 30 June each year cash deemed to be surplus to the Department’s requirements will be transferred back to the Consolidated Account. In 2005-06, the Police Department returned \$23.3 million to DTF under the Cash Alignment Policy.

The net cash reduction of \$10 million mainly reflects the return of \$23.3 million to the Department of Treasury and Finance under the Cash Alignment Policy offset by lower expenditure relating to timing of workforce recruitment and lower than anticipated capital investment payments.

Administered Items

Expiation Fees

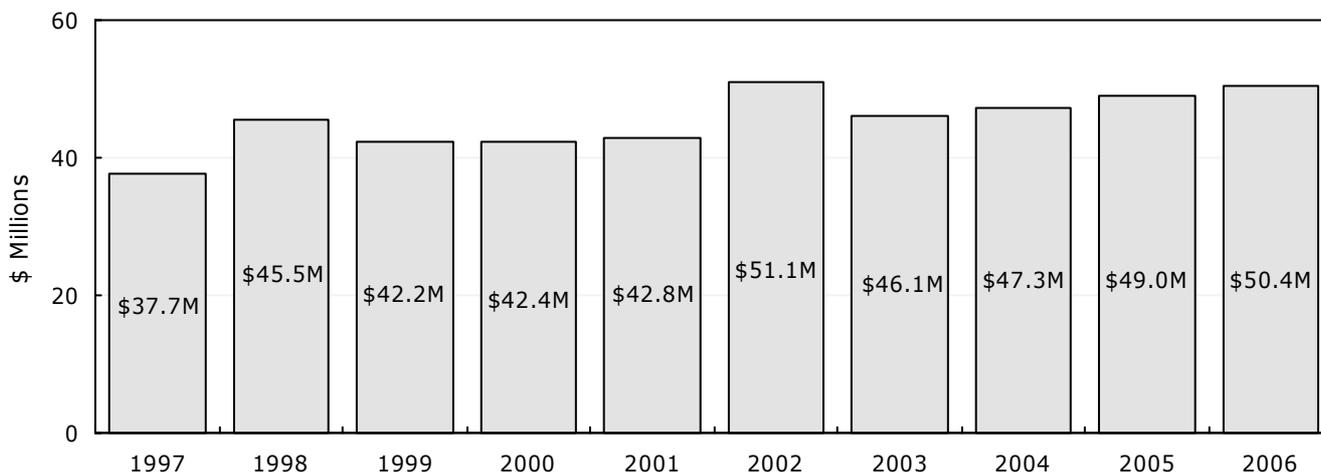
Expiation fees collected by the Department and paid into the Consolidated Account, as reflected in the following chart, increased by \$1.4 million during 2005-06 to \$50.4 million.

The Department has in the current and previous years identified a range of factors which may have contributed to variations in the level of Expiation Fee revenue year to year. The reasons include changes in:

- legislation (eg the introduction of the 50km/hr speed zone in metropolitan areas);
- the number and type of speed detection devices;
- driver behaviour in response to road safety strategies.

Audit has not validated these explanations.

Expiation Fees Collected by the Department



FURTHER COMMENTARY ON OPERATIONS

Public, Private Partnerships – Police Facilities

In May 2005, Cabinet approved the execution of a 25 year service contract with a private company for regional South Australia Police (SAPOL) Stations and Courts Administration Authority (CAA) Courts under a Public Private Partnership (PPP) project.

In June 2005, the Minister for Infrastructure signed a Project Agreement detailing the design, construction, maintenance, operation and ownership of facilities by a private sector contractor.

The bundled PPP project involves the sale of land at unimproved market value to the contractor and the lease back by the Government of new police stations and courts at:

- Port Lincoln new Court and Police Station
- Victor Harbor new Court and Police Station
- Port Pirie new Court
- Berri new Court and refurbished Police Station
- Mt Barker new Police Station
- Gawler new Police Station

The Project Agreement provides for the Minister for Infrastructure to enter into leases for the new privately owned facilities on behalf of the State. During 2005-06 a number of these facilities were completed by the contractor and these facilities are now occupied by SAPOL and CAA. Indexed annual service payments which are subject to performance abatements consistent with the Project Agreement and other administrative payments, are being made to the contractor.

For accounting purposes, the arrangement has been assessed as an operating lease consistent with the requirements of Australian Accounting Standard AASB 117 *Leases*.

**Income Statement
for the year ended 30 June 2006**

		2006	2005
EXPENSES:	Note	\$'000	\$'000
Employee benefit costs	6	409 832	380 448
Supplies and services	7	95 196	85 204
Depreciation and amortisation expense	8	9 650	9 704
Revaluation decrement		-	5 431
Total Expenses		514 678	480 787
INCOME:			
Revenue from fees and charges	10	14 858	13 602
Interest revenues	11	3 397	2 703
Commonwealth revenue	12	-	1 425
Net (loss) gain from disposal of assets	13	(26)	(4 993)
Other revenue	14	10 462	14 549
Total Income		28 691	27 286
NET COST OF PROVIDING SERVICES		485 987	453 501
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT:			
Revenues from SA Government	15	428 023	389 848
Contributions from the Community Emergency Services Fund	15	16 750	16 750
Contributions from Community Road Safety Fund	15	34 700	34 700
Intra-Government transfers	15	777	2 509
Payments to SA Government	15	(17 111)	(182)
Net Revenues from SA Government	15	463 139	443 625
NET RESULT		(22 848)	(9 876)

Balance Sheet as at 30 June 2006

		2006	2005
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	16	38 648	49 376
Receivables	17	6 427	8 764
Inventories		157	203
		45 232	58 343
Non-current assets classified as held for sale	18	644	-
Total Current Assets		45 876	58 343
NON-CURRENT ASSETS:			
Property, plant and equipment	19	152 319	153 315
Capital works in progress		13 623	12 451
Intangible assets	20	4 586	3 350
Total Non-Current Assets		170 528	169 116
Total Assets		216 404	227 459
CURRENT LIABILITIES:			
Payables	21	10 869	10 103
Employee benefits	22	38 337	33 055
Short-term provisions	23	10 354	9 641
Total Current Liabilities		59 560	52 799
NON-CURRENT LIABILITIES:			
Payables	21	12 700	10 724
Long-term borrowings		-	200
Long-term employee benefits	22	87 590	83 865
Long-term provisions	23	48 820	44 073
Total Non-Current Liabilities		149 110	138 862
Total Liabilities		208 670	191 661
NET ASSETS		7 734	35 798
EQUITY:			
Contributed capital	24	-	6 256
Retained earnings	24	(14 143)	8 705
Asset revaluation reserve	24	21 877	20 837
TOTAL EQUITY	24	7 734	35 798
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments	26		
Contingent Assets and Liabilities	27		

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

	Note	Asset			Total \$'000
		Contributed Capital \$'000	Revaluation Reserve \$'000	Retained Earnings \$'000	
Balance at 30 June 2004		25 069	22 655	18 581	66 305
Gain (Loss) on revaluation of plant, property and equipment during 2004-05		-	(1 818)	5 431	3 613
Net Result for 2004-05		-	-	(10 191)	(10 191)
Total Recognised Income and Expense for 2004-05		-	(1 818)	(4 760)	(6 578)
Repayment of equity contribution to SA Government		(18 813)	-	-	(18 813)
Balance at 30 June 2005		6 256	20 837	13 821	40 914
Prior period adjustment		-	-	(5 116)	(5 116)
Restated balance at 30 June 2005	24	6 256	20 837	8 705	35 798
Gain (loss) on revaluation of plant, property and equipment during 2005-06		-	1 040	-	1 040
Net Result for 2005-06		-	-	(22 848)	(22 848)
Total Recognised Income and Expense for 2005-06		-	1 040	(22 848)	(21 808)
Repayment of equity contribution to SA Government		(6 256)	-	-	(6 256)
Balance at 30 June 2006	24	-	21 877	(14 143)	7 734

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

Cash Flow Statement for the year ended 30 June 2006

	2006	2005
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee benefit payments	(388 735)	(348 922)
Supplies and services	(95 249)	(83 394)
GST payments on purchases	(10 350)	(10 006)
Cash used in Operations	(494 334)	(442 322)
CASH INFLOWS:		
Fees and charges	17 193	10 655
Interest received	3 407	2 671
GST receipts from Australian Taxation Office	1 988	2 006
GST input tax credits	8 343	7 917
Other receipts	4 595	4 728
Cash generated from Operations	35 526	27 977
CASH FLOWS FROM SA GOVERNMENT:		
Receipts from SA Government	480 250	443 807
Payments to SA Government	(17 111)	(182)
Cash generated from SA Government	463 139	443 625
Net Cash provided by Operating Activities	4 331	29 280
CASH FLOWS FROM INVESTING ACTIVITIES:		
CASH OUTFLOWS:		
Purchase of property, plant and equipment	(9 018)	(11 489)
Cash used in Investing Activities	(9 018)	(11 489)
CASH INFLOWS:		
Proceeds from sale of property, plant and equipment	215	1 165
Cash generated from Investing Activities	215	1 165
Net Cash used in Investing Activities	(8 803)	(10 324)
CASH FLOWS FROM FINANCING ACTIVITIES:		
CASH OUTFLOWS:		
Distributions to Government	(6 256)	(18 813)
Cash used in Financing Activities	(6 256)	(18 813)
Net Cash used in Financing Activities	(6 256)	(18 813)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10 728)	143
CASH AND CASH EQUIVALENTS AT 1 JULY	49 376	49 233
CASH AND CASH EQUIVALENTS AT 30 JUNE	38 648	49 376

16

Program Schedule of Income and Expenses for the year ended 30 June 2006

	(refer Note 5)					
	Program 1 Public Order		Program 2 Crime Prevention		Program 3 Road Safety	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
EXPENSES:						
Employee benefit costs	143 317	144 456	140 520	123 452	48 231	34 724
Supplies and services	31 957	31 599	32 586	25 689	11 539	9 420
Depreciation and amortisation expense	3 261	3 887	3 259	2 743	1 287	1 089
Revaluation decrement	-	1 958	-	1 658	-	612
Total Expenses	178 535	181 900	176 365	153 542	61 057	45 845
INCOME:						
Revenue from fees and charges	11 708	10 156	656	784	2 033	1 808
Interest revenues	1 277	1 118	1 245	931	431	278
Commonwealth revenues	-	758	-	367	-	113
Net (loss) from disposal of assets	(9)	(2 220)	(10)	(1 425)	(4)	(367)
Other income	3 899	6 023	3 853	5 009	1 344	1 495
Total Income	16 875	15 835	5 744	5 666	3 804	3 327
Net Cost of Providing Services	161 660	166 065	170 621	147 876	57 253	42 518
Revenues from SA Government	159 740	162 171	168 618	144 893	56 559	41 682
Payments to SA Government	(6 005)	(182)	(5 827)	-	(2 017)	-
NET REVENUES FROM SA GOVERNMENT	153 735	(161 989)	162 791	(144 893)	54 542	(41 682)
NET RESULT	(7 925)	(4 076)	(7 830)	(2 983)	(2 711)	(836)

	(refer Note 5)					
	Program 4 Emergency Response and Management		Program 5 Criminal Justice Services		Program Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
EXPENSES:						
Employee benefits costs	26 211	27 140	51 553	50 676	409 832	380 448
Supplies and services	8 739	8 804	10 375	9 692	95 196	85 204
Depreciation and amortisation expense	821	958	1 022	1 027	9 650	9 704
Revaluation decrement	-	590	-	613	-	5 431
Total Expenses	35 771	37 492	62 950	62 008	514 678	480 787
INCOME:						
Revenue from fees and charges	-	-	461	854	14 858	13 602
Interest revenues	-	-	444	376	3 397	2 703
Commonwealth revenues	-	-	-	187	-	1 425
Net (loss) from disposal of assets	-	-	(3)	(981)	(26)	(4 993)
Other income	-	-	1 366	2 022	10 462	14 549
Total Income	-	-	2 268	2 458	28 691	27 286
Net Cost of Providing Services	35 771	37 492	60 682	59 550	485 987	453 501
Revenues from SA Government	35 365	37 120	59 968	57 941	480 250	443 807
Payments to SA Government	(1 182)	-	(2 080)	-	(17 111)	(182)
NET REVENUES FROM SA GOVERNMENT	34 183	37 120	57 888	57 941	463 139	443 625
NET RESULT	(1 588)	(372)	(2 794)	(1 609)	(22 848)	(9 876)

A Program Schedule of Police Department assets and liabilities has not been produced as that information is not readily available.

The allocation of resources to programs is based upon both work activity surveys from a representative sample of four major Local Service Areas in February and March 2006 and surveys completed by Service Areas.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of South Australia Police (SAPOL)

The South Australia Police Department (SAPOL) operates within the *Police Act 1998*, the Police Regulations 1999, and the *Public Sector Management Act 1995*.

The mission statement of SAPOL, as set out in the Corporate Business Plan 2005 – 2006, is 'working together to reassure and protect the community from crime and disorder.' This mission statement is reflected in the following core functions:

- Uphold the law.
- Preserve the peace.
- Prevent crime.
- Assist the public in emergency situations.
- Coordinate and manage responses to emergencies.
- Regulate road use and prevent vehicle crime.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

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

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

SAPOL's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable. The Cash Flow Statement has been prepared on a cash basis.

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

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

2.2 Reporting Entity

The South Australia Police Department produces both Departmental and Administered financial statements. The Departmental financial statements include the use of income, expenses, assets and liabilities, controlled or incurred by the Department in its own right. The Administered financial statement includes the income, expenses, assets and liabilities which the Department administers on behalf of the SA Government but does not control.

The financial report encompasses all activities transacted through an interest bearing Special Deposit Account titled 'SA Police Operating Account'. SAPOL's principal source of funds consists of monies appropriated by Parliament.

2.3 Administered Resources

SAPOL administers on behalf of the Government of South Australia certain resources over which it does not have control. Although accountable for the transactions relating to these administered resources, SAPOL does not have the control or discretion to apply these resources to achieve its objectives.

Transactions and balances relating to these administered resources are not recognised as SAPOL's revenues, expenses, assets or liabilities, but are disclosed in a separate financial statement.

Refer to Notes to the Administered items Statements for further details.

2.4 Comparative Figures

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change. Comparative figures have been restated on an AIFRS basis.

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

2.5 Rounding

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

2.6 Taxation

SAPOL is not subject to income tax. SAPOL is liable for payroll tax, fringe benefits tax, goods and services tax, emergency services levy, land tax equivalents and local government rate equivalents.

In accordance with the National Competition Policy principles, it was agreed that State Government Business Enterprises (GBEs) in competition with private industry would be liable for payment of Commonwealth, State and Local Government taxes. Although GBEs cannot legally pay the income tax, an equivalent payment is made to the Department of Treasury and Finance. For the purpose of determining Income Tax Equivalent payments, which are applicable only to the Police Security Services Branch of SAPOL's operations, the Income Tax liability is deemed to be equal to 30 percent of the net profit for the Police Security Services Branch.

2.7 Accounting for Goods and Services Tax (GST)

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

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

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Balance Sheet.

Cash flows are reported on a gross basis in the Cash Flow Statement. 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.

Goods and services tax receivables/payables associated with Administered Items transactions are included in the Controlled statements.

2.8 Income and Expenses

Income and expense are recognised in SAPOL's Income Statement when and only when the flow of economic benefits to or from the entity will occur and can be reliably measured.

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

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

Revenue from fees and charges is derived from the provision of goods and services to other SA government agencies and to the public. This revenue is driven by consumer demand.

Fees and charges controlled by SAPOL are recognised as revenues. Fees and charges are deemed to be controlled where they can be deployed for the achievement of SAPOL objectives. Such amounts are not required to be paid to the Consolidated Account or other Funds not controlled by SAPOL.

Fees and charges collected by SAPOL but not controlled by it are not recognised as revenues, but are reported as administered revenues in the Administered Items financial statements. Such amounts are required to be paid to the Consolidated Account or other Funds not controlled by SAPOL.

Income from disposal of non-current assets is recognised when control of the asset has passed to the buyer. When revalued assets are sold, the revaluation increments are transferred to retained earnings in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 3.11.

Resources received/provided free of charge are recorded as revenue and expenditure in the Income Statement at their fair value in accordance with the Accounting Policy Framework III *Asset Accounting Framework* APS 2.12. Resources provided free of charge are recorded in the expense line items to which they relate.

2.9 Revenues from/Payments to SA Government

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

Payments to the SA Government include the return of surplus cash pursuant to the cash alignment policy and tax equivalent payments. Expiation fees received on behalf of the government, are an Administered Item, and paid directly to the Department of Treasury and Finance Consolidated Account.

2.10 Current and Non-Current Classification

Assets and liabilities are characterised as either current or non-current in nature. SAPOL has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, the department has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

2.11 Cash and Cash Equivalents

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

2.12 Receivables

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

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

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

2.13 Inventories

SAPOL holds inventories, generally for internal distribution. Inventories held for distribution are measured at lower of cost and replacement value.

Inventories include stationery, capsicum sprays and police horses.

2.14 Non-Current Asset Acquisition and Recognition

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

SAPOL capitalises all non-current physical assets with a value of \$10 000 or greater in accordance with Accounting Policy Framework III *Asset Accounting Framework* APSs 2.15 and 7.2. All other plant and equipment purchases are expensed in the year of purchase.

Assets held for sale are separately disclosed and measured at the lower carrying amount fair value less costs to sell.

2.15 Revaluation of Non-Current Assets

In accordance with Accounting Policy Framework III *Asset Accounting Framework*:

- all non-current physical assets are valued at written down current cost (a proxy for the fair value method of valuation);
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

The Balance Sheet includes all property, plant and equipment controlled by SAPOL.

Land and Buildings controlled by SAPOL were revalued, as at 30 June 2005, following an independent valuation prepared by Valcorp Australia Pty Limited using the fair value methodology. Other non-current assets have been valued at their written down historic cost.

If at any time management considers that the carrying amount of an asset materially differs from its fair value then the asset will be revalued regardless of when the last valuation took place. Non-current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value.

2.16 Impairment

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

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

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

2.17 Depreciation and Amortisation of Non-Current Assets

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

Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as property, plant and equipment.

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

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

Land and assets held for sale are not depreciated.

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

<i>Class of Asset</i>	<i>Depreciation Method</i>	<i>Useful Life (Years)</i>
Buildings	Straight Line	15-60
Vehicles and transport vessels	Straight Line	3-10
Computers and communications	Straight Line	3-7
Other	Straight Line	2-10
Leasehold improvements	Straight Line	Life of lease
Intangibles	Straight Line	3

2.18 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost.

Costs associated with the acquisition of, or internal development, of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets* and when the amount of expenditure is greater than or equal to \$10 000, in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 2.15.

Generally any subsequent expenditure by agencies on intangible assets, such as the replacement of parts or additions to the assets, will be expensed as the expected future economic benefits will only be maintained.

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

2.19 Payables

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

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

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

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

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

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

2.20 Employee Benefits

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

Salary and Wages

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

Annual Leave

A provision is raised at the end of the reporting period to reflect employee entitlements to annual leave. Liabilities for annual leave are recognised, and are measured as the amount unpaid at the reporting date, at the rate of pay expected to be paid when the leave is taken, in respect of employee's services up to that date.

Long Service Leave

A provision is raised at the end of the reporting period to reflect employee entitlements to long service leave. The provision for long service leave represents the amount which SAPOL has a present obligation to pay resulting from employees' services provided up to the reporting date.

The provision has been calculated at nominal amounts based on current salaries and wages rates using an independent actuarial assessment benchmark of 10 years (10 years) service as a shorthand estimation of long service leave liability. The Department of Treasury and Finance provided the actuarial benchmark in 2006. Related on-costs of payroll tax and superannuation are shown under Payables employment on-costs (refer Note 21). This policy is consistent with the requirements of AASB 119 *Employee Benefits*.

Sick Leave

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

2.21 Provisions

Provisions are recognised when SAPOL has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation liability, which was based on an actuarial assessment, was provided by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

The workers compensation provision is based on an actuarial assessment prepared by Taylor Fry Consulting Actuaries (refer Note 23).

Civil Actions against Police

A liability has been reported to reflect unsettled actions against SA Police.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.22 Professional Indemnity and General Public Liability Insurance

SAPOL is a participant in the State Government's Insurance Program. SAPOL pays a premium to the SA Government Insurance Corporation (SAICORP) and is responsible for the payment of claim amounts up to an agreed amount (the deductible). SAICORP provides the balance of the funding for claims in excess of the deductible.

2.23 Leases

SAPOL has entered into a number of operating lease agreements for buildings and vehicles where the lessors effectively retain all of the risks and benefits incidental to ownership of the items. Operating lease payments are representative of the pattern of benefits to be derived from the leased items and accordingly are charged to the Income Statement in the period in which they are incurred.

Public Private Partnership

In May 2005, Cabinet approved the execution of a 25 year service contract with Plenary Justice Pty Ltd (Plenary) for regional police stations for South Australia Police and courts for Courts Administration Authority (CAA).

In June 2005, the Minister of Infrastructure signed a Project Agreement.

In 2004-05 SAPOL transferred control of the Public Private Partnership (PPP) sites to the Minister for Infrastructure for nil consideration and this action resulted in the recognition of a loss on disposal of assets (refer Notes 4.2 and 13).

The PPP sites include new police stations at Mt Barker and Gawler, new police stations and courts facilities at Port Lincoln, Victor Harbor and Berri, and new court facilities at Port Pirie.

For accounting purposes the lease is an operating lease.

Under the PPP agreement SAPOL is responsible for paying lease payments to Plenary for sites occupied by both SAPOL and CAA. SAPOL invoices CAA for the sites that they occupy.

Lease expenditure related to the facilities occupied by SAPOL is recognised in the SAPOL Controlled Statements. Lease expenditure and the associated revenue related to the facilities occupied by CAA is recognised in the SAPOL Administered Items Statements.

3. Financial Risk Management

SAPOL has significant non-interest bearing assets (cash on hand and on call and receivables) and liabilities (payables). SAPOL's exposure to market risk and cash flow interest risk is minimal.

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

In relation to liquidity/funding risk, the continued existence of SAPOL in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for the Department's administration and programs.

4. Changes in Accounting Policies and Prior Period Adjustments

4.1 Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia has adopted AIFRS which are effective for annual reporting periods on or after 1 January 2005. SAPOL has adopted these standards for the first time in the financial report for the year ended 30 June 2006.

AASB 1 requires disclosure of any key differences in accounting policies, and known or reliably estimable information about the impact on this financial report had this report been prepared using AIFRS.

SAPOL's management, along with its Audit Committee, have assessed the significance of the adoption of the standards for the purpose of their implementation. This has involved an assessment of accounting policy and topics in existing Australian Accounting Standards and AIFRS 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 AIFRS apart from that listed below.

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

AASB 138 Intangible Assets

Computer software previously capitalised under Property, Plant and Equipment will be reclassified and included under a new classification in the Balance Sheet as Intangible Assets.

In accordance with AASB 138, the Department no longer capitalises research costs in relation to research and development projects as this is prohibited by the standard. The Department currently recognises internally developed software on a fair value basis.

AASB 119 Employee Benefits

Employee benefits payable later than 12 months from year-end will be measured at present value rather than at nominal amounts as required by AASB 119.

4.2 Prior Period Adjustment

The SAPOL Financial Statements for the 2004-05 financial year did not recognise the transfer of land and buildings to the Minister for Infrastructure to facilitate the development of police stations through a Public Private Partnership agreement. SAPOL did not receive any consideration as a result of this transfer. The fair value of the land and buildings when control was transferred during 2004-05 was \$5.116 million.

The sites involved are at Port Lincoln, Berri, Gawler, Mt Barker, and Victor Harbor. SAPOL continued to use the facilities although control had transferred.

This adjustment has an effect on the Income Statement and Balance Sheet for 2004-05 as stated below.

	2005 Revised Result \$'000	2005 Published Result \$'000
Income Statement:		
Net gain (loss) from disposal of assets	(4 993)	123
Total income	27 286	32 402
Net cost of providing services	443 269	448 385
Net Result	(9 876)	(4 760)
Balance Sheet:		
Property, plant and equipment	-	161 781
Less: Intangible assets	-	3 350
Property, plant and equipment	153 315	158 431
Total non-current assets	169 116	174 232
Total assets	227 459	232 575
Net Assets	35 798	40 914
Retained earnings	8 705	13 821
Total Equity	35 798	40 914

Revised values are presented as comparatives through-out the financial statements, including the Notes to the Statements.

5. Programs of SAPOL

SAPOL has identified five programs that it delivers to the community and the Minister for Police. The identity and description of each SAPOL program during the year ended 30 June is summarised below. Financial information relating to each Program is reported in the Program Schedule of the Department's Expenses and Income.

Program 1 - Public Order

Provision of police services to the community, the investigation and management of public order offences, and the management of major events in the State. The outcome is a community that is reassured and protected from crime and disorder, making South Australia a safer place to live, visit and conduct business.

5. Programs of SAPOL (continued)**Program 2 - Crime Prevention**

Conducting investigations and management by police of crimes against the person, property offences, drug related offences and other crimes in the community; application of SAPOL's crime reduction strategy to achieve identified crime reduction outcomes; provision of services that support crime prevention, such as Watch programs and Crime Stoppers; and the production and dissemination of information, education and training. The outcome is that the incidence and effects of crime will be reduced, making South Australia a safer place to live, visit and conduct business.

Program 3 - Road Safety

Regulation of road use, investigation of vehicle collisions and promotion of road safety. The outcomes are improved road safety and efficient traffic movement, in addition to related economic and personal benefits, making South Australia a safer place to live, visit and conduct business.

Program 4 - Emergency Response and Management

Maximising the capacity to receive and manage calls for assistance, and to respond to and manage emergencies. The outcome is that the effects on individuals and the community of emergency and disaster situations are minimised, making South Australia a safer place to live, visit and conduct business.

Program 5 - Criminal Justice Services

Enforcement of court orders and execution of warrants, the provision of prosecution services and services to the judicial system, and the safekeeping and supervision of persons in police custody. The outcome is an efficient, effective, safe and fair support service to the judicial system, making South Australia a safer place to live, visit and conduct business.

6. Employee Benefits Costs

	2006	2005
	\$'000	\$'000
Salaries and wages	274 983	247 278
TVSP (refer below)	944	-
Long service leave	7 433	16 135
Annual leave	40 641	36 373
Employee on-costs - Superannuation	47 805	40 175
Employee on-costs - Other	20 341	18 845
Other employee benefit costs	619	608
Workers compensation (refer Note 23)	17 066	21 034
Total Employee Benefits Costs	409 832	380 448

The total Employee Benefits Costs shown in the 2004-05 financial statements was \$384.874 million, this included costs associated with housing subsidies of \$4.426 million (\$4.209 million for 2005-06). This amount has been reclassified and included in Supplies and Services in these financial statements (refer also Note 7).

Targeted Voluntary Separation Packages (TVSPs)

	2006	2005
	\$'000	\$'000
Amount paid to these employees:		
TVSPs	944	-
Annual leave and long service leave accrued over the period	327	-
	1 271	-
Recovery from the Department of Treasury and Finance	943	-

	2006	2005
	Number of Employees	Number of Employees
Number of Employees who were paid TVSPs during the reporting period	9	-

Remuneration of Employees

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

\$100 000 - \$109 999	130	95
\$110 000 - \$119 999	78	32
\$120 000 - \$129 999	22	11
\$130 000 - \$139 999	8	1
\$140 000 - \$149 999	1	2
\$150 000 - \$159 999	-	1
\$160 000 - \$169 999	3	-
\$170 000 - \$179 999	2	5
\$180 000 - \$189 999	4	-
\$200 000 - \$209 999	1	-
\$240 000 - \$249 999	-	1
\$260 000 - \$269 999	1	-
\$270 000 - \$279 999	-	1
\$370 000 - \$379 999	1	-
Total Number of Employees	251	149

6. Employee Benefits Costs (continued)

	2006	2005
	Number of	Number of
	Employees	Employees
Remuneration of Employees by Category		
Executive	12	9
Non-executive	239	140
Total Number of Employees	251	149
Police	242	142
Public Servant	9	7
Total Number of Employees	251	149

The total remuneration paid or payable to these employees was \$28.7 million (\$17.0 million).

The increase in remuneration and number of employees is caused by the implementation of the Enterprise Bargaining Agreement for Police Officers during 2005-06. This table represents employees remunerated from SAPOL Operating and SAPOL Administered Items.

7. Supplies and Services

	2006	2005
	\$'000	\$'000
Supplies and Services provided by entities within the SA Government:		
Rent	9 595	8 113
Computing expenses	8 761	7 268
Operating leases	7 362	6 685
Communication expenses (including Government Radio Network (GRN) expenditure)	4 781	3 850
Housing subsidies	4 209	4 425
Repairs and maintenance - Buildings	4 187	2 580
Electricity, gas and fuel	1 050	1 335
Insurance and risk management	871	822
Costs against Police (legal costs)	720	654
Other administrative expenses	290	132
Motor vehicles expenses	277	798
Service agreements	252	190
Civil actions against Police (legal costs)	141	115
Staff development	110	36
Minor equipment expenses	59	77
Other	882	420
Total Supplies and Services - SA Government Entities	43 547	37 500
Supplies and Services provided by entities external to the SA Government:		
Motor vehicle expenses	10 847	9 786
Minor equipment expenses	4 369	4 259
Communication expenses	4 099	5 475
Computing expenses	3 175	3 037
Travel and accommodation	2 779	2 234
Uniform issues	2 280	1 942
Electricity, gas and fuel	2 216	1 646
Cleaning infrastructure	1 877	1 675
Service agreements	1 660	1 217
Other administrative expenses	1 529	2 011
Agency staffing	1 515	867
Stationery	1 246	1 085
Staff development	1 235	1 329
Alarm installation, maintenance and monitoring	1 025	806
Aircraft operations	953	704
Printing	653	623
Advertising	621	617
Public Private Partnership lease	594	-
Repairs and maintenance - Equipment	592	581
Occupational Health and Safety	251	219
Occupancy other	240	111
Operating leases	222	142
Rent	197	961
Consultancies	76	105
Civil actions against Police (legal costs)	49	227
Costs against Police (legal costs)	25	73
Other	7 324	5 972
Total Supplies and Services - Non-SA Government Entities	51 649	47 704
Total Supplies and Services	95 196	85 204

The total Supplies and Services shown in the 2004-05 financial statements was \$80.778 million, this did not include costs associated with housing subsidies of \$4.426 million (\$4.209 million). This amount has been reclassified from Employee Benefits Costs to Supplies and Services in these financial statements (refer also Note 6).

7. Supplies and Services (continued)

Pursuant to the contract arrangements with Plenary Justice Group (Plenary), the Public Private Partnership partner, SAPOL pays lease charges to Plenary for sites occupied by both SAPOL and the Courts Administration Authority (CAA). Lease expenditure related to the facilities occupied by SAPOL is recognised in the SAPOL controlled Statements above. Lease expenditure and the associated revenue related to the facilities occupied by CAA is recognised in the SAPOL Administered Items Statements. Refer also to Note 2.23.

The total supplies and services amount disclosed includes GST amounts not recoverable from the ATO due to the Department not holding a valid tax invoice or payments related to third party arrangements.

The number and dollar amount of consultancies paid/payable (included in Supplies and Services expense) that fell within the following band:	2006 Number	2006 \$'000	2005 \$'000
Below \$10 000	7	24	6
Between \$10 000 - \$50 000	3	52	99
Above \$50 000	-	-	-
Total Paid/Payable to the Consultants Engaged	10	76	105

8. Depreciation and Amortisation

Depreciation:	2006 \$'000	2005 \$'000
Buildings and improvements	2 936	3 189
Plant and equipment	3 988	2 332
Total Depreciation	6 924	5 521

Amortisation:	2006 \$'000	2005 \$'000
Leasehold improvements	1 331	3 317
Intangible assets	1 395	866
Total Amortisation	2 726	4 183
Total Depreciation and Amortisation	9 650	9 704

9. Auditor's Remuneration

Audit fees paid/payable to the Auditor-General's Department	151	169
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Other Services

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

10. Revenues from Fees and Charges

Fees and Charges received/receivable from entities within the SA Government:	2006 \$'000	2005 \$'000
Police Security services	6 247	6 013
Prosecution and other court fees	-	534
Police information requests	311	37
Other fees	8	6
Total Fees and Charges - SA Government Entities	6 566	6 590

Fees and Charges received/receivable from entities external to the SA Government:	2006 \$'000	2005 \$'000
Firearms licence and registration fees	3 293	3 242
Police information requests	2 037	1 607
Escorts - Wide load/other	1 660	1 570
Prosecution and other court fees	603	-
Police Security services	289	143
Other fees	410	450
Total Fees and Charges - Non-SA Government Entities	8 292	7 012
Total Fees and Charges	14 858	13 602

11. Interest Revenue

Interest from entities within the SA Government	3 389	2 695
Other	8	8
Total Interest Revenue	3 397	2 703

12. Commonwealth Revenue

Other Commonwealth revenue	-	1 425
Total Commonwealth Revenue	-	1 425

SAPOL recovered costs associated with resources provided, at the request of the Commonwealth Government, for the Baxter Detention Centre protester convergence during Easter 2005.

13. Net Loss from Disposal of Assets	2006	2005
Land and Buildings:	\$'000	\$'000
Proceeds from disposal	-	993
Net book value of assets disposed	-	(639)
Write down of non-current assets	(19)	(5 116)
Net Loss from Disposal of Land and Buildings	(19)	(4 762)
Plant and Equipment:		
Proceeds from disposal	215	596
Net book value of assets disposed	(191)	(739)
Write down of non-current assets - Stock take	(31)	(88)
Net Loss from Disposal of Plant and Equipment	(7)	(231)
Total Assets:		
Proceeds from disposal	215	1 589
Net book value of assets disposed	(191)	(1 378)
Write down of non-current assets - Stock take	(50)	(5 204)
Net Loss from Disposal of Total Assets	(26)	(4 993)

In 2004-05 SAPOL transferred ownership of the PPP sites to the Minister for Infrastructure for nil consideration and this action has resulted in the recognition of a loss of disposal of assets. (Refer Note 2.23).

14. Other Revenue		
Other revenues for the reporting period include:		
Grants	1 538	740
Employee benefits recoveries	1 533	2 260
TVSP recoveries from the Department of the Premier and Cabinet	943	-
Contributed (donated) asset revenue	593	7 076
Other	5 855	4 473
Total Other Revenue	10 462	14 549

During 2005-06 SAPOL recognised contributed assets related to Counter Terrorism (\$593 000) transferred from the Commonwealth Government.

During 2004-05 SAPOL recognised two contributed assets:

- Audio Management System (AMS) (\$6.061 million) transferred from SAPOL Administered Items;
- Core Client Access Licences (CALs) (\$1.015 million) transferred from Department for Administrative and Information Services.

15. Revenues from/Payments to SA Government	2006	2005
Revenues from SA Government:	\$'000	\$'000
Appropriation from Consolidated Account pursuant to the <i>Appropriation Act</i>	428 023	389 848
Contributions from the Community Emergency Services Fund	16 750	16 750
Contributions from the Community Road Safety Fund	34 700	34 700
Intra-Government Transfers from Attorney-General's Department	777	2 509
Total Revenues from SA Government	480 250	443 807

The Intra-Government Transfers from Attorney-General's Department was related to funding for equipment for Government Radio Network (GRN) terminals.

Payments to SA Government:		
Other payments to the Consolidated Account*	(17 005)	-
Income Tax equivalent payment	(106)	(182)
Total Payments to SA Government	(17 111)	(182)

* This amount does not include a dividend/distribution to the SA Government as owner.

SAPOL is recognising a payment of \$17.005 million to the Government in 2005-06, pursuant to the Cash Alignment Policy which was implemented in 2004-05.

16. Cash and Cash Equivalents	2006	2005
	\$'000	\$'000
Deposits with the Treasurer	38 010	48 153
Cash held in Imprest Account and petty cash	638	1 223
Total Cash	38 648	49 376

Deposits with the Treasurer

Includes Deposits at call and Accrual Appropriation Account balances. Pursuant the requirements the cash alignment policy SAPOL returned of \$23.261 million (\$18.813 million) as a distribution to the Government.

17. Receivables	2006	2005
Current:	\$'000	\$'000
Receivables	2 190	4 536
Less: Provision for doubtful debts	(4)	(4)
Prepayments	1 913	1 514
Accrued interest	158	167
Accrued revenue	71	28
GST receivable	2 099	2 523
Total Current Receivables	6 427	8 764
Government/Non-Government Receivables		
Receivables from SA Government Entities:		
Receivables	855	1037
Prepayments	794	720
Accrued revenues	71	28
Total Receivables - SA Government Entities	1 720	1 785
Receivables from Non-SA Government Entities:		
Receivables	1 335	3 499
Less: Provision for doubtful debts	(4)	(4)
Prepayments	1 119	794
Accrued interest	158	167
GST receivable	2 099	2 523
Total Receivables - Non-SA Government Entities	4 707	6 979
Total Receivables	6 427	8 764

The total Receivables shown in the 2004-05 financial statements was \$7.250 million, this did not include prepayments \$1.514 million (\$1.913 million for 2005-06). This amount was previously classified as Other Current Assets.

Interest Rate and Credit Risk

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

18. Non-Current Assets Classified as held for Sale	2006	2005
Current:	\$'000	\$'000
Buildings and improvements	374	-
Other plant and equipment	270	-
Total Non-Current Assets Classified as held for Sale	644	-

SAPOL is recognising the following assets for sale as at 30 June 2006:

- Buildings and improvements at Loxton and Stansbury. These buildings are surplus to operational requirements, with SAPOL occupying new shopfront facilities in both towns.
- Other plant and equipment disposals relate to a number of photocopiers which had reached, or were reaching, their useful lives which will be replaced with new equipment.

19. Property, Plant and Equipment	2006	2005
Land and Buildings: ⁽¹⁾	\$'000	\$'000
Land at fair value	33 260	33 260
Buildings at fair value	95 930	94 911
Accumulated depreciation	(2 936)	-
Total Land and Buildings	126 254	128 171
Leasehold Improvements: ⁽¹⁾		
Leasehold improvements at fair value	6 831	6 716
Accumulated amortisation	(1 331)	-
Total Leasehold Improvements	5 500	6 716
Computing and Communications Equipment: ⁽²⁾		
Computing and communications equipment	13 158	11 474
Accumulated depreciation	(5 066)	(2 878)
Total Computing and Communications Equipment	8 092	8 596

19. Property, Plant and Equipment (continued)	2006	2005
Vehicle and Transport Vessels:	\$'000	\$'000
Vehicle and transport vessels	9 346	7 995
Accumulated depreciation	(4 163)	(4 150)
Total Vehicle and Transport Vessels	5 183	3 845
Other:		
Other	13 999	12 713
Accumulated depreciation	(6 709)	(6 726)
Total Other	7 290	5 987
Total Property, Plant and Equipment	152 319	153 315

- (1) Land, buildings and improvements were revalued as at 30 June 2005 by the following officers from Valcorp Australia Pty Limited:
 Andrew James Lucas, AAPI, Certified Practising Valuer, Dip Acc, B.App.Sc. (Val), ASA
 Alfonso (Fred) Taormina, AAPI, Certified Practising Valuer, B.App.Sc. (Val), R.V., (Fiji)
 Alicia Marie Portolesi, GAPI Qualified Valuer, B.Bus. (Property)

The fair values for Land and Buildings for 2005 have been adjusted to reflect the transfer of sites to the Minister for Infrastructure in 2004-05 (refer Note 4.2).

- (2) Intangible assets - computer software has been separately identified (refer Note 20).

Reconciliation of Non-Current Assets

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

	Land \$'000	Buildings and Improvements \$'000	Leasehold Improvements \$'000	Computer and Communications Equipment \$'000	Vehicles and Transport Vessels \$'000
Carrying amount at 1 July*	33 260	94 912	6 716	9 611	3 845
Additions	-	-	-	-	1 801
Disposals	-	-	-	(2)	(188)
Write-off non-current assets	-	(19)	-	-	(8)
Depreciation and amortisation	-	(2 936)	(1 331)	(2 150)	(894)
Asset revaluations	-	-	-	152	566
Assets transferred between classes	-	1 411	115	186	61
Assets identified as part of stocktake	-	-	-	295	-
Donated assets **	-	-	-	-	-
Assets held for sale	-	(374)	-	-	-
Other movements	-	-	-	-	-
Carrying Amount at 30 June	33 260	92 994	5 500	8 092	5 183

	Other \$'000	2006 Total Property, Plant & Equipment \$'000	Work in Progress \$'000	Intangible Assets (Software) \$'000	2006 Total \$'000
Carrying amount at 1 July*	4 971	153 315	12 451	3 350	169 116
Additions	-	1 801	7 217	-	9 018
Disposals	(2)	(192)	-	-	(192)
Write-off non-current assets	(23)	(50)	-	-	(50)
Depreciation and amortisation	(1 019)	(8 330)	-	(1 320)	(9 650)
Asset revaluations	78	796	-	244	1 040
Assets transferred between classes	2 149	3 922	(6 044)	2 122	-
Assets identified as part of stocktake	812	1 107	-	191	1 298
Donated assets **	593	593	-	-	593
Assets held for sale	(270)	(644)	-	-	(644)
Other movements	1	1	(1)	(1)	(1)
Carrying Amount at 30 June	7 290	152 319	13 623	4 586	170 528

* The carrying amount at the beginning of the financial year for land and buildings and improvements has been adjusted to reflect the transfer of sites to the Minister for Infrastructure in 2004-05 (refer Note 4.2).

** Reflects the transfer to SAPOL of counter terrorism assets from the Commonwealth Government.

20. Intangible Assets	2006	2005
Computer Software:	\$'000	\$'000
Other computer software	7 704	5 615
Accumulated amortisation	(3 118)	(2 265)
Total Computer Software	4 586	3 350

Computer software was previously reported as Computing and Communications assets in 2004-05.

21. Payables	2006	2005
Current:	\$'000	\$'000
Payables employment on-costs	4 691	3 782
Creditors	3 655	4 001
Accrued employment on-costs	2 356	1 678
GST payable	150	570
Prepaid revenue	17	72
Total Current Payables	10 869	10 103
Non-Current:		
Other	29	29
Employment on-costs	12 671	10 695
Total Payables expected to be paid more than 12 months after Reporting Date	12 700	10 724
Total Payables	23 569	20 827
Government/Non-Government Payables		
Payables to SA Government Entities:		
Payables employment on-costs	17 362	14 477
Creditors	3 015	1 292
Accrued employment on-costs	2 356	1 678
Total Payables - SA Government Entities	22 733	17 447
Payables to Non-SA Government Entities:		
Creditors	640	2 709
GST payable	150	570
Prepaid revenue	17	72
Other	29	29
Total Payables - Non-SA Government Entities	836	3 380
Total Payables	23 569	20 827
Interest Rate and Credit Risk		
Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they related to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand.		
22. Employee Benefits	2006	2005
Current:	\$'000	\$'000
Accrued salaries and wages	11 528	9 120
Annual leave	20 606	17 284
Long service leave	6 203	6 651
Total Current Employee Benefits	38 337	33 055
Non-Current:		
Long service leave	87 590	83 865
Total Non-Current Employee Benefits	87 590	83 865
Total Employee Benefits	125 927	116 920
23. Provisions		
Current:		
Provision for workers compensation (refer Note 6)	9 860	9 127
Provision for civil actions against Police	494	514
Total Current Provisions	10 354	9 641
Non-Current:		
Provisions for workers compensation (refer Note 5)	48 820	44 073
Total Non-Current Provisions	48 820	44 073
Workers Compensation:		
Carrying amount at 1 July	53 200	42 797
Increase in the provision arising from actuarial assessment	5 480	10 403
Carrying Amount at 30 June	58 680	53 200

23. Provisions (continued)

The provision for workers compensation is based on an actuarial assessment which does not allow separation payments or other sacrifices of economic benefits made during the reporting period from additional provisions recognised during the reporting period.

	2006	2005
	\$'000	\$'000
Civil Actions Against Police:		
Carrying amount at 1 July	514	565
Increase in the provision (New and revised civil actions)	190	152
Decrease in the provision (Finalised civil actions)	(210)	(203)
Carrying Amount at 30 June	494	514

24. Equity

Contributed capital	-	6 256
Retained earnings	(14 143)	8 705
Asset revaluation reserve	21 877	20 837
Total Equity	7 734	35 798

The property, plant and equipment assets revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

The Retained earnings represents the residual interest in SAPOL's net assets. The South Australian Government holds the accumulated surplus interest in SAPOL on behalf of the community. The Asset Revaluation Reserve represents that portion of equity resulting from the revaluation of non-current assets.

	2006	2005
	\$'000	\$'000
Contributed Capital:		
Balance at 1 July (prior priced adjustment)	6 256	25 069
Decrease in contributed capital resulting from a distribution to Government	(6 256)	(18 813)
Balance at 30 June	-	6 256

SAPOL reduced contributed capital by \$6.256 million (\$18.813 million) by way of distribution to the Government, pursuant to the Cash Alignment Policy which was implemented in 2004-05.

Retained earnings:		
Balance at 1 July	8 706	18 581
Net result	(22 849)	(9 875)
Balance at 30 June	(14 143)	8 706

The decrease in net assets resulting from ordinary activities in 2005-06 of \$22.8 million was impacted by a further increase of \$8.5 million in the Department's accrued salaries, long service and annual leave liabilities and a \$5.5 million increase in Workers Compensation liabilities. These items do not impact on the Department's cash position.

The decrease in net assets resulting from ordinary activities after tax equivalent payments in 2004-05 of \$4.1 million was impacted by a further increase of \$15.1 million in the Department's long service and annual leave liabilities which is offset by the recognition of contributed assets (\$7.1 million). These areas do not impact on the Department's cash position.

	2006	2005
	\$'000	\$'000
Asset Revaluation Reserve:		
Balance at 1 July	20 837	22 655
(Increase) Decrease in Asset Revaluation Reserve	1 040	(1 818)
Balance at 30 June	21 877	20 837

The increase in the Asset Revaluation Reserve for 2005-06 is due to the revision of useful lives of assets other than Land and Buildings.

The decrease in the Asset Revaluation Reserve for 2004-05 is due to revaluation conducted as at 30 June 2005.

Land, Buildings and Improvements were revalued as at 30 June 2005 in accordance with Accounting Policy Framework III *Asset Accounting Framework*. SAPOL revalues assets on a three yearly cycle.

25. Financial Instruments**(a) Terms, Conditions and Accounting Policies****(i) Financial Assets**

Cash at bank comprises cash held, available at call, and cash held in the Department of Treasury and Finance Accrual Appropriation Excess Funds Special Deposit Account. All cash is recorded at cost. Interest revenue is recorded on an accrual basis.

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

(ii) *Financial Liabilities*
Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days.

(iii) *Borrowings*
SAPOL previously maintained an Imprest Account of \$200 000 representing monies advanced by the Department of Treasury and Finance. The advance was interest free.

(b) Interest Rate Risk

2006 Financial Instrument	Effective Interest Rate at 30.06.06 Percent	Interest Bearing \$'000	Non- Interest Bearing \$'000	2006 Total \$'000
Financial Assets:				
Cash at bank (Note 16)	5.49	38 010	-	38 010
Cash held in Imprest Account and petty cash (Note 16)		-	638	638
Receivables (Note 17)		-	4 514	4 514
		38 010	5 152	43 162
Financial Liabilities:				
Payable (Note 21)				
Borrowings:				
Advance from Department of Treasury and Finance		-	3 834	3 834
		-	-	-
		-	3 834	3 834

2006 Financial Instrument	Effective Interest Rate at 30.06.05 Percent	Interest Bearing \$'000	Non- Interest Bearing \$'000	2005 Total \$'000
Financial Assets:				
Cash at bank (Note 16)	5.35	48 153	-	48 153
Cash held in Imprest Account and petty cash (Note 16)		-	1 223	1 223
Receivables (Note 17)		-	7 250	7 250
		48 153	8 473	56 626
Financial Liabilities:				
Payables (Note 21)		-	4 600	4 600
Borrowings:				
Advance from Department of Treasury and Finance		-	200	200
		-	4 800	4 800

Receivables and Payables are shown inclusive of GST.

(c) Net Fair Values

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

(d) Credit Risk Exposure

SAPOL's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Balance Sheet. SAPOL has no significant exposures to any concentrations of credit risk.

26. Commitments

Capital and Recurrent Commitments

Capital and recurrent expenditure commitments at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2006 \$'000	2005 \$'000
Within one year	7 455	8 844
Later than one year but not later than five years	3 172	616
Total Capital and Recurrent Commitments	10 627	9 460
GST included in Capital and Recurrent Commitments	965	860

Remuneration Commitments

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2006 \$'000	2005 \$'000
Within one year	2 855	1 941
Later than one year but not later than five years	4 097	3 771
Total Remuneration Commitments	6 952	5 712

Amounts disclosed include commitments arising from executive and other service contracts. The Department does not offer remuneration contracts greater than five years.

Operating Lease Commitments

Commitments under non-cancellable operating leases, related to property and vehicles, at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2006	2005
	\$'000	\$'000
Not later than one year	21 420	16 113
Later than one year but not later than five years	41 230	38 593
Later than five years	79 453	93 153
Total Lease Commitments	142 103	147 859
GST included in Operating Lease Commitments	12 918	13 442

The property leases are non-cancellable with rental payable in advance. Contingent rental provisions within the lease agreements require minimum lease payments to be increased periodically and generally in line with CPI movements and market conditions. Options exist to renew property leases at the end of the term of the leases.

Operating lease commitments include commitments for Public Private Partnership leases related to SAPOL occupancies only.

27. Contingent Liabilities**Rewards**

As at 30 June 2006 the value of outstanding rewards for unsolved murders was \$4.7 million (\$4.4 million). No provision has been made in the financial report for this amount as there exists considerable doubt as to the amount and timing of rewards that will actually be paid.

28. Remuneration of Directors and Related Party Disclosure

SAPOL had no Boards in existence for 2005-06 or 2004-05 and made no payments to Board Members during this period. In accordance with the Department of the Premier and Cabinet Circular 14, government employees did not receive any remuneration for board duties during the financial year.

29. Cash Flow Reconciliation

	2006	2005
	\$'000	\$'000
Reconciliation of Cash - Cash at 30 June as per:		
Cash Flow Statement	38 648	49 376
Balance Sheet	38 648	49 376
Reconciliation of Net Cash Inflows from Operating Activities to Net Cost of Services:		
Net cash provided by (used in) operating activities	4 331	29 280
Less: Revenues from SA Government	(428 023)	(389 848)
Add: Payments to SA Government	17 111	182
Less: Contribution from the Community Emergency Services Fund	(16 750)	(16 750)
Less: Contribution from Community Road Safety Fund	(34 700)	(34 700)
Less: Intra-Government Transfer from Attorney-General's Department	(777)	(2 509)
Add/Less: Non-Cash Items:		
Depreciation and amortisation expense	(9 650)	(9 704)
Net (revenue) expense from disposal and write-down of non-current assets	(26)	(4 993)
Works in progress expensed	-	(13)
Assets recognised through stocktake	1 298	-
Donated Assets Counter-terrorism-		
(transfer from the Commonwealth Government)	593	-
Donated Assets - AMS	-	6 061
Donated Assets - CACL	-	1 015
Revaluation decrement	-	(5 431)
Sale of Goodwood (Cash timing)	-	(424)
Asset transfers	(2)	3
Change in Assets and Liabilities:		
(Decrease) Increase in receivables	(2 337)	2 978
Decrease in inventories	(46)	(5)
Decrease in payables and provisions	(8 202)	(11 292)
Decrease in other liabilities	(8 807)	(17 351)
Net Cost of Services from Ordinary Activities	(485 987)	(453 501)

**Statement of Administered Expenses and Income
for the year ended 30 June 2006**

		2006	2005
EXPENSES:	Note	\$'000	\$'000
Employee benefits costs	A3	573	287
Supplies, services and other expenditure	A4	6 941	16 908
Intra Government Transfer	A5	2 463	2 602
Total Expenses		9 977	19 797
INCOME:			
Revenue from fees, fines and charges	A6	55 020	53 165
Total Income		55 020	53 165
NET COST OF PROVIDING SERVICES		(45 043)	(33 178)
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT			
Revenues from SA Government	A7	6 971	6 225
Intra-government transfers	A7	512	1 580
Payments to SA Government	A7	(52 457)	(51 092)
Net Revenues from (Payments to) SA Government		(44 974)	(43 287)
NET RESULT		69	(9 919)

**Statement of Administered Assets and Liabilities
as at 30 June 2006**

		2006	2005
CURRENT ASSETS:	Note	\$'000	\$'000
Cash and cash equivalents	A8	8 627	6 006
Receivables	A9	132	2 653
Total Current Assets		8 759	8 659
Total Assets		8 759	8 659
CURRENT LIABILITIES:			
Payables	A10	129	-
Other liabilities	A11	8 162	8 427
Employee benefits	A12	44	-
Total Current Liabilities		8 335	8 427
NON-CURRENT LIABILITIES:			
Long-term employee benefits	A13	98	-
Other non-current liabilities	A14	25	-
Total Non-Current Liabilities		123	-
Total Liabilities		8 458	8 427
NET ASSETS		301	232
EQUITY:			
Retained earnings	A15	301	232
TOTAL EQUITY		301	232
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments	A16		
Contingent assets and liabilities	-		

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

	Note	Retained Earnings \$'000	Total \$'000
Balance at 30 June 2004		10 151	10 151
Changes in accounting policy		-	-
Error correction		-	-
Restated Balance at 30 June 2004		<u>10 151</u>	<u>10 151</u>
Gain on revaluation of property during 2004-05		-	-
Loss on revaluation of property during 2004-05		-	-
Net Income/Expense recognised directly in Equity for 2004-05		-	-
Net Result after Restructure for 2004-05		<u>(9 919)</u>	<u>(9 919)</u>
Total Recognised Income and Expense for 2004-05		<u>(9 919)</u>	<u>(9 919)</u>
Equity contribution from SA Government		-	-
Repayment of Equity Contribution to SA Government		-	-
Balance at 30 June 2005		<u>232</u>	<u>232</u>
Changes in accounting policy		-	-
Error correction		-	-
Restated Balance at 30 June 2005	A15	<u>232</u>	<u>232</u>
Gain on revaluation of property during 2005-06		-	-
Loss on revaluation of property during 2005-06		-	-
Net Income/Expense Recognised Directly in Equity for 2005-06		-	-
Net Result after Restructure for 2005-06		<u>69</u>	<u>69</u>
Total Recognised Income and Expense for 2005-06		<u>69</u>	<u>69</u>
Equity contribution from SA Government		-	-
Repayment of equity contribution to SA Government		-	-
Balance at 30 June 2006	A15	<u>301</u>	<u>301</u>

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

**Statement of Administered Cash Flows
for the year ended 30 June 2006**

	2006	2005
	Inflows (Outflows)	Inflows (Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee benefits costs	(396)	(287)
Supplies, services and other expenditure	(5 773)	(3 410)
Intra government transfers	(2 485)	(2 534)
Cash used in Operations	(8 654)	(6 231)
CASH INFLOWS:		
Fees, fines and charges	52 877	49 782
Other revenues	4 511	2 552
Cash generated from Operations	57 388	52 334
CASH FLOWS FROM SA GOVERNMENT:		
Receipts from SA Government	7 243	5 945
Receipts from the Community Emergency Services Fund	512	1 580
Payment to SA Government	(53 868)	(49 648)
Cash generated from SA Government	(46 113)	(42 123)
Net Cash provided by Operating Activities	2 621	3 980
CASH FLOWS FROM INVESTING ACTIVITIES:		
CASH OUTFLOWS:		
Purchase of property, plant and equipment	-	(1 270)
Net Cash used in Investing Activities	-	(1 270)
NET INCREASE IN CASH EQUIVALENTS	2 621	2 710
CASH AND CASH EQUIVALENTS AT 1 JULY	6 006	3 296
CASH AND CASH EQUIVALENTS AT 30 JUNE	8 627	6 006

Note

A8

Schedule of Administered Expenses and Income for the year ended 30 June 2006

	Expiation Fees		Provision of Helicopter Service		VOC Levy		Special Acts	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EXPENSES:								
Employee benefits costs	-	-	-	-	-	-	573	287
Supplies, services and other expenditure	-	-	6 630	5 770	-	-	-	-
Intra-Government transfers	-	-	-	-	2 413	2 552	-	-
Total Expenses	-	-	6 630	5 770	2 413	2 552	573	287
INCOME:								
Revenue from fees, fines and charges	50 464	49 034	1 928	1 579	2 413	2 552	-	-
Total Income	50 464	49 034	1 928	1 579	2 413	2 552	-	-
NET COST OF PROVIDING SERVICES	(50 464)	(49 034)	4 702	4 191	-	-	573	287
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT								
Revenues from SA Government	-	-	6 155	5 573	-	-	471	287
Contributions from the Community Emergency Services Fund	-	-	512	499	-	-	-	-
Payments to SA Government	(50 426)	(49 034)	(2 031)	(2 058)	-	-	-	-
Net Revenues from (payments to) SA Government	(50 426)	(49 034)	4 636	4 014	-	-	471	287
NET RESULT	38	-	(66)	(177)	-	-	(102)	-

	Audio Management System		Other		Total	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EXPENSES:						
Employee benefits costs	-	-	-	-	573	287
Supplies, services and other expenditure	-	11 014	311	124	6 941	16 908
Intra-Government transfers	-	-	50	50	2 463	2 602
Total Expenses	-	11 014	361	174	9 977	19 797
INCOME:						
Revenue from fees, fines and charges	-	-	215	-	55 020	53 165
Total Income	-	-	215	-	55 020	53 165
NET COST OF PROVIDING SERVICES	-	11 014	146	174	(45 043)	(33 368)
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT						
Revenues from SA Government	-	234	345	131	6 971	6 225
Contributions from the Community Emergency Services Fund	-	1 081	-	-	512	1 580
Payments to SA Government	-	-	-	-	(52 457)	(51 092)
Net Revenues from (payments to) SA Government	-	1 315	345	131	(44 974)	(43 287)
NET RESULT	-	(9 699)	199	(43)	69	(9 919)

Schedule of Administered Assets and Liabilities as at 30 June 2006

	Unclaimed		Exhibit Monies		Expiation Fees		Provision of		VOC Levy	
	Property						Helicopter Service			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS:										
Cash and cash equivalents	46	-	3 505	2 383	4 344	4 394	337	(642)	210	232
Receivables	-	-	-	-	-	-	43	2 292	-	-
Total Assets	46	-	3 505	2 383	4 344	4 394	380	1 650	210	232
CURRENT LIABILITIES:										
Payables	-	-	-	-	-	-	119	-	-	-
Other liabilities	46	-	3 505	2 383	4 306	4 394	95	1 418	210	232
Employee benefits	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	46	-	3 505	2 383	4 306	4 394	214	1 418	210	232
NON-CURRENT LIABILITIES:										
Long-term employee benefits	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Total Non-Current Liabilities	-	-	-	-	-	-	-	-	-	-
Total Liabilities	46	-	3 505	2 383	4 306	4 394	214	1 418	210	232
NET ASSETS	-	-	-	-	38	-	166	232	-	-

	Special Acts		Audio Management System		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS:								
Cash and cash equivalents	(14)	(76)	-	(232)	199	(53)	8 627	6 006
Receivables	89	76	-	232	-	53	132	2 653
Total Assets	75	-	-	-	199	-	8 759	8 659
CURRENT LIABILITIES:								
Payables	10	-	-	-	-	-	129	-
Other liabilities	-	-	-	-	-	-	8 162	8 427
Short and long-term employee benefits	44	-	-	-	-	-	44	-
Total Current Liabilities	54	-	-	-	-	-	8 335	8 427
NON-CURRENT LIABILITIES:								
Long-term employee benefits	98	-	-	-	-	-	98	-
Other non-current liabilities	25	-	-	-	-	-	25	-
Total Non-Current Liabilities	123	-	-	-	-	-	123	-
Total Liabilities	177	-	-	-	-	-	8 458	8 427
NET ASSETS	(102)	-	-	-	199	-	301	232

NOTES TO AND FORMING PART OF THE ADMINISTERED FINANCIAL STATEMENTS

A1. Summary of Significant Accounting Policies

All accounting policies for SAPOL are contained in Note 2 'Summary of Significant Accounting Policies'. The policies outlined in Note 2 apply to both SAPOL and the Administered Items Financial Statements except as noted below.

A1.1 Departures from SAPOL 'Summary of Significant Accounting Policies'

Basis of Accounting

Income from Expiation fees and Victim of Crime Levy fees is recognised on a cash basis. All other elements of SAPOL's Administered Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis.

A2. Administered Items

The following financial transactions are administered by SAPOL as at 30 June 2006. They do not represent controlled transactions of the Department. As such they are not recognised in the financial statements of the Department.

A2.1 Expiation Revenue

SAPOL, as a central processing agency of expiation notices, collects expiation revenue arising from expiation notices issued by police officers and other authorised officers. SAPOL treats the collected expiation revenue pursuant to the requirements of the *Expiation of Offences Act 1996*. Monies collected are paid into the Consolidated Account.

A2.2 Victim of Crime Levy

SAPOL, as a central processing agency of expiation notices, collects Victims of Crime expiation revenue arising from the expiation of offences included on expiation notices issued by police officers and other authorised officers. SAPOL treats the collected Victim of Crime Levy revenue pursuant to the requirements of the *Victims of Crime Act 2001*. Monies collected are paid into the Victim of Crime Fund operated by the Attorney-General's Department.

A2.3 Rescue Helicopter Service

SAPOL provides the financial services associated with the operations of the Rescue Helicopter Service. The Rescue Helicopter Service is partly funded by user agencies, sponsorship and contributions from the Motor Accident Commission and Emergency Services Fund. The Department receives separate appropriation for the payment of invoices associated with the operations of the Rescue Helicopter service. Revenue received in relation to operations of the Rescue Helicopter Service are paid to the Consolidated Account.

A2.4 Special Acts Salaries

The Department receives separate appropriation for the payment of salaries in relation to the Commissioner of Police. Funding is provided under 'Recurrent Expenditure – Special Acts'.

In 2005-06 SAPOL recognised long service leave liability for the first time. Related on-costs of payroll tax and superannuation are shown under Payables employment on-costs (refer Note A13). The total long service leave has been recognised as a non-current liability based on long service leave taken history by the Commissioner of Police.

Accrued salaries and wages, annual leave and their related on-costs have been recognised in SAPOL controlled prior to 2005-06. The 2005-06 Salaries and Wages expenditure include prior period annual leave (\$52 830) and accrued salaries and wages (\$5 440) and their related on-costs (\$13 090) as a prior period adjustment in Administered Items for 2005-06 (refer to Note A3).

The above mentioned accrued salaries and wages, annual leave and their related on-costs are also recognised in 2005-06 as Current Payables (\$13 090 – refer to Note A11) and Current Employee Benefits (\$58 270- refer to Note A13).

A2.5 Exhibit Monies

SAPOL holds exhibit property being items confiscated at the time of an offence, ie items found at a crime scene or which were part of a theft. These items are held as an exhibit which may be presented to the court as evidence at the time the offence is heard.

The court may decide that the items are returned, confiscated or passed to the Government.

A2.6 Unclaimed Monies and Proceeds from Disposal of Found Properties

SAPOL holds unclaimed monies and proceeds from disposal of found properties. These monies are held for a period of six months and are then passed to Government.

SAPOL treats these items in accordance with Police Regulations 1999.

A2.7 Appropriation for Grant and Community Service Obligation Payments

SAPOL receives appropriation with respect to grant payments to Safer Communities Australia Inc and the Australian Crime Prevention Council and a Community Service Obligation payment to SA Water.

A2.8 Public Private Partnership

In May 2005, Cabinet approved the execution of a 25 year service contract with Plenary Justice Pty Ltd (Plenary) for regional police stations for South Australia Police and courts for Courts Administration Authority (CAA).

In June 2005, the Minister of Infrastructure signed a Project Agreement.

The Public Private Partnership (PPP) includes courts facilities at Port Lincoln, Victor Harbor and Berri, and new court facilities at Port Pirie. For accounting purposes the lease is an operating lease.

Under the PPP agreement SAPOL is responsible for paying lease payments to Plenary for sites occupied by both SAPOL and CAA. SAPOL invoices CAA for the sites that they occupy.

The Department has no control over the use of the funds listed above.

A3. Employee Benefits Costs	2006	2005
	\$'000	\$'000
Employee benefits costs	573	287

In 2005-06 SAPOL made cash payments for employee entitlements of \$396 000 which included a portion of annual leave payout (\$70 000) (refer to Note A2.4).

In 2005-06 Non-cash expenditure of \$177 000 was recognised for accrued salaries and wages, annual leave, and long service leave (refer to Note A2.4).

A4. Supplies and Services	2006	2005
	\$'000	\$'000
Supplies and Services provided by entities within the SA Government:		
Adelaide Bank Rescue Helicopter Service	336	155
Audio Management System*	-	11 014
Other supplies and services	-	43
Total Supplies and Services - SA Government Entities	336	11 212

* During 2004-05 the Audio Management System (AMS) (\$10.971 million) was transferred from SAPOL Administered Items to SAPOL (\$6.061 million), SA Ambulance Service (\$2.876 million) and South Australian Metropolitan Fire Service (\$2.034 million) as a contributed asset.

	2006	2005
	\$'000	\$'000
Supplies and Services provided by entities external to the SA Government:		
Adelaide Bank Rescue Helicopter Service	6 294	5 615
Public Private Partnership lease payments	215	-
Other	96	81
Total Supplies and Services - Non-SA Government Entities	6 605	5 696
Total Supplies and Services	6 941	16 908

A5. Intra Government Transfers		
Intra government transfers	2 463	2 602
Intra government Transfers	2 463	2 602

A6. Revenues from Fees, Fines and Charges		
Fees and charges received/receivable from entities within the SA Government:		
Adelaide Bank Rescue Helicopter Service	1 709	1 405
Public Private Partnership cost recovery**	215	-
Total Fees, Fines and Charges - SA Government Entities	1 924	1 405
Fees and charges received/receivable from entities external to the SA Government:		
Expiation Revenue	50 464	49 034
Adelaide Bank Rescue Helicopter Service	219	174
Victim of Crime Levy	2 413	2 552
Total Fees, Fines and Charges - Non-SA Government Entities	53 096	51 760
Total Fees, Fines and Charges	55 020	53 165

** This amount includes cost recovery from the Courts Administration Authority for Public Private Partnership lease payments (refer to Note A4).

A7. Revenue from/Payments to SA Government	2006	2005
Revenues from SA Government:	\$'000	\$'000
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	6 971	6 225
Intra-government transfers	512	1 580
Total Revenues from SA Government	7 483	7 805
Payments to SA Government:		
Other payments to the Consolidated Account *	52 457	51 092
Total Payments to SA Government	52 457	51 092
* This amount does not include a dividend/distribution to the SA Government		
A8. Cash and Cash Equivalents		
Deposits with the Treasurer	6 062	4 563
Exhibit monies on hand	2 565	1 443
Total Cash	8 627	6 006
Deposits with the Treasurer in 2004-05 included \$940 000 that related to exhibit monies.		
A9. Receivables		
Current:		
Receivables from SA Government	132	2 653
Total Receivables from SA Government	132	2 653
During 2004-05, appropriation for Administered Items was forwarded to SAPOL quarterly in arrears. The amount due was reflected as a receivable. During 2005-06, appropriation for Administered Items was mostly received on a monthly basis.		
A10. Payables	2006	2005
Current:	\$'000	\$'000
Payables employment on-costs	10	-
Accrued employment on-costs	-	-
Prepaid revenue from non-SA Government	119	-
Total Payables	129	-
A11. Other Liabilities		
Current:		
Transfer for funds to SA Government	4 611	6 044
Exhibit monies to non-SA Government	3 505	2 383
Proceeds from sale of unclaimed property to non-SA Government	46	-
Total Other Liabilities	8 162	8 427
A12. Employee Benefits		
Current:		
Accrued salaries and wages	6	-
Annual leave	38	-
Total Employee Benefits	44	-
A13. Long-Term Employee Benefits		
Non-Current:		
Long service leave	98	-
Total Long-Term Employee Benefits	98	-
During 2005-06 SAPOL has recognised Long Service Leave liability for the first time for the Commissioner of Police (refer to Note A2.4).		
A14. Other Non-Current Liabilities		
Non-Current:		
Payables - Employment on-costs	25	-
Total Other Non-Current Liabilities	25	-

During 2005-06 SAPOL has recognised on-costs on Long Service Leave liability for the first time for the Commissioner of Police (refer to Note A2.4).

	2006	2005
	\$'000	\$'000
A15. Equity		
Retained earnings	301	232
Total Equity	301	232
A16. Commitments		
Operating Lease Commitments		
Commitments under non-cancellable operating leases, relate to the Public Private Partnership lease payments, paid on behalf of CAA, at the reporting date but not recognised as liabilities in the financial report, are payable as follows:		
	2006	2005
	\$'000	\$'000
Within one year	1 284	-
Later than one year but not later than five years	5 950	-
Later than five years	37 154	-
Total Lease Commitments	44 388	-
GST included in Operating Lease Commitments	4 035	-
A17. Cash Flow Reconciliation		
Reconciliation of Cash - Cash at 30 June as per:		
Cash Flow Statement	8 627	6 006
Balance Sheet	8 627	6 006
Reconciliation of Net Cash generated from Operating Activities to		
Net Cost of providing Services:		
Net cash provided by (used in) operating activities	2 621	3 980
<i>Less:</i> Revenues from Government	(6 971)	(6 225)
<i>Add:</i> Payments to SA Government	52 457	51 092
<i>Add:</i> Contributions from the Community Emergency Services Fund	(512)	(1 580)
<i>Add/Less:</i> Non-Cash Items:		
Donated Assets - AMS	-	(10 971)
Change in Assets and Liabilities:		
(Increase) Decrease in receivables	(2 521)	915
Increase (Decrease) in payables and provisions	(129)	-
Increase (Decrease) in other liabilities	98	(3 843)
Net Cost of Providing Services	45 043	33 368

POLICE SUPERANNUATION SCHEME

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Police Superannuation Board (the Board) is a Body Corporate established under the *Police Superannuation Act 1990* (the Act).

Functions

The Board is responsible to the Treasurer for the administration of the Police Superannuation Scheme (the Scheme). This includes the collection of contributions from the Scheme members and payment of superannuation benefits to members and members' families.

The main financial administration arrangements of the Scheme involve:

- The Police Superannuation Fund — The Fund, established under the Act, records as income to the Fund, members' contributions and revenue derived from investment of those monies, and also records as payments from the Fund, the employee share of benefit payments and administration costs.

The Fund is comprised of two divisions, the Old Scheme Division which provides pension benefits with a lump sum option and the New Scheme Division which provides lump sum benefits.

- The Police Superannuation Scheme Employer Contribution Account (the Account) was established to record employer contributions on behalf of the police officers and cadets. The employer share of the benefits paid and administration costs is met from the Account.

The Act vests responsibility for investment and management of the Fund and the Account with the Superannuation Funds Management Corporation of South Australia (Funds SA).

Police officers and cadets who commenced employment on or before 31 May 1990 are members of the Old Scheme Division. Those police officers and cadets who commenced employment on or after 1 June 1990 are members of the New Scheme Division. The New Scheme Division was formally closed to new members on 3 May 1994. Police officers and cadets who commenced employment after this date became members of the Southern State Superannuation Scheme effective from 1 July 1995, which is administered by the South Australian Superannuation Board.

Structure

The Police Superannuation Office (PSO) is a business unit within the Financial Management Services Branch of the Police Department and is responsible to the Board for the management and administration of the day to day operations of the Scheme.

Funds SA provide investment management services to the PSO.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Police Superannuation 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 Police 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 form an audit opinion on the financial report and internal controls.

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

- cash at bank
- contributions
- benefits paid
- administrative expenses
- accrued benefits liability.

The audit did not include a review of the investment and management of the Scheme assets as these areas were reviewed as part of the audit of Funds SA.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of the Police Superannuation Scheme as at 30 June 2006 and the changes in net assets for the year then ended.

Assessment of Controls

In my opinion, the controls exercised over the Police 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 Police Superannuation Scheme 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 Presiding Member. Responses to the management letter were considered to be satisfactory. Major matters raised with the Board are considered herein.

Risk Management

In 2004-05 Audit recommended the Board establish a risk management policy and plan. This matter was outstanding in 2005-06.

Management advised that a risk management policy and plan will be drafted and presented to the Board for approval during 2006-07.

Policies and Procedures

In 2004-05 Audit recommended the Board prepare a framework for the development and approval of policies and procedures. This matter was outstanding in 2005-06.

Management advised that the Policies and Procedures manual will be updated in 2006-07.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	\$'million	\$'million	Change
ASSETS			
Investments	743.8	598.2	24
Other assets	1.8	1.4	29
Total Assets	745.6	599.6	24
LIABILITIES			
Current liabilities	2.0	2.1	(5)
Non-current liabilities	1.4	1.6	(13)
Total Liabilities	3.4	3.7	(8)

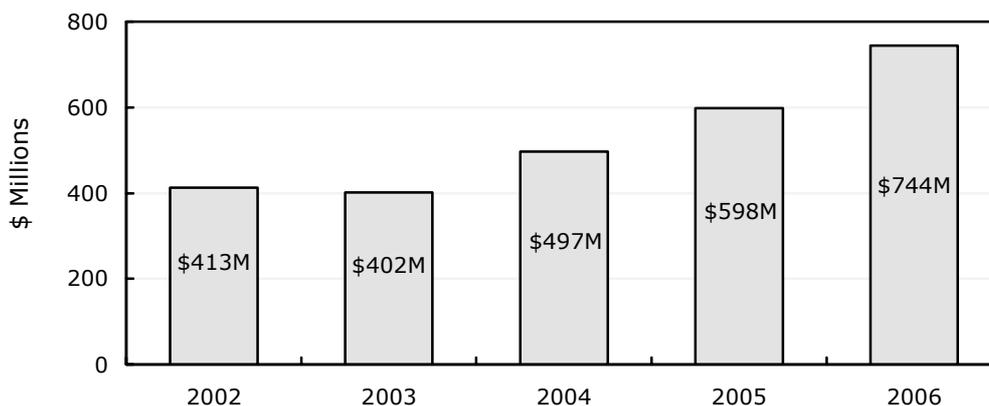
	2006	2005	Percentage
	\$'million	\$'million	Change
Net Assets Available to Pay Benefits	742.2	595.9	25
CHANGES IN NET ASSETS			
Contribution revenue	74.2	70.5	5
Investment revenue	121.2	76.6	58
Other revenue	0.1	0.1	0
Benefit expenses	(44.4)	(46.5)	(5)
Other expenses	(4.8)	(0.4)	n/a
Net Increase in Funds	146.3	100.3	46

Pursuant to Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*, the Board has elected to present their financial report in the format of a Statement of Net Assets and a Statement of Changes in Net Assets. Consequently, a Statement of Cash Flows has not been prepared and benefit related liabilities are disclosed in the notes to the financial statements.

Statement of Net Assets

Investments of the Scheme increased by \$146 million to \$744 million. Investment returns are further discussed in the commentary for Funds SA.

The following chart illustrates the increase in investments reflecting an accumulation of investment earnings and contribution revenue.

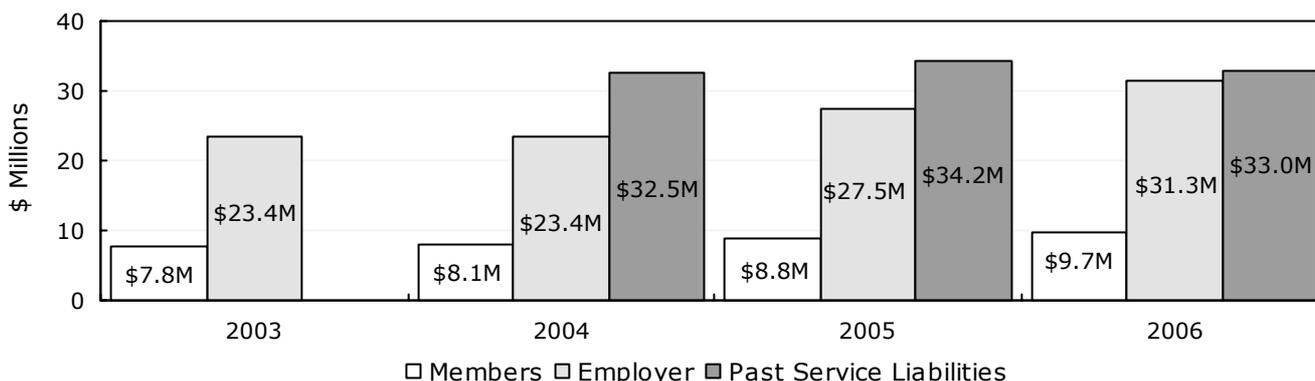


Statement of Changes in Net Assets

Revenues

- Investment revenues for the year resulted in a net return of \$117 million (\$76.6 million).
- Contribution revenues increased by \$3.6 million to \$74 million. Of this amount, \$33 million was received from the Government towards funding the past service liability.

For the four years to 2006 an analysis of contribution revenue for the Scheme is shown in the following chart.



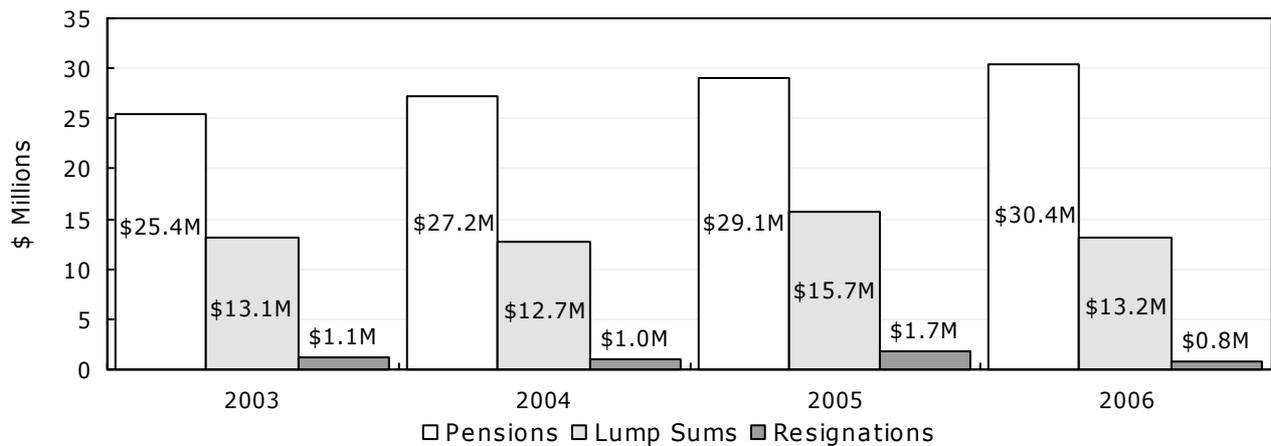
The chart shows that over the past four years member and employer contributions have steadily increased. This is expected as the Scheme is closed and therefore there are no new contributors. The increase is due mainly to increases in salaries and the employer contribution rates. From 1 July 2004, the employer contribution rates for the pension and lump sum divisions were increased by 1.5 percent and 1 percent respectively.

Past service liability payments represent funding from the Government to meet accrued superannuation liabilities. The Government expects to fully fund liabilities by 30 June 2034.

Expenditure

Benefits paid totalled \$44.4 million (\$46.5 million). The Old Scheme Division accounted for \$43.6 million of this with \$30.4 million of benefits taken as pensions, \$12.5 million as lump sum payments and \$615 000 returned to members upon resignation from the Scheme.

For the four years to 2006 a structural analysis of benefits paid is shown in the following chart.



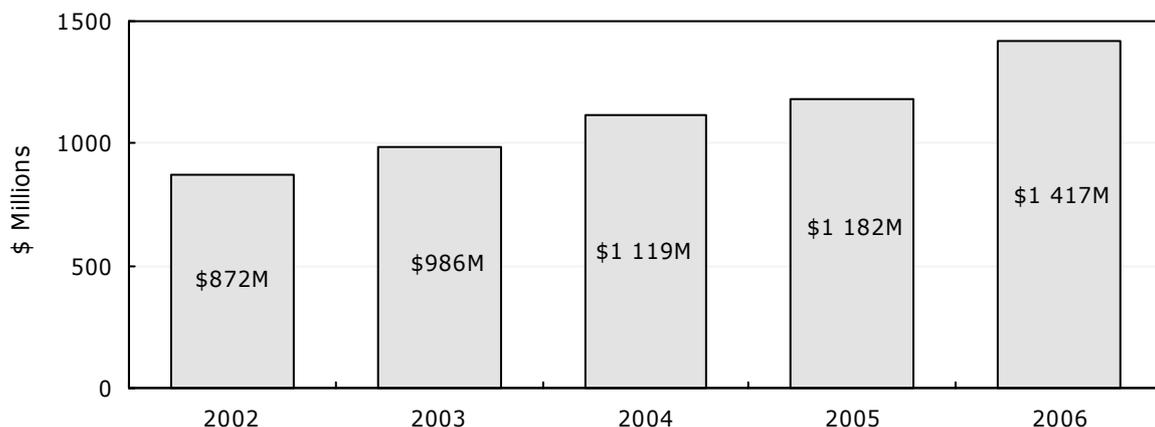
Over the period of the review there has been a steady increase in benefits paid. This is expected as the benefits paid are affected by increases in final salary and inflation adjustments to pensions.

FURTHER COMMENTARY ON OPERATIONS

Liability for Accrued Benefits

The estimated liability for accrued benefits increased by \$235 million to \$1417 million (\$1182 million) for which net assets of \$742 million (\$596 million) were available to pay benefits. This has resulted in an excess of liabilities over net assets of \$675 million (\$586 million), which represents the unfunded liability at 30 June 2006.

For the five years to 2006 an analysis of the liability for accrued benefits for the Scheme is shown in the following chart.



An actuarial review is undertaken every three years with assumptions from this review used to calculate the accrued liability in years between reviews. In 2006 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 3 'Liability for Accrued Benefits' to the financial report for further details.

Net Assets Available to Pay Benefits

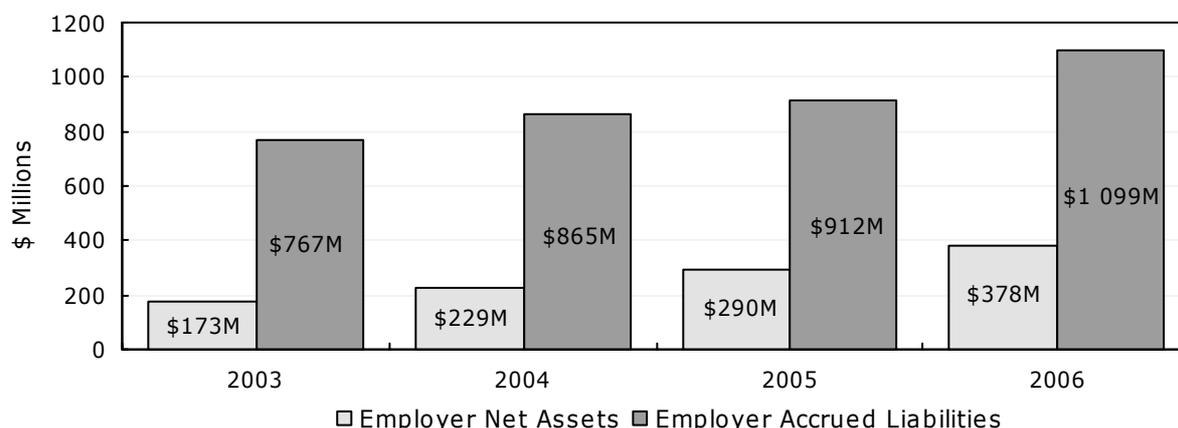
As previously mentioned, the net assets of the Scheme increased to \$742 million during the period whilst accrued liabilities increased to \$1417 million. This has resulted in an excess of accrued liabilities over net assets of \$675 million.

Analysis of the Police Superannuation Fund (employee account) revealed net assets available to pay benefits of \$365 million compared to an accrued liability of \$318 million. This represents an excess of net assets over accrued liabilities of \$47 million.

Analysis of the Police Employer Account revealed net assets available to pay benefits of \$378 million compared to an accrued liability of \$1099 million. This represents a shortfall of net assets over accrued liabilities of \$721 million.

The Government transferred \$33 million (\$34.2 million) to the Police Employer Account as funding for the accrued past service liability.

For the four years to 2006 a structural analysis of net assets available to pay benefits and accrued liabilities for the Police Employer Account is shown in the following chart.



Pensioners

The number of pensioners and pensions paid for the past four years was:

	2006 Number	2005 Number	2004 Number	2003 Number
Pensioners	1 171	1 158	1 134	1 119
	\$'000	\$'000	\$'000	\$'000
Pensions paid	30 398	29 089	27 195	25 414

Contributions by Members

The number of contributors and contributions received from members for the past three years was:

	2006			2005	2004
	Old Scheme Number	New Scheme Number	Total Number	Number	Number
Contributors (excludes preserved members)	2 006	387	2 393	2 464	2 591
	\$'000	\$'000	\$'000	\$'000	\$'000
Contributions received	8 390	1 324	9 714	8 762	8 114

**Statement of Net Assets
as at 30 June 2006**

	Note	2006 \$'000	2005 \$'000
INVESTMENTS:	2		
Inflation linked securities		63 622	60 694
Property		70 306	47 464
Australian equities		248 716	208 262
International equities		249 083	206 492
Fixed interest		32 270	34 263
Diversified strategies - Growth		25 414	10 769
Diversified strategies - Income		27 381	15 578
Cash		27 024	14 667
Total Investments	9	743 816	598 189
OTHER ASSETS:			
Cash and deposits at Treasury		602	465
Contributions receivable		1 098	860
Sundry debtors		44	86
Fixed assets		29	35
Total Other Assets		1 773	1 446
Total Assets		745 589	599 635
CURRENT LIABILITIES:			
Rent paid in advance		82	108
Benefits payable		594	1 080
Sundry creditors		1 301	930
		1 977	2 118
NON-CURRENT LIABILITIES		1 381	1 633
Total Liabilities		3 358	3 751
NET ASSETS AVAILABLE TO PAY BENEFITS		742 231	595 884

**Statement of Changes in Net Assets
for the year ended 30 June 2006**

	Note	\$'000	2006 \$'000	2005 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS				
AT 1 JULY			595 884	495 559
INVESTMENT REVENUE	6		121 241	76 644
OTHER INCOME			80	108
DIRECT INVESTMENT EXPENSE	6		(4 284)	-
ADMINISTRATION EXPENSE	6		(440)	(449)
CONTRIBUTIONS:				
Past service liability		33 000		34 200
Employer contributions		31 303		27 533
Member contributions		7 914		7 477
Voluntary member contributions		1 800		1 285
Government co-contributions		136		45
			74 153	70 540
BENEFITS PAID:				
Pensions	11	(30 398)		(29 089)
Commutation lump sums	11	(5 159)		(6 620)
Lump sums	11	(8 015)		(9 103)
Resignation benefits	11	(831)		(1 706)
			(44 403)	(46 518)
NET INCREASE IN FUNDS			146 347	100 325
NET ASSETS AVAILABLE TO PAY BENEFITS			742 231	595 884
AT 30 JUNE			742 231	595 884

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) Police Superannuation Scheme

The Police Superannuation Scheme (the Scheme) was created pursuant to the *Police Superannuation Act 1990* (the Act). The Act provides for superannuation benefits for Police Officers who are contributors to the Scheme.

Contributors to the Scheme may be either members of the old scheme who are entitled to a pension based benefit, or new scheme who are entitled to a lump sum based benefit. The old scheme was closed to new members in May 1990. The new scheme was closed to new members in May 1994.

Pursuant to the Act, contributors make contributions to the Scheme based on a percentage of their salary, with the standard contribution rate being between 5 and 6 percent. A contribution account is maintained for each contributor. There are no provisions under the Act for contributing members to purchase additional benefits.

The Act requires that contributions to the Scheme are paid to the Treasurer, who in turn deposits those contributions into the Police Superannuation Fund (the Fund). The Fund is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

The Fund is made up of two divisions, being the Old Scheme (Pension) Division and the New Scheme (Lump Sum) 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) Police Superannuation Board

The Police Superannuation Board (the Board), established under the Act, is responsible for all aspects of the administration of the Scheme, except the management and investment of the Scheme. The Act also provides the Board with the necessary powers to administer the Scheme. The Board, with the approval of the relevant Minister, has contracted the Police Department to provide administrative services.

Pursuant to 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 investment of each division of the Fund.

(c) Superannuation Funds Management Corporation of South Australia

Funds SA is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Funds SA Act). Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Fund and the Police Superannuation Scheme Employer Contribution Account (the Police Employer Account), reference should be made to the financial report of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA, an SA Government entity.

(d) Funding Arrangements

Pursuant to section 14 of the Act, all benefit payments are met from the Consolidated Account or a Special Deposit Account established for that purpose which is then reimbursed from the Fund and Police Employer Account. The Fund proportion is that amount charged against the contributor's contribution account. The prescribed proportion is determined by the Board, in accordance with section 14(3) of the Act, taking into account the most recent actuarial assessment.

The Treasurer may also seek reimbursement of the employer portion of the benefit payment from the Police Department which are deposited into the Police Employer Account. Employer contributions are based on a percentage of salary at rates based on actuarial valuations. From 1 July 2004 the rates for the Pension and Lump Sum divisions were set at 17 percent and 12 percent respectively.

For the year ended 30 June 2006 \$31.3 million (\$27.5 million) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2006 the Government transferred a further \$33 million to the Police Employer Account to meet liabilities in respect of the Scheme (\$34.2 million).

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

The financial report is a general purpose financial report prepared in accordance with applicable Australian Accounting Standards, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements, except as provided below.

This is the first financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AAS 25 *Financial Reporting by Superannuation Plans* is the principal standard applied in preparing this financial report. Other Accounting Standards are also applied where necessary except to the extent that they differ from AAS 25. There has been no material impact to the financial report in the transition to AIFRS. In addition, a number of Australian Accounting Standards have been issued or amended and may be applicable to the Scheme but are not yet effective. The impact of the new and amended standards has been assessed and there will be no impact on the accounting policies.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of AAS 25 where relevant. The Directors of Funds SA believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- **Internally Managed**

These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer, Macquarie Bank Limited.

- (i) *Inflation Linked Securities (continued)*
- *Externally Managed*
The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.
- (ii) *Property*
The Property portfolio comprises three sub-sectors:
- *Directly Held Property*
The value of directly held property has been determined having regard to the contractual arrangements in place over the property.
 - *Listed Property Trusts*
The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at balance date.
 - *Unlisted Property Vehicles*
The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.
- (iii) *Australian Equities*
The Australian Equities portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.
- (iv) *International Equities*
The International Equities portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date, where applicable.
- (v) *Fixed Interest*
The Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.
- (vi) *Diversified Strategies (Growth)*
The Diversified Strategies (Growth) portfolio comprises investments in domestic (Australian) and overseas private equity funds and domestic and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (November 2005). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date, where applicable.
- (vii) *Diversified Strategies (Income)*
The Diversified Strategies (Income) portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date, where applicable.
- (viii) *Cash*
Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.
- (ix) *Fixed Assets*
Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. It is considered that this provides a reasonable estimate of net market value.
- (x) *Other Assets and Liabilities*
In assessing these items, the Directors of Funds SA consider that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following balance date, the book values of these items have been discounted back to balance date using relevant market interest rates applying at balance date.

(c) Taxation

The investments of the Scheme are exempt from federal income tax because the Scheme has been declared as 'constitutionally protected' 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) Financial Instruments

Specific disclosure requirements of Australian Accounting Standard AASB 132 *Financial Instruments: Presentation* are fully set out in the notes to the financial report of Funds SA and have not been repeated in this financial report.

(e) Revenue

Superannuation contributions are brought to account on an accrual basis. Transfers and rollovers from other schemes are brought to account when received. Other revenue is brought to account on an accrual basis.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2005-06 financial year received by the Scheme after 30 June 2006.

Other receivables are carried at nominal amounts due which approximate fair value. Other payables are recognised when the Scheme is obligated to make future payments for services received and are carried at the amount payable on demand.

Benefits payable relate to members who have ceased employment and provided the Scheme with appropriate notification prior to 30 June 2006 but who had not been paid until after 30 June 2006.

(g) Goods and Services Tax (GST)

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 Net Assets.

3. Liability for Accrued Benefits

The accrued liabilities of the Scheme as determined by the Department of Treasury and Finance are shown below.

The accrued liabilities are the present values of expected future benefit payments arising from membership of the Schemes up to 30 June 2006 based on membership data as at 30 June 2005.

The expected future benefit payments have been determined using the 2005 triennial review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. In accordance with AAS 25, the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 4.5 percent per annum above CPI has been applied.

	Pension Scheme Division \$'million	2006 Lump Sum Scheme Division \$'million	Total \$'million	Pension Scheme Division \$'million	2005 Lump Sum Scheme Division \$'million	Total \$'million
Changes in the liability for accrued benefits:						
Liability for accrued benefits at 1 July	1 137.4	44.6	1 182.0	1 079.5	39.8	1 119.3
Add: Benefits expense	265.2	14.3	279.5	103.8	5.4	109.2
Less: Benefits paid	43.5	0.9	44.4	45.9	0.6	46.5
Liability for accrued benefits at 30 June	1 359.1	58.0	1 417.1	1 137.4	44.6	1 182.0
Represented by:						
Police Superannuation Fund	300.6	17.5	318.1	255.5	14.1	269.6
Police Employer Account	1 058.5	40.5	1 099.0	881.9	30.5	912.4
Total	1 359.1	58.0	1 417.1	1 137.4	44.6	1 182.0

Pursuant to the Act actuarial reviews of the Scheme must be conducted every three years 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 actuarial review as at 30 June 2005 was carried out by Mr S Mules, FIAA of Mercer Human Resource Consulting. His report, dated 22 March 2006, to the Minister was tabled in Parliament on 9 May 2006. In his report, Mr Mules made the following recommendations:

- The funding proportion for the Lump Sum Scheme division be retained at 30 percent.
- The funding proportion for the Pension Scheme division be increased from the current level of 21 percent to 22 percent.

3. Liability for Accrued Benefits (continued)

- (c) The Government contribution for future service liabilities for the Lump Sum Scheme division be increased from the current level of 12 percent to 12.5 percent.
- (d) The Government contribution for future service liabilities for the Pension Scheme division be increased from the current level of 17 percent to 19.5 percent.

The above recommendations were implemented from 1 July 2006.

The actuarial 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.

4. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Scheme and include benefits which members would be entitled to receive on termination of membership of the Scheme.

When members resign from the Scheme they have two options. Firstly they can elect to take cash refunds of their own contributions, accumulated with interest, together with preserved employer benefits as required by Commonwealth Superannuation Guarantee legislation. Alternatively they can elect to take fully vested, preserved benefits which will be based on their full accrued entitlements at the date of resignation and will be increased during preservation in line with increases in the CPI.

The vested benefits shown below assume that all resignation benefits will be taken in the form of fully preserved benefits. The value of vested benefits has then been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

Vested Liabilities 30 June 2006

	Pension Scheme Division \$'million	Lump Sum Scheme Division \$'million	2006 Total \$'million
Police Superannuation Fund	268.3	7.0	275.3
Police Employer Account	1 004.0	33.5	1 037.5
Total	1 272.3	40.5	1 312.8

Vested Liabilities 30 June 2005

	Pension Scheme Division \$'million	Lump Sum Scheme Division \$'million	2005 Total \$'million
Police Superannuation Fund	225.6	9.7	235.3
Police Employer Account	808.1	23.1	831.2
Total	1 033.7	32.8	1 066.5

5. Guaranteed Benefits

Contributor's benefit entitlements are set out in the Act.

6. Administration and Investment Expenses

Costs of administering the Scheme comprise those costs incurred by Funds SA (Investment Expense) and the Board (Administration Expense).

Investment Expense has not been reported separately in prior financial years, but had been deducted from revenue ie investment revenue was reported net of direct investment expense. For the year ended 30 June 2006 these costs are now shown separately as Direct Investment Expense. The comparative has not been changed as the information was not readily available.

Administration expenses incurred by the Board are financed in the first instance from the Police Employer Account through a Special Deposit Account. Pursuant to section 10(7) of the Act, the Fund is required to meet a prescribed proportion, currently 30 percent, of the administration expenses incurred by the Scheme.

Administration expenses incurred by the Scheme for 2005-06 amounted to \$440 000 (\$449 000) of which the Fund is required to reimburse \$132 000 (\$135 000) to the Scheme through the Police Employer Account. Of the \$440 000, \$32 000 (\$12 000) was spent on consultants and \$267 000 (\$260 000) was paid to SA Government entities.

7. Remuneration of Board Members

The following are members of the Board who served during 2005-06, along with the period served.

Board Member	Deputy	Period Served during 2005-06	
Michael Ramm	Gary Powell	29-09-2005	30-06-2006
Kathryn Finnigan	David Obst	29-09-2005	30-06-2006
Kingsley Oakley	Mark Trueman	1-07-2005	30-06-2006
Trevor Haskell	Bernadette Zimmerman	29-09-2005	30-06-2006
Michael Standing	James Tappin	29-09-2005	30-06-2006
Fiona Garrett		1-07-2005	31-07-2005

7. Remuneration of Board Members (continued)

Members' fees are set according to State Government guidelines for Statutory Authorities. Members, who are State public sector employees, do not receive fees for their Board membership. Board members who are contributors of the Scheme contribute on the same terms as other contributors.

Total remuneration received or due and receivable by the members of the Board in 2005-06 was \$7 000 (\$9 000).

The number of Board members whose remuneration was within the following bands are as follows:

	2006 Number of Members	2005 Number of Members
Nil	3	3
\$1 - \$10 000	3	2

8. Remuneration of Auditors

Amounts received or due and receivable by the auditors for auditing the accounts of the Board in 2005-06 total \$25 000 (\$25 000).

9. Summary of Investment Holdings

	Fund: Old Scheme Division \$'000	Fund: New Scheme Division \$'000	Police Employer Account \$'000	2006 Total \$'000	2005 Total \$'000
Investments:					
Inflation linked securities	29 405	1 848	32 369	63 622	60 694
Property	32 494	2 042	35 770	70 306	47 464
Australian equities	114 952	7 223	126 541	248 716	208 262
International equities	115 122	7 234	126 727	249 083	206 492
Fixed interest	14 915	937	16 418	32 270	34 263
Diversified strategies - Growth	11 746	738	12 930	25 414	10 769
Diversified strategies - Income	12 655	795	13 931	27 381	15 578
Cash	12 490	785	13 749	27 024	14 667
Total Investments	343 779	21 602	378 435	743 816	598 189

10. Changes in Net Assets

Transactions within each division are summarised below:

	Fund: Old Scheme Division \$'000	2006 Fund: New Scheme Division \$'000	Police Employer Account \$'000	2006 Total \$'000	Fund: Old Scheme Division \$'000	2005 Fund: New Scheme Division \$'000	Police Employer Account \$'000	2005 Total \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY	288 339	17 093	290 452	595 884	252 900	13 938	228 721	495 559
INVESTMENT REVENUE	57 817	3 512	59 912	121 241	38 242	2 177	36 225	76 644
OTHER INCOME	19	7	54	80	26	4	78	108
DIRECT INVESTMENT EXPENSE	(2 029)	(124)	(2 131)	(4 284)	-	-	-	-
ADMINISTRATION EXPENSE	(117)	(14)	(309)	(440)	(120)	(15)	(314)	(449)
CONTRIBUTIONS:								
Past service liability	-	-	33 000	33 000	-	-	34 200	34 200
Employer contributions	-	-	31 303	31 303	-	-	27 533	27 533
Member contributions	6 741	1 173	-	7 914	6 371	1 106	-	7 477
Voluntary member contributions	1 649	151	-	1 800	1 141	144	-	1 285
Government co-contributions	83	53	-	136	27	18	-	45
	8 473	1 377	64 303	74 153	7 539	1 268	61 733	70 540
BENEFITS EXPENSE:								
Pensions	(6 396)	(4)	(23 998)	(30 398)	(6 107)	(3)	(22 979)	(29 089)
Commutation lump sums	(1 083)	-	(4 076)	(5 159)	(1 469)	-	(5 151)	(6 620)
Lump sums	(1 436)	(100)	(6 479)	(8 015)	(1 214)	(28)	(7 861)	(9 103)
Resignation benefits	(615)	(216)	-	(831)	(1 458)	(248)	-	(1 706)
	(9 530)	(320)	(34 553)	(44 403)	(10 248)	(279)	(35 991)	(46 518)
NET INCREASE IN FUNDS	54 633	4 438	87 276	146 347	35 439	3 155	61 731	100 325
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE	342 972	21 531	377 728	742 231	288 339	17 093	290 452	595 884

11. Benefit Expense

All benefit payments were met in the first instance from the Consolidated Account. The Treasurer, in turn, recouped the value of the employee share of benefits paid from the Fund and the employer share from the Police Employer Account.

	Old Scheme Division \$'000	2006 New Scheme Division \$'000	Total \$'000	Old Scheme Division \$'000	2005 New Scheme Division \$'000	Total \$'000
Pensions:						
Funded from:						
Police Superannuation Fund	6 396	4	6 400	6 107	3	6 110
Police Super Scheme Contribution Account	23 990	8	23 998	22 973	6	22 979
Gross scheme costs	30 386	12	30 398	29 080	9	29 089
Commutation Lump Sums:						
Funded from:						
Police Superannuation Fund	1 083	-	1 083	1 469	-	1 469
Police Super Scheme Contribution Account	4 076	-	4 076	5 151	-	5 151
Gross scheme costs	5 159	-	5 159	6 620	-	6 620
Lump Sums:						
Funded from:						
Police Superannuation Fund	1 436	100	1 536	1 214	28	1 242
Police Super Scheme Contribution Account	5 954	525	6 479	7 609	252	7 861
Gross scheme costs	7 390	625	8 015	8 823	280	9 103
Resignation Benefits:						
Funded from:						
Police Superannuation Fund	615	216	831	1 458	248	1 706
Gross scheme costs	615	216	831	1 458	248	1 706
Total Benefit Payments	43 550	853	44 403	45 981	537	46 518

DEPARTMENT OF THE PREMIER AND CABINET

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

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

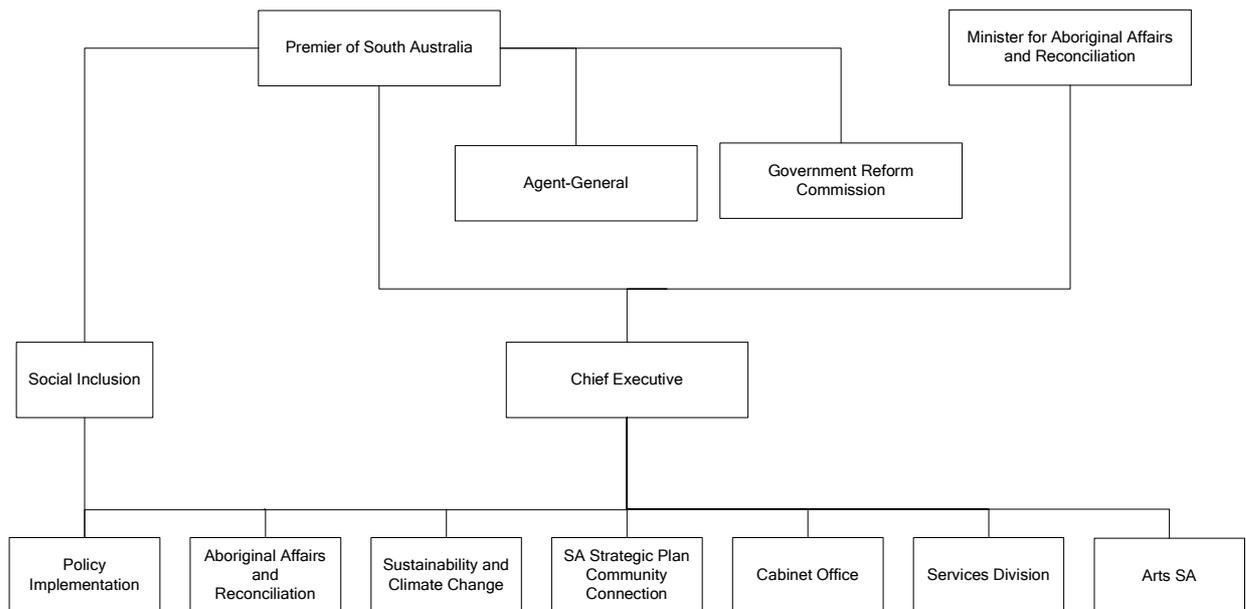
Functions

The purpose of the Department is to support the Premier, Cabinet and Executive Council by providing assistance in developing policies; identifying and providing strategic advice on emerging issues and opportunities; and providing leadership and direction to the public service to achieve management improvements.

To facilitate the achievement of these objectives, the Department has been organised on a broadly functional basis, comprising a number of branches and offices which perform distinct roles consistent with the charter of the Department.

Structure

An overview of the structure of the Department is illustrated in the following chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

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

Assessment of Controls

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

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

Scope of Audit

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

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

- revenue, including invoicing and bank reconciliations
- expenditure, including accounts payable and payroll
- grants management
- property, plant and equipment
- general ledger
- risk management.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department of the Premier and Cabinet as at 30 June 2006 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the Department of the Premier and Cabinet in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters of Grants Management which are commented upon below, are sufficient to provide reasonable assurance that the financial transactions of the Department of the Premier and Cabinet have been conducted properly and in accordance with law.

Audit Communications with Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. The response to the management letter was satisfactory. One matter raised with the Department and the related response is considered herein.

Grants Management

Policies and Procedures

In relation to Arts SA, the audit revealed that there are no documented policies and procedures relating to the management and control of grants paid. This issue is currently being examined by a working party which expects to finalise an outcome by the end of September 2006.

The Department advised that the working party is required to prepare a final report on the matter, to the Internal Audit Committee by the end of October 2006.

Funding Agreement

A Treasurer's Instruction requires a written agreement, setting out the terms and conditions of a grant, to be established for all grants paid in excess of \$5 000. Arts SA complies with this requirement for all grants paid in excess of \$20 000. In relation to the documentation completed for a grant between \$5 000 and \$20 000, Audit's view was that the documentation did not meet the requirements of the Treasurer's Instruction.

In its response, the Department advised that Arts SA is reviewing the adequacy of its grant funding and performance agreements. The Crown Solicitor's Office has been engaged to ensure that all of Arts SA's grant agreements comply with the Treasurer's Instruction.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT**Highlights of Financial Report**

	2006	2005	Percentage
	\$'million	\$'million	Change
EXPENSES			
Employee benefits	32.5	32	2
Grants and subsidies	101.5	101.7	-
Other expenses	31.2	29.4	6
Total Expenses	165.2	163.1	1
INCOME			
Fees and charges	3.2	3.8	(16)
Other	15	8.9	69
Total Income	18.2	12.7	43
REVENUES FROM/PAYMENTS TO SA GOVERNMENT			
Appropriations	149.5	146.2	2
Payments to SA Government	(0.8)	(31.6)	(97)
Total Revenues from/Payments to SA Government	148.7	114.6	30
Net Result before Restructuring	1.7	(35.9)	-
Net Cash Flows from Operating Activities	1.4	(31)	-
ASSETS			
Current assets	17.1	15.5	10
Non-current assets	22.6	23.6	(4)
Total Assets	39.7	39.1	2
LIABILITIES			
Current liabilities	6.7	8.1	(17)
Non-current liabilities	4.8	6	(20)
Total Liabilities	11.5	14.1	(18)
EQUITY	28.2	25.0	13

Income Statement**Expenses**

Grants and subsidies of \$101.5 million constituted 61 percent of total expenses of \$165.2 million. The other major expense was \$32.5 million (\$32 million) for employee benefits.

Income

Operating income for the year was \$18.2 million (\$12.7 million). The increase in income was due principally to funding of \$5 million received for the Carnegie Mellon University project.

Revenues from Government increased by \$3.3 million to \$149.5 million.

Balance Sheet

The total assets of the Department increased by \$653 000 to \$39.7 million.

The reduction in the liability for employee benefits is due mainly to the transfer of employees to the Office of Public Employment (refer Note 26).

The Department's liabilities at 30 June 2006 totalled \$11.5 million (\$14.1 million) of which \$7.3 million (\$8.6 million) relates to employee benefits.

Administered Items

Income and expenses in relation to the Social Inclusion Initiatives totalled \$9.8 million (\$11.5 million) and \$9.8 million (\$11.8 million) respectively.

Income for APY Lands was \$13.4 million (\$8.6 million) and expenses were \$6.8 million (\$4.1 million).

Cash held at 30 June 2006 of \$21 million, includes funds held for APY Lands of \$11.1 million and \$7.8 million for the Commonwealth Community Essential Services Program. Refer to Note 2 of the Administered financial statements for comment on cash held.

**Income Statement
for the year ended 30 June 2006**

	Note	2006 \$'000	2005 \$'000
EXPENSES:			
Employee benefits	6	32 464	32 028
Supplies and services	7	23 843	23 978
Depreciation and amortisation	8	1 148	1 405
Grants and subsidies	9	101 520	101 672
Net loss from disposal of assets	10	54	129
Other	11	6 131	3 895
Total Expenses		165 160	163 107
INCOME:			
Fees and charges	13	3 170	3 824
Commonwealth revenue		2 201	2 167
Grants and subsidies		200	208
Interest		1 522	1 906
Resources received free of charge	18	284	-
Community Development Fund		900	900
Recoveries from administered items		832	1 672
Other	14	9 092	1 988
Total Income		18 201	12 665
NET COST OF PROVIDING SERVICES		146 959	150 442
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:			
Revenues from SA Government	15	149 491	146 177
Payments to SA Government	15	(794)	(31 604)
Total Revenues from SA Government		148 697	114 573
NET RESULT BEFORE RESTRUCTURE		1 738	(35 869)
Net revenue from administrative restructures	26	1 503	10 291
NET RESULT AFTER RESTRUCTURE		3 241	(25 578)
NET RESULT AFTER RESTRUCTURE IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			

Balance Sheet
as at 30 June 2006

	Note	2006	2005
		\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	16	14 461	13 318
Receivables	17	2 643	2 221
Total Current Assets		17 104	15 539
NON-CURRENT ASSETS:			
Property, plant and equipment	18	22 430	23 514
Intangible assets	19	187	15
Total Non-Current Assets		22 617	23 529
Total Assets		39 721	39 068
CURRENT LIABILITIES:			
Payables	20	3 563	4 149
Short-term employee benefits	21	3 082	3 425
Short-term provisions	22	74	83
Other	23	-	434
Total Current Liabilities		6 719	8 091
NON-CURRENT LIABILITIES:			
Payables	20	399	586
Long-term employee benefits	21	4 171	5 181
Long-term provisions	22	200	212
Other	23	23	23
Total Non-Current Liabilities		4 793	6 002
Total Liabilities		11 512	14 093
NET ASSETS		28 209	24 975
EQUITY:			
Asset revaluation reserve	24	9 955	9 955
Retained earnings	24	18 254	15 020
TOTAL EQUITY		28 209	24 975
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments for Expenditure	25		
Contingent Assets and Liabilities	27		

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

	Asset		Total
	Revaluation Reserve	Retained Earnings	
	\$'000	\$'000	\$'000
Balance at 30 June 2004	6 192	40 598	46 790
Gain on revaluation of property during 2004-05	3 763	-	3 763
Net Result after Restructure for 2004-05	-	(25 578)	(25 578)
Total Recognised Income and Expense for 2004-05	-	(25 578)	(25 578)
Balance at 30 June 2005	9 955	15 020	24 975
Error correction	-	(7)	(7)
Restated balance at 30 June 2005	9 955	15 013	24 968
Net Result after Restructure for 2005-06	-	3 241	3 241
Total Recognised Income and Expense for 2005-06	-	3 241	3 241
Balance at 30 June 2006	9 955	18 254	28 209

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

Cash Flow Statement for the year ended 30 June 2006

	2006	2005
	Inflows (Outflows)	Inflows (Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee benefits	(31 810)	(30 510)
Supplies and services	(24 365)	(23 496)
Grants and subsidies	(102 073)	(100 858)
GST payments on purchases	(9 949)	(9 641)
Other payments	(6 083)	(3 503)
Cash used in Operations	(174 280)	(168 008)
CASH INFLOWS:		
Fees and charges	3 033	3 954
Receipts from Commonwealth	2 201	2 191
Receipts from grants and subsidies	275	136
Interest received	1 499	2 346
GST receipts on receivables	2 005	1 420
GST receipts from taxation authority	7 835	7 461
Community Development Fund	900	900
Recoveries from administered items	835	1 672
Other receipts	9 036	2 331
Cash generated from Operations	27 619	22 411
CASH FLOWS FROM SA GOVERNMENT:		
Receipts from SA Government	148 886	146 177
Payments to SA Government	(794)	(31 604)
Cash generated from SA Government	148 092	114 573
Net Cash provided by (used in) Operating Activities	1 431	(31 024)
	28	
CASH FLOWS FROM INVESTING ACTIVITIES:		
CASH OUTFLOWS:		
Purchase of property, plant and equipment	(16)	(308)
Cash used in Investing Activities	(16)	(308)
Net Cash used in Investing Activities	(16)	(308)
CASH FLOWS FROM FINANCING ACTIVITIES:		
CASH INFLOWS:		
(Loss) Gain from restructuring	(272)	9 909
Proceeds from loan repayments	-	208
CASH OUTFLOWS:		
Loans to arts agencies	-	(170)
Net Cash (used in) provided by Financing Activities	(272)	9 947
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS HELD	1 143	(21 385)
CASH AND CASH EQUIVALENTS AT 1 JULY	13 318	34 703
CASH AND CASH EQUIVALENTS AT 30 JUNE	14 461	13 318
	16	

**Program Schedule of Department's Expenses and Income
for the year ended 30 June 2006**

	2006			
	Program 1	Program 2	Program 3	Program 4
(refer Note 5)	\$'000	\$'000	\$'000	\$'000
EXPENSES:				
Employee benefits	19 889	474	5 135	351
Supplies and services	14 728	162	5 188	195
Depreciation and amortisation	711	-	52	-
Grants and subsidies	5 772	372	4 464	10
Net loss from disposal of assets	40	-	-	-
Other	4 149	-	258	7
Total Expenses	45 289	1 008	15 097	563
INCOME:				
Fees and charges	564	13	250	-
Commonwealth revenue	1682	-	198	-
Grants and subsidies	200	-	-	-
Interest	402	-	72	-
Resources received free of charge	284	-	-	-
Community Development Fund	-	-	-	-
Recoveries from administered items	-	-	832	-
Other	7 832	-	278	8
Total Income	10 964	13	1 630	8
Net Cost of Providing Services	(34 325)	(995)	(13 467)	(555)
	Program 5	Program 6	Program 7	2006 Total
(refer Note 5)	\$'000	\$'000	\$'000	\$'000
EXPENSES :				
Employee benefits	994	3 588	2 033	32 464
Supplies and services	759	1 765	1 046	23 843
Depreciation and amortisation	-	5	380	1 148
Grants and subsidies	28 011	19 119	43 772	101 520
Net loss from disposal of assets	-	-	14	54
Other	25	147	1 545	6 131
Total Expenses	29 789	24 624	48 790	165 160
INCOME:				
Fees and charges	427	1 744	172	3 170
Commonwealth revenue	-	10	311	2 201
Grants and subsidies	-	-	-	200
Interest	173	311	564	1 522
Resources received free of charge	-	-	-	284
Community Development Fund	-	-	900	900
Recoveries from administered items	-	-	-	832
Other	117	174	683	9 092
Total Income	717	2 239	2 630	18 201
Net Cost of Providing Services	(29 072)	(22 385)	(46 160)	(146 959)
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT:				
Revenues from SA Government				149 491
Payments to SA Government				(794)
Total Revenues from (Payments to) SA Government				148 697
NET RESULT BEFORE RESTRUCTURING				1 738

The allocation to programs is indicative and is based on broad costing methodologies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Department of the Premier and Cabinet

The Department of the Premier and Cabinet supports the Premier and Cabinet by leading the implementation of the agenda of the Government within the South Australian public sector and community.

It achieves this by leading whole-of-government policy development and implementation, driving reform in government services, creating and developing innovative approaches, aligning government accountability and responsiveness with community expectations and implementing specific programs.

The major objective is to drive the implementation of South Australia's Strategic Plan and achieving its targets, particularly in the areas of government reform, improving Aboriginal wellbeing, managing climate change, supporting Social Inclusion initiatives and building the arts.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

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

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

The Department's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable. The Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a 12 month operating cycle and presented in Australian currency. The continued existence of the Department in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for the Department's administration and outputs.

2.2 Reporting Entity

The financial report encompasses all activities transacted through an interest bearing Special Deposit Account titled 'Department of the Premier and Cabinet Operating Account' and any other Funds through which the Department controls resources to carry out its functions. The Department's principal source of funds consists of monies appropriated by Parliament.

Administered Resources

The Department administers, but does not control, certain resources on behalf of the South Australian Government. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for achievement of the Department's objectives. For these resources, the Department acts only on behalf of the Commonwealth and South Australian Government.

Transactions and balances relating to these administered resources are not recognised as Departmental revenues and expenses but are disclosed in the applicable schedules.

2.3 Transferred Functions

The division known as Office for the Commissioner for Public Employment (OCPE) has been dissolved. A new agency was established on 1 July 2005 known as the Office of Public Employment (OPE). OPE have taken on certain assets and liabilities of the previous OCPE.

The division known as the Business and Skilled Migration Unit, including Immigration SA and the Population Policy Unit, has transferred from the Department of the Premier and Cabinet to the Department of Trade and Economic Development effective 1 October 2005.

The division known as Office for Volunteers transferred from the Department of the Premier and Cabinet to the Department of Primary Industries and Resources effective 1 April 2006.

The division known as Office of Sustainability transferred from the Department for Environment and Heritage to the Department of the Premier and Cabinet effective 1 April 2006. The division drives strategies for sustainability and climate change across Government, business and the community (Refer to Note 26).

2.4 Comparative Information

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change. Where permitted by a specific Accounting Policy Statement or Australian Accounting Standard comparative information has been reclassified and disclosed where required.

2.5 Rounding

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

2.6 Taxation

The Department is not subject to income tax. The Department is liable for payroll tax, fringe benefits tax, goods and services tax, emergency services levy, land tax equivalents and local government rate equivalents.

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

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

2.7 Income and Expenses

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

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

Fees and charges controlled by the Department are recognised as income. Fees and charges are controlled by the Department where they can be deployed for the achievement of Departmental objectives. Such amounts are not required to be paid to the Consolidated Account or other Funds not controlled by the Department.

Contributions are recognised as income when the Department obtains control of the contributions or when the agreement or contract has been approved and is executed or contribution received.

All contributions received by the Department have been contributions with unconditional stipulations attached and have been recognised as an asset and income upon receipt.

All contributions paid by the Department have been contributions with unconditional stipulations attached.

2.8 Revenues from (Payments to) SA Government

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

Payments to the SA Government include the return of surplus cash pursuant to the cash alignment policy, paid directly to the Department of Treasury and Finance Consolidated Account.

2.9 Current and Non-Current Items

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

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, the Department has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

2.10 Cash

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand, at call and deposits with the Treasurer. Cash is measured at nominal value.

2.11 Receivables

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

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

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

2.12 Other Financial Assets

In accordance with the Accounting Policy Statements contained in the Accounting Policy Framework IV *Financial Asset and Liability Framework*, the Department measures financial assets at historical cost.

Assets and liabilities that are in a foreign currency have been brought into the accounts at the exchange rate applying at 30 June 2006. Income and expenses arising from transactions in a foreign currency are brought to account at the average exchange rate that applied during the period in which they occurred. Unrealised losses resulting from currency transactions have been brought to account in the Income Statement.

2.13 Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Balance Sheet. If however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recorded at the value recorded by the transferor prior to transfer.

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APSs 2.15 and 7.2:

- all non-current tangible assets with a value of \$10 000 or greater are capitalised;
- componentisation of complex assets is only performed when the complex asset's fair value at the time of acquisition is greater than \$5 million for infrastructure assets and \$1 million for other assets.

Non-current tangible assets previously had a capitalisation threshold of \$5 000. This has been increased to \$10 000 in 2005-06.

2.14 Revaluation of Non-Current Assets

Valuations of departmental Buildings and Improvements held for cultural purposes were determined as at 30 June 2005 by the Australian Valuation Office. Valuations of departmental Buildings and Improvements held by the Office of the Agent General in London were determined as at 30 June 2005 by Savills (L & P) Ltd. Buildings and Improvements have been valued using a fair value methodology. All other non-current assets controlled by the Department have been deemed to be held at fair value.

2.15 Impairment of Assets

All non-current assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss. There were no indications of impairment of assets as at 30 June 2006.

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

2.16 Intangible Assets

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets* and when the amount of expenditure is greater than or equal to \$10 000, in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 2.15.

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

Subsequent expenditure on intangible assets has not been capitalised. This is because the Department has been unable to attribute this expenditure to the intangible asset rather than to the Department as a whole.

2.17 Depreciation and Amortisation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of remaining useful lives are reviewed on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

<i>Class of Asset</i>	<i>Useful Life (Years)</i>
Buildings and improvements	10-40
Transportable accommodation	10-20
Furniture and fittings	5-15
Office equipment	3
IT equipment	3-5
Intangibles - Computer software	3-5
Motor vehicles	5

Works of Art controlled by the Department are anticipated to have very long and indeterminate useful lives. Their service potential has not, in any material sense, been consumed during the reporting period. Consequently, no amount for depreciation has been recognised for this class of asset.

2.18 Payables

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

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

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts* after the Department receives an invoice.

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

The Department makes contributions to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board.

2.19 Employee Benefits*(i) Wages and Salaries*

Liabilities for wages and salaries are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Annual Leave

A liability for annual leave is calculated by determining the amount unpaid at the reporting date and estimating the nominal amount that is expected to be paid when the obligation is settled, as directed in the Accounting Policy Framework. In the unusual event where annual leave is payable later than 12 months, the liability will be measured at present value.

(iii) Long Service Leave

A liability for long service leave is calculated by using the product of the current liability in time for all employees who have completed seven or more years of service and the current rate of remuneration for each of these employees respectively. The seven years has been based on an actuarial calculation as stated in Accounting Policy Framework IV *Financial Asset and Liability Framework*.

(iv) Superannuation

The Department makes contributions to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payment to beneficiaries as they have been assumed by the Superannuation Funds. The only liability outstanding at balance date related to any contribution due but not yet paid to the superannuation schemes.

(v) Employment On-costs

The liability for employment on-costs includes superannuation contributions and payroll tax with respect to outstanding liabilities for Salaries and Wages, Long Service Leave and Annual Leave. These amounts are classified under Payables.

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.

2.20 Workers Compensation Provision

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment performed by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

2.21 Leases

The Department has entered into a number of operating lease agreements for buildings and office equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Income Statement in the periods in which they are incurred.

3. Financial Risk Management

The Department has non-interest bearing assets (cash on hand and receivables) and liabilities (payables) and interest bearing assets (deposits at call and held with the Treasurer). The Department's exposure to market risk and cash flow interest risk is minimal.

3. Financial Risk Management (continued)

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

In relation to liquidity/funding risk, the continued existence of the Department in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for the Department's administration and programs.

4. Changes in Accounting Policies

Transition to AIFRS

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

- (a) In accordance with AASB 138, the Department recognised computer software purchased, including licenses as intangible assets.
- (b) Employee benefits payable later than 12 months from year-end have been measured at present value rather than at nominal amounts as required by AASB 119 *Employee Benefits*.

Other

A number of Australian Accounting Standards have been issued or amended and are applicable to the Department but are not yet effective. The Department has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Department.

5. Programs of the Department

Programs are defined as goods or services produced, provided to or acquired for external customers. The Department has identified seven major classes of programs that it delivers to the community and the Premier. The identity and description of each major program class for the Department during the year ended 30 June 2006 are summarised below (refer to the Program Schedule of Expenses and Income):

• **Program 1 – Executive Government**

Support the Premier as the Head of Government and Chair of Cabinet by providing high-level strategic advice and support, managing executive government processes, and coordinating, developing and monitoring strategic projects and whole of government initiatives.

• **Program 2 - Office for Volunteers**

Provision of services that facilitate the implementation of the Volunteer Partnership 'Advancing the Community Together'; in order to build stronger communities and increase volunteer rates in accordance with the South Australian Strategic Plan; enhance a partnership between the Government and the volunteer sector for the benefit of the South Australian community; provision of policy and strategic advice that enhances the Government's capacity to identify, prioritise and respond appropriately to the needs of the volunteer community in South Australia; and initiate programs that support and promote volunteering.

The Office for Volunteers was transferred to the Department of Primary Industries and Resources effective 1 April 2006. Refer to Note 26.

• **Program 3 - Aboriginal Affairs and Reconciliation**

Provide strategic policy advice, across government coordination and monitoring, development and implementation of action zones, protection of Aboriginal heritage and culture, provision and maintenance of essential services and community infrastructure and support the State's landholding authorities.

• **Program 4 - Sustainability and Climate Change**

Provide international and national leadership in areas such as development of renewable energy policy and initiatives that move South Australia towards a sustainable future.

The Office of Sustainability was transferred to the Department from the Department for Environment and Heritage effective 1 April 2006. Refer to Note 26.

• **Program 5 - Library and Information Services**

To provide information to the public, industry and government agencies and to fund services provided by Public Library Services to public libraries.

• **Program 6 - Access to Art, Museum and Heritage Services and Preservation of State Collections**

Provision of services that enable the State's cultural, heritage and arts assets to be maintained and to be accessible to the community.

• **Program 7 - Arts Industry Development and Access to Artistic Product**

Provision of services that enhance opportunities for emerging artists, cultural tourism, festivals and events and provide for productions, exhibitions, tours and events to the community.

6. Employee Benefits	2006	2005
	\$'000	\$'000
Salaries and wages	23 517	23 344
TVSP (refer below)	868	-
Long service leave	631	1 368
Annual leave	1 429	1 787
Employment on-costs - Superannuation	3 139	3 022
Employment on-costs - Other	1 609	1 531
Committee fees	165	137
Other employee related expenses	1 106	839
Total Employee Benefits	32 464	32 028
Targeted Voluntary Separation Packages (TVSP)		
Amount paid to these employees:		
TVSPs	868	-
Annual Leave and Long Service Leave accrued over the period	215	-
	1 083	-
Recovery from the Department of Treasury and Finance	(868)	-
	2006	2005
	Number of	Number of
	Employees	Employees
Number of employees who were paid TVSPs during the reporting period	12	-
Remuneration of Employees		
The number of employees whose remuneration received or receivable falls within the following bands:		
Department of the Premier and Cabinet:		
\$100 000 - \$109 999	9	8
\$110 000 - \$119 999	6	2
\$120 000 - \$129 999	5	4
\$130 000 - \$139 999	3	5
\$140 000 - \$149 999	6	3
\$150 000 - \$159 999	1	2
\$160 000 - \$169 999	3	2
\$170 000 - \$179 999	3	1
\$180 000 - \$189 999	-	5
\$190 000 - \$199 999	3	2
\$200 000 - \$209 999	3	1
\$210 000 - \$219 999	1	-
\$220 000 - \$229 999	1	1
\$260 000 - \$269 999	-	1
\$280 000 - \$289 999	1	-
\$290 000 - \$299 999	1	-
\$300 000 - \$309 999	2	-
\$310 000 - \$319 999	-	1
\$320 000 - \$329 999	1	-
Total Number of Department of the Premier and Cabinet Employees	49	38
Unattached Unit:		
\$100 000 - \$109 999	-	1
\$130 000 - \$139 999	-	2
Total Number of Unattached Unit Employees	-	3
Total Number of Employees	49	41

The table includes all employees who received remuneration of \$100 000 or more during the year paid by the Department of the Premier and Cabinet. The total remuneration received by these employees for the year was \$7.8 million (\$6.2 million).

The Unattached Unit consists of *Public Sector Management Act 1995* employees who are unable to be placed in government agencies and authorities. The Unattached Unit was transferred to the Office of Public Employment on 1 July 2005.

Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits.

7. Supplies and Services	2006	2005
Supplies and Services provided by entities within the SA Government:	\$'000	\$'000
Accommodation	3 858	3 309
Telecommunication	391	371
Staff development and recruitment	152	141
General administration and consumables	741	232
Promotion and marketing	315	72
Repairs and maintenance and minor equipment purchases	459	877
Service level agreements	1 715	1 521
IT and computing charges	1 184	1 201
Contractors	5	225
Temporary and casual staff	17	11
Community infrastructure	1 321	1 622
Other	463	284
Total Supplies and Services - SA Government Entities	10 621	9 866
Supplies and Services provided by entities external to the SA Government:		
Accommodation	840	506
Telecommunication	328	269
Staff development and recruitment	502	1 495
General administration and consumables	1 979	2 533
Promotion and marketing	3 087	2 691
Repairs, maintenance and minor equipment purchases	668	887
IT and computing charges	859	1 088
Contractors	1 063	2 424
Consultants	394	1 054
Temporary and casual staff	443	649
Community infrastructure	1 832	373
Other	1 227	143
Total Supplies and Services - Non-SA Government Entities	13 222	14 112
Total Supplies and Services	23 843	23 978
Payments to Consultants	2006	2005
The number and dollar amount of consultancies paid/payable (included in Supplies and Services) that fell within the following bands:	Number of Consultants	Number of Consultants
\$0 - \$10 000	19	19
\$10 000 - \$50 000	7	18
Above \$50 000	3	4
Total Number of Consultants Engaged	29	41
The amount paid/payable to consultants in 2005-06 was \$394 000 (\$1 million).		
8. Depreciation and Amortisation	2006	2005
	\$'000	\$'000
Buildings and improvements	446	258
Furniture and fittings	350	732
Office equipment	114	336
Transportable accommodation	25	26
Motor vehicle	13	14
IT equipment	88	17
Total Depreciation	1 036	1 383
Amortisation:		
Intangible Assets	112	22
Total Amortisation	112	22
Total Depreciation and Amortisation	1 148	1 405
Revision in Accounting Policy		
The capitalisation threshold was increased from \$5 000 to \$10 000 during 2005-06.		
9. Grants and Subsidies		
Grants and subsidies paid/payable to entities within the SA Government:		
Recurrent grant	77 621	76 335
Capital grant	556	1 199
Total Grants and Subsidies - SA Government Entities	78 177	77 534
Grants and subsidies paid/payable to entities external to the SA Government:		
Recurrent grant	23 343	24 138
Total Grants and Subsidies - Non-SA Government Entities	23 343	24 138
Total Grants and Subsidies	101 520	101 672

9. Grants and Subsidies (continued)	2006	2005
The above total includes the following grants and subsidies paid by Arts SA:	\$'000	\$'000
Museum Board	8 234	8 838
Libraries Board of South Australia	27 673	27 713
Adelaide Festival Centre Trust	10 722	8 334
Art Gallery Board	6 061	6 376
Country Arts SA	5 481	5 360
South Australian Film Corporation	4 556	5 650
History Trust of South Australia	4 159	3 910
Adelaide Festival Corporation	3 692	3 087
State Opera of South Australia	951	2 660
South Australian Youth Arts Board	2 099	1 828
State Theatre Company of South Australia	1 679	1 640
Adelaide Symphony Orchestra	1 736	4 390
Jam Factory of Contemporary Craft and Design	900	816
Australian Dance Theatre	896	900
Carrick Hill Trust	665	654
Tandanya	710	756
Windmill Performing Arts	1 000	1 000
Adelaide Fringe	917	292
Disability Information and Resource Centre (DIRC)	173	173
Community Information Strategies Australia (CISA)	165	161
Project assistance	2 320	2 244
General purpose assistance	3 130	3 134
Other arts grants	2 982	3 504
Total Grants and Subsidies paid by Arts SA	90 901	93 420
10. Net Loss from Disposal of Assets		
IT equipment:		
Proceeds from disposal	-	-
Net book value of assets disposed	2	-
Net Loss from Disposal of IT Equipment	(2)	-
Furniture and fittings:		
Proceeds from disposal	-	-
Net book value of assets disposed	20	32
Net Loss from Disposal of Furniture and Fittings	(20)	(32)
Office equipment:		
Proceeds from disposal	-	-
Net book value of assets disposed	32	71
Net Loss from Disposal of Office equipment	(32)	(71)
Motor vehicles:		
Proceeds from disposal	-	15
Net book value of assets disposed	-	41
Net Loss from Disposal of Motor Vehicles	-	(26)
Total assets:		
Proceeds from disposal	-	15
Net book value of assets disposed	54	144
Net Loss from Disposal of Total Assets	(54)	(129)
11. Other Expenses		
Other Expenses paid/payable to entities within the SA Government:		
Projects	81	332
State Library Solar Panels	172	64
Western Gateway Project	-	437
Womadelaide Event	500	310
Donation to Art Gallery of South Australia Foundation	101	-
Other	24	435
Funding transfer for Return to Work Scheme	-	960
National depression initiative	-	278
Total Other Expenses - SA Government Entities	878	2 816
Other Expenses paid/payable paid to entities external to the SA Government:		
Projects	674	343
Carnegie Mellon Universities Project	3 172	-
Community Consultation Project for South Australia's Strategic Plan	325	-
International Youth Leadership event	-	241
Western Gateway Project	-	40
Australian Performing Arts Market	400	-
Public Art for New Adelaide Airport	76	-
Other	601	356
Bad and doubtful debts	5	99
Total Other Expenses - Non-SA Government Entities	5 253	1 079
Total Other Expenses	6 131	3 895

12. Auditor's Remuneration	2006	2005
	\$'000	\$'000
Audit fees paid/payable to the Auditor-General's Department	128	118
Other Services		
No other services were provided by the Auditor-General's Department.		
13. Fees and Charges		
Fees and Charges received/receivable from entities within the SA Government:		
Arts industry related fees	1 977	1 554
Salaries charged to other entities	581	691
Public employment charges	-	585
Other recoveries	187	503
Total Fees and Charges - SA Government Entities	2 745	3 333
Fees and Charges received/receivable from entities external to the SA Government:		
Arts industry related fees	319	275
Salaries charged to other entities	4	28
Public employment charges	-	30
Other recoveries	102	158
Total Fees and Charges - Non-SA Government Entities	425	491
Total Fees and Charges	3 170	3 824
14. Other Revenue		
Other Revenue received/receivable from entities within the SA Government:		
Rental income	18	-
TVSP recoveries	868	-
Carnegie Mellon Universities Project Funding	5 000	-
Contributions to the Aboriginal Economic Development Seminar 2005	-	80
Alcohol Education and Rehabilitation Foundation	714	-
Social Inclusion School Retention Action Plan Initiative 4 – Advocacy and Support	263	-
Contributions to Science Outside the Square	50	-
Contribution to Murputja Resource Centre	150	-
Conference fees	-	115
Arts SA industry related	348	28
Other	835	571
Total Other Revenue - SA Government Entities	8 246	794
Other Revenue received/receivable from entities external to the SA Government:		
Rental income	132	69
Contributions to the Aboriginal Economic Development Seminar 2005	-	20
Contribution to the Green City Project from Adelaide City Council	100	100
Contribution by CSIRO for Adelaide Thinkers In Residence	-	100
Refunds and recoveries:		
Adelaide City Council for the Capital City Project Team	237	199
Private industry	-	141
Arts SA industry related	54	45
Other	323	520
Total Other Revenue - Non-SA Government Entities	846	1 194
Total Other Revenue	9 092	1 988
15. Revenues from (Payments to) SA Government		
Revenues from SA Government:		
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	149 491	146 177
Total Revenues from SA Government	149 491	146 177
Payments to SA Government:		
Return of surplus cash pursuant to cash alignment policy (refer to Note 2.8)	794	31 604
Total Payments to SA Government	794	31 604
Total Revenues from (Payments to) SA Government	148 697	114 573
16. Cash and Cash Equivalents		
Deposits at call - Westpac	4 384	5 119
Deposits with the Treasurer	10 043	8 166
Other	34	33
Total Cash	14 461	13 318

Deposits with the Treasurer

Includes funds held in the Accrual Appropriation Excess Funds Account. The balances of these funds are not available for general use ie funds can only be used once the Treasurer's/Under Treasurer's approval is received. During 2005-06 the Department transferred \$794 000 of its cash balance to the Consolidated Account in accordance with the Cash Alignment Policy.

Interest Rate Risk

Cash on hand is non-interest bearing. Deposits at call and with the Treasurer are bearing a floating interest rate between 5.35 percent and 5.71 percent. The carrying amount of cash approximates net fair value.

17. Receivables	2006	2005
Current:	\$'000	\$'000
Receivables	1 526	966
Loans	25	25
Accrued revenues	52	29
GST receivable	1 021	1 182
Expected to be recovered more than 12 months after reporting date		
Loans	40	40
Less provision for doubtful debts	(30)	(30)
Other	9	9
Total Current Receivables	2 643	2 221
Government/Non-Government Receivables:		
Receivables from SA Government entities:		
Receivables	1 145	722
Accrued revenues	28	29
Other	9	9
Total Receivables from SA Government Entities	1 182	760
Receivables from Non-SA Government entities:		
Receivables	470	309
Less provision for doubtful debts	(30)	(30)
GST receivable	1 021	1 182
Total Receivables from Non-SA Government Entities	1 461	1 461
Total Receivables	2 643	2 221

Interest Rate and Credit Risk

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

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

Bad and Doubtful Debts

The Department has recognised a bad and doubt debt expense of \$5 000 in the Income Statement.

**18. Property, Plant and Equipment
Valuation of Land and Buildings**

Valuations of departmental Buildings and Improvements held for cultural purposes were determined as at 30 June 2005 by the Australian Valuation Office. Valuations of departmental Buildings and Improvements held by the Office of the Agent General in London were determined as at 30 June 2005 by Savills (L & P) Ltd. Buildings and Improvements have been valued using a fair value methodology. All other non-current assets controlled by the Department have been deemed to be held at fair value.

Impairment

There were no indications of impairment of property, plant and equipment, infrastructure and intangible assets at 30 June 2006.

Resources received Free of Charge

During 2005-06 the Department received Core Client Access Licences (CALs) to the value of \$284 000 as part of a Whole of Government purchase through the Department for Administrative and Information Services. The licences will license client computers to access relevant Microsoft server software licences to the State.

Reconciliation of Non-Current Assets

The following table shows the movement of Non-Current Assets during 2005-06:

	Buildings and Improvements \$'000	Furniture and Fittings \$'000	Office Equipment \$'000	Transportable Accommodation \$'000	IT Equipment \$'000
At Fair Value:					
Balance at 30 June 2005	30 387	2 181	913	653	265
Additions	-	-	16	-	-
Assets transferred in from restructure			(33)		
Other (includes reclassifications, disposals and retirements)	-	(288)	(180)	-	(7)
Revaluation increment	-	-	-	-	-
Balance at 30 June 2006	30 387	1 893	716	653	258

	Motor Vehicles \$'000	Works of Art \$'000	Total Tangible Assets \$'000	Computer Software \$'000	Total Intangible Assets \$'000
At Fair Value:					
Balance at 30 June 2005	65	47	34 511	66	66
Additions	-	-	16	284	284
Assets transferred in from restructure			(33)		
Other (includes reclassifications, disposals and retirements)	-	-	(475)	-	-
Revaluation increment	-	-	-	-	-
Balance at 30 June 2006	65	47	34 019	350	350

	Buildings and Improvements \$'000	Furniture and Fittings \$'000	Office Equipment \$'000	Transportable Accommodation \$'000	IT Equipment \$'000
Accumulated Depreciation/Amortisation					
Balance at 30 June 2005	(8 653)	(1 413)	(633)	(268)	(17)
Assets transferred in from restructure	-	-	23	-	-
Other (includes reclassifications, disposals and retirements)	-	268	148	-	5
Depreciation and amortisation expense	(446)	(350)	(114)	(25)	(88)
Revaluation increment	-	-	-	-	-
Balance at 30 June 2006	(9 099)	(1 495)	(576)	(293)	(100)

Net Book Value:					
Balance at 30 June 2006	21 288	398	140	360	158
Balance at 30 June 2005	21 734	768	280	385	248

	Motor Vehicles \$'000	Works of Art \$'000	Total Tangible Assets \$'000	Computer Software \$'000	Total Intangible Assets \$'000
Accumulated Depreciation/Amortisation					
Balance at 30 June 2005	(13)	-	(10 997)	(51)	(51)
Assets transferred in from restructure	-	-	23	-	-
Other (includes reclassifications, disposals and retirements)	-	-	421	-	-
Depreciation and amortisation expense	(13)	-	(1 036)	(112)	(112)
Revaluation increment	-	-	-	-	-
Balance at 30 June 2006	(26)	-	(11 589)	(163)	(163)
Net Book Value:					
Balance at 30 June 2006	39	47	22 430	187	187
Balance at 30 June 2005	52	47	23 514	15	15

19. Intangible Assets

	2006	2005
	\$'000	\$'000
Computer software	350	66
Accumulated amortisation	(163)	(51)
Total Intangible Assets	187	15

20. Payables	2006	2005
Current:	\$'000	\$'000
Creditors	2 950	3 516
Accrued expenses	128	118
Employment on-costs	485	515
Total Current Payables:	3 563	4 149
Non-current:		
Employment on-costs	399	586
Total Non-Current Payables	399	586
Total Payables	3 962	4 735
Government/Non-Government Payables:		
Payables to SA Government entities:		
Creditors	1 241	1 561
Accrued expenses	128	118
Employment on-costs	884	1 101
Total Payables to Other Government Entities	2 253	2 780
Payables to Non-SA Government entities:		
Creditors	1 709	1 955
Total Payables to Non-SA Government Entities	1 709	1 955
Total Payables	3 962	4 735

Interest Rate and Credit Risk

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

21. Employee Benefits	2006	2005
Current:	\$'000	\$'000
Annual leave	1895	2 089
Long service leave	765	950
Accrued salaries and wages	422	386
Total Current Employee Benefits	3 082	3 425
Non-Current:		
Long service leave	4 171	5 181
Total Non-Current Employee Benefits	4 171	5 181
Total Employee Benefits	7 253	8 606

The total current and non-current employee expense (ie aggregate employee benefit plus related on-costs) for 2005-06 is \$3.6 million and \$4.6 million respectively.

In the 2005-06 financial year, the long service leave benchmark contained in the Accounting Policy Framework IV *Financial Asset and Liability Framework* remained the same, based on an actuarial assessment. The benchmark for the measurement of the long service leave liability is seven years.

22. Provisions	2006	2005
Current:	\$'000	\$'000
Provision for workers compensation	74	83
Total Current Provisions	74	83
Non-Current:		
Provision for workers compensation	200	212
Total Non-Current Provisions	200	212
Total Provisions	274	295
Reconciliation of the Provision for Workers Compensation		
Provision at 1 July	295	269
Additional provisions recognised	-	26
Unused amounts reversed	(21)	-
Provision for Workers Compensation at 30 June	274	295

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment performed by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services. These claims are expected to be settled within the next financial year.

23. Other Liabilities	2006	2005
Current:	\$'000	\$'000
Unearned revenue	-	434
Total Current Other Liabilities	-	434
Non-Current:		
Imprest account	23	23
Total Non-Current Other Liabilities	23	23
Total Other Liabilities	23	457
24. Equity		
Accumulated surplus	18 254	15 020
Asset revaluation reserve	9 955	9 955
Total Equity	28 209	24 975

The property, plant and equipment asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

25. Commitments for Expenditure		
Remuneration Commitments		
Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:		
	2006	2005
	\$'000	\$'000
Within one year	5 187	4 094
Later than one year and not later than five years	9 123	7 302
Total Remuneration Commitments	14 310	11 396

Amounts disclosed include commitments arising from executive and other service contracts. The Department does not offer remuneration contracts greater than five years.

Other Commitments		
Within one year	10 016	-
Less than one year but not later than five years	9 931	-
Later than five years	-	-
Total Other Commitments	19 947	-

The Department's other commitments are for agreements for the provision of assistance to the Carnegie Mellon University for the establishment and operations of the University in Adelaide, and for the construction of distribution networks for a Central Power Station on the APY lands.

Operating Lease Commitments		
Commitments in relation to operating leases contracted for at the reporting date are not recognised as liabilities are payable as follows:		
Within one year	\$'000	\$'000
Less than one year but not later than five years	2 442	2 630
Later than five years	6 199	8 014
Total Operating Lease Commitments	1 540	1 704
Representing:		
Non-cancellable operating leases	10 181	12 348
Total Operating Lease Commitments	10 181	12 348

Operating Lease Commitments
At the reporting date, the Department's operating leases are for the lease of office accommodation and office equipment.

- Office accommodation is leased from the Real Estate Management business unit of the Department for Administrative and Information Services (DAIS). The leases are non-cancellable with terms ranging from 2 to 15 years with some leases having right of renewal. The rental amount is based on floor space and the time period of the lease, with the rental rate reviewed taking into account movements in market rental values or CPI. Rental is payable in advance.
- Office equipment leases are non-cancellable with rental payable in arrears. No contingent rental provisions exist within the lease arrangement and no options exist to renew the leases at the end of their term.

Operating Lease Commitments (continued)

For the current financial year, the total amount of rental expense for minimum lease payments for operating leases was \$3.2 million (\$3.1 million).

Commitments for minimum lease payments in relation to non-cancellable operating leases, are payable as follows:	2006	2005
	\$'000	\$'000
Within one year	2 442	2 630
Later than one year and not longer than five years	6 199	8 014
Later than five years	1 540	1 704
Total Non-Cancellable Operating Lease Commitments	10 181	12 348

26. Transferred Functions

As a result of a restructuring of administrative arrangements, the Department assumed the responsibility of the Office of Sustainability from the Department for Environment and Heritage as at 1 April 2006. The Department relinquished its responsibility for Immigration SA and the Population Policy Unit as at 1 October 2005, and Office for Volunteers as at 1 April 2006. In addition, the division of the Department known as the Office for the Commissioner for Public Employment was dissolved at 30 June 2005. Certain assets and liabilities relating to this division were transferred to the new Office of Public Employment as at 1 July 2005.

(a) Net Assets Transferred In

	Office of Sustainability	Total
	\$'000	\$'000
Current Assets:		
Cash	577	577
Total Assets	577	577
Current Liabilities:		
Short-term employee benefits	459	459
Total Liabilities	459	459
Net Assets Transferred In	118	118

(b) Net Assets Transferred Out

	Office of Public Employment	Immigration SA and Population Policy Unit	Office for Volunteers	2006 Total
	\$'000	\$'000	\$'000	\$'000
Current Assets:				
Cash	-	198	74	272
Non-Current Assets:				
Property, plant and equipment	6	4	-	10
Total Assets	6	202	74	282
Current Liabilities:				
Payables	51	12	8	71
Short-term employee benefits	357	77	52	486
Short-term provisions	6	2	2	10
Non-Current Liabilities:				
Payables	70	18	21	109
Long-term employee benefits	623	160	182	965
Long-term provisions	16	6	4	26
Total Liabilities	1 123	275	269	1 667
Net Assets Transferred Out	(1 117)	(73)	(195)	(1 385)
Total Revenues from Restructuring				1 503

(c) Net Expenses for the Office of Sustainability for 2005-06

	01.07.05 - 31.03.06	01.04.06 - 30.06.06	2006 Total
	\$'000	\$'000	\$'000
Expenses			
Employee benefits	2 010	335	2 345
Supplies and services	380	54	434
Grants and subsidies	22	-	22
Total Expenses	2 412	3 89	2 801
Income			
Grants and subsidies	42	-	42
Recoveries	79	-	79
Other Revenue	13	-	13
Total Income	134	-	134
Revenues from SA Government			
Appropriation	2 676	605	3 281
Total Revenues from SA Government	2 676	605	3 281
Net Result	398	216	614

27. Contingent Assets and Liabilities**Alice Springs to Darwin Railway**

The AustralAsia Railway Corporation, the Northern Territory (NT) and South Australian (SA) Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back basis.

Both the SA and NT Governments guarantee the obligations of the Corporation. The guarantee is a joint guarantee but SA and NT each accept responsibility for breach of an indemnity that is caused by its act or omission. Where the event giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both the SA and NT caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, SA and NT accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific Transport Pty Ltd. In certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all these events the cure is within the control of either the Corporation or the Governments.

While the Department of the Premier and Cabinet is not a signatory to these agreements, the SA Government has assigned responsibility for these agreements to the Department. If a subsequent event were triggered such that the SA Government had to honour a commitment under the agreement that commitment would have to be funded by the SA Government and the payment would be made through the Department. The prospect of any of the contingent liabilities arising is considered to be extremely remote.

Glenthorne Farm

Glenthorne Farm, at O'Halloran Hill, was purchased by the University of Adelaide from the Commonwealth Scientific and Industrial Research Organisation (CSIRO), with the assistance of a grant from the South Australian Government. A contract signed by the South Australian Government and the University of Adelaide resulted in the former assuming liability for any possible third party claims resulting from any contamination which may be discovered on the property.

The South Australian and Commonwealth Governments agreed by exchange of letters that, in the event of such a claim, the State Government reserves its right to seek a contribution from the Commonwealth based on the Commonwealth's previous ownership of the land.

28. Reconciliation of Cash and Cash Equivalents

	2006	2005
	\$'000	\$'000
Cash and cash equivalents as recorded in the Balance Sheet	14 461	13 318
Cash and cash equivalents as recorded in the Cash Flow Statement	14 461	13 318
<hr/>		
Reconciliation of Net Cash provided by (used in) Operating Activities to Net Cost of Providing Services:		
Net cash provided by (used in) operating activities	1 431	(31 024)
Less: Revenues from SA Government	(148 886)	(146 177)
Add: Payments to SA Government	794	31 604
Add (Less): Non-Cash Items:		
Depreciation of property, plant and equipment	(1 036)	(1 383)
Amortisation	(112)	(22)
Net loss on disposal of assets	(54)	(129)
Net loss (gain) on restructuring	(1 810)	(382)
Resources received free of charge	(284)	-
Bad and doubtful debts	(5)	-
Change in Assets and Liabilities:		
Increase (Decrease) in receivables	422	(1 413)
Decrease (Increase) in payables	773	(364)
Decrease (Increase) in employee benefits	1 353	(1 587)
Decrease (Increase) in provisions	21	(26)
Decrease in other liabilities	434	461
Net Cost of Providing Services	(146 959)	(150 442)

29. Events After Balance Date

There were no events after balance date.

Statement of Administered Income and Expenses for the year ended 30 June 2006

INCOME:	2006	2005
<i>Revenues from SA Government includes:</i>	\$'000	\$'000
Salary and allowances pursuant to:		
(i) <i>Parliamentary Remuneration Act 1990</i>	280	323
(ii) <i>Agent-General Act 1901</i>	229	293
Promotion of the State	2 750	1 437
State Emergency Relief Fund	209	1 266
Social Inclusion Initiative:		
Homelessness	6 121	3 812
School Retention Action Plan	3 693	7 734
Targeted Voluntary Separation Package Scheme Account	4	2 336
Trust Fund:		
Bank of Tokyo Cultural and Social Exchange Program	7	6
SA Okayama account	3	2
APY Lands	12 599	943
Commonwealth Community Essential Services Program	1 943	-
Elizabeth City Centre	2 260	-
<i>Grants and subsidies includes:</i>		
APY Lands	800	7 684
Commonwealth Community Essential Services Program	4 683	5 486
<i>Other Includes:</i>		
Commonwealth Community Essential Services Program	-	255
Total Income	35 581	31 577
EXPENSES:		
<i>Employee expenses includes:</i>		
Salary and allowances pursuant to:		
(i) <i>Parliamentary Remuneration Act 1990</i>	336	323
(ii) <i>Agent-General Act 1901</i>	278	293
Targeted Voluntary Separation Package Scheme Account	-	282
<i>Grants and subsidies includes:</i>		
Social Inclusion initiative:		
Homelessness	6 121	3 812
School Retention Action Plan	3 693	7 986
Trust Fund:		
Bank of Tokyo Cultural and Social Exchange Program	15	30
<i>Other includes:</i>		
Social Inclusion initiative:		
School Retention Action Plan	2	-
Promotion of the State	2 984	1 437
Targeted Voluntary Separation Package Scheme Account	1	71
APY Lands	6 796	4 126
Commonwealth Community Essential Services Program	4 098	4 266
State Emergency Relief Fund	904	562
Elizabeth City Centre	2 260	-
Total Expenses	27 488	23 188
OPERATING SURPLUS	8 093	8 389
DECREASE IN NET ASSETS DUE TO ADMINISTRATIVE RESTRUCTURE	-	(1 475)
THE OPERATING SURPLUS IS ATTRIBUTABLE TO SA GOVERNMENT AS OWNER	8 093	6 914

**Statement of Administered Assets and Liabilities
as at 30 June 2006**

	Note	2006	2005
		\$'000	\$'000
CURRENT ASSETS:			
Cash includes:			
Salary and allowances pursuant to:			
(i) <i>Parliamentary Remuneration Act 1990</i>		(56)	(27)
(ii) <i>Agent-General Act 1901</i>		(49)	(23)
Trust Fund:			
Bank of Tokyo Cultural and Social Exchange Program		118	112
SA Okayama account		47	45
Promotion of the State		(226)	(252)
State Emergency Relief Fund		110	803
Targeted Voluntary Separation Package Scheme Account		5	6
APY Lands	2	11 073	4 829
Social Inclusion Initiative - School Retention Action Plan		(2)	-
Commonwealth Community Essential Services Program	2	7 755	5 783
Elizabeth City Centre		2 260	-
Receivables includes:			
Salary and allowances pursuant to:			
(i) <i>Parliamentary Remuneration Act 1990</i>		-	27
(ii) <i>Agent-General Act 1901</i>		-	23
Promotion of the State		-	412
APY Lands		33	215
State Emergency Relief Fund		-	2
Commonwealth Community Essential Services Program		18	-
Trusts Fund-Bank of Tokyo Cultural/and Social Exchange Program		1	-
Total Current Assets		21 087	11 955
Total Assets		21 087	11 955
CURRENT LIABILITIES:			
Payables includes:			
Targeted Voluntary Separation Package Scheme Account		1	5
State Emergency Relief Fund		-	1
APY Lands		-	542
Commonwealth Community Essential Services Program		-	542
Promotion of the State		8	161
Trust Fund - Bank of Tokyo Cultural and Social Exchange Program		15	-
Elizabeth City Centre		2 260	-
Unearned Revenue:			
Commonwealth Community Essential Services Program		5 246	5 240
Total Current Liabilities		7 530	6 491
NON-CURRENT LIABILITIES:			
Non-Current Liabilities		-	-
Total Non-Current Liabilities		-	-
Total Liabilities		7 530	6 491
NET ASSETS		13 557	5 464
TOTAL EQUITY		13 557	5 464

**Statement of Change in Administered Equity
for the year ended 30 June 2006**

	Retained Earnings \$'000	Total \$'000
Balance at 30 June 2004	(1 450)	(1 450)
Net Result after Restructure for 2004-05	6 914	6 914
Total Recognised Income and Expense for 2004-05	6 914	6 914
Balance at 30 June 2005	5 464	5 464
Net Result after Restructure for 2005-06	8 093	8 093
Total Recognised Income and Expense for 2005-06	8 093	8 093
Balance at 30 June 2006	13 557	13 557
All Changes in Equity are attributable to the SA Government as Owner	13 557	13 557

Administered Cash Flow Statement for the year ended 30 June 2006

	2006	2005
	Inflows	Inflows
	(Outflows)	(Outflows)
CASH INFLOWS:		
Receipts from Government includes:		
Salary and allowances pursuant to:	\$'000	\$'000
(i) <i>Parliamentary Remuneration Act 1990</i>	307	296
(ii) <i>Agent-General Act 1901</i>	252	270
Promotion of the State	3 163	1 024
State Emergency Relief Fund	13	-
Social Inclusion Initiative:		
Homelessness	6 121	3 812
School Retention Action Plan	3 693	7 734
Targeted Voluntary Separation Package Scheme Account	-	2 336
Trust Fund:		
Bank of Tokyo Cultural and Social Exchange Program	6	6
SA Okayama Account	3	2
Elizabeth City Centre	2 260	-
APY Lands	12 782	-
Commonwealth Community Essential Services Program	1 924	-
State Emergency Relief Fund	198	1 264
Other includes:		
Cash received for APY lands from the Commonwealth	800	3 712
Commonwealth Community Essential Services Program	4 683	9 506
Cash generated from Operations	36 205	29 962
CASH OUTFLOWS:		
Employee payments includes:		
Salary and allowances pursuant to:		
(i) <i>Parliamentary Remuneration Act 1990</i>	(336)	(323)
(ii) <i>Agent-General Act 1901</i>	(278)	(293)
Targeted Voluntary Separation Package Scheme Account	-	(13 330)
Grants and subsidies includes:		
Social Inclusion Initiative:		
Homelessness	(6 121)	(3 812)
School Retention Action Plan	(3 695)	(7 986)
Trust Fund - Bank of Tokyo Cultural and Social Exchange Program	-	(30)
APY Lands	(7 338)	(3 582)
Other includes:		
Promotion of the State	(3 137)	(1 276)
Targeted Voluntary Separation Package Scheme Account	(1)	(993)
State Emergency Relief Fund	(904)	(561)
Commonwealth Community Essential Services Program	(4 636)	(3 724)
Cash used in Operations	(26 446)	(35 910)
Net Cash provided by (used in) Administered Activities	9 759	(5 948)
NET INCREASE (DECREASE) IN CASH HELD	9 759	(5 948)
CASH AT 1 JULY	11 276	17 224
CASH AT 30 JUNE	21 035	11 276

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

All Department accounting policies are contained in Note 2 'Summary of Significant Accounting Policies'. The policies outlined in Note 2 apply to both the departmental and Administered Financial Statements.

2. Cash at 30 June

The cash balance for APY Lands and Commonwealth Community Essential Services Program includes the receipt of funds from the Department of Treasury and Finance that will be returned in 2006-07 as part of the cash alignment policy. The remaining funds are committed to approved indigenous projects commencing in the 2006-07 financial year.

DEPARTMENT OF PRIMARY INDUSTRIES AND RESOURCES

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

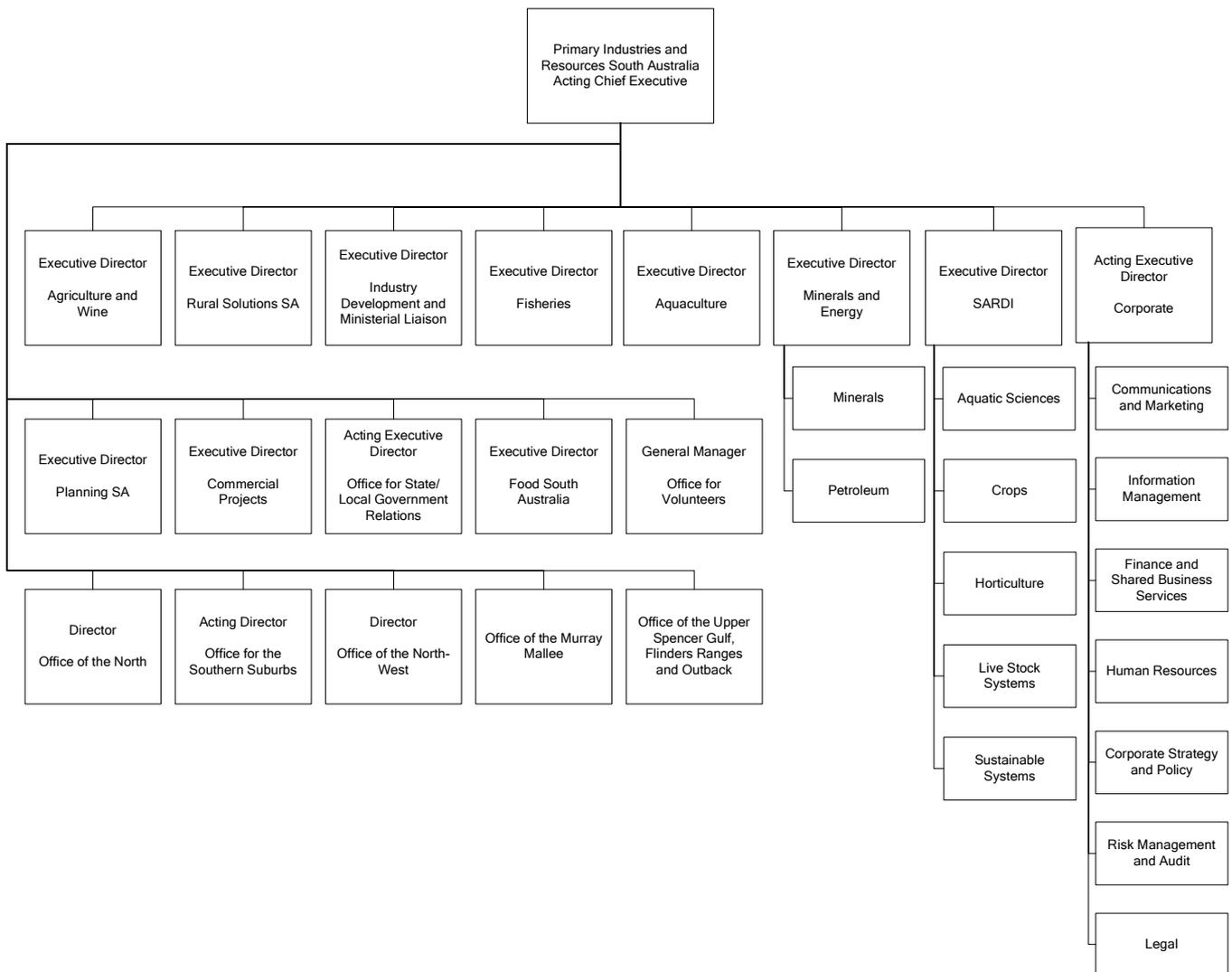
The Department of Primary Industries and Resources is an Administrative Unit established under the *Public Sector Management Act 1995*.

Functions

The function of the Department of Primary Industries and Resources is to deliver services that increase the prosperity of South Australians, to improve their quality of life and ensure the sustainable economic development of the State's resource base for future generations. It also guides and administers the South Australian planning and development system.

Structure

The structure of the Department of Primary Industries and Resources at 30 June 2006 is illustrated in the following organisation chart.



Changes to Functions and Structure

Pursuant to a proclamation in the South Australian Government Gazette on 30 June 2005 and effective from 1 July 2005, the employees and functions of Energy SA and the Office of the Technical Regulator were transferred to the Department for Transport, Energy and Infrastructure.

In addition, pursuant to the same proclamation, employees and functions of Planning SA, the Office of Local Government, the Office of the North, the Office for the Southern Suburbs, the Office of the North West and the Regional Ministerial Offices were transferred to the Department.

Pursuant to a proclamation in the South Australian Government Gazette on 23 March 2006 and effective from the 1 April 2006, the employees and functions of the Office for Volunteers were transferred to the Department.

The financial administration of Minister Holloway's office was transferred to the Department from 1 April 2006.

STATUS OF THE FINANCIAL REPORT

The financial report of the Department of Primary Industries and Resources for the year ended 30 June 2006 was not finalised by the Department in sufficient time to enable the audit to be completed at the date of finalising this Report.

The audited financial report of the Department of Primary Industries and Resources for the year ended 30 June 2006 will be included in a Supplementary Audit Report to Parliament.

SA AMBULANCE SERVICE INC

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

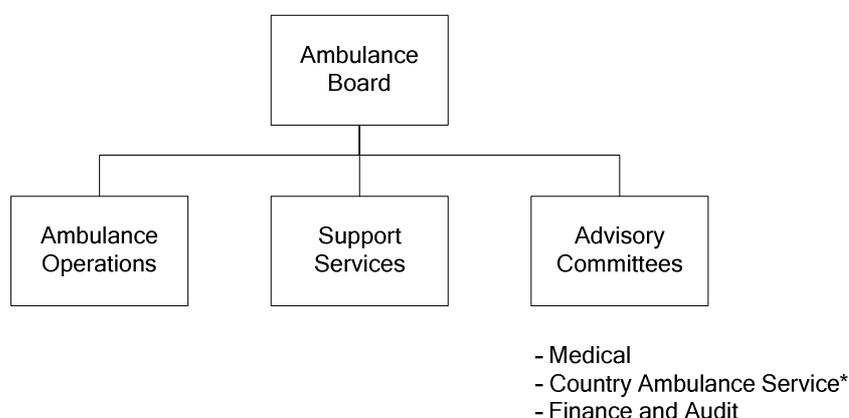
SA Ambulance Service Inc (the Ambulance Service) is an incorporated association formed by the Minister for Health and subject to the provisions of the *Ambulance Services Act 1992* (the Act).

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 the Financial Report

Subsection 14(2) of the *Ambulance Services Act 1992* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the Ambulance Service 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 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 2005-06, specific areas of audit attention included:

- cash
- accounts payable
- payroll

- ambulance transport revenue
- Ambulance Cover revenue
- general ledger processing.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the SA Ambulance Service Inc as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the SA 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 leave processing as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the SA 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.

Leave Processing

Audit noted that the Ambulance Service has not established controls which effectively monitor attendance for non-operational staff and ensure that all leave taken by non-operational staff is reflected in the CHRIS payroll system.

In response the Ambulance Service has indicated that it is developing a time recording policy for non-operational staff designed to ensure a consistent approach to monitoring attendance for all non-operational staff.

Strategic Asset Management Plan

Audit noted that the Ambulance Service had not developed a strategic asset management plan which links its physical resources to service delivery programs and corporate objectives.

The need for a formal strategic asset management plan was acknowledged by the Ambulance Service who indicated that work was progressing on its development.

General Ledger Chart of Accounts

Audit noted that the Ambulance Services' general ledger structure does not support the financial reporting disclosure requirements of the Department of Treasury and Finance with respect to the separate disclosure of transactions within government.

The Ambulance Service responded that whilst it has been able to use alternate sources to complete the preparation of its financial report with respect to the separate disclosure of transactions within government, the Ambulance Service acknowledged the benefits of capturing the required data in the general ledger and indicated that opportunities to develop alternate data capture techniques and processes would be explored.

SA Ambulance Service Computer Processing Environment

Last year Audit identified opportunities to improve controls within the Ambulance Services' Ambulance Revenue and Subscription, HP Inventory/Comcen, CAD Ambulance Dispatch application systems and the related computer processing environment. 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.

During 2005-06 the Ambulance Service advised that action to resolve these matters had been initiated and that resolution of all matters was scheduled for completion by June 2008. The Ambulance Service also advised that new systems, including the South Australian Computer Aided Despatch (SACAD) system, are being considered for possible replacement of current systems in September 2007.

Action being taken by the Ambulance Service in relation to all Audit recommendations will be reviewed in 2006-07.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	\$'million	\$'million	Change
EXPENSES			
Employee benefits costs	65	68	(4)
Supplies and services	28	27	4
Other Expenses	10	11	(9)
Total Expenses	103	106	(3)
INCOME			
Ambulance transport fees	39	36	8
Ambulance cover	16	16	n/a
Other	5	4	25
Total Income	60	56	7
Net Cost of Providing Services	(43)	(50)	14
REVENUES FROM/PAYMENTS TO SA GOVERNMENT			
Revenues from SA Government	51	49	4
Net Result	8	(1)	n/a
Cash Generated from Operations	10	8	25
ASSETS			
Current assets	32	32	n/a
Non-current assets	47	39	21
Total Assets	79	71	11
LIABILITIES			
Current liabilities	22	20	10
Non-current liabilities	8	12	(33)
Total Liabilities	30	32	(6)
EQUITY	49	39	26

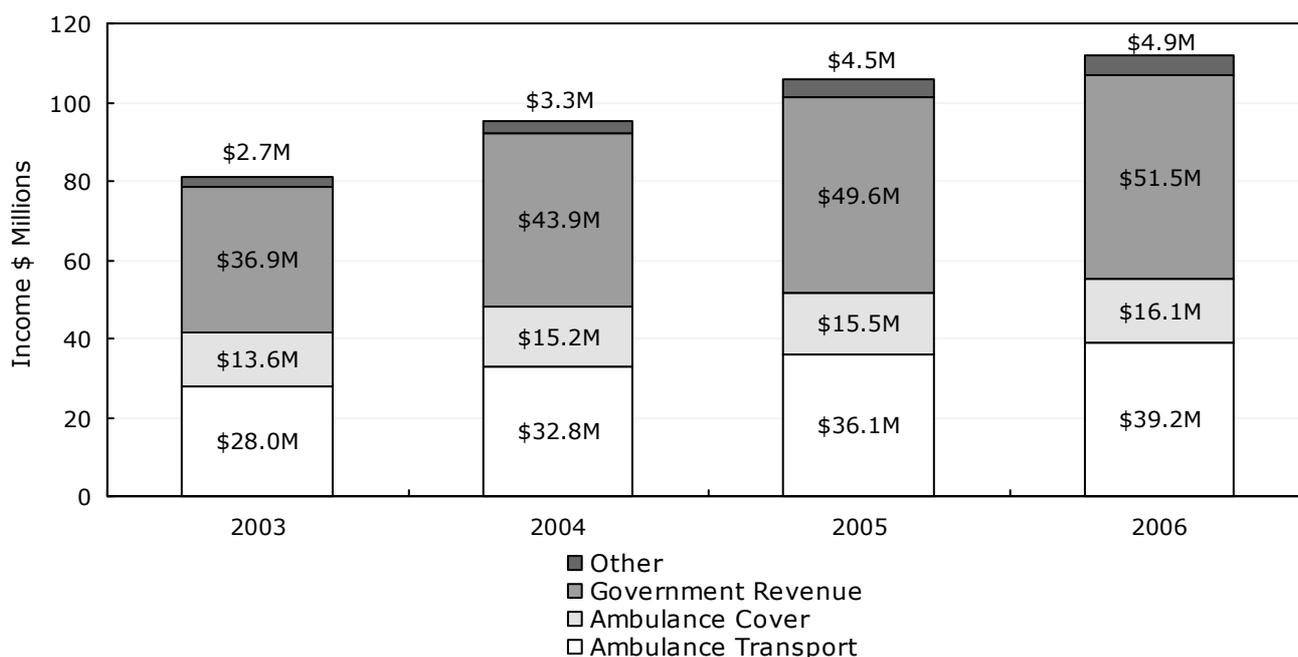
Income Statement

Income

Revenues from the SA Government are approximately 46 percent of total income consistent with the previous four years which demonstrates the dependency of the Ambulance Service on government funding.

Ambulance transport revenue for 2006 increased by 9 percent to \$39.2 million as a result of a 5 percent increase in the volume of chargeable ambulance usage and a 3 percent increase in rates for ambulance services.

A structural analysis of income for the Ambulance Service in the four years to 2006 is presented in the following chart.

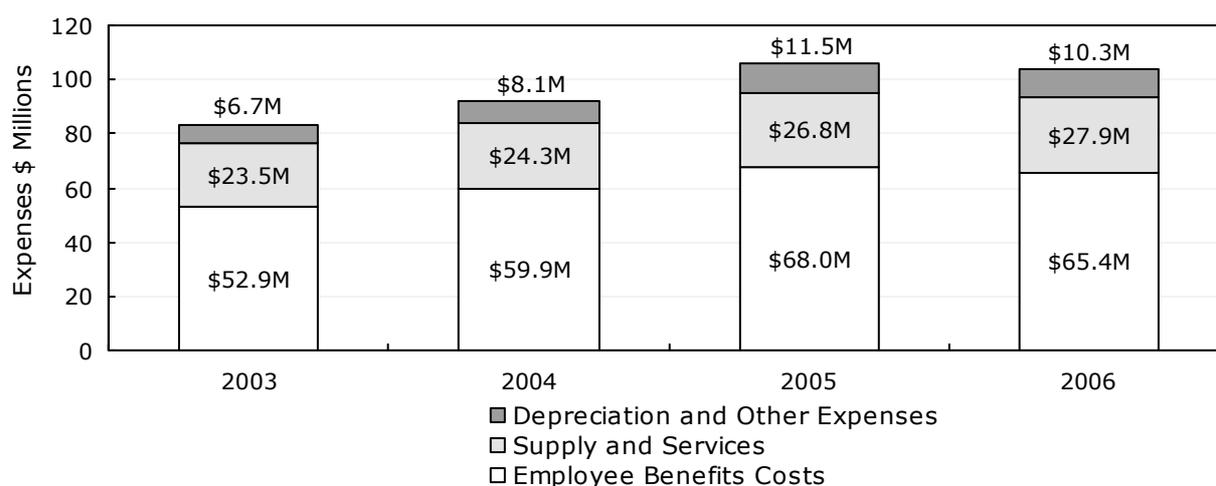


Expenses

During 2006 employee benefits costs decreased from \$68 million to \$65.4 million. The decrease in employee benefits costs is impacted by movements in the Ambulance Services superannuation defined benefit liability. In 2006 the defined benefit liability decreased by \$4.2 million. This gain was offset against other employee benefits costs recognised in the Income Statement. In 2005 a \$3.6 million increase in the defined benefit liability was recognised as an employee benefits cost.

Salaries and wages increased by 7.8 percent to \$62.3 million due mainly a 3.5 percent pay rise and a \$1.1 million increase in employee annual leave provisions.

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

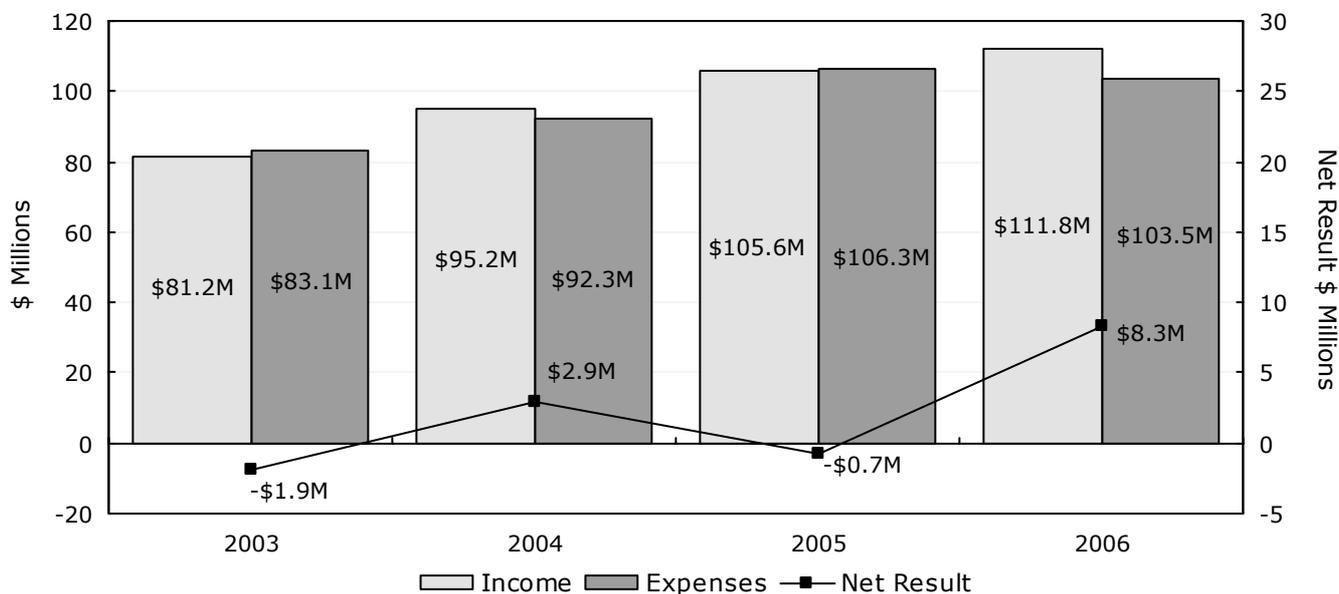


Net Result

The \$9 million fluctuation in the net result between 2005 and 2006 is due mainly to the movement in the Ambulance Services superannuation defined benefit liability. The defined benefit liability is measured by an actuarial valuation at 30 June each year.

The superannuation defined benefit scheme expense recognised in the Income Statement represents the movement in the estimated defined benefit liability offset by employer contributions for the year. In 2005 the \$3.6 million increase in the defined benefit liability was recognised as an expense. During 2006 the defined benefit liability decreased by \$4.2 million and a resultant gain was recognised in the Income Statement.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2006.



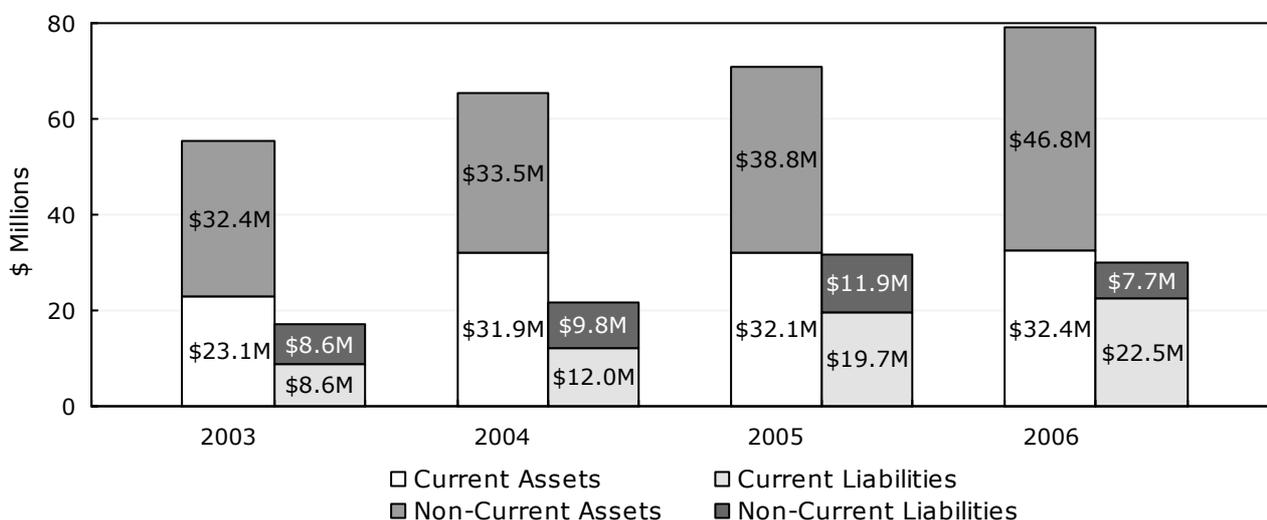
Balance Sheet

Receivables of \$8.1 million represent 25 percent of the Ambulance Services' 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 26 percent of outstanding debtors as at 30 June 2006 were unlikely to be collected.

Non-current assets increased by \$7.9 million to \$46.8 million due mainly to the acquisition of \$15.8 million of property, plant and equipment offset by depreciation charges of \$7.6 million.

Current liabilities increased by \$2.8 million due mainly to \$1.9 million of outstanding creditors for the acquisition and fit out of ambulances at 30 June 2006. Non-current liabilities decreased by \$4.2 million due mainly to the reduction in the superannuation defined benefit liability.

For the four years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



Cash Flow Statement

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

	2006 \$'million	2005 \$'million	2004 \$'million	2003 \$'million
Net Cash Flows				
Operations	9.9	7.8	12.5	6.4
Investing	(12.3)	(8.6)	(6.0)	(8.3)
Change in Cash	(2.4)	(0.8)	6.5	(1.9)
Cash at 30 June	20.6	23.0	23.8	17.3

The analysis of cash flows indicates that cash decreased by \$2.4 million to \$20.6 million during 2005-06. This decrease was due mainly to additional capital spending. The Ambulance Service has developed an interim budget for 2006-07 which includes planned capital investment of \$13.3 million.

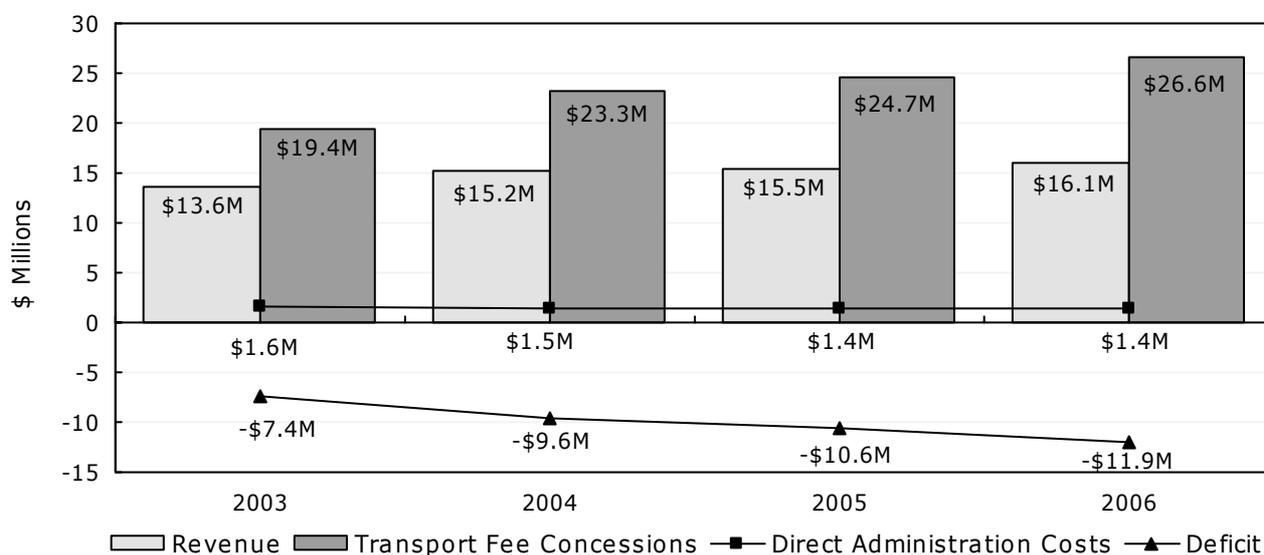
FURTHER COMMENTARY ON OPERATIONS

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 2005-06 of \$16.1 million increased by \$620 000 while concessions provided to subscribers increased by \$1.9 million to \$26.6 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 deficit 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 proclaimed on 16 February 2006 and came into operation on 17 February 2006. The amendments to the *Ambulance Services Act 1992* ended the Priory's role in the provision of ambulance services in South Australia.

The amended provisions of the *Ambulance Services Act 1992* provided for the continued existence of the SA St John Ambulance Service Inc under the name 'SA Ambulance Service Inc'. Management of the affairs of the SA Ambulance Service Inc is vested in a committee known as the Ambulance Board. The Ambulance Board consists of 10 members appointed by the Minister.

**Income Statement
for the year ended 30 June 2006**

	Note	2006	2005
EXPENSES:		\$'000	\$'000
Employee benefits costs	8	65 362	68 029
Supplies and services	9	27 854	26 829
Depreciation	11	7 633	7 059
Other expenses	12	2 635	4 394
Total Expenses		103 484	106 311
INCOME:			
Revenue from Ambulance transport	4	39 202	36 068
Revenue from Ambulance Cover	5	16 136	15 516
Revenue from Call Direct		1 939	1 677
Other operating revenues	6	1 796	2 070
Revenue from Federal Government	7	273	273
Other income		904	448
Total Income		60 250	56 052
NET COST OF PROVIDING SERVICES		(43 234)	(50 259)
REVENUES FROM SA GOVERNMENT	7	51 548	49 593
NET RESULT		8 314	(666)

THE NET RESULT IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

**Balance Sheet
as at 30 June 2006**

	Note	2006	2005
ASSETS:		\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	1(l), 22	20 640	23 073
Receivables	13	8 085	7 125
Inventories		270	221
Other current assets	14	3 449	1 647
Total Current Assets		32 444	32 066
NON-CURRENT ASSETS:			
Property, plant and equipment	15	46 762	38 840
Total Non-Current Assets		46 762	38 840
Total Assets		79 206	70 906
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	16(a)	6 601	4 059
Short-term and long-term employee benefits	17(a)	14 698	14 422
Short-term provisions	18(a)	1 202	1 234
Total Current Liabilities		22 501	19 715
NON-CURRENT LIABILITIES			
Payables	16(b)	54	55
Long-term employee benefits	17(b)	4 876	9 099
Long-term provisions	18(b)	2 743	2 794
Total Non-Current Liabilities		7 673	11 948
Total Liabilities		30 174	31 663
NET ASSETS		49 032	39 243
EQUITY:			
Contributed capital		6 298	6 298
Reserves	19(a)	12 901	12 211
Retained earnings	19(b)	29 833	20 734
TOTAL EQUITY	19(c)	49 032	39 243
TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments	20		
Contingent Liabilities	21		

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

	Note	Contributed Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance at 30 June 2004		6 298	12 065	21 546	39 909
Reserve transfers		-	146	(146)	-
Net result for 2004-05		-	-	(666)	(666)
Total recognised income and expenses for 2004-05		-	146	(812)	(666)
Balance at 30 June 2005	19	6 298	12 211	20 734	39 243
Gain on Revaluation of Property during 2005-06	15	-	1 475	-	1 475
Net income/expense recognised directly in equity for 2005-06		-	1 475	-	1 475
Reserve transfers		-	(785)	785	-
Net result for 2005-06		-	-	8 314	8 314
Total Recognised Income and Expense for 2005-06		-	690	9 099	9 789
BALANCE AT 30 JUNE 2006	19	6 298	12 901	29 833	49 032

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

Cash Flow Statement for the year ended 30 June 2006

	2006	2005
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	
CASH OUTFLOWS:		
Employee benefit payments	(70 283)	(62 223)
Supplies and services	(22 864)	(26 038)
GST payments on purchases	(3 472)	(2 952)
GST remitted to Australian Taxation Office	(7 582)	(5 262)
Cash used in Operations	(104 201)	(96 475)
CASH INFLOWS:		
Receipts from Australian Taxation Office	273	273
Receipts from fees and charges	51 270	46 836
Interest received	1 414	1 372
GST receipts on receivables	7 148	5 555
GST input tax credits claimed	3 499	2 835
Cash generated from Operations	63 604	56 871
REVENUES FROM SA GOVERNMENT	50 483	47 394
Net Cash provided by Operating Activities	9 886	7 790
CASH FLOWS FROM INVESTING ACTIVITIES:		
CASH INFLOWS:		
Proceeds from sale of property, plant and equipment	1 614	1 392
Cash generated from Investing Activities	1 614	1 392
CASH OUTFLOWS:		
Purchase of property, plant and equipment	(13 933)	(9 977)
Cash used in Investing Activities	(13 933)	(9 977)
Net Cash used in Investing Activities	(12 319)	(8 585)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2 433)	(795)
CASH AND CASH EQUIVALENTS AT 1 JULY	23 073	23 868
CASH AND CASH EQUIVALENTS AT 30 JUNE	20 640	23 073

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

(a) Entity Definition

SA Ambulance Service Incorporated is an incorporated association formed by the Minister for Health for the Government of South Australia under the *Associations Incorporation Act 1985* and is governed by the *Ambulance Services Act 1992*.

Until 16 February 2006 the association was called SA St John Ambulance Service Inc and had two members being the Minister for Health and the Priory in Australia of the Order of St John (Priory). On 17 February 2006 the *Ambulance Services (SA Ambulance Service Inc) Amendment Act 2005*, the Ambulance Services (SA Ambulance Service Inc Rules) Regulations 2006 and the Ambulance Services (Elections) Regulations 2006 came into operation. These amendments removed the Priory as a member of the association and removed reference to St John from the name of the association. The Minister of Health is now the sole Member of SA Ambulance Service Incorporated.

The registered office of SA Ambulance Service Incorporated is at 216 Greenhill Road, Eastwood, South Australia.

(a) Entity Definition (continued)

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

The Statements also include the operations of the SA Ambulance Development Fund. This Fund is a Charitable Trust administered by SA Ambulance Service Nominee Co Pty Ltd pursuant to a Declaration of Trust. The Fund receives donations, gifts and bequests from the public which are applied by the Trustee to improve the services offered by the SA Ambulance Service. The funds cannot be used for the day to day operating expense of SA Ambulance Service Incorporated.

(b) Basis of Accounting

This financial report is a general purpose financial report. The accounts have been prepared in accordance with applicable Australian Accounting Standards and Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

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

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

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are disclosed in Note 2.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were revalued.

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

This financial report has been prepared based on a 12 month operating cycle and presented in Australian currency rounded to the nearest thousand dollars (\$'000).

(c) Comparative Information

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

Comparative figures have been restated on an AIFRS basis.

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

Note 2 provides a detailed analysis of comparative amounts that have been reclassified as a result of adoption of AIFRS.

(d) Revenue Recognition

Ambulance Transport Revenue

Ambulance transport revenue comprises revenue earned 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 the Ambulance Cover scheme whereby members pay a subscription to cover themselves against the cost of ambulance transport. Ambulance Cover revenue is recognised upon receipt of the subscription.

Call Direct Revenue

Call Direct revenue comprises the sale of alarm monitoring units, 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 and approved capital works. Government revenues are recognised when accrued.

Other Income

Other income represent rental, commissions and sundry revenue.

(e) Taxation

SA Ambulance Service Incorporated is a public ambulance service and is endorsed to receive deductible gifts and is also exempt from income tax pursuant to the *Income Tax Assessment Act 1997* (Cwlth). SA Ambulance Service Incorporated 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.

(f) Inventories

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

(g) 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 15 for the basis of valuation for each major asset category.

(h) Operating Leases

Leases are identified as operating leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets. Operating lease payments are recognised as an expense on a basis that is representative of the pattern of benefits derived from the leased assets.

(i) Employee Benefits

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

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

The liability/pre-payment for salaries and wages are measured as the amount unpaid/paid in advance at the reporting date at remuneration rates current at reporting date.

The annual leave and accrued days off liability expected to be payable within 12 months is measured at the undiscounted amount expected to be payable. The annual leave and accrued days off liability expected to be payable after 12 months are measured at present value.

The liability for long service leave is recognised after an employee has completed seven years of service in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework*.

An actuarial assessment of long service leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector, including SA Ambulance Service, determined that the liability measured using the short hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with SA Ambulance Service's experience of employee retention and leave taken.

The conditional portion of the long service leave provision is classified as non-current. The remainder is classified as current as SA Ambulance Service Incorporated does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date.

Superannuation Funds

A significant majority of the SA Ambulance Service's employees are members of the SA Ambulance Service Superannuation Scheme (the Scheme). These employees are eligible to receive a benefit from the Scheme. A benefit is payable on retirement, death, disablement or leaving SA Ambulance Service, in accordance with the Scheme's trust deed and rules. The Scheme provides lump sum benefits based on a combination of defined benefits which depend on years of service and final salary and accumulation benefits which depend on the accumulation of member and employer contributions adjusted for appropriate earnings and expenses. The liability for this Scheme has been determined via an actuarial valuation by Mercer Investment Nominees Limited using the projected unit credit method.

Superannuation Funds (continued)

The defined benefit liability has been recognised in the Balance Sheet in accordance with Australian Accounting Standard AASB 119 *Employee Benefits*. The expected payment to settle the obligation has been determined using national government bond market yields with terms and conditions that match, as closely as possible, to estimated cash outflows. Refer to Note 17(d) for funding arrangements.

Actuarial gains and losses are recognised in full, directly in the Income Statement, in the period in which they occur. The superannuation expense of the defined benefit plan is measured in accordance with AASB 119 and is recognised as and when contributions fall due.

For a small proportion of the workforce, SA Ambulance Service Incorporated pays its contributions in accordance with the relevant employee award or contracts 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.

(j) Workers Compensation

SA Ambulance Service Incorporated is recognised as an exempt employer under section 61 of the *Workers Rehabilitation and Compensation Act 1986*. The liability for workers compensation is classified under short and long-term provisions. The workers compensation provision is based on an actuarial assessment performed by Taylor Fry Consulting Actuary for the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

(k) 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.

(l) Cash and Cash Equivalents

Cash and cash equivalents recorded in the Cash Flow Statement includes cash on hand and deposits held at call that are used in the cash management function on a day-to-day basis.

Cash is measured at nominal value.

(m) Payables

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

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

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

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received.

(n) 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 Incorporated 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 GST receivable/payable to the Australian Taxation Office has been recognised as part of receivables/payables in the Balance Sheet. Cash flows are reported on a gross basis in the Cash Flow Statement. 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. Changes in Accounting Policies

SA Ambulance Service Incorporated has adopted AIFRS for the first time for the year ended 30 June 2006. The following table summarises the impacts on the financial statements.

	At 01.07.04			At 30.06.05		
	Previous AGAAP \$'000	Adjustments \$'000	AIFRS \$'000	Previous AGAAP \$'000	Adjustments \$'000	AIFRS \$'000
Receivables	7 298	883	8 181	7 125	-	7 125
Other current assets	24 649	-	24 649	24 941	-	24 941
Current Assets	31 947	883	32 830	32 066	-	32 066
Non-Current Assets	33 461	-	33 461	38 840	-	38 840
Employee benefits	5 582	5 815	11 397	7 317	7 105	14 422
Short-term provisions	1 273	-	1 273	1 234	-	1 234
Payables	5 161	353	5 514	3 543	516	4 059
Current Liabilities	12 016	6 168	18 184	12 094	7 621	19 715
Employee benefits	6 734	(1 179)	5 555	7 820	1 279	9 099
Long-term provisions	2 607	-	2 607	2 794	-	2 794
Payables	422	(386)	36	652	(597)	55
Non-Current Liabilities	9 763	(1 565)	8 198	11 266	682	11 948
EQUITY:						
Contributed capital	6 298	-	6 298	6 298	-	6 298
Retained earnings	25 266	(3 720)	21 546	29 037	(8 303)	20 734
Reserves	12 065	-	12 065	12 211	-	12 211
TOTAL EQUITY	43 629	(3 720)	39 909	47 546	(8 303)	39 243
Net Result	2 940	883	3 823	3 917	(4 583)	(666)
TOTAL CASH FLOWS	6 528	-	6 528	(795)	-	(795)

(a) Employee Benefits

A net liability for the SA Ambulance Superannuation Scheme (the Scheme) has been recognised in the Balance Sheet in accordance with the requirements of AASB 119 *Employee Benefits* (refer note 1(i) for further details). Under previous Generally Accepted Accounting Principles (GAAP) the Ambulance Services liability for superannuation was limited to employer contributions due but not yet paid to the Scheme.

The Ambulance Services liability for annual leave and accrued days off expected to be paid later than 12 months from reporting date are measured at present value as required by AASB 119. Under previous GAAP annual leave and accrued days off expected to be paid later than 12 months from reporting date were measured at nominal amounts.

Australian Accounting Standard AASB 101 *Presentation of Financial Statements* requires that a liability is classified as current where the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Consequently all accrued days off, annual leave and long service leave, other than pro-rata, is classified as current. These employee benefits were previously classified as current or non-current based on managements expectations for the taking of leave.

The combined effect of these changes as at 1 July 2004 was to increase current liabilities by \$6 168 000 and reduced non-current liabilities by \$1 565 000 and decrease retained earnings by \$4 603 000. The effect at 30 June 2005 was to increase current liabilities by \$7 621 000 and increase non-current liabilities by \$682 000 with a corresponding reduction in retained earnings of \$8 303 000.

(b) Correction of Error

Under previous GAAP revenue totaling \$883 000 received in 2003-04 was recognised in 2004-05. Australian Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires errors to be corrected retrospectively by restating comparative amounts for the period in which an error occurred. As a result revenue resulting from the correction of errors of \$883 000 has been recognised in 2004 and derecognised in the 2005 comparatives. This reduces the decrease in retained earnings at 1 July 2004 in Note 2(a) of \$4 603 000 to \$3 720 000.

3. Financial Risk Management

The SA Ambulance Service Incorporated is exposed to a variety of financial risks, market risk (foreign exchange and price), credit risk and liquidity risk. Risk management is carried out by the Finance and Corporate Services Division and risk management policies and practices are in accordance with Australian Risk Management Standards.

SA Ambulance Service Incorporated has non-interest bearing assets (cash on hand and on call and receivables) and liabilities (payables) and interest bearing assets (held to maturity investments).

The Ambulance Service:

- has minimal exposure to foreign exchange risk, cash flow interest risk and price risk;
- provides Ambulance Transport services based on clinical need. Consequently the Ambulance Service is exposed to credit risk in regard to patients who are unable to pay. Policies and procedures have been developed to ensure that other transactions occur with customers with appropriate credit history.

3. Financial Risk Management (continued)

The continued existence of the Ambulance Service in its present form, and with its present segment/services, is dependent on Government policy and on continuing capital appropriations by Parliament to supplement the maintenance and development of the Ambulance Service's asset base.

4. Ambulance Transport

	2006	2005
	\$'000	\$'000
Fees raised	84 429	78 156
Less: Ambulance Cover concessions	26 637	24 752
Pensioners concessions	18 590	17 336
	39 202	36 068

5. Ambulance Cover

Ambulance Cover revenue	16 136	15 516
Less: Transport fee concessions	26 637	24 752
Direct administration costs	1 363	1 374
Ambulance Cover Deficit	(11 864)	(10 610)

6. Other Operating Revenues

Interest	1 380	1 349
Bad debt recoveries	250	346
Donations	124	216
Other	42	159
	1 796	2 070

7. Revenues from Government

Funding was received from the State Government for:

Operations ⁽¹⁾	46 917	40 861
South Australian Government Radio Network ⁽²⁾	1 071	1 071
Capital works ⁽³⁾	3 560	7 661
	51 548	49 593

Funding was received from the Federal Government for:

Operations ⁽⁴⁾	273	273
	273	273
	51 821	49 866

(1) Includes \$864 000 (\$843 000) from the Community Emergency Services Fund.

(2) Includes \$209 000 (\$209 000) from the Community Emergency Services Fund.

(3) Includes \$Nil (\$3.944 million) 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 SA Ambulance Service Incorporated as a result of the loss of the PBI status.

8. Employee Benefits Costs

	2006	2005
	\$'000	\$'000
Salaries and wages, annual and sick leave	62 320	57 817
Superannuation - Defined benefit scheme	1 679	8 860
Superannuation - Other	84	74
Long service leave	1 279	1 278
	65 362	68 029

Amounts recognised in income in respect of the defined benefit Scheme are as follows:

Current service cost*	5 032	4 190
Interest cost	4 054	3 713
Expected return on Scheme assets	(5 382)	(4 584)
Actuarial (gains) losses	(2 025)	5 541
Total Included in Employee Benefits Expense	1 679	8 860

* Service cost does not include the cost of 3 percent Award contributions for some members.

9. Supplies and Services	2006	2005
	\$'000	\$'000
Bad and doubtful debts	6 537	6 023
Training, travel, uniforms and other staff expenses	4 180	3 714
Professional and administrative expenses	3 244	3 923
Medical	3 057	2 803
Communication	2 558	2 654
Vehicle operating	2 523	2 217
Occupancy	2 294	2 067
Information technology	1 653	1 603
Marketing	638	732
Discounts on ambulance transports	506	477
Consultancies	131	161
Other	533	455
	27 854	26 829
10. Auditors' Remuneration		
Amounts paid and payable to the auditors for auditing this financial report	68	58
The auditors provided no other services.		
11. Depreciation		
Buildings	500	482
Leasehold improvements	175	156
Motor vehicles	4 732	4 918
Medical equipment	466	546
Plant and equipment	706	700
Communication equipment	1 054	257
	7 633	7 059
12. Other Expenses		
Asset Disposals:		
Revenue from the disposal of assets	1 637	1 349
Less: Written-down value of disposed assets	1 760	1 568
Net Expense from Disposal of Assets	123	219
Grant to Department of Health	-	931
Workers compensation	2 512	3 244
	2 635	4 394
13. Receivables		
Debtors	10 974	9 576
Less: Provision for doubtful debts and discounts	2 889	2 451
	8 085	7 125
14. Other Current Assets		
Prepayments	2 652	1 218
Accrued revenue	797	429
	3 449	1 647
15. Property, Plant and Equipment		
Land:		
Opening balance	5 727	5 721
Additions	197	6
Revaluation increment	683	-
Closing Balance	6 607	5 727
Net Book Value ⁽¹⁾	6 607	5 727
Buildings:		
Opening balance	8 228	7 249
Additions	1 208	979
Revaluation decrement	(177)	-
Closing Balance	9 259	8 228
Accumulated Depreciation:		
Opening balance	482	-
Depreciation for the year	500	482
Revaluation write-back	(969)	-
Closing Balance	13	482
Net Book Value ⁽¹⁾	9 246	7 746
Leasehold Improvements:		
Opening balance	4 333	3 849
Additions	1 159	484
Closing Balance	5 492	4 333

15. Property, Plant and Equipment (continued)	2006	2005
	\$'000	\$'000
Accumulated Depreciation:		
Opening balance	156	-
Depreciation for the year	175	156
Closing Balance	331	156
Net Book Value ⁽²⁾	5 161	4 177
Motor Vehicles:		
Opening balance	28 447	26 924
Additions	10 939	6 031
Disposals	(6 577)	(4 508)
Closing Balance	32 809	28 447
Accumulated Depreciation:		
Opening balance	15 125	13 162
Depreciation for the year	4 732	4 918
Disposals	(4 913)	(2 955)
Closing Balance	14 944	15 125
Net Book Value ⁽³⁾	17 865	13 322
Medical Equipment:		
Opening balance	5 732	5 523
Additions	687	631
Disposals	(137)	(422)
Closing Balance	6 282	5 732
Accumulated Depreciation:		
Opening balance	4 608	4 483
Depreciation for the year	466	546
Disposals	(137)	(421)
Closing Balance	4 937	4 608
Net Book Value ⁽³⁾	1 345	1 124
Plant and Equipment:		
Opening balance	5 028	4 594
Additions	1 557	708
Disposals	(803)	(274)
Closing Balance	5 782	5 028
Accumulated Depreciation:		
Opening balance	3 585	3 148
Depreciation for the year	706	700
Disposals	(734)	(263)
Closing Balance	3 557	3 585
Net Book Value ⁽³⁾	2 225	1 443
Communication Equipment:		
Opening balance	8 808	3 891
Additions	93	5 166
Disposals	(239)	(249)
Closing Balance	8 662	8 808
Accumulated Depreciation:		
Opening balance	3 507	3 497
Depreciation for the year	1 054	257
Disposals	(212)	(247)
Closing Balance	4 349	3 507
Net Book Value ⁽⁴⁾	4 313	5 301
Total Net Book Value	46 762	38 840

(1) Land and buildings purchased prior to 2005-06 were revalued at 30 June 2006 based upon appropriate price and value indices supplied by Liquid Pacific Holdings Pty Ltd under their Valuation Continuity Plan.

(2) Leasehold improvements were independently revalued on a fair value basis at 30 June 2004 by Liquid Pacific Holdings Pty Ltd.

(3) Motor vehicles, medical equipment, and plant and equipment are recorded at cost.

(4) Communication equipment was revalued on a deprival basis at 30 June 2001 by SA Ambulance Service Incorporated management. It is considered that this equates fair value.

The net increase in asset revaluation reserve comprises:	2006	2005
	\$'000	\$'000
Land write-up	683	-
Buildings write-up	792	-
	1 475	-

16. Payables	2006	2005
(a) Current:	\$'000	\$'000
Trade creditors	4 924	2 775
Employment on-costs	1 456	1 081
Other creditors	221	203
	6 601	4 059
(b) Non-Current:		
Employment on-costs	54	55
	54	55
17. Provision for Employee Benefits		
(a) Current:		
Accrued days off	2 202	2 177
Accrued salaries and wages	430	1 784
Annual leave	6 926	6 101
Long service leave	4 932	4 043
Superannuation - Defined benefit scheme	208	317
	14 698	14 422
(b) Non-Current:		
Long service leave	720	822
Superannuation - Defined benefit scheme	4 156	8 277
	4 876	9 099
Total Provision for Employee Benefits	19 574	23 521
(c) Employee Benefits and Related On-Cost Liabilities		
Annual Leave:		
Included in current payables (Note 16)	843	605
Provision for employee benefits - Current (Note 17(a))	6 926	6 101
Total Liability for Current Annual Leave Benefit	7 769	6 706
Accrued Days Off:		
Included in current payables (Note 16)	246	209
Provision for employee benefits - Current (Note 17(a))	2 202	2 177
Total Liability for Current Accrued Days Off Benefit	2 448	2 386
Long Service Leave:		
Included in current payables (Note 16)	367	267
Provision for employee benefits - Current (Note 17(a))	4 932	4 043
Total Liability for Current Long Service Leave Benefit	5 299	4 310
Included in non-current payables (Note 16(b))	54	55
Provision for employee benefits - Non-current (Note 17(b))	720	822
Total Liability for Non-Current Long Service Leave Benefit	774	877
Superannuation - Defined Benefit Scheme		
Provision for employee benefits - Current (Note 17(a))	208	317
Total Liability for Current Superannuation - Defined Benefit Scheme	208	317
Provision for employee benefits - Non-current (Note 17(b))	4 156	8 277
Total Liability for Non-Current Superannuation - Defined Benefit Scheme	4 156	8 277
(d) Defined Benefit Superannuation Scheme		
Reconciliation of the present value of the defined benefit obligation:		
Present value of defined benefit obligations at 1 July	85 417	70 562
Current service cost	5 032	4 190
Interest cost	4 054	3 713
Contributions from scheme participants	3 336	2 859
Net actuarial losses	3 108	9 647
Benefits paid	(2 815)	(4 874)
Taxes, premiums and expenses paid	(1 689)	(1 412)
Transfers in	796	732
Present Value of Defined Benefit Obligations at 30 June	97 239	85 417

(d) Defined Benefits Superannuation Scheme (continued)	2006	2005
Reconciliation of the fair value of scheme assets:	\$'000	\$'000
Fair value of scheme assets at 1 July	76 823	65 527
Expected return on scheme assets	5 382	4 584
Actuarial gains	4 717	4 285
Contributions from the employer	6 325	5 122
Contributions by scheme participants	3 336	2 859
Benefits paid	(2 815)	(4 874)
Taxes, premiums and expenses paid	(1 689)	(1 412)
Transfers in	796	732
Fair Value of Scheme Assets at 1 July	92 875	76 823

The amount included in the Balance Sheet arising from SA Ambulance Service Incorporated's obligations in respect of its defined benefit scheme is as follows:

Present value of defined benefit obligations	97 239	85 417
Fair value of scheme assets	92 875	76 823
Net Liability Arising from Defined Benefit Obligations	4 364	8 594

Included in the Balance Sheet:

Current provision for employee benefits (Note 17(a))		
Defined benefit obligations	208	317
Non-current provision for employee benefits (Note 17(b))		
Defined benefit obligations	4 156	8 277
Net Liability Arising from Defined Benefit Obligations	4 364	8 594

The percentage invested in each asset class at 30 June 2006 is as follows:

	*2006	2005
	Percent	Percent
Australian equity	35	36
International equity	29	27
Fixed income	23	22
Property	8	7
Cash	6	8

* The asset allocation at 31 May 2006 has been used as an estimate.

The fair value of Scheme assets includes no amounts relating to any of the employer's own financial instruments or any property occupied by, or other assets used by, the employer.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. The actual return on Scheme assets was \$10 367 000 (\$8 869 000). Employer contributions of \$5 162 000 (excluding 3 percent award) are expected to be paid to the scheme for the year ending 30 June 2007.

Principal actuarial assumptions used (expressed as weighted averages):	2006	2005
	Percent pa	Percent pa
Discount rate (active members)	4.9	4.3
Expected return on Scheme assets (active members)	7.0	7.0
Expected rate of salary increase	4.0	4.0

Historical summary:	2006	2005
	\$'000	\$'000
Present value of defined benefit obligation	97 239	85 417
Fair value of scheme assets	92 875	76 823
Deficit in Scheme	4 364	8 594
Experience adjustments (gain) on scheme assets	(4 717)	(4 285)
Experience adjustments loss on scheme liabilities	5 425	6 707

Funding Arrangements for Employer Contributions

The following is a summary of the most recent financial position (1 July 2005) of the SA Ambulance Service Superannuation Scheme calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*. Note that the figures below relate to the Scheme as a whole, including the accumulation section.

	01.07.05
	\$'000
Gross accrued benefits	78 445
Net market value of scheme assets	76 823
Deficit	(1 622)

Funding Arrangements for Employer Contributions (continued)

The current contribution recommendations, as set out in the report of the most recent actuarial valuation of the Scheme as at 1 July 2005, are 11.60 percent of salaries of defined benefit members, and 9 percent of salaries of defined contribution members. SA Ambulance Service Incorporated is currently contributing at these rates.

The method used to determine the employer contribution recommendations at the last actuarial review was the Target Funding method. The method adopted affects the timing of the cost to the employer.

SA Ambulance Service Incorporated has recognised a liability in the Balance Sheet in respect of its defined benefit superannuation arrangements. The SA Ambulance Service Superannuation Scheme does not impose a legal liability on SA Ambulance Service Incorporated to cover any deficit that exists in the Scheme. If the Scheme were wound up, there would be no legal obligation on the employer to make good any shortfall. The Trust Deed of the Scheme states that if the Scheme winds up, the remaining assets are to be distributed by the Trustee of the Scheme in an equitable manner as it sees fit.

The employer may at any time by notice to the Trustee terminate its contributions. The employer has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for the employer to pay any further contributions, irrespective of the financial condition of the Scheme.

The Trust Deed of the Scheme requires an actuary to value the Scheme at intervals of no more than three years. The actuary is to recommend to the Trustee the amounts or rates of contributions required to be contributed by the SA Ambulance Service Incorporated in order to ensure the stability of the Scheme and secure the rights of contributory members. The SA Ambulance Service Incorporated must contribute to the Scheme the amounts or rates recommended by the actuary unless otherwise agreed between SA Ambulance Service Incorporated and the Trustee.

18. Short and Long-Term Provisions		2006	2005
(a) Short-term provisions:		\$'000	\$'000
Workers compensation		1 202	1 234
		1 202	1 234
(b) Long-term provision:			
Workers compensation		2 743	2 794
		2 743	2 794
19. Movement in Equity			
(a) Reserves			
Asset Revaluation Reserve:			
Balance at 1 July		5 645	5 645
Revaluation increment		1 475	-
Balance at 30 June		7 120	5 645
Country Branch Reserves:			
Balance at 1 July		739	684
Transfers to retained earnings		(28)	-
Transfers from retained earnings		271	59
Transfers to Country Capital Reserve Fund		(2)	(4)
Balance at 30 June		980	739
Country Capital Reserve Fund:			
Balance at 1 July		5 827	5 736
Transfers to retained earnings		(2 957)	(1 971)
Transfers from Country Branch Reserves		2	4
Transfer from Country Operating Reserve Fund		1 929	2 058
Balance at 30 June		4 801	5 827
Country Operating Reserve Fund:			
Balance at 1 July		-	-
Transfers from retained earnings		1 929	2 058
Transfer to Country Capital Reserve Fund		(1 929)	(2 058)
Balance at 30 June		-	-
Total Reserves		12 901	12 211
(b) Retained Earnings			
Balance at 1 July		20 734	21 546
Net result		8 314	(666)
Transfers from reserves to retained earnings		2 985	1 971
Transfers to reserves from retained earnings		(2 200)	(2 117)
Balance at 30 June		29 833	20 734
(c) Total Equity			
Balance at 1 July		39 243	39 909
Net result		8 314	(666)
Revaluation increment		1 475	-
Balance at 30 June		49 032	39 243

20. Commitments	2006	2005
(a) Lease Commitments (excludes GST)	\$'000	\$'000
Operating contracted lease expenditure is payable as follows:		
Not later than one year	279	150
Later than one year but not later than five years	642	230
Later than five years	192	286
	1 113	666

SA Ambulance Service Incorporated has a number of operating lease arrangements for the use of properties. The major commitments are for properties at Ashford, Eastwood, Port Adelaide, Thebarton, Brooklyn Park, Kapunda, Nuriootpa, Pt Pirie and Murray Bridge. SA Ambulance Service Incorporated has a number of other operating leases for the use of property. The value of these leases is immaterial.

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 Incorporated and the lessor.

Total rental expenditure was \$390 000 (\$353 000).

(b) Capital Commitments (excludes GST)	2006	2005
Agreements outstanding as at 30 June 2006:	\$'000	\$'000
Purchase of ambulances at estimated cost less payments made:		
Not later than one year	182	971
Construction and fitout of buildings at estimated cost less payments made:		
Not later than one year	1 374	1 596
	1 556	2 567

21. Contingent Assets and Liabilities

SA Ambulance Service Incorporated is not aware of any contingent assets or liabilities.

22. Notes to the of Cash Flow Statement

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the of Cash Flow Statement and Balance Sheet, cash and cash equivalents includes cash on hand, at bank and at call and short term investments. It comprises:

	2006	2005
	\$'000	\$'000
Cash assets	7 140	5 073
At call and short term deposits	13 500	18 000
	20 640	23 073

(b) Reconciliation of Net Cash provided by Operating Activities to Net Cost of providing Services:

Net cash provided by operating activities:	9 886	7 790
Less: Revenues from SA Government	(51 548)	(49 593)
Net expense on the sale of non-current assets	(123)	(219)
Less: Non-cash items:		
Depreciation	(7 633)	(7 059)
Acquisition of assets for nil consideration	-	3 972
Net Cash Provided by Operating Activities before Change in Assets and Liabilities	(49 418)	(45 109)
Change in assets and liabilities:		
Increase (Decrease) in receivables	960	(348)
Increase (Decrease) in inventory	49	(86)
Increase in other current assets	1 802	465
(Increase) Decrease in accrued revenue for non-current asset disposals	(23)	43
(Increase) Decrease in payables	(2 541)	1 436
Increase in non-current asset purchases	1 907	57
Decrease (Increase) in employee benefits	3 947	(6 569)
Decrease (Increase) in short and long-term provisions	83	(148)
Net Cost of Providing Services	(43 234)	(50 259)

23. Remuneration of Employees

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

	2006	2005
	Number of Employees	Number of Employees
\$100 001 - \$110 000	41	28
\$110 001 - \$120 000	20	15
\$120 001 - \$130 000	2	10
\$130 001 - \$140 000	3	1
\$140 001 - \$150 000	1	-
\$150 001 - \$160 000	1	-
\$160 001 - \$170 000	-	1
\$170 001 - \$180 000	1	-
\$180 001 - \$190 000	-	2
\$190 001 - \$200 000	1	-
	70	57

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:

	2006	2005
	Number of Employees	Number of Employees
Executive and administration	14	11
Operational	56	46
	70	57

The increase in employees receiving remuneration greater than \$100 000 reflects full year impact of increased stability within the Executive and Administrative structure and Enterprise Bargaining increases for operational staff. A number of other operational staff fall just below the threshold and with future wage increase it is anticipated that the number of staff receiving remuneration of over \$100 000 will continue to increase.

	2006	2005
	\$'000	\$'000
Total remuneration received, or due and receivable, from SA Ambulance Service Incorporated by the employees whose remuneration exceeded \$100 000 was:	7 847	6 575

24. Remuneration of Directors of the Board

The directors of the Ambulance Board during the period were:

Ms R Pak-Poy (Chairman)	Dr W Griggs (from 17.02.06)
Dr S Cole	Ms A Alford (from 17.02.06)
Mr D O'Shea	Mr L Gregurke (to 17.02.06 and from 26.04.06)
Mr P Palmer	Mr C Howie (from 17.08.05 to 17.02.06 and from 28.06.06)
Dr C Baggoley (to 17.02.06)	Mr M Scott (to 17.02.06 and from 26.04.06)
Mr D Hawking (to 17.02.06)	Mr G Hockley (to 04.08.05)
Ms L Reed (to 17.02.06)	Ms C King (from 28.06.06)

All persons served for the entire period unless otherwise indicated, although on 17 February 2006 all appointments were terminated with some members being immediately reappointed. During the year, a total of \$88 000 (\$102 000) in directors' fees and other benefits, and \$8 000 (\$10 000) in superannuation benefits were payable.

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

	2006	2005
	Number of Directors	Number of Directors
\$0	2	-
\$1 - \$10 000	10	5
\$10 001 - \$20 000	2	5

25. Transactions with SA Government

In accordance with the requirements of Accounting Policy Framework APF II *General Purpose Financial Reporting Framework*, the SA Ambulance Service Incorporated 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 APF II.

(a) Revenues

	2006	2005
	\$'000	\$'000
Ambulance transport	14 664	14 566
Government funding	51 548	49 593
	66 212	64 159

SA Ambulance Service

(b) Expenses		
Goods and services	2 506	2 388
Other expenses	918	487
	3 424	2 875
(c) Receivables	2 691	2 336
(d) Payables	411	120

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.

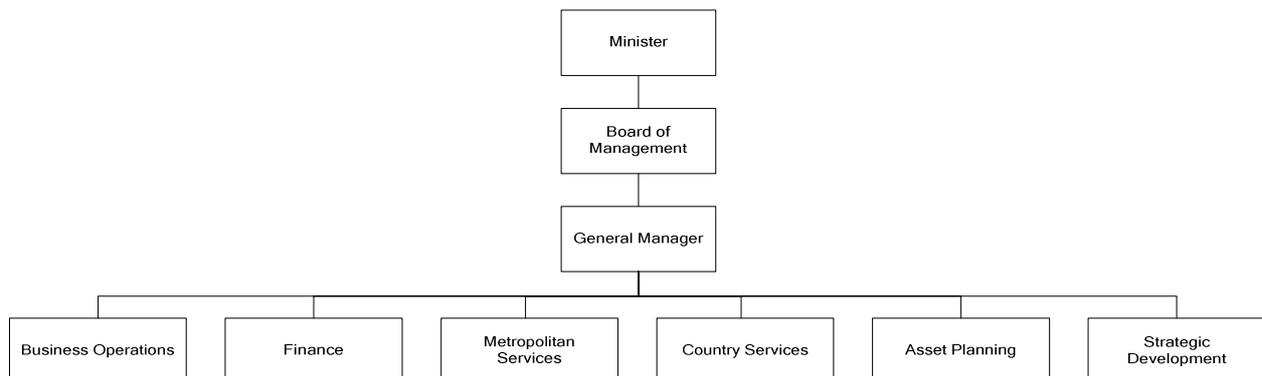
The Authority provides these functions through the rental of State Government owned housing to Aboriginal people and the provision of grants to fund housing owned by Aboriginal communities.

Structure

The Authority is established with a Board of Management comprising nine members appointed by the Governor on the nomination of the Minister. All members and their deputies must be Aboriginal people.

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 the Financial Report

Subsection 27(4) 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 2005-06, 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.

The work done by the internal auditor was considered in planning the audit programs. Reliance was placed on the work of internal audit in assessing the effectiveness of the Authority's internal controls. Specific areas in which reliance was placed on internal audit work included controls over grant expenditure through the Community Housing Program.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Aboriginal Housing Authority as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian 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 matter raised in relation to management 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 a management letter to the Chairperson. Major matters raised with the Authority and the related responses are considered herein.

Management Reporting

In previous reports Audit concluded that the Authority had not developed and implemented mechanisms which support effective financial reporting of project to date expenditure against budget for rental housing maintenance and capital upgrade activities.

During 2005-06 Audit noted action taken by the Authority progressively during 2005-06 to improve the reliability of management reporting. Review of revised management reporting arrangements identified further opportunities to improve the effectiveness of this reporting together with opportunities to improve the effectiveness of prioritisation and scheduling for maintenance activities.

The Authority has undertaken to implement Audit recommendations.

Relationship with Key Service Providers

Last year Audit noted that the Authority did not have a documented contractual relationship with a key service provider for the provision of services associated with the maintenance program. During 2005-06 Audit noted that a contractual relationship with the key service provider had been delayed pending the implementation of planned governance reforms within the Families and Communities portfolio.

Further, in August 2005 Audit observed that the Authority did 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.

During 2005-06 Audit noted that the whilst the Authority has undertaken steps to improve the monitoring of work performed by service providers, significant opportunities exist to ensure that this work is consistently performed in a structured manner.

The Authority responded that a documented and structured approach to performance review will be established.

Strategic Asset Management Plan

Audit noted that the Authority has not established a strategic asset management plan for the maintenance, upgrade, acquisition and disposal of houses.

The Authority responded that the development of a strategic asset management plan has been delayed pending the finalisation of a portfolio wide asset plan currently being developed by the Department for Families and Communities.

Further, the Authority has noted that planned governance reforms within the Families and Communities portfolio will impact on the completion of its final strategic asset management plan.

Community Housing Program (CHP)

The Authority maintains a Service Level Agreement with the Department for Families and Communities (DFC) for the provision of internal audit services. During 2005-06 the Department's Risk Management and Internal Audit undertook a review of the Community Housing Program (CHP).

The objectives of the review were to assess the Authority's compliance with Commonwealth requirements to ensure that funds are:

- allocated to Aboriginal communities with the highest need;
- spent in accordance with business and asset plans to improve the well being of Aboriginal communities.

Internal Audit concluded that whilst the Authority had made progress in improving its control over the CHP program, significant improvements were required to establish controls that provide reasonable assurance that there is compliance with Commonwealth requirements. In particular Internal Audit noted:

- Indigenous Community Housing Organisations (ICHOs) business plans had either not been developed or had expired;
- the criteria established by the Authority to determine regional housing needs were subject to differing interpretations and did not enable independent objective assessment;
- a need to improve the clarity in decision making for funding allocations to ICHOs;
- the need to provide further assistance to ICHOs to improve housing and tenancy management capabilities;
- the need to develop a long term strategy for supporting ICHOs asset management planning.

The Authority has accepted the internal audit findings and identified a target date of June 2007 to address these matters.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	\$'million	\$'million	Change
EXPENSES			
Rental house ownership costs	11.4	10.2	12
Grants	10.2	8.0	28
Staffing costs	5.4	5.2	4
Other expenses	7.6	5.9	29
Total Expenses	34.6	29.3	18
INCOME			
Commonwealth and State grants	27.2	38.3	(29)
Other income	12.4	11.8	5
Total Income	39.6	50.1	(21)
Net Result	5.0	20.8	(76)
Cash Generated from Operations	8.2	22.0	(63)
ASSETS			
Current assets	21.9	23.7	(8)
Non-current assets	311.0	280.2	11
Total Assets	332.9	303.9	10
LIABILITIES			
Current liabilities	3.0	3.3	(9)
Non-current liabilities	0.6	0.6	-
Total Liabilities	3.6	3.9	(8)
EQUITY	329.3	300.0	10

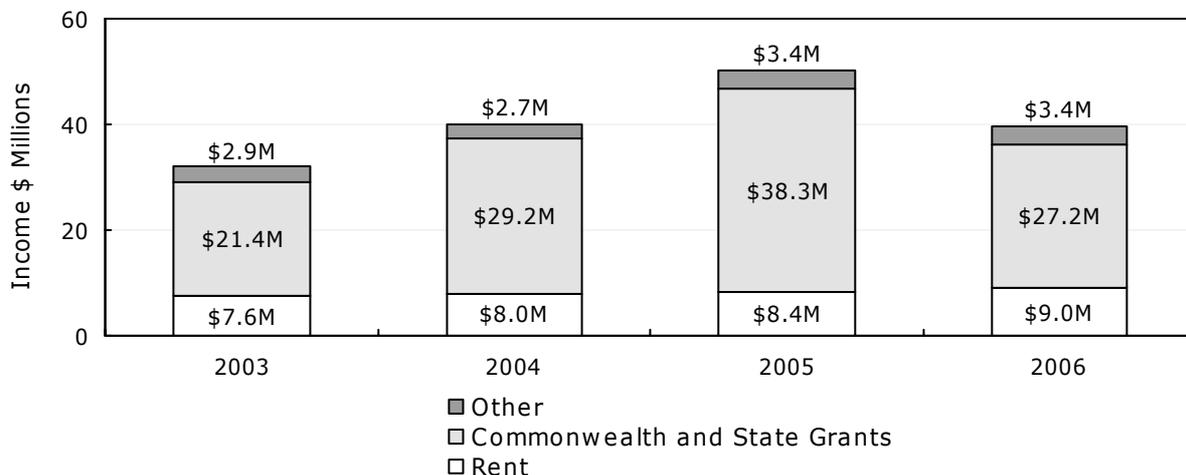
Income Statement

Income

Commonwealth and State government grants represent 69 percent of the Authority's income which reflects the dependency of the Authority on this source of income. Commonwealth and State government grants decreased by \$11 million in 2006 due mainly to once off funding received in 2005 from the Department for Families and Communities for activities associated with the State Housing Plan. Funding for the 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 23 percent of the Authority's revenue in 2006.

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

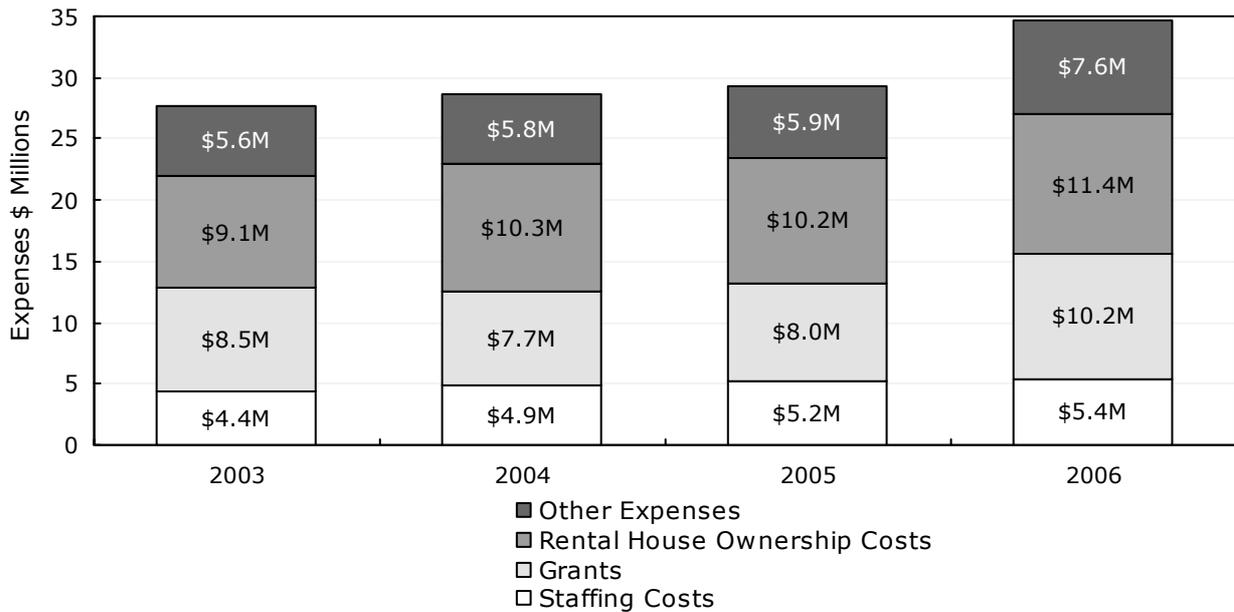


Expenses

Total expenses have increased by 18 percent to \$34.6 million due mainly to a \$2.2 million increase in grant expenditure and a \$1.7 million increase in other expenses. Grants represent community housing program grants provided by the Authority to fund the acquisition and maintenance of housing on behalf of Aboriginal communities.

The increase in other expenses was impacted by the change in the method used by the Authority for estimating the provision for doubtful debts. The provision for doubtful debts represents an estimate of the value of receivables that the Authority does not expect to collect and any movement in the provision is recognised in the Income Statement as an expense.

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

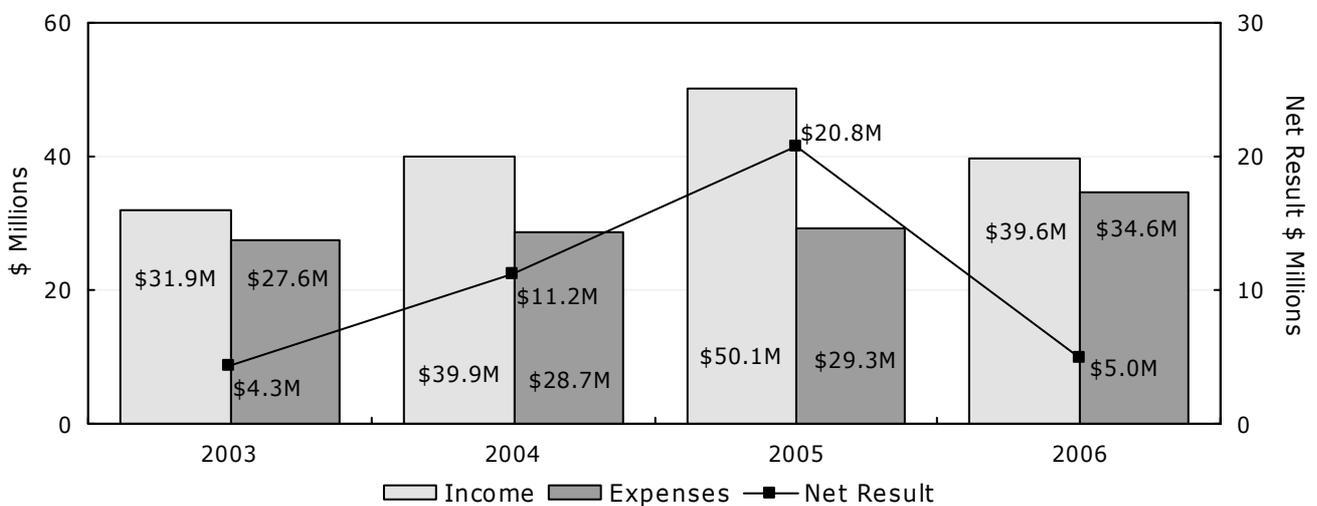


Rental house ownership costs include maintenance, council and water rates, depreciation and insurance.

Net Result

The Authority's net result decreased by \$15.8 million to \$5.0 million in 2006 due mainly to once off funding of \$11 million received in 2005 from the Department for Families and Communities.

The following chart shows the income, expenses and net result for the four years to 2006.

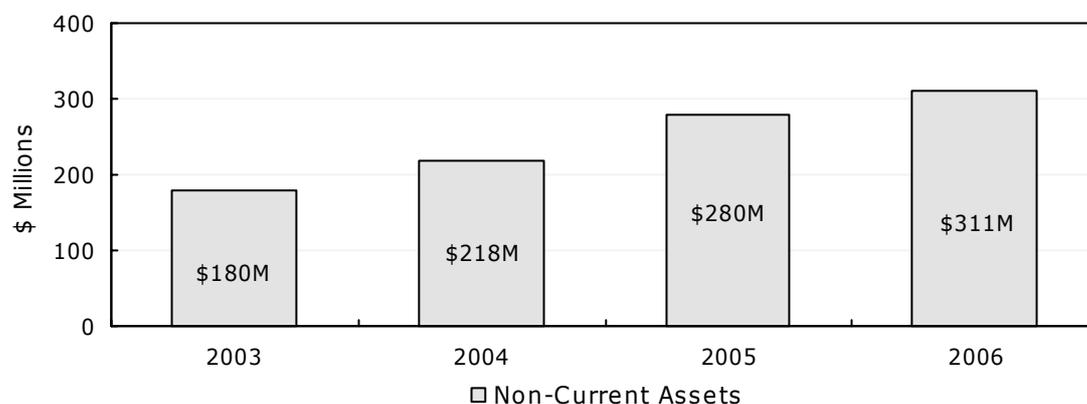


Balance Sheet

The operations of the Authority are capital intensive as is reflected in the investment in 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.

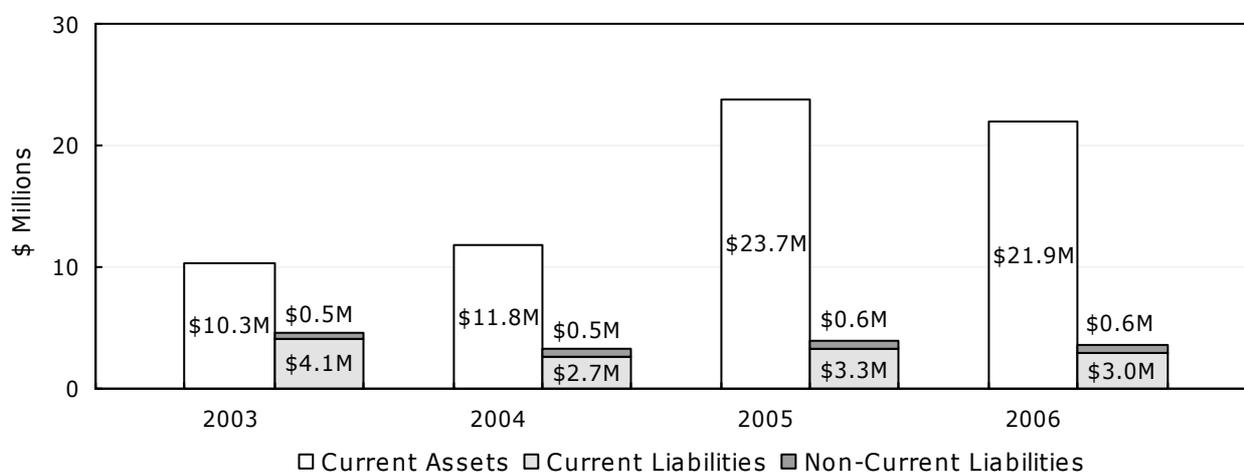
The increase in non-current assets is due to the Authority's investment in new properties and revaluation increments of \$24.3 million.

Analysis of non-current assets for the four years to 2006 is shown in the following chart.



In 2006 current assets includes cash and cash equivalents totalling \$17.5 million. Cash and cash equivalents are held for future rental housing capital projects and grant expenditure pursuant to the Community Housing Program. At 30 June 2006 the Authority's expenditure commitments totalled \$9.6 million.

A structural analysis of current assets and both current and non-current liabilities for the four years to 2006 is shown in the following chart.



Cash Flow Statement

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

	2006 \$'million	2005 \$'million	2004 \$'million	2003 \$'million
Net Cash Flows				
Operations	8.2	22.0	13.7	7.9
Investing	(9.0)	(11.9)	(11.2)	(9.5)
Change in Cash	(0.8)	10.1	2.5	(1.6)
Cash at 30 June	17.5	18.3	8.2	5.7

The analysis of cash flows 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 for future community housing program projects.

FURTHER COMMENTARY ON OPERATIONS

State Government Owned Housing

At 30 June 2006 there were 1902 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 \$9.0 million (\$8.4 million) and rental rebates were \$6.9 million (\$5.8 million).

The number of tenancies at 30 June 2006 was 1818 (1772). The percentage of tenancies receiving rebates at 30 June 2006 was 80 percent (79 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.

Income Statement for the year ended 30 June 2006

	Note	2006	2005
		\$'000	\$'000
EXPENSES:			
Grants	5(e)	10 198	7 995
Maintenance		5 750	4 655
Staffing costs	5(a)	5 376	5 194
Depreciation	5(b)	2 906	2 685
Council and water rates		2 545	2 600
Business services fees		1 597	1 222
Bad and doubtful debts	5(c)	1 665	221
Buildings written off		-	399
Rent		524	513
Insurance		228	206
Other	5(d)	3 848	3 575
Total Expenses		34 637	29 265
INCOME:			
Commonwealth revenue	4(d)	19 544	27 002
Rent	4(a)	9 010	8 415
Recoveries	4(b)	2 210	2 029
Interest		859	398
Net gain from disposal of non-current assets	4(c)	170	809
Other income		172	110
Total Income		31 965	38 763
NET COST OF PROVIDING SERVICES		(2 672)	9 498
REVENUES FROM SA GOVERNMENT:	4(e)	7 659	11 272
NET RESULT		4 987	20 770
THE NET RESULT IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			

**Balance Sheet
as at 30 June 2006**

		2006	2005
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	12(a)	17 525	18 329
Receivables	6	4 412	5 336
Inventories	7	11	13
Total Current Assets		21 948	23 678
NON-CURRENT ASSETS:			
Property, plant and equipment	8	310 960	280 256
Total Non-Current Assets		310 960	280 256
Total Assets		332 908	303 934
CURRENT LIABILITIES:			
Payables	9	2 591	2 972
Other	10	374	366
Total Current Liabilities		2 965	3 338
NON-CURRENT LIABILITIES:			
Payables	9	642	564
Total Non-Current Liabilities		642	564
Total Liabilities		3 607	3 902
NET ASSETS		329 301	300 032
EQUITY:			
Retained earnings		195 376	190 292
Asset revaluation reserve		133 925	109 740
TOTAL EQUITY		329 301	300 032
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Commitments	11		

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

	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Total \$'000
Balance at 30 June 2004	168 002	58 175	226 177
Gain on revaluation of property during 2004-05	-	51 565	51 565
Net result for 2004-05	20 770	-	20 770
Increments on sale of properties	1 520	-	1 520
Balance at 30 June 2005	190 292	109 740	300 032
Gain on revaluation of property during 2005-06	-	24 185	24 185
Net result for 2005-06	4 987	-	4 987
Increments on sale of properties	97	-	97
Balance at 30 June 2006	195 376	133 925	329 301

Cash Flow Statement for the year ended 30 June 2006

		2006	2005
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
CASH OUTFLOWS:			
Supplies and services		(15 294)	(11 964)
Staffing costs		(5 295)	(4 922)
Grants		(10 198)	(7 995)
Goods and Services Tax remitted to Department of Health		(129)	(1 756)
Goods and Services Tax paid to suppliers		(1 222)	(904)
CASH INFLOWS:			
Receipts from customers		10 604	8 649
Goods and Services Tax received from Department of Health		1 161	824
Goods and Services Tax received from customers		556	1 381
Receipts from Commonwealth		19 544	27 002
Receipts from SA Government		7 659	11 272
Interest received		859	398
Net Cash provided by Operating Activities	12(b)	8 245	21 985
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(11 268)	(16 100)
Proceeds from sale of property, plant and equipment		2 219	4 225
Net Cash used in Investing Activities		(9 049)	(11 875)
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD		(804)	10 110
CASH AND CASH EQUIVALENTS AT 1 JULY		18 329	8 219
CASH AND CASH EQUIVALENTS AT 30 JUNE	12(a)	17 525	18 329

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The South Australian Aboriginal Housing Authority (AHA) was established in October 1998 as a Statutory Corporation pursuant to the *Housing and Urban Development (Administrative Arrangements) Act 1995* and 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 and Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

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

(b) Income and Expenses

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

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

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 income of the AHA when settlements are completed.

Recoveries

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

Grants

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

Maintenance Expense

The AHA undertakes major cyclical maintenance on its rental housing assets. All costs involved with the major cyclical maintenance are recorded as an expense unless they add to the service potential of the existing rental housing asset.

(c) Current and Non-Current Classification

Assets and liabilities are characterised as either current or non-current in nature. The AHA has a clearly identifiable operating cycle of twelve months. Assets and liabilities that are expected to be sold, consumed or realised within twelve months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(d) Impairment

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

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

(e) Property, Plant and Equipment

The Balance Sheet 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.

Plant, equipment and leasehold improvements not revalued as at 30 June 2006 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 2005.

(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 2005.

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

(f) 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

(f) Depreciation (continued)

* 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.

(g) Leased Property, Plant and Equipment

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

(h) 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 Balance Sheet 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 Mercer Human Resource Consulting Pty Ltd in accordance with Australian Accounting Standard AASB 119 *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 Income Statement 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 Balance Sheet as an amount payable by the AHA to the Department for Families and Communities.

(i) 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 Balance Sheet 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.

(j) 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 Income Statement expense item 'Insurance' reflects the cost of the contribution to SAICORP.

(k) 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.

(l) 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.

(m) 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.

(n) 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 AHA for services provided up to 30 June that remain unpaid.

(o) Tax Status

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

(p) 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.

Income, 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 Balance Sheet.

Cash flows are reported on a gross basis in the Cash Flow Statement. 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.

(q) Comparative Information

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

(r) Australian equivalents to International Financial Reporting Standards

The Authority adopted Australian equivalents to International Financial Reporting Standards (IFRS) for the first time for the year ended 30 June 2006.

The Authority has assessed the impact that the transition from previous Generally Accepted Accounting Principles to Australian equivalents to IFRSs has had on its reported Balance Sheet, Income Statement and Cash Flow Statement. This assessment has concluded that there was no material impact.

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.

	Tenant/Client Services Public Rental		Community Housing Program		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Expenses:						
Grants	-	-	10 198	7 995	10 198	7 995
Maintenance	5 750	4 655	-	-	5 750	4 655
Staffing costs	2 349	2 581	3 027	2 613	5 376	5 194
Depreciation	2 805	2 620	101	65	2 906	2 685
Council and water rates	2 545	2 600	-	-	2 545	2 600
Business services fees	698	607	899	615	1 597	1 222
Bad and doubtful debts	1 665	221	-	-	1 665	221
Buildings written off	-	399	-	-	-	399
Rent	229	255	295	258	524	513
Insurance	100	102	128	104	228	206
Other	1 602	1 706	2 246	1 869	3 848	3 575
Total Expenses	17 743	15 746	16 894	13 519	34 637	29 265
Income:						
Commonwealth revenues	6 035	13 772	13 509	13 230	19 544	27 002
Rent	9 010	8 415	-	-	9 010	8 415
Recoveries	1 896	1 555	314	474	2 210	2 029
Interest	375	198	484	200	859	398
Net revenue from disposal of non-current assets	170	809	-	-	170	809
Other revenue	75	55	97	55	172	110
Total Income	17 561	24 804	14 404	13 959	31 965	38 763
Net Cost of Providing Services	(182)	9 058	(2 490)	440	(2 672)	9 498
Revenues from SA Government	5 907	3 972	1 752	7 300	7 659	11 272
Net Result	5 725	13 030	(738)	7 740	4 987	20 770
Transfers to Retained Earnings						
Increment on sale of properties	97	1 520	-	-	97	1 520
OPENING RETAINED EARNINGS	176 023	161 473	14 269	6 529	190 292	168 002
CLOSING RETAINED EARNINGS	181 845	176 023	13 531	14 269	195 376	190 292
Outstanding Commitments	2 953	3 131	6 661	4 444	9 614	7 575

4. Income		2006	2005
(a) Rent		\$'000	\$'000
Gross rent		15 935	14 192
Rental rebates		(6 925)	(5 777)
		9 010	8 415
(b) Recoveries			
Maintenance		735	552
Water charges		249	254
Bad debts		273	159
Salary and wages		50	56
Other recoveries		903	1 008
		2 210	2 029
(c) Net Gain from Disposal of Non-Current Assets			
Proceeds from disposal of non-current assets		2 219	4 225
Less: Cost of sales		2 049	3 416
		170	809
(d) Commonwealth Revenue			
Commonwealth State Housing Agreement		14 715	15 342
Families, Community Services and Indigenous Affairs		4 829	11 660
		19 544	27 002
(e) Revenue from SA Government			
Commonwealth State Housing Agreement		4 356	3 939
State Housing Plan		-	7 300
Capital Assistance Program		2 920	-
Other		383	33
		7 659	11 272
5. Expenses			
(a) Staffing Costs			
Salaries and wages		3 985	3 846
Superannuation		429	428
Annual leave		373	389
Payroll tax		277	315
Long service leave		185	173
Other		127	43
		5 376	5 194
(b) Depreciation			
Freehold buildings		2 727	2 555
Leasehold improvements		108	89
General plant and equipment		25	21
Administration buildings		4	5
Computing equipment		42	15
		2 906	2 685
(c) Bad and Doubtful Debts			
Bad debts written off		562	695
Doubtful debts expense		1 103	(474)
		1 665	221
(d) Other			
Accommodation and travel		485	389
Communication and computing		358	326
Contractors fees		1 200	936
Vehicle expenses		463	450
Printing, stationery, postage and periodicals		181	186
Occupancy expenses		186	238
Training		64	95
Audit remuneration*		78	68
Minor equipment		125	429
Consultancies		37	63
Other expenses		671	395
		3 848	3 575

* Includes remuneration of \$60 000 (\$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 2006. No other services were provided by the auditors.

	2006	2005
	\$'000	\$'000
(e) Grants		
Capital	7 023	3 915
Recurrent	3 175	4 080
	10 198	7 995
6. Receivables		
Debtors	5 890	5 772
GST recoverable from Department of Health	196	134
Excess water	26	27
Provision for doubtful debts	(1 700)	(597)
	4 412	5 336
7. Inventories		
Vacant land	11	13
8. Property, Plant and Equipment		
Freehold land and buildings (At valuation)	305 398	271 317
Accumulated depreciation	(1 870)	(1 797)
	303 528	269 520
Vacant land (At cost)	2 164	2 095
Leasehold improvements (At cost)	1 242	1 242
Accumulated depreciation	(661)	(553)
	581	689
Administration Land and Buildings (At cost)	250	142
Accumulated depreciation	(4)	(1)
	246	141
Capital works in progress	4 200	7 503
General plant and equipment (At cost)	269	269
Accumulated depreciation	(113)	(88)
	156	181
Computing equipment (At cost)	771	771
Accumulated depreciation	(686)	(644)
	85	127
Total Property, Plant and Equipment	310 960	280 256

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:

	2006			
	Freehold Land and Buildings \$'000	Vacant Land \$'000	Leasehold Improvements \$'000	Administration Land and Buildings \$'000
Carrying amount at 1 July	269 520	2095	689	141
Additions	14 348	360	-	-
Disposals/scrapped	(1 788)	(398)	-	-
Transfers to completed works	-	-	-	-
Net revaluation increment less revaluation decrements	24 175	107	-	109
Depreciation expense	(2 727)	-	(108)	(4)
Carrying Amount at 30 June	303 528	2 164	581	246
	2006			
	Capital Works in Progress \$'000	General Plant and Equipment \$'000	Computing Equipment \$'000	2006 Total \$'000
Carrying amount at 1 July	7 503	181	127	280 256
Additions	8 182	-	-	22 890
Disposals/scrapped	-	-	-	(2 186)
Transfers to completed works	(11 485)	-	-	(11 485)
Net revaluation increment less revaluation decrements	-	-	-	24 391
Depreciation expense	-	(25)	(42)	(2 906)
Carrying Amount at 30 June	4 200	156	85	310 960

9. Payables	2006	2005
Current Payables:	\$'000	\$'000
Creditors	1 371	2 179
Staffing benefits	649	646
Council and water rates	72	74
GST payable to the Department of Health	499	73
	2 591	2 972
Non-Current Payables:		
Staffing benefits	642	564
	642	564
10. Other Liabilities		
Current Liabilities:		
Insurance provisions	239	218
Unearned revenue	135	148
	374	366

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.

	2006	2005
	\$'000	\$'000
Not later than one year	2 211	2 413

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	6 383	4 715
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Operating Lease Commitments

Future non-cancellable operating lease rentals not provided for and payable inclusive of GST:

Not later than one year	554	360
Later than one year but not later than five years	466	87
	1 020	447

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 Cash Flow Statement**(a) Reconciliation of Cash and Cash Equivalents**

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and cash at bank. Cash and cash equivalents at the end of the period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
	\$'000	\$'000
Cash Flow Statement	17 525	18 329
Balance Sheet	17 525	18 329

(b) Reconciliation of Net Cash Provided by Operating Activities to Net Cost of Providing Services

Net Cash provided by Operating Activities	8 245	21 985
Revenues from SA Government	(7 659)	(11 272)
Depreciation	(2 906)	(2 685)
Buildings written off	-	(399)
Revaluation Increment - admin land and buildings	109	-
Net gain from disposal of non-current assets	170	809
	(2 041)	8 438
Change in Assets and Liabilities:		
Increase (Decrease) in receivables excluding receivables from asset sales	(924)	1 764
Decrease in inventories	(2)	(12)
(Increase) Decrease in payables	303	(649)
Increase in other liabilities	(8)	(43)
	(631)	1 060
Net Cost of Providing Services	(2 672)	9 498

13. Remuneration of Board Members and Employees**(a) Board Members' Remuneration**

The AHA Board of Management comprises eight members and three Deputy Members. 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)	Mr Harry Miller
Ms Shereen Rankine	Mr Yami Lester OAM
Mr Henry Rankine OAM	Mr Tauto Sansbury
Mr Klynton Wanganeen	Mr Alwyn McKenzie

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

	2006	2005
	Number of	Number of
	Members	Members
\$Nil	2	3
\$1 - \$10 000	2	2
\$10 001 - \$20 000	4	4
	8	9

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

	2006	2005
	\$'000	\$'000
	61	54

* Includes payments to a superannuation fund on behalf of Board members of \$5 000.

Board 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.

Mr H Miller declared his interest in Port Lincoln Aboriginal Community Council and Mallee Park Football Club:

Grant Expenditure 2005-06 (PLACC)	\$3 000
Contract Expenditure 2005-06 (PLACC)	\$131 000
Contract Expenditure 2005-06 (Mallee Park)	\$2 000

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

Grant Expenditure 2005-06 (Davenport)	\$146 000
Contract Expenditure 2005-06 (Davenport)	\$906 000
Grant Expenditure 2005-06 (Viliwarinha)	\$42 000
Contract Expenditure 2005-06 (Viliwarinha)	\$65 000

Mr E McNamara declared his interest in Biringa Inc.:

Grant Expenditure 2005-06	\$3 000
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(b) Employees' Remuneration

The number of employees whose normal remuneration was over

	2006	2005
	Number of	Number of
	Employees	Employees
\$100 000 was:		
\$170 000 - \$179 999	1	1

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

	173	172
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Remuneration includes salary, employer's superannuation costs, use of motor vehicle in accordance with prescribed conditions and associated Fringe Benefits Tax.

14. 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

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 Cash Deposits which was deemed to be 5.58 percent as at 30 June 2006.

(c) Net Fair Value of Financial Instruments

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

(d) Liquidity Risk

The continued existence of the AHA in its present form, and with its present segments/services, is dependent on Government policy and on continuing capital appropriations by Parliament to maintain the AHA's asset base.

(e) Risk Management

Risk management is carried out by the AHA and risk management policies and practices are in accordance with Australian Risk Management Standards and internal written policies approved by the Board.

The AHA has non-interest bearing assets (cash on hand and on call and receivables) and liabilities (payables) and interest bearing assets (cash held with Department of Treasury and Finance).

The AHA's exposure to financial, market and cash flow interest risk is minimal. The AHA has no significant concentration of credit risk. The AHA has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. The continued existence of the AHA in its present form, and with its present segments/services, is dependent on Government policy and on continuing capital appropriations by Parliament to maintain the AHA's asset base.

15. Transactions with SA Government

In accordance with the requirements of Accounting Policy Framework APF II *General Purpose Financial Reporting Framework*, 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 APF II.

	2006	2005
	\$'000	\$'000
Expenses:		
Council and water rates	1 132	1 296
Business services fees	1 597	1 222
Insurance	228	206
Other	1 427	348
	4 384	3 072
Income:		
Recoveries	768	630
Interest	859	398
	1 627	1 028
Revenues from SA Government	7 659	11 272
Financial Assets:		
Cash assets	17 523	18 326
Receivables	1 739	1 933
	19 262	20 259
Financial Liabilities:		
Payables	2 403	2 259
Insurance provisions	239	218
	2 642	2 477

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 2006 assets and liabilities of SAAMC stood at \$69 million and \$8 million respectively.

At 30 June 2006 SAAMC staffing consisted of a part time Chief Executive Officer and one temporary employee.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the 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

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

During 2005-06, areas of audit attention included: cash and investments; receivables and payables; financial accounting systems, including reconciliation processes; and financial statements verification.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, the *Corporations Act 2001*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of SAAMC as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian 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 discussed with SAAMC management during the audit process were directed to ensuring appropriate reporting disclosures consistent with the requirements of SAAMC's first year adoption of Australian equivalents to International Financial Reporting Standards.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

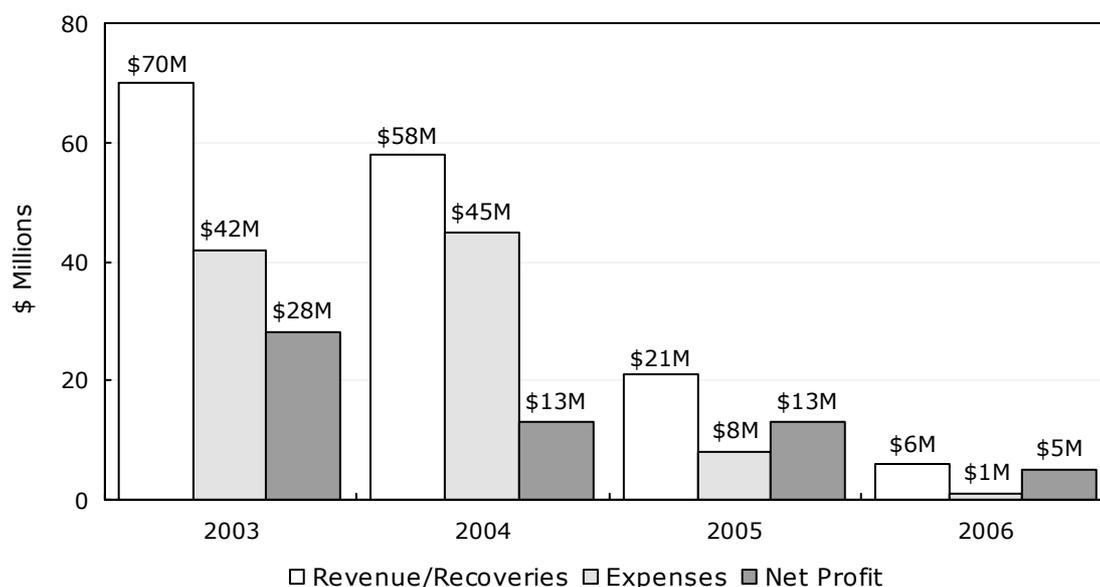
The major objective of SAAMC involves the management of the divesting of assets and repayment of liabilities rather than holding for long term operations and profit generation.

Highlights of Financial Report

	2006 \$'million	2005 \$'million
INCOME		
Interest revenue	3	14
Non-interest income	2	5
Recoveries of debts	1	2
Income	6	21
EXPENSES		
Borrowing costs (interest expense)	-	6
Other expenses	1	2
Total Expenses	1	8
Net Profit After Income Tax Equivalents	5	13
Net Cash Flows from Operations	16	7
ASSETS	69	69
LIABILITIES	8	7
EQUITY	61	62

Income Statement

The following chart shows the revenues/recoveries, expenses and net profits for the four years to 2006.



Up until this year, both interest revenue and interest expense (borrowing costs) have always been the main components of SAAMC's annual revenue and expense flows. In 2003, interest revenue and interest expense were \$56.0 million and \$40.6 million respectively. In 2006, while SAAMC recorded interest revenue of \$3.5 million, it recorded for the first time no borrowing costs.

The reduction in revenue and expense flows over the years accompanied by an associated decrease in the level of net profits over the years, reflects SAAMC's core objective of asset divestiture and liability extinguishment, rather than profit generation.

Balance Sheet

The table below presents a very broad analysis of the assets and liabilities and equity position of SAAMC for the four years to 2006. The table shows over the years a significant trend reduction in assets and liabilities.

	2006	2005	2004	2003
	\$'million	\$'million	\$'million	\$'million
ASSETS				
Securities	-	35	599	765
Other (including investment property)	69	34	187	170
Total Assets	69	69	786	935
LIABILITIES				
Interest bearing liabilities	-	-	656	758
Other	8	7	9	9
Total Liabilities	8	7	665	767
EQUITY				
Retained earnings	8	3	59	106
Other	53	58	62	62
TOTAL EQUITY	61	62	121	168

The net asset position of SAAMC at 30 June 2006 was \$60.6 million, down slightly from \$61.7 million at 30 June 2005. During the year proceeds from the sale of securities (refer to Note 17) and the sale of an investment property (refer to Notes 1(k) and 18) were deposited and invested with the South Australian Government Financing Authority.

At 30 June 2006 the retained earnings of SAAMC were \$7.9 million after payment of a dividend of \$6 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). Refer to Statement of Changes in Equity.

Cash Flow Statement

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

	2006	2005	2004	2003
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	16	7	10	33
Investing	(11)	696	152	483
Financing	(6)	(705)	(161)	(517)
Change in Cash	(1)	(2)	1	(1)
Cash at 30 June	2	3	5	4

Over the years from 2003 and 2006, cash flows from investing activities have mainly resulted from the sale of securities. The proceeds have been used in relation to financing activities, associated with repaying borrowings and/or contributed capital to the Government, or payment of dividends to the Government, or in reinvestment activity principally with SAFA.

Income Statement for the year ended 30 June 2006

		2006	2005
	Note	\$'000	\$'000
INCOME:			
Interest revenues	5	3 467	14 309
Rental revenues	6	1 935	2 255
Fair value adjustment for investment property	18	-	2 006
Other income	6	79	72
Credit for bad and doubtful debts	13	513	2 158
Total Income		5 994	20 800
EXPENSES:			
Employee benefits costs	8	170	184
Borrowing costs	9	-	6 115
Supplies and services	10	824	1 288
Other Expenses	11	96	48
Total Expenses		1 090	7 635
Profit before income tax equivalents		4 904	13 165
Income tax equivalent expense	14	-	-
NET PROFIT AFTER INCOME TAX EQUIVALENTS		4 904	13 165

Balance Sheet as at 30 June 2006

		2006	2005
	Note	\$'000	\$'000
ASSETS:			
Cash and cash equivalents	26(a)	1 735	3 151
Investments	16	67 189	5 179
Securities	17	-	34 000
Investment property	18	-	13 500
Other financial assets	19	-	13 359
Total Assets		68 924	69 189
LIABILITIES:			
Payables	20	4 992	4 047
Employee benefits	21	67	62
Provisions	22	3 253	3 372
Total Liabilities		8 312	7 481
NET ASSETS		60 612	61 708
EQUITY:			
Contributed capital		52 716	52 716
Retained earnings		7 896	8 992
TOTAL EQUITY		60 612	61 708
Commitments for expenditure	23		
Contingent assets and liabilities	24		

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

	Contributed Capital \$'000	Property Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 July 2004	52 716	6 428	62 600	121 744
Transfer from property reserve to retained profits in 2004-05	-	(6 428)	6 428	-
Net Profit after income tax equivalents for 2004-05	-	-	13 165	13 165
Dividend paid to SA Government	-	-	(73 200)	(73 200)
Balance at 30 June 2005	52 716	-	8 993	61 709
Rounding correction	-	-	(1)	(1)
Restated balance at 30 June 2005	52 716	-	8 992	61 708
Net Profit after income tax equivalents for 2005-06	-	-	4 904	4 904
Dividend paid to SA Government	-	-	(6 000)	(6 000)
Balance at 30 June 2006	52 716	-	7 896	60 612

Cash Flow Statement for the year ended 30 June 2006

		2006 Inflows (Outflows) \$'000	2005 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
Interest received		14 291	36 225
Interest paid		-	(30 196)
Other income received		2 447	256
Recovery of bad debts written off in previous years		513	2 119
Payments to trade creditors, other creditors and employees		(1 010)	(1 826)
Net Cash Flows provided by Operating Activities	26(b)	16 241	6 578
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (advances) receipts to/from loans, advances and receivables		(8 568)	11 472
Proceeds from sale of investment property		13 543	-
Net (payments) receipts relating to managed funds and trading securities		(16 632)	685 068
Net Cash Flows (used in) provided by Investing Activities		(11 657)	696 540
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid		(6 000)	(73 200)
Net receipts from (repayments of) borrowings		-	(492 954)
Net receipts from (repayments of) deposits		-	(138 829)
Net Cash Flows used in Financing Activities		(6 000)	(704 983)
NET DECREASE IN CASH HELD		(1 416)	(1 865)
CASH AND CASH EQUIVALENTS AT 1 JULY		3 151	5 016
CASH AND CASH EQUIVALENTS AT 30 JUNE	26(a)	1 735	3 151

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of South Australian Asset Management Corporation (SAAMC)

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 objectives of the Corporation are:

- meet the long-term obligations and commitments of what was previously known as State Bank of South Australia;
- pursue and finalise statutory and other legal actions arising from winding down of all the subsidiaries of the former State Bank of South Australia;
- disciplined downsizing of the Balance Sheet;
- generate earnings through the realisation of assets and prudent management of funding;
- manage limited resources efficiently and productively, maintaining a pool of skills in balance with the downsizing task;
- be fully accountable to the State of South Australia;
- maintain a high standard of corporate and business ethics.

2. Summary of Significant Accounting Policies

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

(a) Basis of Accounting

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 and Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987* (PFFA). The PFFA and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards.

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

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

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are at Note 4.

The Corporation's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual and fair value basis.

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

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

(b) Comparative Information

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

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

Note 4 provides an analysis of comparative amounts that have been reclassified as a result of adoption of AIFRS.

(c) Taxation

The Corporation is exempt from the Treasurer's Instruction 22 *Tax Equivalent Payments* by virtue of the *State Bank (Corporatisation) Act 1994*. The Corporation is liable for payroll tax, fringe benefits tax, goods and services tax, emergency services levy, land tax equivalents and local government rate equivalents.

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 Balance Sheet.

Cash flows are included in the Cash Flow Statement 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 are cash and other liquid investments with SAFA.

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 Income Statement 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 in the past exposed to changes in foreign exchange rates from its activities. Prior to 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 were maintained until April 2005. 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 Income Statement. Gains and losses on instruments that were designated as hedges and were effective as hedges were accounted for on the same basis as the underlying instrument.

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.

(f) Leased Assets as Lessor

Operating Leases

Operating leases for leased assets where the Corporation is the lessor were included in property, plant and equipment in the Balance Sheet. Rental income was brought to account in the period in which it was earned over the effective lease term.

The Corporation owned a property, which was leased to the Department for Administrative and Information Services. This property was sold on 1 June 2006. The long term lease associated with it was assigned to the purchaser as part of the sale transaction.

(g) Income and Expenses

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

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

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

Rental Income arising on investment properties is accounted for on a straight line basis over the lease term.

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

(h) Employee Benefits

Employee benefits costs as shown in Note 8 to the financial statements have been reported in accordance with AASB 119 *Employee Benefits*. 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.

Salaries, Annual Leave and Long Service Leave

The provisions for employee entitlements to salaries and annual 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 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 23, Superannuation Commitments.

(i) Securities

Securities represent public and other debt instruments that were 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 were recorded on a mark-to-market valuation basis. Gains and losses realised from the sale of these securities and unrealised gains and losses on revaluation were reflected in the Income Statement.

(j) Rounding

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

(k) Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. The property sold on 1 June 2006 was measured at fair value.

3. 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 \$6.0 million (\$73.2 million) be paid into the Consolidated Account from the Corporation's accumulated retained profits. The payment was made on 30 June 2006.

4. Changes in Accounting Policies

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

	At 01.07.04			At 01.07.05		
	Previous AGAAP \$'000	Adjustments \$'000	AIFRS \$'000	Previous AGAAP \$'000	Adjustments \$'000	AIFRS \$'000
Current Assets	775 521	(b) 567	776 088	54 685	(b) 1 004	55 689
Non-Current Assets	11 000	-	11 000	13 500	-	13 500
Current Liabilities	(665 344)	-	(665 344)	(7 481)	-	(7 481)
Net Assets	121 177	567	121 744	60 704	1 004	61 141
EQUITY:						
Contributed capital	52 716	-	52 716	52 716	-	52 716
Retained earnings	59 175	(a) 3 425	62 600	3 124	(b) 5 868	8 992
Assets revaluation reserve and other reserves	9 286	(c) 2 858	6 428	4 864	(4 864)	-
TOTAL EQUITY	121 177	567	121 744	60 704	1 004	61 708
Profit after income tax equivalents				10 722	(c) 2 443	13 165
Cash Flows from Operating Activities				6 578	-	6 578

(a) and (b) On adoption of AASB 139 *Financial Instruments: Recognition and Measurement*, bonds previously recorded at cost were written to market.

(c) Revaluation Reserve written back to retained earnings on adoption of AASB 140 *Investment Property*.

5. Interest Revenues

	2006 \$'000	2005 \$'000
Interest received/receivable from entities external to the SA Government	2 448	14 078
Interest received/receivable from entities within SA Government	1 019	231
Total Interest Income	3 467	14 309

6. Rental Revenues and Other Income

	2006 \$'000	2005 \$'000
Rental received from entities within SA Government	1 935	2 255
Other sundry income received from entities external to SA Government	79	72
Total Rental and Other Income	2 014	2 327

7. Key Management Personnel and Remuneration

Key management personnel of the Corporation comprise the directors of the Corporation being Mr Brett G Rowse, Ms Linda Hart (from May 2006), Ms Kathryn A Moore, Ms Nicolle S Rantanen, Mr Terence C Evans (to 31 March 2006) and the Chief Executive Officer Mr Andrew G Anastasiades. As the directors are employees of the South Australian Government no remuneration was paid to them by the Corporation. Remuneration payable to the Chief Executive Officer is \$100 513 representing short term benefits.

8. Employee Benefits Costs

	2006 \$'000	2005 \$'000
Fringe benefits tax	5	5
Salaries	135	142
Superannuation and retiring allowances	18	21
Other staff expenses	12	16
Total Employee Benefits Costs	170	184

9. Borrowing Costs	2006	2005
	\$'000	\$'000
Interest paid/payable to entities external to the SA Government	-	6 115
Total Borrowing Costs	-	6 115
10. Supplies and Services		
Supplies and services provided by entities within the SA Government:		
Legal	5	5
Insurance	21	21
Other (including property outgoings \$481 000 (\$560 000))	564	850
Total Supplies and Services - SA Government Entities	590	876
Supplies and services provided by entities external to the SA Government:		
Legal	216	93
Other	18	319
Total Supplies and Services - Non-SA Government Entities	234	412
Total Supplies and Services	824	1 288
11. Other Expenses		
Other	96	48
Total Other Expenses	96	48
12. Auditor's Remuneration		
Audit fees paid/payable to the Auditor-General's Department	52	85
Total Audit Fees - SA Government Entities	52	85
In respect of 2004-05 the amount paid was \$60 000.		
13. Bad and Doubtful Debts		
Net (credit) for bad debts written off:		
Recoveries net of recovery costs	(513)	(2 119)
Net Recoveries Received	(513)	(2 119)
Charge for provision for doubtful debts:		
Unused provision amount reversed (refer Note 17)	-	(39)
(Credit) for Provision for Doubtful Debts	-	(39)
(Credit) for Bad and Doubtful Debts	(513)	(2 158)
14. Income Tax		
The amount provided in respect of income tax differs from the amount prima facie payable on operating profit:		
Prima facie income tax expense calculated at 30 percent (30 percent) on profit	1 471	3 949
Decrease in income tax expense due to non-tax assessable items:		
Tax exempt income - SAAMC	1 471	3 949
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)	-	-
15. Segmental Reporting		
Geographic Segments		
Revenue:		
Australia	5 994	20 800
Total Revenue	5 994	20 800
Profit after income tax equivalents:		
Australia	4 904	13 165
Total Profit After Income Tax Equivalents	4 904	13 165
Total Assets:		
Australia	68 924	69 189
Total Assets	68 924	69 189

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.

16. Investments	2006	2005
	\$'000	\$'000
Deposits with SA Government entities	67 189	4 260
Receivables from non-SA Government entities	-	919
Total Investments	67 189	5 179
17. Securities		
(a) Unlisted Liquid and Trading Securities		
Interbank, corporate and other securities (Gross)	-	21 500
Less: Specific provision for doubtful debts	-	-
Total Unlisted (Net)	-	21 500
Total Liquid and Trading Securities	-	21 500
(b) Unlisted Securities at Cost		
Fixed coupon bonds	-	12 500
Total Securities	-	34 000
Specific Provision:		
Balance at 1 July	-	39
Credited against profit (Notes 1(d), 13)	-	(39)
Specific Provision at 30 June	-	-
18. Investment Property		
Land and building at fair value		
Balance at 1 July	13 500	11 000
Net gain from fair value adjustment	-	2 006
Building additions	43	494
Sale proceeds on disposal	(13 543)	-
Total Land and Building	-	13 500
The asset was sold and the sale settled for \$13.543 million on 1 June 2006.		
19. Other Financial Assets		
Receivables on swap or hedge transactions	-	13 359
Total Other Financial Assets	-	13 359
20. Payables		
Current:		
Creditors	619	400
Accrued expenses	185	188
GST Payable	1 388	41
Non-current:		
Creditors	2 800	3 418
Total Payables	4 992	4 047
Government/Non-Government Payables:		
Payables to SA Government entities:		
Accrued expenses	133	65
Total Payables to Other SA Government Entities	133	65
Payables to Non-SA Government entities:		
Creditors	3 419	3 818
Accrued expenses	52	123
GST payable	1 388	41
Total Payables to Non-SA Government Entities	4 859	3 982
Total Payables	4 992	4 047
21. Employee Benefits		
Current:		
Annual leave	21	10
Accrued salaries	4	8
Total Current Employee Benefits	25	18
Non-Current:		
Long term long service leave	42	44
Total Employee Benefits	67	62

22. Provisions	2006	2005
	\$'000	\$'000
Workers compensation claims and Mortgage guarantee insurance provision	3 253	3 372
Total Provisions	3 253	3 372
		2006
		\$'000
Carry amount at 1 July		3 372
Amount charged against the provision		(43)
Unused amount reversed		(76)
Carrying Amount at 30 June		3 253

23. 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

	2006	2005
	\$'000	\$'000
Concurrent leases payable or contracted for at balance date but not provided for in the financial statements:		
Not later than one year	3 904	3 782
Later than one year but not later than five years	6 095	9 999
	9 999	13 781

These commitments are offset by lease payments to be received, which are estimated to be \$10.7 million. (The 2005 estimate for recoveries was \$13.8 million as compared to commitments of \$13.8 million. However historical results and changes in the real estate market conditions could necessitate a re-evaluation of both future commitments and offsets, which could result in a reduction in both estimates).

24. Contingent Assets and Liabilities**Claims by and 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 in balance 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 is litigation scheduled in early 2007 relating to certain contractual arrangements involving HCC and the Greek Government.

Put Option

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

At the time of the sale, the then 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 that 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. The independent assessment valued the property at \$40 million.

25. Financial Risk Management

The Corporation is exposed to minimal financial risks. All the interest-bearing assets are invested with the South Australian Government Financing Authority (SAFA) and although exposed to price risk for changes in interest rates fluctuations the risk management processes put in place by SAFA limits the financial risk to a minimum.

In relation to liquidity/funding risk, the continued existence of the Corporation in its present form is dependent on Government policy decision as to whether the Corporation's asset base is maintained.

25. Financial Risk Management (continued)

The tables below show the interest rate exposure of financial assets and liabilities.

	Floating Interest Rate \$'000	2006 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 and cash equivalents	1 735	-	-	-	-	1 735
Investments	13 766	-	53 423	-	-	67 189
	15 501	-	53 423	-	-	68 924
Weighted average interest rate (percent)	5.69		5.83			
Financial Liabilities:						
Borrowings:						
Deposits	-	-	-	-	-	-
Capital markets raisings	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
	-	-	-	-	-	-
Weighted average interest rate (percent)	-					

	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	4 540	639	-	-	-	5 179
Securities	34 000	-	-	-	-	34 000
Other financial assets:						
Net swap receivables	-	-	-	-	12 355	12 355
	41 691	639	-	-	12 355	54 685
Weighted average interest rate (percent)	5.60	5.60				
Financial Liabilities:						
Borrowings:						
Deposits	-	-	-	-	-	-
Capital markets raisings	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	7 428	7 428
	-	-	-	-	7 428	7 428
Weighted average interest rate (percent)	4.07					

26. Notes to the Cash Flow Statement**(a) Reconciliation of Cash**

Cash as at 30 June as shown in the Cash Flow Statement is

reconciled to the related items in the Balance Sheet as follows:

Cash and cash equivalents

2006
\$'000

2005
\$'000

1 735
1 735

3 151
3 151

(b) Reconciliation of Net Cash flows from Operating Activities to Net Profit after Income Tax Equivalents

Net profit

4 904

13 165

Add (Less): Non-cash items:

 Reversal of specific debt provision

-

(39)

Net Cash provided by Operating Activities before change in Assets and Liabilities

4 904

13 126

Changes in assets and liabilities:

 Increase (Decrease) in net interest accrued

546

(2 732)

 Increase (Decrease) in sundry creditors and accruals

10 781

(3 833)

 Increase in employee entitlements

10

17

Net Cash Flows provided by Operating Activities

16 241

6 578

27. Related Party Disclosures**Directors**

The names of each person holding the position of Director of the South Australian Asset Management Corporation (SAAMC) during the financial year ended 30 June 2006 are as follows:

Mr Brett G Rowse

Ms Kathryn A Moore

Mr Terence C Evans (to 30 March 2006)

Mr Andrew G Anastasiades

Ms Nicolle S Rantanen

Mr Linda Hart (from 22 May 2006)

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 5, Interest Revenues and Note 16, Investments. In addition, the Corporation and SAFA participate in the same financial markets and enter into transactions on market terms and conditions.

28. 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).

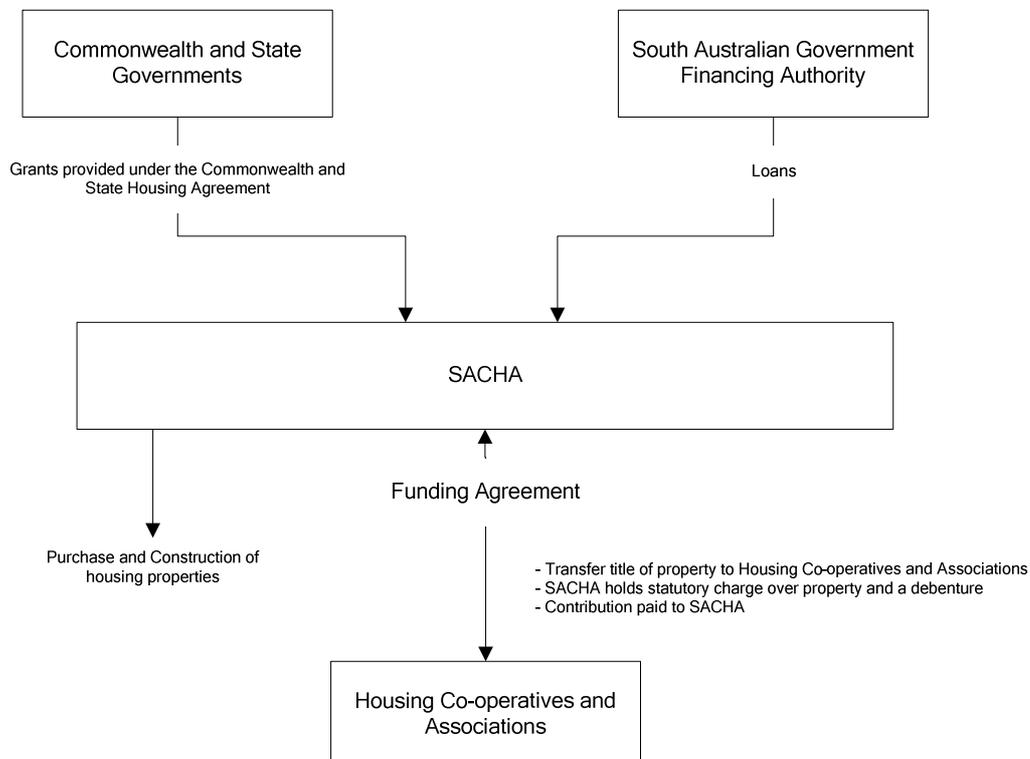
Functions

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 on issues relating to community 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.

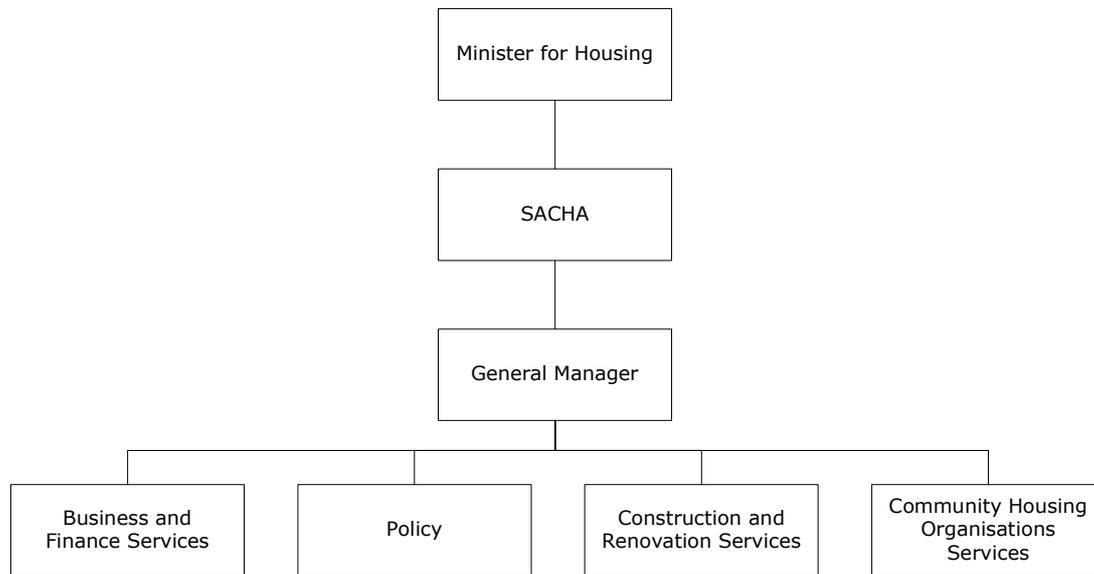
Financial Arrangements and Structure

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



Structure

The structure of the Authority in 2005-06 is illustrated in the following organisation chart (note changes in structure as at 1 July 2006 as discussed below).



Changes to Functions and Structure

During 2005-06 the Minister for Housing advised SACHA of a restructure of the South Australian Housing System pursuant to the Minister's power under the *South Australian Co-operative and Community Housing Act 1991*. It is expected that these reforms will be implemented during 2006-07. As part of transitional arrangements, SACHA agreed to enter into a new Service Level Agreement with the Department for Families and Communities for the Department to provide Housing and Asset Services on behalf of the Authority effective from 1 July 2006 (refer Note 27 of SACHA's financial statements).

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 the Financial Report

Subsection 19(2) of the *South Australian Co-operative and Community Housing Act 1991* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for 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 2005-06, specific areas of audit attention included:

- expenditure (both operating and capital)
- revenue including contributions from CHOs
- payroll
- non-current property assets
- accounting for arrangements with CHOs.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Authority as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the 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; monitoring of community housing organisations; and public liability insurance 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. The main matters raised with the Authority and the related responses are considered herein.

Monitoring of Community Housing Organisations

Arrangements between the Authority and CHOs require CHOs 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 contribution revenue. Audit's 2005-06 review noted that a significant number of CHO's had not submitted, or were late to submit, audited statements for the 2004-05 financial year. Audit recommended the follow up and timely review of all outstanding CHO audited financial statements.

The Authority responded that 94 percent of CHOs audited financial statements for 2004-05, had been received and the remainder actively followed up since May 2006.

Public Liability Insurance

The Authority enters into contractual arrangements with building contractors to build houses. The tender documents require the contractors to have adequate public liability insurance prior to signing of the contract and existing until the expiry of a defect liability period. As part of these requirements successful tenders need to provide a certificate of currency for their public liability insurance prior to taking possession of the site. The 2005-06 audit revealed instances where certificates of currency were not provided prior to possession and coverage insurance fell short of the defect liability period. Audit recommended that the Authority implement procedures to ensure the currency of the contractors public liability insurance as required by tender documents.

The Authority responded that it is now checking for current certificates of insurance prior to engagement and is instituting review processes.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT**Highlights of Financial Report**

	2006	2005	Percentage
	\$'million	\$'million	Change
EXPENSES			
Borrowing costs	8.5	8.5	-
Depreciation expense	6.8	6.6	3
Employee expenses	3.2	2.5	28
Other expenses	4.2	4.9	(14)
Total Expenses	22.7	22.5	1
INCOME			
Contributions from CHOs	7.9	8.5	(7)
Other income	1.9	5.0	(62)
Total Income	9.8	13.5	(27)
Net Cost of Providing Services	12.9	9.0	43
REVENUES FROM GOVERNMENT			
Government grants	25.3	27.8	(9)
Net Result	12.4	18.8	(34)
Net Cash Flows from Operations	9.8	10.8	(9)
Net Cash Flows used in Investing Activities	(12.8)	(21.4)	(40)
ASSETS			
Current assets	6.0	9.7	(38)
Non-current assets	734.6	679.8	8
Total Assets	740.5	689.5	7
LIABILITIES			
Current liabilities	2.8	2.6	8
Non-current liabilities	120.4	120.4	-
Total Liabilities	123.2	123.0	-
EQUITY	617.3	566.5	9

First-time Adoption of Australian equivalents to International Financial Reporting Standards

The 2005-06 financial report is the first financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Previous financial reports were prepared in accordance with Australian Generally Accepted Accounting Principles (GAAP).

Reference should be made to Note 4 of the Authority's financial report which explains the transition from previous GAAP to AIFRS and the effect on the reported financial position, financial performance and cash flows. The principal effects of AIFRS are:

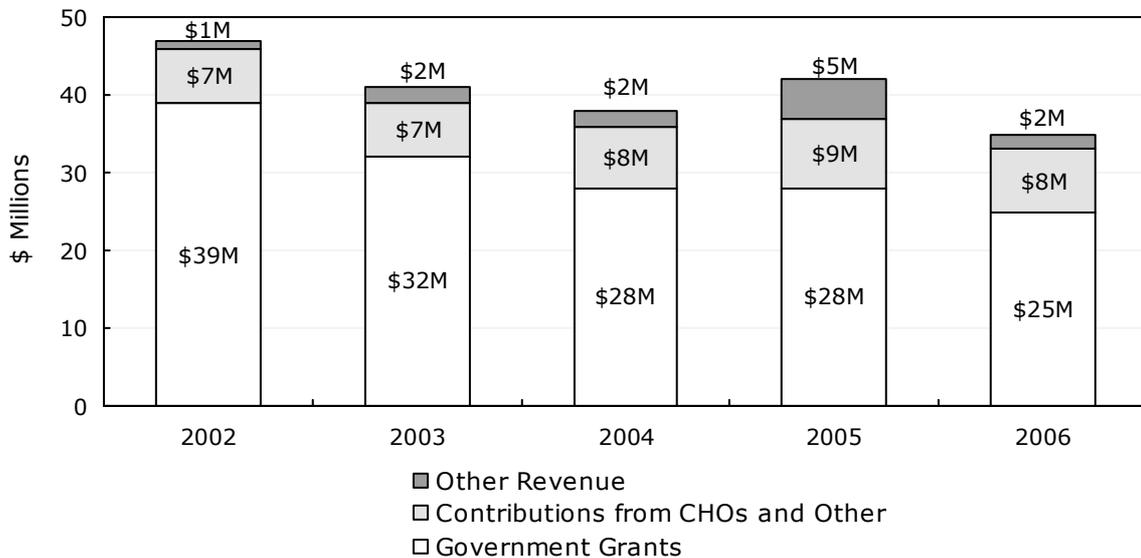
- derecognition of gains or losses arising from the transfer of properties to CHOs as the transfer of legal title fails to satisfy the revenue recognition requirements under AASB 118 *Revenue*;
- debentured properties previously recorded as a receivable asset are now recognised as land and buildings of the Authority under AASB 116 *Property, Plant and Equipment* and a depreciation expense is now recorded in the Income Statement.

The impact of changes have been retrospectively applied to the comparative figures (refer to reconciliations in Note 4 to the financial report).

Income Statement

Operating Income

A structural analysis of operating revenues of the Authority for the five years to 2006 is presented in the following chart (restated for the retrospective application of AIFRS).



The above chart indicates the extent to which the Authority is reliant on Government grants.

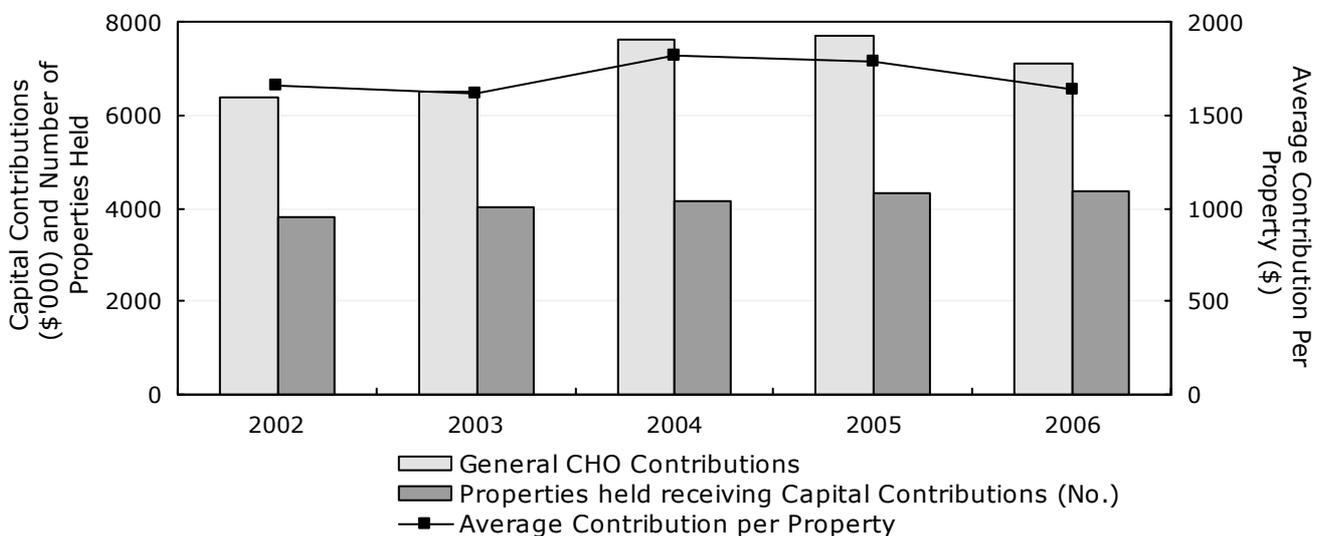
Government Grants

Government grants (reflecting funding for both recurrent and capital purposes) have gradually decreased over the period. Included within Government Grants for 2005-06 are grants specifically provided for the purpose of acquiring South Australian Housing Trust properties of \$9 million (\$10.9 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.

Contributions from Community Housing Organisations

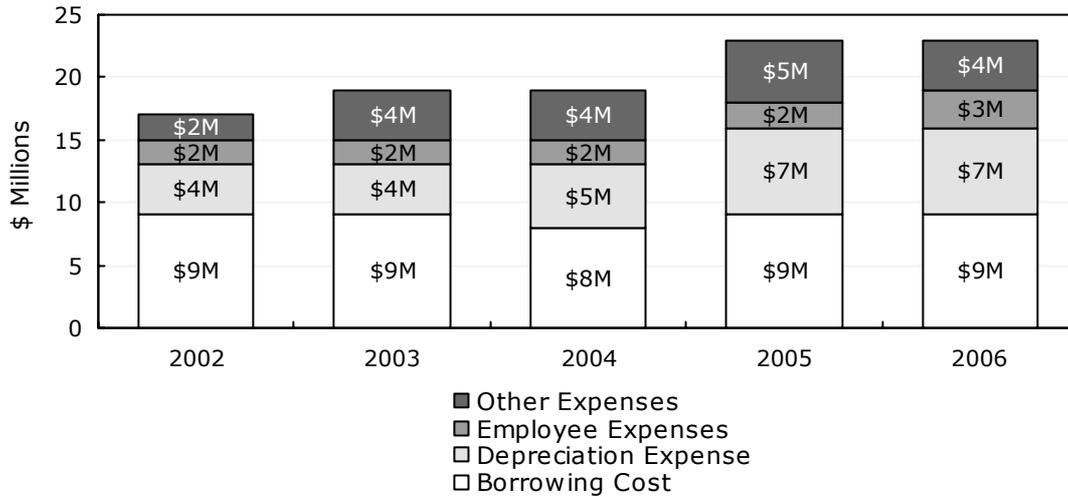
General contributions from the CHOs (excluding insurance premiums recharged to CHOs) were \$7 million a reduction of \$600 000 from the previous year. Contributions are based on criteria in funding agreements with each CHO including means tests. During 2005-06 new funding agreements were signed by a majority of CHOs impacting on the level of contributions received. After allowing for rental subsidies, the general contributions were insufficient to meet the Authority's borrowing costs, which totalled \$8.5 million (\$8.5 million).

The following chart shows the trend of general contributions from CHOs over the past five years, highlighting the decrease in contributions and average contribution per property.



Expenses

For the five years to 2006, a structural analysis of the main operating expense items for the Authority is shown in the following chart (restated for the retrospective application of AIFRS).



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

The increase in depreciation is consistent with increases in the value of property assets over the same period.

Operating Result

For 2005-06 the Net Result decreased by \$6.4 million from \$18.8 million to \$12.4 million. The decrease in the main reflects:

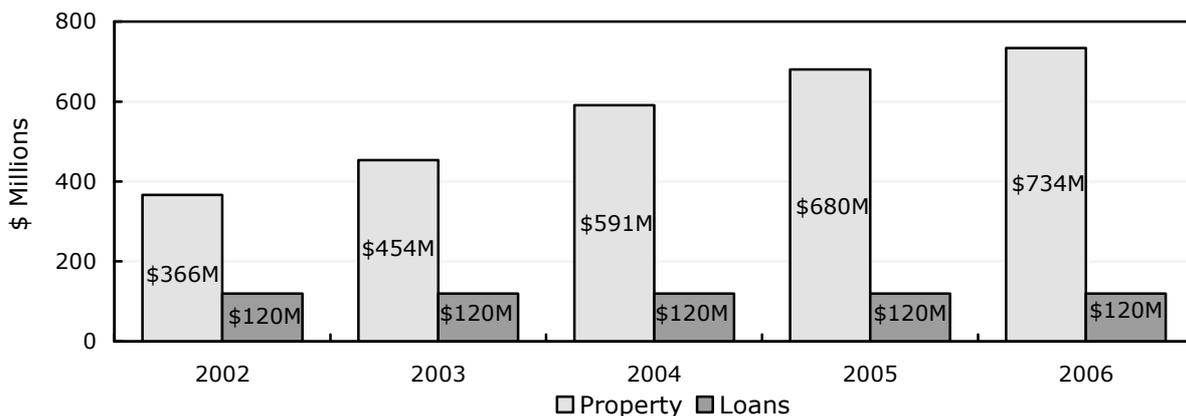
- During 2004-05 the Authority recognised \$4 million in contributed assets revenue, no such contributed assets were received in 2005-06. Reference should be made to Note 14 of the Authority’s Financial Report.
- Reduction of revenues from Government of \$2.5 million reflecting a reduction of Commonwealth/State Housing Agreement funds. Reference should be made to Note 16 of the Authority’s Financial report.

The Authority consistently reports surplus net results due primarily to Government capital grants, the expenditure of which is reflected in the Balance Sheet as additions to non-current assets. The consistency of the Authority’s surplus is reflected in the equity section of the Balance Sheet where retained earnings amounted to \$351 million at 30 June 2006 essentially reflecting the cumulative value of capital grants over time.

Balance Sheet

The Balance Sheet contains one dominant item of assets (Property) and one dominant item of liabilities (borrowings), both of which are non-current.

For the five years to 2006 a structural analysis of property and borrowings is shown in the following chart (restated for the impact of AIFRS).



The growth in property assets primarily reflects property value appreciation but also the cumulative value of grants as discussed previously.

Properties

The number of registered CHOs during 2005-06 was 119 (121). The Authority has earned general contributions totalling \$7.0 million (\$7.6 million) from the following properties:

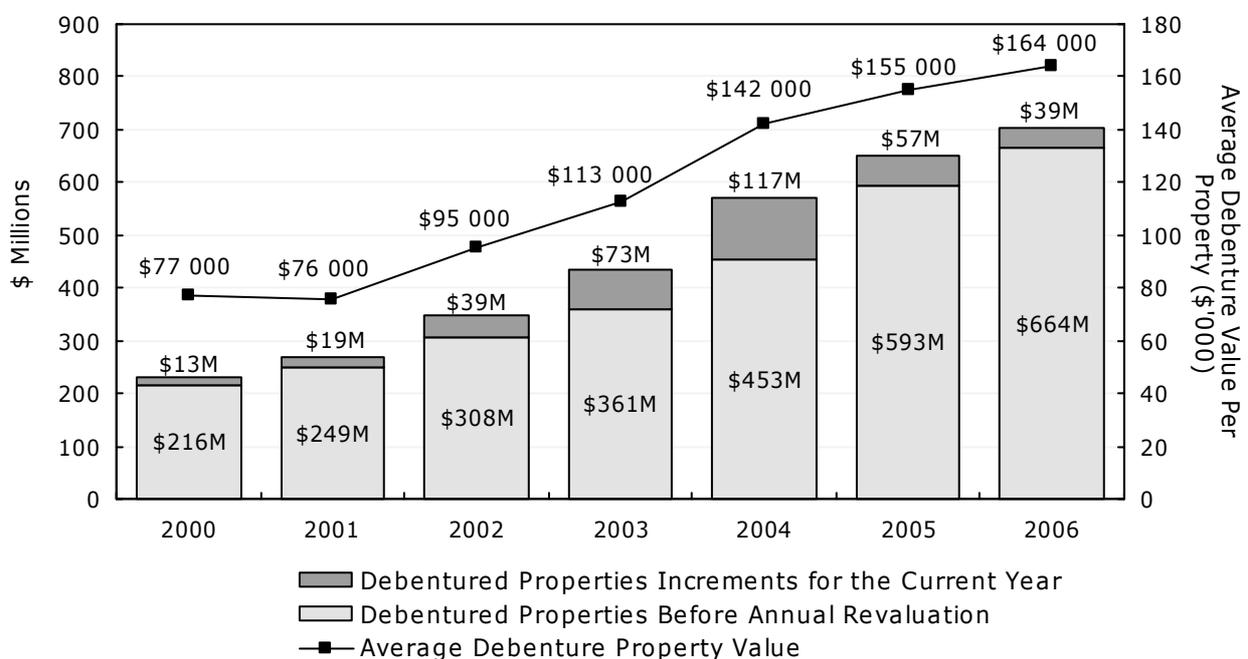
Property Type	2006 Number	2005 Number
Debentured properties	4 288	4 179
Properties leased from SAHT and sub-lease back to CHO's	6	93
Properties directly leased to CHOs	29	32
Total	4 323	4 304

In addition to the above properties, a total of 14 (18) properties were leased back to the South Australian Housing Trust (SAHT), 101 (107) properties were included in work in progress and 94 (92) properties were held by the Authority.

The value of properties at 30 June 2006 was \$734 million (\$680 million), an increase of \$54 million reflecting, in the main:

- purchase and construction of housing of \$19.4 million;
- SA Housing Trust property transfers of \$9 million;
- revaluation increase of \$38.5 million;
- offset by disposals of \$5.5 million and depreciation of \$6.8 million.

The following chart shows the growth in the value of debentured properties issued to CHOs over the past seven years.



The chart shows that annual debentured properties revaluation increments have been significant for the past four years. The revaluation increment in 2005-06 was \$39 million, which represented an increase of 6 percent in the value of properties debentured from 2004-05. Since 2000, the value of debentured properties has increased by 307 percent and the number of debentured properties has increased by 44 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 debentured properties.

Cash Flow Statement

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

	2006	2005	2004	2003
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	9.8	10.8	12.2	14.4
Investing	(12.8)	(21.4)	(15.0)	(10.5)
Change in Cash	(3.0)	(10.6)	(2.8)	3.9
Cash at 30 June	4.3	7.3	17.9	20.7

Net Cash Provided by Operating Activities decreased by \$1 million resulting mainly from increase in payments to suppliers and employees (ie an increase of \$500 000 from \$6.4 million to \$6.9 million), a decrease in interest receipts of \$300 000 and a decrease in receipts from government of \$200 000.

Net Cash Used in Investing Activities decreased by \$8.6 million resulting mainly from:

- a decrease in outflows from purchase and construction of community housing of \$3.9 million to \$19 million;
- an increase in proceeds from sale of properties of \$4.8 million.

These investment activities are also reflected in Note 19(c) as additions to community housing work in progress projects of \$28.4 million which includes non-cash property additions of \$9 million being properties transferred from South Australian Housing Trust as grants (refer also Note 16).

As at 30 June 2006, commitments for expenditure disclosed in Note 25 of the financial report totalled \$3.4 million (\$6.6 million). Cash at Treasury and on hand totalled \$4.3 million (\$7.3 million).

**Income Statement
for the year ended 30 June 2006**

	Note	2006	2005
		\$'000	\$'000
EXPENSES			
Employee expenses	2.3, 5	3 175	2 464
Rental expenses	2.3	296	285
Office expenses		153	146
Other expenses	6	1 266	814
Property grants and subsidies	7	952	1 733
Administrative grants and subsidies	8	1 268	1 350
Borrowing costs (SA Government)	9	8 533	8 504
Lease payments to SA Housing Trust	2.3	335	535
Depreciation expenses	2.9 10	6 807	6 631
Total Expenses		22 785	22 462
INCOME			
Employee recoveries	11	442	5
Contributions received and receivable from Community Housing Organisations	2.3, 12	7 863	8 476
Interest and sundry income	13	717	852
Lease receipts from SA Housing Trust	2.3	87	95
Contributed assets	14	-	3 967
Net gain from disposal of assets	15	730	69
Total Income		9 839	13 464
NET COST OF PROVIDING SERVICES		12 946	8 998
REVENUES FROM GOVERNMENT:			
Revenues from Government	2.3, 16	25 305	27 816
NET RESULT		12 359	18 818

**Balance Sheet
as at 30 June 2006**

	Note	2006	2005
ASSETS:		\$'000	\$'000
CURRENT ASSETS:			
Cash and cash equivalents	17	4 283	7 292
Receivables	2.11, 18	1 654	1 943
Prepayments		16	434
Total Current Assets		5 953	9 669
NON-CURRENT ASSETS:			
Property, plant and equipment	2.5, 2.6 19	734 594	679 815
Total Non-Current Assets		734 594	679 815
Total Assets		740 547	689 484
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	2.12, 20	2 725	2 535
Property equity provision	2.8	24	-
Hot water service warranty provision	2.13, 21	37	37
Total Current Liabilities		2 786	2 572
NON-CURRENT LIABILITIES:			
Payables	20	365	395
Borrowings	22	119 927	119 927
Hot water service warranty provision	2.13, 21	136	136
Total Non-Current Liabilities		120 428	120 458
Total Liabilities		123 214	123 030
NET ASSETS		617 333	566 454
EQUITY:			
Retained earnings		266 425	252 432
Asset revaluation reserve		350 908	314 022
TOTAL EQUITY		617 333	566 454
Commitments for expenditure	25		
Contingent liabilities	26		

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

	Asset Revaluation Reserve \$'000	Retained Earnings \$'000	Total \$'000
BALANCE AS AT 30 JUNE 2004	255 850	232 947	488 797
Net increment in asset revaluation reserve arising from revaluation	58 839	-	58 839
Transfer to retained earnings of revaluation increment realised on sale of assets	(667)	-	(667)
Realisation of asset revaluation reserve on sale of assets	-	667	667
Net income recognised directly in equity for 2004-05	58 172	667	58 839
Net result for 2004-05	-	18 818	18 818
Total Recognised Income and Expense for 2004-05	58 172	19 485	77 657
BALANCE AT 30 JUNE 2005	314 022	252 432	566 454
Net increment in asset revaluation reserve arising from revaluation	38 520	-	38 520
Transfer to retained earnings of revaluation increment realised on sale of assets	(1 634)	-	(1 634)
Realisation of asset revaluation reserve on sale of assets	-	1 634	1 634
Net income recognised directly in equity for 2005-06	36 886	1 634	38 520
Net result for 2005-06	-	12 359	12 359
Total Recognised Income and Expense for 2005-06	36 886	13 993	50 879
BALANCE AT 30 JUNE 2006	350 908	266 425	617 333

Cash Flow Statement for the year ended 30 June 2006

		2006	2005
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
CASH OUTFLOWS:			
Payments to suppliers and employees		(6 954)	(6 438)
Borrowing costs		(8 530)	(8 434)
Lease payments to SA Housing Trust		(335)	(535)
GST payments on to Department of Health		(791)	(293)
GST Payments on purchases		(1 492)	(1 420)
Cash used in Operations		(18 102)	(17 120)
CASH INFLOWS:			
Receipts from Housing Organisations		8 310	8 381
Interest received		478	753
Lease receipts from SA Housing Trust		90	95
GST receipts from Department of Health		231	571
GST receipts on revenue		2 112	1 235
Cash generated from Operations		11 221	11 035
CASH FLOWS FROM GOVERNMENT:			
Receipts from Government		16 709	16 875
Total Cash Flows from Government		16 709	16 875
Net Cash provided by Operating Activities		9 828	10 790
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase/Construction of community housing		(19 008)	(22 889)
Purchase of office and computer equipment		(53)	(25)
Cash used in Investing Activities		(19 061)	(22 914)
CASH INFLOWS:			
Proceeds from sales of property		6 224	1 439
Cash generated from Investing Activities		6 224	1 439
Net Cash used in Investing Activities		(12 837)	(21 475)
NET DECREASE IN CASH AND CASH EQUIVALENTS HELD		(3 009)	(10 685)
CASH AND CASH EQUIVALENTS AT 1 JULY		7 292	17 977
CASH AND CASH EQUIVALENTS AT 30 JUNE	24	4 283	7 292

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The South Australian Community Housing Authority's (SACHA or the Authority) objectives are to develop, support and promote a sustainable community housing sector. Funding for community houses is derived from Commonwealth and State Government grants, sale of properties and other payments from Community Housing Organisations.

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 applicable Australian Accounting Standards and Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987* (PFAA).

2.1 **Basis of Accounting (continued)**

The PFAA and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards.

Accounting Policy Statements issued pursuant to Treasurer's Instructions may modify or clarify accounting standards application, disclosure, format and wording to provide certainty and to ensure consistency and appropriate reporting across the public sector.

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

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

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are at Note 4.

The Authority's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for the Authority's property which is revalued to fair value annually.

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

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

Other Changes to Accounting Standards

In addition, a number of Australian Accounting Standards have been issued or amended and are applicable to the Agency but are not yet effective. The Authority has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Authority.

2.2 **Administrative Restructure**

On the 2 May the Minister for Housing, the Honourable Jay Weatherill MP, made an announcement in Parliament outlining significant changes to the management and governance of social housing in South Australia.

These changes include the establishment of Housing SA, a customer service entity within the Department of Families and Communities (DFC), which will provide 'one stop shop' housing services to social housing customers. Also announced was the creation of an Office for Community Housing, which will replace the South Australian Community Housing Authority (SACHA).

Subject to passing of amendments to the *South Australian Co-operative and Community Housing Act 1991* in the SA Parliament, the Authority expects to be restructured during the 2006-07 financial year.

2.3 **Income and Expenses**

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

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

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

Revenues from Government

Revenues received from Government are recognised as revenues when the Authority obtains control over them, normally upon receipt.

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 and arrear amounts receivable is accrued.

Net Gain from Disposal of Assets

Income from the disposal of assets is recognised when the asset has been settled and is determined by comparing sale proceeds against the carrying amount. On disposal of an asset, any revaluation increments contained within the asset revaluation reserve are transferred to retained earnings in accordance with Accounting Policy Framework III *Asset Accounting Framework*.

Rental Expenses

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

Grants and Subsidy Expenses

The Authority provides grants and subsidises to Community Housing Organisations to assist them with property maintenance costs, insurance arrangements, administrative costs, peak body representation, and training and education.

Employee Expenses

The staff of the Authority are employees of the Department for Families and Communities 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 accruing benefits of employees assigned to the Authority have been recognised in the Balance Sheet as a payable by the Authority.

Lease Arrangements with the SA Housing Trust

The Authority leases a small number of properties from the SA Housing Trust to support ongoing demand for housing within the community housing sector. The properties are leased under an operating lease, with the SA Housing Trust effectively retaining substantially all the risks and benefits incidental to ownership of the leased assets.

Lease arrangements in respect of these properties are cancellable with three months notice, and as such no lease commitment has been disclosed. Under reciprocal arrangements with the SA Housing Trust, the Authority leases properties to the SA Housing Trust which are also cancellable with three months notice.

Other Expenses

For the 2005-06 year, the Authority has discontinued the practice of capitalising property holding costs of less than \$1 000 for such items as valuations, rates and taxes, and minor upgrades.

Borrowing Costs

All borrowing costs are expensed in the period they are incurred.

2.4 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 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 debentured property with associated equity shares reflects the value of the property less the proportionate interest in the property associated with the equity share.

2.5 Non-Current Asset Acquisition and Recognition

Properties are initially recorded at cost, plus any incidental costs involved with the acquisition. The Authority capitalises all non-current assets with a value of \$1 000 or greater as permitted in the Accounting Policy Framework III *Asset Accounting Framework* APS 2.16.

Asset recognition is based on an Authority's ability to control the future service potential of the asset, and that these are probable and can be reliably measured. Control of debentured property resides with the Authority through the *South Australian Co-operative and Community Housing Act 1991* and Funding Agreements which prescribe how the community houses are to be used and managed on behalf of government, the eligible tenants that are entitled to use them, and what rent can be charged by the Community Housing Organisations.

The Authority has six classes of non-current assets:

- *Debentured Property (Land and Buildings):*
Tenantable properties which have had their legal title transferred to Community Housing Organisations in return for them issuing a debenture (at valuation).
- *SACHA Owned Property (Land and Buildings):*
Property surplus to a Community Housing Organisation needs, and is either awaiting transfer to another Community Housing Organisation or subject to redevelopment or disposal (at valuation).
- *Property Leased to Community Housing Organisations (Land and Buildings):*
Property leased to Community Housing Organisations under an operating lease (at valuation).

2.5 Non-Current Asset Acquisition and Recognition (continued)

- *Property Leased Back to SA Housing Trust (Land and Buildings):*
Property leased to SA Housing Trust under an operating lease (at valuation).
- *Capital Works in Progress:*
Property under construction or redevelopment (at cost).
- *Office and Computer Equipment:*
The Authority's office and computer equipment (at cost).

2.6 Revaluation of Non-Current Assets

The Authority complies with Accounting Policy Framework III *Asset Accounting Framework* and revalues properties annually at balance date to reflect the current fair value of the property. Current fair values are determined using the Valuer-General's capital values for rating purposes.

Revaluation increments or decrements have been reflected in the Asset Revaluation Reserve on a class basis in accordance with the Accounting Policy Framework.

2.7 Impairment

All non-current assets are tested for an indication of impairment at each reporting date.

2.8 Property Equity Provision

During 2005-06 the Authority constructed five units under the Associated Land Owners Agreement with The Frederic Ozanam Housing Association Inc. and the Catholic Church Endowment Society Incorporated (Associated Land Owner).

The Authority contribution was deemed to be reduced on each anniversary of the date of practical completion by an amount equal to one thirtieth of the amount of the Authority's initial contribution to the intent that the Authority contribution would be extinguished in full on the date falling 30 years after the date of practical completion.

A provision has been made for the loss of equity in these properties.

2.9 Depreciation Expense

Non-current assets with a finite useful lives are systematically depreciated on a straight line basis over their useful lives in a manner that reflects the consumption of their service potential. Depreciation commences from the time the asset is ready for use.

The depreciation rates for each class of depreciable assets are:

<i>Class of Non-Current Asset</i>	<i>Depreciation Rate</i>
Buildings	2 percent
Office and Computer Equipment	10-33 percent

The Authority's depreciable assets are assessed to have nil residual value at the end of their economic life.

Community Housing Works in Progress and Land are not depreciated.

2.10 Accounting for Goods and Services Tax (GST)

The Authority 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 the Authority. The reimbursement receivable from the nominated representative of the GST group has been recognised as a receivable in the Balance Sheet.

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

Cash flows are reported on a gross basis in the Cash Flow Statement. 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 Receivables

Cash Receivables include amounts receivable from trade, prepayments and other accruals.

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

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

The Authority determines the provision for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected. Specific provision has been made for any doubtful debts identified.

2.12 Payables

Cash Payables include creditors, accrued expenses, employee benefits 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 Authority.

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. Accrued expenses are recognised net of GST.

All payables, except Long-term employee benefits, are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

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

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.

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

The Authority makes contributions to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

2.13 Hot Water Service Warranty Provision

Provisions are recognised when the Authority has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The Authority 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 the Authority 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 the Authority 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.

2.14 Comparative Figures

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

Comparative figures have been restated on an AIFRS basis except for financial instrument information as permitted by AASB 1. The comparatives have been restated to assist users' understanding of the current reporting period and do not replace the original financial report for the preceding period.

Note 4 provides a detailed analysis of comparative amounts that have been reclassified as a result of adoption of AIFRS.

2.15 Current and Non-Current Classification

Assets and liabilities are characterised as either current or non-current in nature. The Authority has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting date have been classified as current asset or current liabilities. All other assets and liabilities are classified as non-current.

2.16 Cash and Cash Equivalents

Cash and cash equivalents recorded in the Cash Flow Statement includes cash on hand, deposits held at call that are readily converted into cash and are used in the cash management function on a day-to-day basis. Cash and cash equivalents recorded in the Balance Sheet is determined on the same basis.

Cash is measured at nominal value.

2.17 Rounding

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

Explanation of Transition to AIFRS (continued)

The adoption of AIFRS has resulted in adjustments to the Balance Sheet and Income Statement as follows.

- (a) The Authority is required to derecognise the debenture as a financial instrument under AASB 132 *Financial Instruments: Presentation*. The debenture receivable issued by the Community Housing Organisation in the Authority's favour failed to meet the definition of a financial asset under AASB 132 paragraph 11, which required the debenture to be convertible into cash or exchangeable for another financial asset of another entity on terms that are potentially favourable to the Authority. These conditions were not present in the Authority's arrangements with Community Housing Organisations. Rarely does the Authority receive cash for the debenture receivable, and there is limited scope for the Authority to exchange the debenture for another financial instrument on terms that are potentially favourable to it.
- (b) In the absence of a financial instrument arrangement, the Authority will recognise property based on its ability to control and regulate the future service delivery benefits of those assets. Control of these assets reside with the Authority through the *South Australian Co-operative and Community Housing Act 1991* and Funding Agreements which determine how the community houses are to be used and managed on behalf of government, the eligible tenants that are entitled to use them, and what rent can be charged by the Community Housing Organisations. As control and the associated risks and rewards of ownership are not sufficiently passed to Community Housing Organisation on the transfer of legal title, the asset is recognised as land and building of the Authority under AASB 116 *Property, Plant and Equipment*. The net effect is a reclassification of the Debenture receivable to Property.
- (c) The Authority will derecognise gains or losses arising from the debenture arrangement, as the transfer of legal title fails to satisfy the revenue recognition requirements under AASB 118 *Revenue*.
- (d) The Authority will depreciate buildings previously recognised as a financial instrument in accordance with AASB 116.

Other Changes to Accounting Policy

For the 2005-06 year the Authority has discontinued the practice of capitalising property holding costs of less than \$1 000 for such items as valuations, rates and taxes and minor upgrades. These costs were more appropriately assessed as property holding costs that should be expensed in the current financial year. The Authority has assessed it is impractical to retrospectively apply this voluntary change in accounting policy for periods prior to 2005-06.

5. Employee Expenses

	2006	2005
	\$'000	\$'000
Salaries and wages	2 215	1 998
TVSP (refer below)	314	-
Long service leave	157	162
Annual leave	202	170
Employment on-costs - Superannuation	266	234
Employment on-costs - Other	170	140
Board fees	68	61
Capital project recoveries ⁽ⁱ⁾	(217)	(301)
Total Employee Expenses	3 175	2 464

- (i) Technical services are provided to assist Community Housing Organisations for capital projects. Salaries and related costs for this service are recouped as a fixed fee of \$1 750 per house, which is capitalised into the value of the property.

Targeted Voluntary Separation Packages (TVSPs)

	2006	2005
	\$'000	\$'000
Amount paid to these employees:		
TVSPs	314	-
Annual leave and long service leave paid during the reporting period	104	-

During 2005-06 two employees were paid Targeted Voluntary Separation Packages of \$314 000 which was recovered from the Department of Treasury and Finance. The amount recovered is included as part of Employee Recoveries (SA Government).

The same two employees were also paid an aggregate amount of annual leave and long service leave of \$104 000.

Employee Remuneration

	2006	2005
	Number of	Number of
	Employees	Employees
The number of employees whose remuneration from the Authority falls within the following bands:		
\$100 000 - \$109 999	-	1
\$130 000 - \$139 999	-	1
\$140 000 - \$149 999	1	-
	2006	2005
Total remuneration received, due or receivable, by employees whose remuneration exceeds \$100 000	\$'000	\$'000
	145	233

5. Employee Expenses (continued)

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.

Board Members' Remuneration

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

E H Ramsay, Chairperson	
C M Davidson	Appointed 15 December 2005
G J Gow	Appointed 19 January 2006
C D Halsey	Appointed 5 August 2005
D R Lee	Appointed 5 August 2005
E H McCarthy	Retired 30th June 2006 on completion of appointment
J D Whitehouse	Appointed 1st July 2006
M Woodward	Appointed 5th August 2005

	2006	2005
	Number of	Number of
	Members	Members
The number of Board Members whose remuneration from the Authority falls within the following bands were:		
\$1 - \$9 999	6	7
\$10 000 - \$19 999	1	1
	7	8
	2006	2005
	\$'000	\$'000
Total remuneration received, due or receivable, by the Board Members from the Authority	68	61

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) A Board Member was an employee of Southern Junction Youth Services.
- (iii) A Board Member ceased receiving board remuneration on 20 March 2006 when a employment contract with Department for Families and Communities commenced.

6. Other Expenses

	2006	2005
	\$'000	\$'000
Auditors remuneration ⁽ⁱ⁾	62	58
Bad and doubtful debts	(89)	1
Blocked GST input credits - Department of Health	41	9
Brokerage and valuation fees	128	105
Business plan projects ⁽ⁱⁱ⁾	190	106
Computing costs	27	3
Fringe benefits tax	31	29
Insurance	15	11
Lease back to SAHT expenses	20	22
Legal fees	47	44
Product development	49	52
Property holding costs - SACHA	270	90
Service fees - Department for Families and Communities and Department of Health	321	133
Sundry expenses	17	77
Training	63	74
Write-off of software	50	-
Write-down in property joint venture equity	24	-
Total Other Expenses	1 266	814

Government/Non-Government:

SA Government entities:

Auditors remuneration ⁽ⁱ⁾	62	58
Blocked GST input credits - Department of Health	41	9
Computing costs	13	-
Lease back to SAHT expenses	5	7
Product development	-	2
Property holding costs - SACHA	102	31
Service fees - Department for Families and Communities and Department of Health	321	133
Sundry expenses	1	1
Training	8	8
Total Other Expenses - SA Government Entities	553	249

6. Other Expenses (continued)	2006	2005
	\$'000	\$'000
Non-SA Government entities:		
Bad and doubtful debts	(89)	1
Brokerage and valuation fees	129	105
Business Plan projects ⁽ⁱⁱ⁾	190	106
Computing costs	13	3
Fringe benefits tax	31	29
Insurance	15	11
Lease back to SAHT expenses	15	15
Legal fees	47	44
Product development	49	50
Property holding costs - SACHA	168	59
Sundry expenses	16	76
Training	55	66
Write-off of software	50	-
Write-down in property joint venture equity	24	-
Total Other Expenses - Non-SA Government Entities	713	565
Total Other Expenses	1 266	814

- (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 \$124 000 (\$6 000).

Total number and dollar amount of Consultancies paid/payable (included in Business Plan Projects) that fell within the following bands:

	2006		2005	
	Number	\$'000	Number	\$'000
Below \$10 000	4	15	4	6
Between \$10 000 and \$50 000	4	109	-	-
Total Paid/Payable to the Consultants Engaged	8	124	4	6

7. Property Grants and Subsidies	2006	2005
	\$'000	\$'000
Insurance payments	775	782
Insurance excess claims	80	437
Minor upgrades and maintenance – SA Government	52	-
Minor upgrades and maintenance – Non-SA Government ⁽ⁱ⁾	45	166
Non-cash contributions to Community Housing Organisations for property repairs and disability	-	348
Total Property Grants and Subsidies	952	1 733

- (i) Includes Hot Water Service Warranty costs.
- (ii) 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

8. Administrative Grants and Subsidies	2006	2005
	\$'000	\$'000
Community Housing Council of S.A. (CHCSA) ⁽ⁱ⁾	298	289
Large Community Housing Organisations: ⁽ⁱⁱ⁾		
Developing Alternative Solutions to Housing	71	74
Homelife Housing Association	64	54
Housing Spectrum Inc.	46	90
Intellectual Disability Accommodation Association	5	10
Lutherans Community Housing Association	47	91
Multi Agency Community Housing Association	44	85
Northern Suburbs Housing Co-operative	28	54
Portway Housing Association	50	95
Red Shield Housing Association	76	75
Roofs South Australian Housing Association	6	12
The Women's Housing Association	145	179
Westside Housing Association	19	37
Wheelchair Accessible Community Housing Association	25	49
National Community Housing Forum	10	21
Australasian Housing Institute	5	-
Community Housing sector training through external service providers	176	131
Deficit Funding ⁽ⁱⁱⁱ⁾	37	-
New Funding Implementation grants	52	-
Other contributions to Community Housing Organisations ^(iv)	59	-
Country Community Housing Organisations Travel Reimbursements	5	4
Total Administrative Grants and Subsidies	1 268	1 350

8. Administrative Grants and Subsidies (continued)		
(i)	The Authority is responsible for allocating funding to the Community Housing Council of South Australia Inc (CHCSA).	
(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)	Under the new Funding Agreement SACHA will fund CHOs when their property and administration allowances are greater than the rent they receive from tenants.	
(iv)	During the year the Authority made contributions to CHOs for computers, office equipment and property inspections.	
9. Borrowing Costs		2006
		\$'000
Interest on borrowings		2005
Treasurer's guarantee fee		\$'000
		7 634
		7 605
		<u>899</u>
		<u>899</u>
Total Borrowing Costs		8 533
		8 504
10. Depreciation Expense		
Buildings		6 764
Office and computer equipment		6 600
		<u>43</u>
		<u>31</u>
Total Depreciation Expense		6 807
		6 631
11. Employee Recoveries		
Targeted Voluntary Separation Packages		314
Other employee recoveries		-
		<u>128</u>
		<u>5</u>
Total Employee Recoveries		442
		5
12. Contributions Received and Receivable from Community Housing Organisations		
General contributions		7 018
Major maintenance contributions		7 643
Insurance premiums re-charged to CHOs		25
Other CHOs fund disbursements		38
		<u>760</u>
		<u>742</u>
		<u>60</u>
		<u>53</u>
Total Contributions Received and Receivable from Community Housing Organisations		7 863
		8 476
13. Interest and Sundry Income		
Interest (SA Government)		469
Sundry income		752
		<u>248</u>
		<u>100</u>
Total Interest and Sundry Income		717
		852
14. Contributed Assets		
During 2005-06 there were no contributed assets.		
During 2004-05 the Intellectual Disabilities Services Council (IDSC) agreed to transfer two properties to the Authority as a contribution towards a Joint Venture undertaken with the Community Accommodation and Respite Agency (CARA). Bedford Industries Housing Association agreed to transfer 21 properties to the Authority. 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.		
15. Net Gain from Disposal of Assets		2006
		\$'000
Land and buildings:		2005
Sale proceeds		\$'000
Net book value of properties sold		6 224
		1 439
		<u>(5 491)</u>
		<u>(1 370)</u>
Gain on Disposal of Properties		733
		69
Office and computer equipment:		
Sale proceeds		-
Net book value of office and computer equipment sold		-
		<u>(3)</u>
		<u>-</u>
Loss on Disposal of Office and Computer Equipment		(3)
		-
Total Net Gain from Disposal of Assets		730
		69
16. Revenues from Government		
CSHA - Commonwealth ⁽ⁱ⁾		5 434
CSHA - State matching ⁽ⁱ⁾		5 894
CSHA grants - SAHT transfers ⁽ⁱⁱ⁾		2 660
CHP grants ⁽ⁱⁱⁱ⁾		2 885
Other State grants		9 038
		10 941
		<u>4 990</u>
		<u>4 956</u>
		<u>3 183</u>
		<u>3 140</u>
Total Revenues from Government		25 305
		27 816

16. Revenues from Government (continued)

- (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 properties at non-cash market value.
(iii) Refers to a tied program (titled the 'Community Housing Program') under the Commonwealth/State Housing Agreement.

17. Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents is represented by cash at bank, being monies held in the Authority's bank accounts and cash on hand and is represented in the Balance Sheet as follows:

	2006	2005
	\$'000	\$'000
Cash held in SA Community Housing Development Fund	4 282	1 291
Cash held in SAFA Cash Management Fund	-	6 000
Cash on hand	1	1
	4 283	7 292

18. Receivables

Trade receivables	279	400
Accrued income ⁽ⁱ⁾	660	783
GST recoverable on property transfers to Community Housing Organisations(ii)	549	882
GST recoverable	166	-
	1 654	2 065

Less: Provision for doubtful debts

Total Receivables

	-	122
	1 654	1 943

Government/Non-Government:

SA Government entities:

Trade receivables	44	6
Accrued income ⁽ⁱ⁾	38	46
Total Receivables - SA Government Entities	82	52

Non-SA Government entities:

Trade receivables	235	394
Accrued income ⁽ⁱ⁾	622	737
GST recoverable on property transfers to Community Housing Organisations ⁽ⁱⁱ⁾	549	882
GST receivable	166	-
Less: Provision for doubtful debts	-	122
Total Receivables - Non-SA Government Entities	1 572	1 891
Total Receivables	1 654	1 943

- (i) Accrued income includes contributions from Community Housing Organisations relating to June 2006 and payable in July 2006, arrears in contributions, accrued bank interest and sales income from other parties contracted but not received.
(ii) This amount represents the amounts of GST recoverable from the Community Housing Organisations in respect of properties developed and debentured to Community Housing Organisations during the financial year.

19. Property, Plant and Equipment

	2006	2005
	\$'000	\$'000
(a) SACHA Property		
Debentured property - Land	352 040	324 409
Debentured property - Buildings	350 844	325 493
Owned property - Land (at valuation) ⁽ⁱ⁾	11 827	12 389
Owned property - Buildings (at valuation) ⁽ⁱ⁾	3 889	1 141
Property leased to Community Housing Organisations - Land (at valuation) ⁽ⁱⁱ⁾	1 290	1 489
Property leased to Community Housing Organisations - Buildings (at valuation) ⁽ⁱⁱ⁾	1 533	1692
Property leased back to South Australian Housing Trust - Land (at valuation) ⁽ⁱⁱⁱ⁾	446	520
Property leased back to South Australian Housing Trust - Buildings (at valuation) ⁽ⁱⁱⁱ⁾	679	956
Community Housing work-in-progress projects (at cost) ^(iv)	11 932	11 619
	734 480	679 708
(b) Office and Computer Equipment		
Office and computer equipment (at cost)	289	284
Accumulated depreciation	(175)	(177)
Written down value	114	107
Total Property and Equipment	734 594	679 815

(b) Office and Computer Equipment (continued)

- (i) Houses formerly belonging to Community Housing Organisations (at Valuer-General's capital values) but surplus to their requirements, waiting 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 the Authority until completion. On completion properties are allocated to Community Housing Organisations.

(c) SACHA Property*Property and Equipment Movement Reconciliation*

	2006					Community Housing Work in Progress Projects	Total \$'000
	Debentured Property \$'000	Owned Property \$'000	Property Leased to CHOs \$'000	Property Leased Back to SAHT \$'000	Property Leased Back to SAHT \$'000		
Carrying amount at 1 July	649 902	13 530	3 181	1 476	11 619	679 708	
Additions	-	-	-	-	28 384	28 384	
Equity buyout	123	-	-	-	-	123	
Disposals	(1 282)	(4 111)	(98)	-	-	(5 491)	
Transfers between classes	21 933	6 335	(367)	(396)	(27 505)	-	
Depreciation expense	(6 671)	(50)	(30)	(13)	-	(6 764)	
Property revaluation	38 879	12	137	58	(566)	38 520	
Carrying Amount at 30 June	702 884	15 716	2 823	1 125	11 932	734 480	

(d) Office and Computer Equipment

	2006		Total \$'000
	Office Equipment \$'000	Computer Equipment \$'000	
Carrying amount at 1 July	46	61	107
Additions	12	41	53
Disposals	(3)	-	(3)
Depreciation expense	(9)	(34)	(43)
Carrying Amount at 30 June	46	68	114

Housing 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.

20.	Payables	2006 \$'000	2005 \$'000
	Current:		
	Creditors	922	645
	Amount payable to the Department for Families and Communities relating to staff leave provisions and on costs ⁽ⁱ⁾	181	132
	Accrued interest payable to SA Government Financing Authority	1 168	1 165
	GST payable	-	107
	Accrued insurance claims	60	337
	Other expenses accrued	394	149
	Total Current Payables	2 725	2 535
	Non-Current:		
	Amount payable to the Department for Families and Communities relating to staff leave provisions and on costs ⁽ⁱ⁾	365	395
	Total Non-Current Payables	3 090	2 930
	Government/Non-Government:		
	SA Government entities:		
	Creditors	652	10
	Amount payable to the Department for Families and Communities relating to staff leave provisions and on costs ⁽ⁱ⁾	546	527
	Accrued interest payable to SA Government Financing Authority	1 168	1 165
	Accrued expenses	319	144
	Total SA Government Entities	2 685	1 846
	Non-SA Government entities:		
	Creditors	270	635
	GST payable	-	107
	Accrued insurance claims	60	337
	Accrued expenses	75	5
	Total Non-SA Government Entities	405	1 084
	Total Payables	3 090	2 930

- (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.

21. Hot Water Service Warranty Provision	2006	2005
Current:	\$'000	\$'000
Opening hot water service warranty provision	37	37
Movements during the year:		
Increments arising from transfers to the provision (refer Note 2.13)	32	166
Decrements arising from actual claims against the provision	(32)	(166)
	37	37
Non-Current:		
Opening Hot Water Service Warranty Provision	136	136
Total Hot Water Service Warranty Provision	173	173

22. Borrowings	30 June 2006			30 June 2005	
Loans from the South Australian Government Financing Authority (SAFA)	Interest Rates	Book Value	Fair Value⁽ⁱ⁾	Book Value	Fair Value ⁽ⁱ⁾
	Percent	\$'000	\$'000	\$'000	\$'000
<i>Maturity Date</i>					
Short-Term Interest Only Debt					
No fixed term	5.880	15 100	15 173	15 100	15 170
Medium to Long-Term Interest Only Debt					
15 September 2006	7.545	10 000	10 063	10 000	10 265
15 October 2007	6.205	7 000	7 099	7 000	7 204
28 October 2007	6.535	10 000	10 182	10 000	10 375
15 September 2008	5.845	15 000	15 159	15 000	15 414
15 September 2009	7.025	14 217	14 637	14 217	15 099
15 March 2010	7.295	10 000	10 424	10 000	10 793
20 December 2010	6.080	10 000	10 004	10 000	10 306
15 September 2011	6.000	15 000	15 147	15 000	15 637
15 September 2012	6.045	13 610	13 739	13 610	14 255
Average Weighted Cost/Total	6.39	119 927	121 627	119 927	124 518
Plus Treasury Guarantee Fee	0.75				
Total Weighted Cost⁽ⁱⁱ⁾	7.14				

- (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.

23. 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 the SA Government Financing Authority (SAFA) that comprise the major part of the Authority's debt. The Authority's exposure to interest rate risk and the weighted average interest rates for classes of financial assets and liabilities is as follows.

	Weighted Average Interest Rate Percent	Floating Interest Rate \$'000	2006 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	5.39	4 282	-	-	-	1	4 283
Receivables	-	-	-	-	-	1 654	1 654
		4 282	-	-	-	1 655	5 937
Financial Liabilities:							
Loans from SAFA	7.14	15 100	10 000	66 217	28 610	-	119 927
Payables	-	-	-	-	-	3 090	3 090
		15 100	10 000	66 217	28 610	3 090	123 017
	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
		7 291	-	-	-	1 944	9 235
Financial Liabilities:							
Loans from SAFA	7.11	15 100	-	66 217	38 610	-	119 927
Payables	-	-	-	-	-	2 930	2 930
		15 100	-	66 217	38 610	2 930	122 857

(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 Balance Sheet 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 22 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.

	2006		2005	
	Carrying Value	Fair Value ⁽ⁱ⁾	Carrying Value	Fair Value ⁽ⁱ⁾
Financial Assets:	\$'000	\$'000	\$'000	\$'000
Cash	4 283	4 283	7 292	7 292
Receivables	1 654	1 654	1 943	1 943
	5 937	5 937	9 235	9 235
Financial Liabilities:				
Loans from SAFA	119 927	121 627	119 927	124 518
Payables	3 090	3 090	2 930	2 930
	123 017	124 717	122 857	127 448

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

24. Cash Flow Reconciliation	2006	2005
Reconciliation of cash and cash equivalents:	\$'000	\$'000
Balance Sheet	4 283	7 292
Cash Flow Statement	4 283	7 292
Reconciliation of Net Cash Inflow from Operating Activities to Net Cost of Services:		
Net Cash Inflow from Operating Activities	9 828	10 790
Less Revenues from Government	25 305	27 816
	(15 477)	(17 026)
Add (Less): Non-cash items:		
Government grants	9 038	10 941
Depreciation	(6 807)	(6 631)
Housing Association mortgage discharged	-	(59)
Provision for doubtful debts	-	(1)
Write-down in property joint venture equity	(24)	-
Capital project recoveries	217	301
Surplus on sale of properties	733	69
(Deficit) on disposal of office equipment	(3)	-
Contributed assets	-	3 967
	3 154	8 587
Change in assets and liabilities:		
(Decrease) Increase in receivables - Trade and other debtors	(289)	199
(Decrease) in prepayments	(418)	-
(Increase) Decrease in trade creditors and accruals	84	(758)
	(623)	(559)
Net Cost of Services from Ordinary Activities	(12 946)	(8 998)
25. Commitments for Expenditure		
Capital commitments:		
Loans for capital expenditure projects:		
Obligations under approved new-build and spot purchase projects in progress:		
Payable not later than one year	2 706	6 453
Total Capital Commitments	2 706	6 453
Recurrent commitments:		
Payable not later than one year	657	190
Total Recurrent Commitments	657	190
Total Commitments	3 363	6 643
26. Contingent Liabilities		
During the years 2004-05 and 2005-06, the Authority entered into insurance arrangements in respect of properties held by 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 2005-06 \$80 000 (\$122 000), had been expensed as paid, leaving a contingent liability of \$197 000 (\$337 000).		
27. Events after Balance Date		
The Minister for Housing has announced the introduction of the Government's Housing Reform and the restructure of the South Australian Housing system. To facilitate the implementation of the Government's Housing initiatives, prior to the introduction by the Government of legislative reforms later in 2006-07, the Board of SACHA agreed to enter into a Service Level Agreement with the Department for Families and Communities for the Department to provide Housing and Asset Services on behalf of the Authority effective from 1 July 2006. This arrangement had no material impact on the financial affairs of SACHA.		

General Index to Part B

of the

Report

of the

Auditor-General

for the

Year ended 30 June 2006

A

Accrual Appropriation Excess Funds Account
Treasury and Finance, Department of, 1424
Adelaide Convention Centre Corporation, 3
Adelaide Entertainments Corporation, 19
Adelaide Festival Centre Trust, 38
Current Assets and Liabilities – Solvency, 42
Expenditure Processing, 40
User Charges and Interest, 41
Adelaide Festival Corporation, 57
Biennial Operating Result, 59
Administrative and Information Services,
Department for, 69
Across Government Contracts
Management, 71
Audit Committee, 69
Changes to Functions and Structure, 70
Complete Human Resource Management
System (CHRIS), 77
EDS (Australia) Managed Computing
Facilities, 78
Electronic Facilities Management System
(e-FM), 73
E-Purchase, 74
Facilities Asset Management Information
System (FAMIS), 73
Facilities Management Contract, 72
Information Technology Reviews in
Progress, 78
Management and Control of Information
Technology and Systems Operations, 76
Master Media Contract, 72
Masterpiece Accounts Payable, 73
Office Accommodation Group, 74
Office for Recreation and Sport, 75
SACREDD DNA Database System (Forensic
Science), 77
Service SA, 75
State Procurement Board, 78
Supply SA, 72
Affordable Housing Innovations Fund
South Australian Housing Trust, 1089
Ambulance Cover Scheme
SA Ambulance Service Inc, 897
Art Gallery Board, 133
Heritage Collections, 137
Attorney-General's Department, 152
Community Emergency Services Fund, 163
Credit Cards, 154
Gaming Machine Administration, 162
Independent Gaming Corporation Limited, 162
Recoveries from Offenders, 163
Residential Tenancies Fund, 194
Risk Management, 153
Victims of Crime Fund, 162
Audit and Governance Committee
Transport, Energy and Infrastructure,
Department for, 1368
Audit and Risk Committee
TransAdelaide, 1340

Audit Committee

Administrative and Information Services,
Department for, 69
Families and Communities, Department
for, 435
Flinders University of South Australia, 476
Health, Department of, 554
Land Management Corporation, 629
Legal Services Commission, 655
South Australian Community Housing
Authority, 948
South Australian Forestry Corporation, 996
South Australian Superannuation Board, 1170
Superannuation Funds Management
Corporation of South Australia, 1280
University of South Australia, 1508
Audit Compliance and Risk Committee
University of Adelaide, 1457
Audit Opinions
South Australian Forestry Corporation, 996
South Australian Motor Sport Board, 1138
Transport, Energy and Infrastructure,
Department for, 1369
University of South Australia, 1508
Auditor-General's Department, 259

B

Bank Reconciliation
Courts Administration Authority, 319
Education and Children's Services, Department
of, 357
Further Education, Employment, Science and
Technology, Department of, 532
Blueprint 2005 Capital Program
University of South Australia, 1515
Bodies in the Barrels
Legal Services Commission, 658

C

Capital Works
Education and Children's Services, Department
of, 365
Further Education, Employment, Science and
Technology, Department of, 532
Capture Adjudication and Reporting System
Police Department, 812
CaseMan (Forensic Branch)
Administrative and Information Services,
Department for, 76
Catastrophe Reinsurance Program
South Australian Government Captive
Insurance Corporation, 1031
Changes to Functions and Structure
Administrative and Information Services,
Department for, 70
Families and Communities, Department
for, 433
South Australian Government Financing
Authority, 1063
South Australian Housing Trust, 1085
Trade and Economic Development,
Department of, 1311
Transport, Energy and Infrastructure,
Department for, 1367

Common Public Sector Interest Rate
 South Australian Government Financing
 Authority, 1067

Commonwealth Government Grants
 Health, Department of, 559

Community Emergency Services Fund
 Attorney-General's Department, 163
 South Australian Fire and Emergency Services
 Commission, 973, 977

Community Housing Organisations
 South Australian Community Housing
 Authority, 951

Community Road Safety Fund
 Transport, Energy and Infrastructure,
 Department for, 1379

Complete Human Resource Management System
 (CHRIS)
 Administrative and Information Services,
 Department for, 77
 Health, Department of, 563

Compulsory Third Party Fund
 Motor Accident Commission, 745

Correctional Services, Department for, 274
 Risk Management, 275

Courts Administration Authority, 318
 Bank Reconciliations, 319
 e-Filing Facility Operations and Control, 320
 Fines and Court Fees, 323
 Public, Private Partnership, 323

D

DAIS
 see Administrative and Information Services,
 Department for

Defence Unit – Air Warship Destroyers
 Trade and Economic Development,
 Department of, 1317

Delegations of Authority
 Environment Protection Fund, 405
 Health, Department of, 561
 Public Trustee, 203

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

DH Communications Network HSNet
 Health, Department of, 564

E

EDS (Australia) Managed Computing Facilities
 Administrative and Information Services,
 Department for, 78

Education and Children's Services,
 Department of, 349
 Approval of Appointments, 355
 Authorisation and Processing of Payments, 358
 Bank Reconciliation, 357
 Bona Fide Certificates, 355
 Capital Works, 365
 Employee Attendance Records, 351
 Financial Policies and Procedures, 357
 Input of Payroll and Leave Data, 353
 Monitoring of Overpayments, 356
 Risk Management, 359
 State Grants to Non-Government Schools
 (excluding preschools), 352
 Student Enrolments, 364
 Valeo Human Resource and Payroll
 System, 359
 Workers Compensation, 362

e-Filing Facility Operations and Control
 Courts Administration Authority, 320

Electronic Facilities Management System (e-FM)
 Administrative and Information Services,
 Department for, 73

Emergency Services Administrative Unit
 South Australian Fire and Emergency Services
 Commission, 978

Environment and Heritage, Department for, 403
 Status of the Financial Report, 403
 Supplementary Report, 1

Environment Protection Authority, 404
 Environment Protection Fund, 407
 Environment Protection Fund Delegations of
 Authority, 405
 Risk Management, 406

Expiation Fees
 Police Department, 816

F

Facilities Asset Management Information System (FAMIS)
Administrative and Information Services, Department for, 73

Facilities Management Contract
Administrative and Information Services, Department for, 72

Families and Communities, Department for, 432
Administration of Concessions, 436
Audit Committee, 435
Changes to Function and Structure, 433
Disability Service Governance Reform, 439
Financial Operations of Families SA (formerly CYFS), 437
Internal Audit, 435

Flinders University of South Australia, 476
Audit Committee, 476
Procurement, 478
Risk Management, 478
Student One System and Computer Processing Environment, 478

Funds SA
see Superannuation Funds Management Corporation of South Australia

Further Education, Employment, Science and Technology, Department of, 529
Bank Reconciliation, 532
Capital Works, 532
Employment Program – ‘Regions at Work’, 531
Payroll, 532
Risk Management, 531

G

Gaming Machine Administration
Attorney-General’s Department, 162

Glenelg Tram Line Infrastructure - Sale/Purchase
TransAdelaide, 1346
Transport, Energy and Infrastructure, Department for, 1379

Government Accounting and Reporting (GAR) Branch
Treasury and Finance, Department of, 1423

Government Workers Rehabilitation and Compensation Fund, 125
Outstanding Claims, 126

Governors’ Pensions Scheme
Superannuation Funds Management Corporation of South Australia, 1280

GWRC Fund.
see Government Workers Rehabilitation and Compensation Fund

H

Health, Department of, 553
Accounts Payable, 560
Accounts Receivable, 562
Audit Committee, 554
Budget and Financial Management Consultancy, 554
Commonwealth Government Grants, 559
Complete Human Resource Information System (CHRIS), 563

Health, Department of (*continued*)
Delegations of Authority, 561
DH Communications Network HSNNet, 564
Health Sector Staffing Statistics, 596
Hospital Activity Statistics, 596
Average Length of Overnight Hospital Stay (unaudited), 597
Health, Department of, 596
Inpatient Activity (unaudited), 596
Outpatient Activity (unaudited), 597
Information and Communication Technology Management and Control, 562
Internal Audit, 554
Interstate Patient Transfers, 558
Payroll, 559
Risk Management, 555
Shared Services Arrangements, 562

Heritage Collections
Art Gallery Board, 137
Museum Board, 772

History Trust of South Australia, 598
Migration Museum, 602
National Motor Museum, 602
South Australian Maritime Museum, 602

HomeStart Finance, 618
Status of the Financial Report, 619
Supplementary Report, 1

I

Independent Gaming Corporation Limited
Attorney-General’s Department, 162

Industrial Commercial Premises
Land Management Corporation, 636

Internal Audit
Families and Communities, Department for, 435
Health, Department of, 554
Trade and Economic Development, Department of, 1313

J

Judges’ Pensions Scheme, 620
Contributions by Employers, 622
Pensioners, 622
Superannuation Funds Management Corporation of South Australia, 1280
Transfers to Consolidated Account, 622

L

Land Management Corporation, 629
Asset Valuations, 635
Audit Committee, 629
Contributions to the Government, 632
Industrial Commercial Premises, 636
Key Reconciliations, 630
Mawson Lakes Government Infrastructure Project, 635
Port Adelaide Waterfront Redevelopment Project, 636

Legal Services Commission, 655
Audit Committee, 655
Bodies in the Barrels, 658
Legal Expenditure, 656
Referrals to Private and In-house Practitioners, 659
Risk Management, 655
Libraries Board of South Australia, 674
Research and Heritage Collections, 677
Local Government Finance Authority of South Australia, 694
Asset Quality, 700
LGCS — Shared Services, 695
Provision for Bonus Payments, 699
Tax Equivalent Payments, 698
Lotteries Commission of South Australia, 715
Distributions to Government, 719
Sales Revenue, 717
Unclaimed Prizes and Additional Prizes, 720

M

Masterpiece Accounts Payable
Administrative and Information Services, Department for, 73
Mawson Lakes Government Infrastructure Project
Land Management Corporation, 635
Migration Museum, 602
Motor Accident Commission, 743
Compulsory Third Party Fund, 745
Investments, 747
Investment Result, 747
Operating Result, 747
Outstanding Claims, 748
Solvency Level, 749
Underwriting Result, 746
Museum Board, 769
Heritage Collections, 772

N

National Action Plan for Salinity and Water Quality
Water, Land and Biodiversity Conservation, Department of, 1562
National Motor Museum, 602
Natural Heritage Trust
Water, Land and Biodiversity Conservation, Department of, 1562
Natural Resources Management Act
Water, Land and Biodiversity Conservation, Department of, 1563
Natural Resources Management Fund
Water, Land and Biodiversity Conservation, Department of, 1557

O

Office Accommodation Group
Administrative and Information Services, Department for, 74
Office for Recreation and Sport
see Recreation and Sport, Office for
Office of Public Employment
see Public Employment, Office of

Outstanding Claims
Motor Accident Commission, 748
Government Workers Rehabilitation and Compensation Fund, 126

P

Parliamentary Superannuation Scheme, 799
Contributions by Members, 801
Pensioners, 801
Superannuation Funds Management Corporation of South Australia, 1280
Transfer to Consolidated Account, 801
PeopleSoft Computer Processing Environment
University of Adelaide, 1460
Police Department, 810
Capture Adjudication and Reporting System, 812
Employee Benefits and Workers Compensation, 816
Expiation Fees, 816
Procurement and Contract Management, 812
Protective Security Service, 810
Risk Management, 811
SACREDD DNA Database System, 812
Police Superannuation Scheme, 848
Contributions by Members, 852
Liability for Accrued Benefits, 851
Net Assets Available to Pay Benefits, 852
Pensioners, 852
Risk Management, 849
Superannuation Funds Management Corporation of South Australia, 1280
Port Adelaide Waterfront Redevelopment Project
Land Management Corporation, 636
Premier and Cabinet, Department of the, 861
Grants Management, 862
Social Inclusion Initiatives, 864
Primary Industries and Resources, Department of, 890
Status of the Financial Report, 891
Supplementary Report, 1
Protective Security Service
Police Department, 810
Public Employment, Office of, 786
Public Trustee, 202
Australian Shares Common Fund, 235
Cash Common Fund, 223
Control Self Assessment, 203
Corporate Statements, 207
Delegations of Authority, 203
Listed Property Securities Common Fund, 241
Long-Term Fixed Interest Common Fund, 229
Overseas Fixed Interest Common Fund, 232
Overseas Shares Common Fund, 238
Short-Term Fixed Interest Common Fund, 226

Q

Qualified Audit Opinions, 2
South Australian Forestry Corporation, 997
South Australian Motor Sport Board, 1139
Transport, Energy and Infrastructure, Department for, 1369
University of South Australia, 1509

R

Recreation and Sport, Office for
Administrative and Information Services,
Department for, 75
Research and Heritage Collections
Libraries Board of South Australia, 677
Residential Tenancies Fund
Attorney-General's Department
RevenueSA
Treasury and Finance, Department of, 1421
Risk Management
Attorney-General's Department, 153
Correctional Services, Department for, 275
Education and Children's Services,
Department of, 359
Environment Protection Authority, 406
Flinders University of South Australia, 478
Further Education, Employment, Science and
Technology, Department of, 531
Health, Department of, 555
Legal Services Commission, 655
Police Department, 811
Police Superannuation Scheme, 849
South Australian Government Captive
Insurance Corporation, 1032
South Australian Government Financing
Authority, 1068
South Australian State Emergency
Service, 1155
State Electoral Office, 1266
Trade and Economic Development,
Department of, 1313
University of South Australia, 1508
RISTEC Project
Treasury and Finance, Department of, 1423

S

SA Ambulance Service Inc, 892
Ambulance Cover Scheme, 897
Computer Processing Environment, 893
Strategic Asset Management Plan, 893
Withdrawal of the Priory in Australia of the
Order of St John, 897
SAAMC
see South Australian Asset Management
Corporation
SACREDD DNA Database System
Administrative and Information Services,
Department for, 77
Police Department, 812
SAFA
see South Australian Government Financing
Authority
SAFECOM
see South Australian Fire and Emergency
Services Commission
SAICORP
see South Australian Government Captive
Insurance Corporation
SASES
see South Australian State Emergency Service
Save the River Murray Fund
Water, Land and Biodiversity Conservation,
Department of, 1563

Service SA
Administrative and Information Services,
Department for, 75
South Australia Government Captive Insurance
Corporation
Treasury and Finance, Department of, 1421
South Australian Aboriginal Housing
Authority, 915
Community Housing Program, 917
Community Owned Housing, 921
South Australian Aboriginal Housing Authority
Strategic Asset Management Plan, 917
South Australian Asset Management
Corporation, 934
Dividend Payment, 936
South Australian Community Housing
Authority, 947
Audit Committee, 948
Community Housing Organisations, 951
Properties, 953
Public Liability Insurance, 949
South Australian Country Fire Service, 298
South Australian Fire and Emergency Services
Commission, 298
South Australian Fire and Emergency Services
Commission, 973
Accounting Systems and Processes, 976
Community Emergency Services
Fund, 973, 977
Emergency Services Administrative Unit, 978
Legislative Compliance and Governance
Arrangements, 975
Overall Comment on the Results of the
Audit, 975
South Australian Country Fire Service, 298
South Australian Forestry Corporation, 995
Audit Committee, 996
Audit Opinions, 996
Growing Timber, 1002
Growing Timber Valuation, 998
Information Technology Management and
Systems Operations, 997
Qualified Audit Opinion, 997
South Australian Government Captive Insurance
Corporation, 1024
Catastrophe Reinsurance Program, 1031
Outstanding Claims, 1029, 1031
Policy and Procedure Manual, 1026
Risk Management, 1032
Section 1, 1033
Section 2, 1052
South Australian Government Financing
Authority, 1062
Capital and Distributions, 1066
Changes to Functions and Structure, 1063
Common Public Sector Interest Rate, 1067
Risk Management, 1068
SAFA Advisory Board, 1062
Treasury and Finance, Department of, 1421
South Australian Housing Trust, 1085
Accounts Payable, 1087
Affordable Housing Innovations Fund, 1089
Asset Management, 1094
Changes to Function and Structure, 1085
Grant Funded Programs, 1092
Indebtedness, 1094
Inventory and Fixed Asset Work in
Progress, 1087
Maintenance, 1088

South Australian Housing Trust (*continued*)
 Payroll, 1089
 Rent, 1088
 Rental Operations, 1091
 Service Level Agreements, 1089
 Water and Council Rates, 1088
 South Australian Maritime Museum, 602
 South Australian Metropolitan Fire Service, 1118
 Annual Leave Balances, 1119
 South Australian Motor Sport Board, 1137
 Audit Opinions, 1138
 Qualified Audit Opinion, 1139
 South Australian State Emergency Service, 1153
 Risk Management, 1155
 South Australian Superannuation Board, 1168
 Audit Committee, 1170
 South Australian Superannuation Scheme, 1168, 1172
 Southern State Superannuation Scheme, 1168
 Superb and ePass Computer Processing Environment Review, 1170
 South Australian Superannuation Scheme, 1172
 Funding of Benefit Payments, 1175
 South Australian Superannuation Board, 1168, 1172
 Superannuation Funds Management Corporation of South Australia, 1280
 South Australian Tourism Commission, 1207
 Overseas Travel, 1208
 South Australian Water Corporation, 1225
 Business Continuity and Emergency Management, 1227
 Contract Management – Economic Development Obligations, 1227
 Contributions to the State Government, 1231
 Infrastructure Assets, 1227
 Revenue - Customer Service Information System, 1226
 Southern State Superannuation Scheme, 1190
 Contribution Revenue, 1192
 South Australian Superannuation Board, 1168
 Superannuation Funds Management Corporation of South Australia, 1280
 State Electoral Office, 1264
 Risk Management, 1266
 State Procurement Board
 Administrative and Information Services, Department for, 78
 Status of the Financial Report
 Environment and Heritage, Department for, 403
 HomeStart Finance, 619
 Primary Industries and Resources, Department of, 891
 Strategic Asset Management Plan
 SA Ambulance Service Inc, 893
 South Australian Aboriginal Housing Authority, 917
 Student Enrolments
 Education and Children’s Services, Department of, 364
 Super SA
 Treasury and Finance, Department of, 1421

Superannuation Funds Management Corporation of South Australia, 1279
 Asset Allocation and Risk, 1284
 Asset Classes, 1284
 Audit Committee, 1280
 Governors’ Pensions Scheme, 1280
 Income from Investments, 1282
 Judges’ Pensions Scheme, 1280
 Parliamentary Superannuation Scheme, 1280
 Police Superannuation Scheme, 1280
 Return Performance by Asset Class, 1285
 Return Performance by Product, 1286
 South Australian Superannuation Scheme, 1280
 Southern State Superannuation Scheme, 1280
 Supplementary Report, 1
 Environment and Heritage, Department for, 1
 HomeStart Finance, 1
 Primary Industries and Resources, Department of, 1
 Supply SA
 Administrative and Information Services, Department for, 72

T

Trade and Economic Development, Department of, 1311
 Changes to Functions and Structure, 1311
 Defence Unit – Air Warship Destroyers, 1317
 Internal Audit, 1313
 Risk Management, 1313
 TransAdelaide, 1339
 Audit and Risk Committee, 1340
 Contract Income - Financial Dependence, 1344
 Contract to provide Passenger Transport Services, 1339
 Glenelg Tram Line Infrastructure Sale, 1346
 Inventory, 1341
 Joint Venture Relationship, 1346
 Non-Current Assets, 1342
 Transport, Energy and Infrastructure, Department for, 1367
 Audit and Governance Committee, 1368
 Audit Opinions, 1369
 Changes to Functions and Structure, 1367
 Community Road Safety Fund, 1379
 Contract Management, 1372
 Driver and Vehicle Licensing, 1373
 Expenditure, 1372
 Expensing of Exclusions, 1371
 Information Technology Management and System Operations, 1374
 Mobile Phone Review, 1373
 Network Assets, 1370
 Payroll, 1371
 Purchase of Glenelg Tram Infrastructure, 1379
 Qualified Audit Opinion, 1369
 Reconciliations, 1370

Treasury and Finance, Department of, 1421
Accrual Appropriation Excess Funds
Account, 1424
Appropriation of Administered Items, 1424
Government Accounting and Reporting (GAR)
Branch, 1423
RevenueSA, 1421
RISTEC Project, 1423
South Australia Government Captive Insurance
Corporation, 1421
South Australian Government Financing
Authority, 1421
Super SA, 1421

U

Unclaimed Prizes and Additional Prizes
Lotteries Commission of South Australia, 720
University of Adelaide, 1457
Audit Compliance and Risk Committee, 1457
Corporate Governance, 1458
Payroll, 1459
PeopleSoft Computer Processing
Environment, 1460
Procurement and Accounts Payable, 1459
University of South Australia, 1507
Audit Committee, 1508
Audit Opinions, 1508
Qualified Audit Opinion, 1509
Risk Management, 1508
University of South Australia
Blueprint 2005 Capital Program, 1515

V

Valeo Human Resource and Payroll System
Education and Children's Services,
Department of, 359
Victims of Crime Fund
Attorney-General's Department, 162

W

Water, Land and Biodiversity Conservation,
Department of, 1554
Capital Contributions, 1561
Fixed Assets - Asset Management, 1557
Fixed Assets - Control and Recognition, 1563
National Action Plan for Salinity and Water
Quality, 1562
Natural Heritage Trust, 1562
*Natural Resources Management
Act 2004*, 1563
Natural Resources Management Fund, 1557
Save the River Murray Fund, 1563
Water Information Licensing Management
Application, 1558

