

SOUTH AUSTRALIA

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

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**Report of the Auditor-General
on the Basketball Association
of South Australia Incorporated**

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Government
of South Australia



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Gentlemen,

**AUDITOR-GENERAL'S REPORT: REPORT OF THE AUDITOR-GENERAL ON THE
BASKETBALL ASSOCIATION OF SOUTH AUSTRALIA INCORPORATED**

Pursuant to section 32(3) of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my 'Report of the Auditor-General on the Basketball Association of South Australia Incorporated'.

Yours sincerely,

K I MacPherson
AUDITOR-GENERAL

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EXECUTIVE SUMMARY

INTRODUCTION

It has long been accepted that there has been bi-partisan political support for public funding and the encouragement of sporting activities in this State.¹ This funding has included both recurrent and capital payments to sporting bodies. With respect to capital funding, the Government has assisted in the establishment of a number of sporting complexes. Some of these complexes have been designed, and purpose built, for particular sports.²

The provision of financial support for sporting bodies involves decisions that have budgetary consequences and necessarily involves matters of political judgment. The comments and observations in this Report have been premised on the well established policy commitments that have been made by various governments over many years.

In 1989, the then Government provided loan funds to the Basketball Association of South Australia Incorporated (BASA) for the establishment of the 'Distinctive Home Dome' (the Findon Basketball Stadium). The Government has consistently over the years, continued to provide annual financial support to BASA. In my opinion, having regard to its present circumstances,³ BASA is, and in the foreseeable future will be, dependent for its continued operations on government support. In the absence of this continued support, BASA would, in my opinion, have difficulties in meeting its financial obligations. The continuing 'revisions' by BASA and the Government of their existing financial relationship to deal with the financial difficulties that have arisen have not presented a sustainable solution to overcome the problems that exist.

In 2002, BASA sought a review of its financial relationship arrangements with the South Australian Government. This was on account of financial difficulties being experienced concerning its ongoing viability, mainly attributable to its inability to meet the debt repayment obligations to the Treasurer associated with the Findon Basketball Stadium.

On 28 August 2002, Cabinet approved a recommendation from the Treasurer to improve the financial condition of BASA. Cabinet approval involved an offer of additional financial assistance to BASA on the basis of certain conditions.

For the reasons discussed in this Report, the affairs of BASA can only be properly understood in the context of its commercial relationship with three other incorporated associations. The other entities are the Sport Facilities Management of SA Incorporated (SFMSA), Adelaide 36ers Incorporated (Adelaide 36ers), and the Adelaide Lightning Incorporated (Adelaide Lightning). Each of BASA and the other three entities are associations incorporated under the *Associations Incorporation Act 1985*.

The total revenue received by BASA and the three other entities in 2003-04 is approximately \$8 million.

¹ The State Strategic Plan, March 2004, recognises the importance of sport and recreation to improving the well being of the community.

² In addition to the Findon Basketball Stadium some other examples of government support are the Adelaide Super-Drome; Mile End Netball Stadium; The Pines Stadium; and Hindmarsh Soccer Stadium.

³ ie where BASA has future responsibility for the repayment of the outstanding government debt of \$10.5 million (in 2020) and the responsibility to service annually interest on the outstanding debt (commencing in 2007-2008).

SOME RELEVANT PRINCIPLES CONCERNING POLITICAL/EXECUTIVE DECISION MAKING OF GRANTS, LOANS ETC AND STATUTORY LEGAL COMPLIANCE IN THE MATTER OF BASA

The examination of this matter has raised issues of political/Executive decision-making associated with the making of grants of public money and the necessity for ensuring compliance with relevant statutory requirements.

Political/Executive Decision-Making Re Grants etc

Subject to satisfying the requirements of the Treasurer's Instructions⁴ and the fundamental requirement that payments made to sporting entities, etc can be justified as in the public interest, the matter of the making of grants, loans, etc and the conditions upon which such monies are to be made available, is one for political/Executive Government judgment. Implicit in the decision-making associated with these matters is that no grant etc would be made without proper due diligence processes having first been undertaken.

Compliance with Statutory Requirements

As a matter of good public financial administrative practice it is important that the payment of grant monies and/or the making of loans of material amounts of public monies only be made on the basis that the recipient entity is in a position to confirm that it is complying with all applicable statutory requirements.⁵ In the course of this examination, it was noted that certain of the arrangements associated with the commercial relationship involving BASA and two of the associated entities, ie SFMSA and the Adelaide 36ers, involved the distribution of profits to BASA.

Having regard to the provisions of section 55 (2) and 55 (3) of the *Associations Incorporation Act 1985*, it is important that BASA clarify with the Corporate Affairs Commission as to whether any approvals are necessary in the circumstances. BASA has advised that the position in this regard will be clarified as a matter of urgency.

REQUEST FOR AUDIT EXAMINATION OF BASA

By letter of 30 August 2002, the Treasurer, the Honourable Kevin Foley, MP, advised the Auditor-General of the particulars of the Government's offer of further financial assistance to BASA and the conditions of the offer. The Treasurer's letter concluded with the following request:

The Treasurer requests, in accordance with the requirements of section 32 of the Public Finance and Audit Act 1987, that the Auditor-General ensures that the affairs of the BASA are being conducted with due regard to economy and efficiency, including identifying whether the undertakings provided by BASA to identify further efficiencies have in fact been achieved.

⁴ Treasurer's Instruction 15 'Grant Funding Conditions'.

⁵ In my opinion, it will amount to a 'judgment call' by the Government agency making the grant/loan as to the amount of money that requires the confirmation referred to in this context.

The conditions relating to the approved revised financial assistance arrangement between the Government and BASA, required BASA to prepare longer term budget and planning documents that would reflect BASA's direction regarding its business activities and financial viability. In early 2003-04, BASA prepared a document titled 'Budget Forecast 2003-08' followed by a 'BASA Strategic Plan 2004-2007' and a 'BASA Business Plan 2004-05'.

The Treasurer's request regarding the examination required attention to the matter of economy and efficiency of BASA's operations in both an historical and future context. For the reason explained hereunder the effective conduct of the examination necessitated the review of the management and business arrangements and the operations of BASA and the associated entities during 2003-04.

The financial year 2003-04 represented the first year of BASA's 'Budget Forecast 2003-08'. An examination that did not have regard to coverage of the 2003-04 year would have resulted in a report of simply historical interest and of limited future relevance for governmental decision-making purposes.⁶ The 2003-04 year review included examination of the June 2004 year-to-date management accounts and information. This involved a comparative review of the unaudited financial results with the 2003-04 budget forecasts.⁷ This has enabled this examination to now be completed.

SCOPE AND CONDUCT OF THE EXAMINATION

As mentioned above, the examination has included consideration of the 2003-04 unaudited operations of BASA and associated entities.⁸ It has also examined the 2002-03 and prior years' audited accounts of each of the entities. Consideration has also been given to the forecast expectations of operations and financial activity of the entities for the ensuing years to 2007-08.

The specific matters that were the subject of examination included the following:

- Obtaining an insight into the organisational structure and governance arrangements of BASA.
- Ascertaining the nature of the financial arrangements between BASA and the Government, including details of financial assistance provided/offered to BASA.
- Ascertaining the outcomes from any previous external reviews and/or independent external audits of BASA operations.
- Ascertaining the main features of business, management, control, and financial reporting, exercised in respect to the operations of BASA.

⁶ The audit examination also identified specific issues that are of relevance for consideration by BASA.

⁷ The unaudited June 2004 year-to-date management accounts incorporated expected year-to-date adjustments to be applied for statutory financial statement reporting purposes. Executive Board and Independent Auditor sign-off of the 2003-04 financial statements is to occur in mid November 2004, followed by presentation of the audited statements to the Annual General Meeting to be held towards the end of November 2004.

⁸ The reference to 'associated entities' in this Report is a reference to the three (3) incorporated associations referred to in the 'Introduction' above with whom BASA has a commercial relationship. The reference in this Report to 'the entities', is a reference to BASA and the 'associated entities' referred to above.

- Understanding the historical and forecast financial arrangements concerning BASA and the associated entities.
- Inquiring regarding actions taken or proposed by BASA in responding to conditions placed by the Government on the additional financial assistance offered to BASA.

In accordance with the requirements of natural justice/procedural fairness, I provided, on a confidential basis, a draft of this Report to the members of the Executive Board and senior officers of BASA, and the Under Treasurer. My purpose in so doing was to give those persons an opportunity to provide any comments on the draft text for consideration by me in finalising the Report. Changes to the draft in finalising the Report were made with the purpose of providing additional information or explanation in relation to certain matters.

On the basis of all the information available to me, I have made a number of observations and made several recommendations.

OUTCOME OF THE AUDIT EXAMINATION

Economy and Efficiency

On the basis of the review of the abovementioned specific matters, in my opinion, BASA and the associated entities, in an overall context, are undertaking their internal administrative and financial operations with regard to economy and efficiency.

The following summarises several matters that form the basis of this opinion.

Governance and Organisation Structure

The audit examination identified that BASA is cognisant of the importance that its committee and organisational structures are working in an effective manner.

In 1998 an independent consultant's report on a review of BASA was submitted to the Department of Treasury and Finance. This report, inter alia, indicated that the functional and staffing arrangements of BASA and SFMSA resembled that of other sporting organisations and that staffing and management levels were not excessive.

The audit review of the position in 2004 compared to that in 1998 shows that the position in this regard has remained relatively the same. Furthermore, aggregated salaries/wages costs for the two entities have increased at a lower level than comparable private sector wage increases over the period 1997 to 2003 (from audited accounts). This indicates that staffing numbers and associated costs are being managed with regard to economy and efficiency.

The review also demonstrated that BASA has reviewed the appropriateness of its staff resource mix relative to its functional responsibilities and priorities.

Basketball Development

The audit examination identified that BASA is giving attention to the matter of advancing the sport of basketball.

In 2000-01, a principal change in the organisational structure and the associated resourcing priority of BASA took place. Resources associated with SFMSA stadia management were rationalised. This resulted in the freeing up of financial resources and the application of those resources towards the appointment by BASA of a number of development officers.

These development officers together with other resources, have been applied to implementing various basketball programs directed particularly at the youth in the community, including school children.

BASA's development activity is subject to internal (BASA's Executive Board) and external (Office for Recreation and Sport) accountability and reporting. This, in my opinion, is being undertaken in an adequate manner.

Business Management Practice

The examination has confirmed that BASA and the associated entities have in place strategic planning, management accountability, and financial control arrangements. There have been gradual improvements in these arrangements over the years. The notable matters identified were:

- BASA and associated entities operate within a strategic/business plan framework.
- The Chief Executive Officer and various management and special purpose committees are accountable to the Executive Board of BASA in terms of reporting on their actions and important matters of note.
- A system of budget management, financial accounting, reporting, and control, is in operation.

A recent new appointee to the Finance Manager position is introducing a replacement computerised financial accounting system, with operative effect from the 2004-05 financial year. This change is aimed at improving the efficiency of management and statutory reporting and to enhance the integrity of data processing.

Financial Performance and Condition

The audit examination reviewed aspects of the historical and forecast financial performance of BASA and the associated entities.

In an historical context, the review of aspects of revenue and expenses associated with the entities' operations, indicate, in relation to expenses, that there are no distinguishable characteristics of concern that suggest excessiveness of costs or the absence of the monitoring of costs.

As mentioned above, in relation to BASA and SFMSA, staffing numbers and costs are being managed with regard to economy and efficiency. Continual attention by management to the cost drivers associated with the various expense items is required to ensure identification and action at the appropriate times concerning cost reduction and containment measures.

Matters concerning revenue maintenance and growth present a major challenge for BASA and the associated entities. The standing of basketball relative to other high profile sports, and the performance of its South Australian flagships (Adelaide 36ers and Adelaide Lightning) that affect that standing, are major factors that influence the revenue base of BASA and the associated entities. That revenue base, which is for the most part sourced through the operations of the Adelaide 36ers and SFMSA, is unstable and further growth cannot be assured.

In a forecast financial performance context, the aggregate 'Budget Forecast 2003-2008' identifies the financial difficulties for BASA and associated entities from 2007-08.

The 'Budget Forecast 2003-2008' projects a modest rate of growth in aggregate revenue matched by a similar modest rate of growth in aggregate expenditure. The inability to increase the rate of revenue above the rate of growth in expenditure will give rise to a significant problem. This situation does not provide the financial capacity for BASA and the associated entities to meet the recommencement in 2007-08 of annual interest payment obligations to the Treasurer in connection with the Findon Basketball Stadium and to meet other budgeted capital obligations.

Statutory Reporting Obligations

BASA and the associated entities prepare annual financial accounts. Those accounts have been subject to independent audit. The audited accounts are included in an annual report produced for each entity.

The Independent Audit Reports for BASA and associated entities for the years ending 30 June 2001 to 2003 were issued within three months of the close of the financial years. This indicates that proper regard has been given to the timeliness of production and audit of the financial accounts of each entity.

BASA has made improvements in the area of financial accounting and reporting and shown an intention to effect further improvements. Presently BASA and the associated entities prepare 'Special Purpose Financial Reports' as distinct from 'General Purpose Financial Reports'. While the form and content of the entities 'Special Purpose Financial Reports' reflect many features of a 'General Purpose Financial Report', having regard to the public interest in its operations, (BASA having received and continuing to receive, substantial public monies), financial reporting presentation requires presentation of 'General Purpose Financial Reports'. In my opinion, is it important that the overall improvement process entails the adoption of general purpose financial reporting for BASA and the associated entities.

BASA Debt Servicing Capability

This Report includes comment on the nature of the financial difficulties that BASA has experienced over the years.

These difficulties have related to BASA's high debt obligation to the State Government in respect of the loan arrangement between the Treasurer and BASA relating to the Findon Basketball Stadium. Over the years, BASA has not, with any degree of certainty and continuity, been able to meet the interest payment and principal repayment obligations of the loan.

The BASA 'Budget Forecast 2003-2008' prepared in early 2003-04 indicates that BASA will again experience financial difficulties in meeting the debt obligations in connection with the Findon Basketball Stadium. This Report includes discussion on the current and forecast aggregate financial performance of BASA and the associated entities. It should also be mentioned that the present 'Budget Forecast 2003-2008' is being revised by BASA.

The August 2002 financial assistance arrangement approved by the Government was based on a recommendation from the Department of Treasury and Finance. An important consideration of the Department in recommending the form of the arrangement was to provide some flexibility going forward should the financial position of basketball in Australia and South Australia improve.

It is also relevant in this context to note that the Department for Administrative and Information Services — Office for Recreation and Sport (ORS) — is undertaking a detailed review of the position/status of sporting facilities within this State. The purpose of this review is to detail improvement and development requirements for current State sporting facilities together with an indication of specific facilities that are required in order to fill gaps in the existing provision.

Legal agreements between the Government and BASA relating to the revised financial arrangement include a specific clause that requires a review of BASA's financial position in the three (3) months prior to 31 December 2006. The purpose of the review is to determine whether BASA is able to meet all of its ongoing obligations under the revised arrangement.⁹

This Report would not be complete without reference to the option that is open to the Government to write-off the indebtedness of BASA. BASA has in the past raised the possibility of the extinguishment of its indebtedness. It would, in my opinion, be less than what would be regarded as consistent with the proper stewardship of public monies for BASA's indebtedness to be simply written off at this time without regard to the outcome of the proposed review scheduled to be completed prior to 31 December 2006. Nonetheless, having regard to the history of this matter a partial write-off (extinguishment) of the indebtedness to a level that provides a realistic basis for future arrangements, should, in my opinion, be given serious consideration.

BASA's Strategic Plan 2004-2007 identifies that by March 2005 it will have established certain matters, ie the development of; a Debt Management Plan; a Five Year Capital Expenditure Plan; and a Repair and Maintenance Plan for the Findon Basketball Stadium.

It is considered that the revised 'Budget Forecast 2003-2008' and the abovementioned plans should be used as the basis for further review by the Government (through the Department of Treasury and Finance) of BASA's financial capacity to meet its obligations under the August 2002 financial arrangement. This review would also need to have regard to the contents and conclusions of the State Sporting Facility Strategy that is being developed by the ORS. This strategy is anticipated to be completed in early 2005.

In my opinion, having regard to all of the evidence that has been made available to audit for the purpose of this examination, there is no reasonable basis to realistically expect that BASA will, in the foreseeable future, be in a position to service the full extent of its

⁹ Refer Footnote 28 to this Report.

interest and principal payments on its indebtedness, as is presently envisaged in the financial arrangement with the Treasurer.¹⁰ This is particularly so having regard to the unfavourable financial outcome for the 2003-04 financial year.¹¹

The review of BASA's financial position that is currently scheduled under the legal agreements for completion prior to 31 December 2006, in the light of the current circumstances set out in this Report, in my opinion, should now be undertaken as soon as practicable after the completion of the ORS Report on sporting facilities in this State.

RECOMMENDATIONS ARISING FROM AUDIT EXAMINATION

The audit examination has identified certain issues that require consideration by the Government (through the Department of Treasury and Finance and Treasurer). The examination has also identified matters requiring review and consideration by BASA. The recommendations are detailed in section 14 of this Report.

In summary, having confirmed that BASA is conducting its internal administrative and financial affairs with regard to economy and efficiency, the recommendations include the matter of the need to bring forward the proposed review of BASA's financial position and the review of its capacity to meet its financial obligations. An important matter as regards its external affairs is the need to ensure compliance with applicable statutory requirements. This is a matter that, in my opinion, requires attention.

On the basis of all the available evidence, it is, in my opinion, unrealistic to expect that BASA, on the current 'level' of its indebtedness, can, in the foreseeable future, meet its financial obligations to the Government. In my opinion, there should be a review of the debt level with a view to the establishment of a 'level of indebtedness' that can, on a reasonable basis, be serviced as from 2007-08 from BASA's operations. For this reason, the review scheduled to be undertaken in the three (3) months prior to 31 December 2006 should be brought forward and undertaken as soon as practicable after the receipt of the State Sporting Facility Report in early 2005. Implicit in this recommendation is the need to consider extinguishment of such part of the debt as is required to establish a realistic basis for future expectations from the Government as to BASA's capacity to pay.

In my view, it is not consistent with good public administrative practice to continue to administer an arrangement that is not, on any reasonably foreseeable basis, likely to be productive of a constructive outcome for either the Government or BASA. It must, however, be emphasised that a decision of this nature is, at the end of the day, a matter for political/Executive Government judgment. Provided such a decision is made on reasonable grounds it is not, in my opinion, open to informed criticism.

¹⁰ Refer Footnote 3 to this Report.

¹¹ While the 'Budget Forecast 2003-08' projected an aggregated profit result of \$250 000, the unaudited 2003-04 June year-to-date management accounts show an anticipated aggregate loss result of \$734 000.

1. BACKGROUND

1.1 Government and Sport

Governments over many years in this State have directed millions of dollars into sporting bodies, programs, and facilities. This reflects the implementation of a bi-partisan policy commitment to improving the well being of the community and its members. An important element of that policy relates to encouraging participation by community members in sport as a basis for healthier lifestyles.

The State's Strategic Plan, 'Creating Opportunity', issued in March 2004 recognises the policy/strategic objective of improving the well being of the community and that sport and recreation are contributing factors to achieving this objective. The Plan indicates that as of 2002, whilst South Australians are active, our participation rate in sport and physical activities was behind the Australian average. The Plan targets improvement in this area with an objective of exceeding the Australian average within 10 years.

The 2004-05 funding budget of approximately \$30 million or this State's Office for Recreation and Sport indicates the multi million dollar outlay directed to sport and recreation.

Financial assistance and support for sport by governments has and does take various forms. These forms include:

- the provision of grant funds for operations to sporting controlling bodies and community bodies;
- financing the establishment and subsequent maintenance of sporting stadiums within the context of government ownership and control obligations;
- the provision of financial assistance to sporting and community bodies for the establishment or upgrade of sporting stadiums, without government ownership and control obligations;
- in specific circumstances, special financial arrangements to assist the viability of a sporting body or code.

During the 1980's and 1990's, governments funded, through the various financing forms, new and upgraded facilities associated with the areas of recreation, sport and culture. In a number of instances, financing was by way of grant funding¹² as distinct from loan financing (involving principal repayment and interest obligations).¹³

It is to be noted that sport is not only significant as a contributing factor in the health and well being of the members of the community, it is also important in its economic contribution in providing employment within the State.

¹² Adelaide Convention Centre Corporation and Adelaide Entertainments Corporation; Cycling Velodrome; Athletics Stadium.

¹³ Findon Basketball Stadium.

1.2 Some Relevant Principles Concerning Political/Executive Decision Making of Grants, Loans, etc and Statutory Legal Compliance in the Matter of BASA

The examination of this matter has raised issues of political/Executive decision-making associated with the making of grants of public money and the necessity for ensuring compliance with relevant statutory requirements.

1.2.1 Political/Executive Decision-Making Re Grants etc

Subject to satisfying the requirements of the Treasurer's Instructions¹⁴ and the fundamental requirement that payments made to sporting entities can be justified as in the public interest, the matter of the making of grants, loans, etc and the conditions upon which such grants, loans, etc are to be made available is one for political/Executive Government judgment. Implicit in the decision-making associated with these matters is that no grant etc would be made without proper due diligence processes having first been undertaken.

1.2.2 Compliance with Statutory Requirements

As a matter of good public financial administrative practice it is important that the payment of grant monies and/or the making of loans of material amounts of public monies only be made on the basis that the recipient entity is in a position to confirm that it is complying with all applicable statutory requirements. In my opinion, it will amount to a 'judgment call' by the Government agency making the grant/loan as to the amount of money that requires the confirmation referred to in this context. In the course of this examination, it was noted that certain of the arrangements associated with the commercial relationship involving BASA and two of the associated entities, ie SFMSA and the Adelaide 36ers involved the distribution of profits to BASA.

Having regard to the provisions of section 55 (2) and 55 (3) of the *Associations Incorporation Act 1985*, it is important that BASA clarify with the Corporate Affairs Commission as to whether any approvals are necessary in the circumstances. BASA has advised that the position in this regard will be clarified as a matter of urgency.

1.3 BASA and the Government of South Australia

The Basketball Association of South Australia Incorporated (BASA) is an association incorporated under the *Associations Incorporation Act 1985*.

Nine metropolitan based basketball clubs constitute the ordinary members of BASA. It is governed by an Executive Board of nine persons with day-to-day administrative responsibility residing with a Chief Executive Officer.

BASA is one of four associated entities.¹⁵ The other entities are the Sport Facilities Management of SA Incorporated (SFMSA), Adelaide 36ers Incorporated (Adelaide 36ers), and the Adelaide Lightning Incorporated (Adelaide Lightning).

¹⁴ Treasurer's Instruction 15 'Grant Funding Conditions'.

¹⁵ 'associated' in this context is explained in the Executive Summary and in Appendix A to this Report.

The revenue associated with BASA and the three other entities in 2003-04 was approximately \$8 million.

BASA has responsibility for policy, administration and basketball development. It provides administrative and financial support services to the three other associated entities.

BASA is the registered proprietor of the 'Distinctive Homes Dome' (Findon Basketball Stadium). This stadium is South Australia's premier basketball stadium and is located at Findon. BASA also owns the license for the Adelaide 36ers to compete in the National Basketball League (NBL) and the license for the Adelaide Lightning to compete in the Women's National Basketball League (WNBL).

As has been the case with other major sporting bodies/associations within this State, BASA has, over many years, received financial assistance from the South Australian Government. Specifically, in relation to BASA, it has been provided with annual grants to assist with operations and has received relief under a debt financing facility from the Treasurer of the State of South Australia (Treasurer) in relation to its Findon Basketball Stadium.

In 2002, BASA sought a review of its financial relationship arrangements with the South Australian Government. This was on account of financial difficulties being experienced concerning its ongoing viability, mainly attributable to its inability to meet debt repayment obligations to the Treasurer associated with the Findon Basketball Stadium.

On 28 August 2002, Cabinet approved a recommendation from the Treasurer to improve the financial condition of BASA. Cabinet approval involved an offer of additional financial assistance to BASA on the basis of certain conditions. The conditions were outlined in the Cabinet Submission and in a letter dated 3 September 2002, from the Treasurer to the Chairman of BASA.

1.4 Request for Examination to be Undertaken

By letter of 30 August 2002, the Honourable Kevin Foley, MP, Treasurer advised the Auditor-General of the particulars of the Government's offer of further financial assistance to BASA and the conditions of the offer. The Treasurer's letter concluded with the following request:

The Treasurer requests, in accordance with the requirements of section 32 of the Public Finance and Audit Act 1987, that the Auditor-General ensures that the affairs of the BASA are being conducted with due regard to economy and efficiency, including identifying whether the undertakings provided by BASA to identify further efficiencies have in fact been achieved.

For the reasons discussed in this Report, the affairs of BASA can only be properly understood in the context of its commercial relationship with three other incorporated associations. The other entities are the SFMSA, Adelaide 36ers, and the Adelaide Lightning. Each of BASA and the other three entities are associations incorporated under the *Associations Incorporation Act 1985*.

The conditions relating to the approved revised financial assistance arrangement between the Government and BASA, required BASA to prepare longer term budget and planning documents that would reflect BASA's direction regarding its business activities and financial viability. BASA prepared a document titled 'Budget Forecast 2003-08' in early 2003-04, followed by a 'BASA Strategic Plan 2004-2007' and a 'BASA Business Plan 2004-05'.

The Treasurer's request regarding the examination required attention to the matter of economy and efficiency of BASA's operations in both an historical and future context. For the reason explained hereunder the effective conduct of the examination necessitated review of the management and business arrangements and the operations of BASA and the associated entities during 2003-04.

The financial year 2003-04 represented the first year of BASA's 'Budget Forecast 2003-08'. An examination that did not have regard to coverage of the 2003-04 year would have resulted in a report of simply historical interest and of limited future relevance for governmental decision-making purposes.¹⁶ The 2003-04 year review included examination of the June 2004 year-to-date management accounts and information. This involved a comparative review of the unaudited financial results with the 2003-04 budget forecasts.¹⁷

Accordingly, I have now finalised an audit examination pursuant to section 32 of the *Public Finance and Audit Act 1987*.

As mentioned above, the examination has included consideration of the 2003-04 unaudited operations of BASA and associated entities. It has also examined the 2002-03 and prior years' audited operations of the entities, and consideration of forecast expectations of operations and financial activity of the entities for the ensuing years to 2007-08.

1.5 Audit Mandate

Section 32 of the *Public Finance and Audit Act 1987* sets out the requirements on the Auditor-General in respect of an audit examination requested by the Treasurer.

With specific reference to the audit examination of BASA, the following subsections of section 32 of the *Public Finance and Audit Act 1987* are relevant.

32. (1) *The Auditor-General must, if requested by the Treasurer—*
- (a) *examine the accounts of a publicly funded body and the efficiency and economy of its activities;*

¹⁶ The audit examination also identified specific issues that are of relevance for consideration by BASA.

¹⁷ The unaudited June 2004 year-to-date management accounts incorporated expected year-to-date adjustments to be applied for statutory financial statement reporting purposes. Executive Board and Independent Auditor sign-off of the 2003-04 financial statements is to occur in early November 2004, followed by presentation of the audited statements to the Annual General Meeting to be held towards the end of November 2004.

- (2) *After making an examination under subsection (1), the Auditor-General must prepare a report setting out the results of the examination.*
- (3) *The Auditor-General must deliver copies of the report to the Treasurer and to the President of the Legislative Council and the Speaker of the House of Assembly.*

BASA is a 'publicly funded body' as defined in section 4 of the *Public Finance and Audit Act 1987*. That section defines such a body to include 'any ... body or person that carries out functions that are of public benefit and that has received money from the State by way of grant or loan'.

BASA carries out functions that are of public benefit and, as mentioned previously, has received financial assistance over many years from the Government in the forms of grant and loan monies.

1.6 This Report

This Report outlines the manner in which the examination was undertaken, certain information and documentation obtained in the course of its performance, and the conclusions and recommendations arising from its conduct.

2. SCOPE OF THE EXAMINATION

The scope of the examination recognised the requirements of section 32 of the *Public Finance and Audit Act 1987* with specific regard to the particulars of the request of the Treasurer to the Auditor-General.

As such, the examination had as its focus the nature and extent to which BASA's operations have been, and are being, undertaken with due regard to economy and efficiency. The examination also reviewed certain matters relating to the other conditions that were placed by the Government and the Treasurer on the offer of additional financial assistance to BASA.

Regarding economy and efficiency, as the terms imply, they relate in a business sense to the identification and implementation of one or a mix of opportunities, associated with revenue maintenance/enhancement and/or cost containment/reduction. The successful implementation of one or more of these opportunities give rise to positive financial results for the business. Good standards of practice associated with organisational governance and business management, including strategic and financial management and control, facilitates the successful identification and implementation of economy and efficiency initiatives.

In reviewing these matters, Audit has considered in an overall context, the impact of any actions taken or proposed by BASA, importantly with respect to BASA's reliance on financial assistance from the Government and BASA's ability to meet its debt repayment obligations to the Treasurer as they fall due over the ensuing years.

In the review process, among other things, Audit considered a report¹⁸ prepared by an independent consultant in 1998 as a result of a review undertaken of BASA management and operations. The review and subsequent report was commissioned by the Department of Treasury and Finance. Information and the observations and conclusions contained in the report provided a basis for a comparative assessment to be made of some aspects of the business operations and financial performance and the condition of BASA as at 1998 and of today.

The examination did not involve re-performing audits of the accounts of BASA. BASA has been the subject of annual independent audits by a private sector firm. The examination, however, reviewed the outcomes of recent years' audits as reflected in audit report correspondence from the private sector firm to BASA, including the auditor's opinion expressed on BASA's accounts.

The examination also did not extend to the review and assessment of remuneration, contractual arrangements relating to coaching, and player personnel payments by the Adelaide 36ers and the Adelaide Lightning. The examination, however, considered governance practice being exercised by BASA over contractual arrangements to ensure player contracts are consistent with NBL rules regarding Player Payment Limits ('Salary Cap' arrangements). 'Salary cap' arrangements do not apply in relation to Adelaide Lightning.

3. CONDUCT OF THE EXAMINATION

The examination required access to relevant documentation and/or persons within BASA and the agencies of government, namely Department of Treasury and Finance, South Australian Government Financing Authority, and the Department for Administrative and Information Services — Office for Recreation, Sport and Racing.

The principal means of obtaining relevant documentation and information for purposes of the examination involved issuing summonses pursuant to section 34 of the *Public Finance and Audit Act 1987*; letters of request; and meetings with relevant persons of BASA and the agencies. The organisations and their officers were both forthcoming and helpful in responding to Audit inquiries and requests.

In reference to the documentation and information obtained, matters that were the subject of examination included the following:

- Obtaining an insight into the organisational structure and governance arrangements of BASA.
- Ascertaining the nature of the financial arrangements between BASA and the Government, including details of financial assistance provided/offered to BASA.
- Ascertaining the outcomes from any previous external reviews and/or independent external audits of BASA operations.
- Ascertaining the main features of business, management and control, and financial reporting exercised in respect to the operations of BASA.

¹⁸ Report on the Review of Financial Arrangements between the Basketball Association of South Australia and the South Australian Government: Equity & Advisory Ltd: September 1998.

- Understanding the historical and forecast financial operating performance and financial condition of BASA.
- Inquiring regarding actions taken or proposed by BASA in responding to conditions placed by the Government on the additional financial assistance offered to BASA.

In the interests of natural justice, I provided, on a strictly confidential basis, a draft of this Report to the members of the Executive Board and senior officers of BASA and the Under Treasurer. My purpose in so doing was to give those persons an opportunity to provide any comments on the draft text for consideration by me in finalising the Report. Changes to the draft in finalising the Report were made with the purpose of providing additional information or explanation in relation to certain matters.

On the basis of all the information available to me, I have made a number of observations, conclusions and recommendations relating to this examination. These are outlined in the following sections of this Report.

4. SPORT OF BASKETBALL: INFORMATION SNAPSHOT

4.1 National

4.1.1 Participation

The 1980's and the early 1990's saw basketball grow to achieve a prominent position in Australian sport. It has since slipped from that position.

As of 2003-04 in terms of 'participation' it ranked twenty fourth (swimming first; netball nineteenth; soccer twentieth; Australian rules thirty third); in 'spectator attendance' it ranked ninth (Australian rules first; tennis sixth; netball eleventh; swimming twelfth); and in 'television viewing' it ranked thirteenth (cricket first; Australian rules second; soccer seventh; netball nineteenth).¹⁹

Participation in basketball in Australia appears to have peaked in 1996 at just over 600 000 and then declined to 569 000 in 1999. There has been some slowing decline then stabilisation from 1999 onwards. Spectator levels and watching the game on television seems to have followed a similar decline and then stabilising pattern.²⁰

4.1.2 Strategic Review of the Sport

A major strategic review of basketball in Australia was undertaken in 2000. The review report²¹ put forward a comprehensive proposition for reform and renewal for basketball in Australia in order to return the sport to the top tier of Australian sport.

¹⁹ Sweeney Sports 2003-04.

²⁰ One basketball, back on top: A proposition for reform and renewal: Background Papers: Companion Volume to the final report from a strategic review of basketball in Australia: November 2000: page 5.

²¹ One basketball, back on top: A Proposition for Reform and Renewal: Final report from a strategic review of basketball in Australia: November 2000.

At the time of the review, as is today, there are four separate bodies at the national level responsible for various aspects of basketball development and delivery.

They are the sport's national body, Basketball Australia (BA), which is answerable to the eight independent and autonomous state and territory associations and the three league bodies, that make up its membership. BASA is a member of BA. The three league bodies are the National Basketball League (NBL), Women's National Basketball League (WNBL) and the Australian Basketball Association (ABA). As mentioned earlier in this Report, BASA is the owner of the NBL license for the Adelaide 36ers and the WNBL license for the Adelaide Lightning.

The report on the strategic review of basketball raised certain key concerns that required resolution. These concerns were considered constraining factors to growing and developing the sport in a complex and competitive environment. These related to:

- governance/management;
- service delivery of the sport;
- the poor financial state of the sport;
- the requirement for increasing sponsorship and media support of the sport.

In more specific terms, there was a lack of clarity regarding the roles and responsibilities among the separate bodies involved in the sport of basketball that required addressing.

Other issues were as follows. There was a lack of integration in the way the bodies planned, designed, and delivered various products and services; there were potential savings to be realised by bringing the four organisations together, both physically and in terms of sharing some core support functions; there was lack of knowledge in the sport about who the customers were, how many people played, who were registered, and what they wanted, and how they responded to specific programs and services. Further, there were difficulties in securing new sponsorship and investment in the sport.

A background paper included in the companion volume to the review report made observations regarding the sport's general financial state. It made reference to the fact that the sport's reliance on high levels of government funding represented a significant risk. The review report itself suggested that in the medium to longer term the sport has to lift the proportion of revenue that it receives from its members and customers.

Basketball Australia's strategic plan for 2001-2004 sets certain priorities and actions to respond to a number of issues raised in the 'One basketball' strategic review report. The plan is based on the proposition of maintaining the basic elements of the current structure, but at the same time, to clearly shift towards a more integrated and unified operating environment. One of a number of initiatives that has been taken is the integration of the four national bodies into one Headquarter.

4.1.3 National Basketball League

The NBL is the elite basketball league body and competition in Australia. It is the mens' basketball association competition similar to the National Basketball Association in the United States of America. As mentioned previously, BASA is the owner of the NBL license for the Adelaide 36ers.

The NBL enjoyed significant success and growth in the 1980s as franchised teams were established and playing to capacity crowds in venues throughout Australia. Its success was accompanied by significant growth and overall interest by Australians in the sport of basketball. The success and growth of basketball during the 1980s and early 1990s can be attributed to the NBL and its ability during most of that period to secure free to air television coverage of the sport.

The subsequent loss of free to air television broadcasting of NBL games (although securing by the NBL of a pay-TV broadcaster) was a contributing factor to the sport of basketball declining as a pre-eminent sport in the latter part of the 1990s, both in overall interest, and sport participation.

Certain media reported developments affecting the NBL in 2003 reflect some positives regarding its future direction and continuing beneficial contribution to the overall health of the sport of basketball. The developments relate to the appointment of a new NBL Commissioner with overseas experience; the securing of what is said to be the most lucrative pay-TV broadcast rights deal in its 25 year history; and lowering of the 'salary cap' to be applied to NBL league teams.

4.2 South Australia

BASA and the South Australian Country Basketball Association (SACBA) are the bodies that exercise significant responsibility and influence in basketball development and delivery within this State. BASA operations are administered from its Findon Basketball Stadium. In 2000, the SACBA relocated its office to the Stadium. This has provided the environment for BASA and the SACBA to work more closely together and integrate basketball development and service delivery programs.

As is the case in respect of the national context, there are no authoritative and reliable figures on the numbers of people who play basketball within this State.

Notwithstanding the unavailability of authoritative participation data, some data noted from a review of BASA's Executive Board papers and Annual Reports provide an indication of participation in the sport of basketball over time in South Australia. A paper provided to the BASA Board in 1999 mentioned a participation level in South Australia, at that time, of around 40 400.²² Some other information recorded in BASA's Executive Board papers would indicate that the level of overall player participation within the State at that time was on the decline as was the position nationally. A particular Board paper reporting on BASA's basketball development program as at the year 2000 provided data

²² Paper dated 18 July 1999 and titled 'Strategic Review of (Junior) Basketball in South Australia'.

indicating a significant reduction in the number of junior teams competing in BASA competitions.²³ The paper highlighted that junior teams fell from 432 in 1997 to 389 in 2000.

The Annual Report of BASA for 2002-03 reflected disappointment in the number of junior teams competing during 2002-03. In the 2002 winter season there were 397 teams, this number declined to 387 teams in the 2002 summer season and 374 in the 2003 winter season. The number of teams competing in the 2004 winter season, however, totalled 394, an increase on the 2003 winter season.

The period from 2000 to date has seen BASA and the SACBA engage in significant basketball development activity. A great deal of that activity has been directed to schools and students participating in certain programs, most notably 'Aussie Hoops'.²⁴ While this has been most effective in involving large numbers of children in physical activity and in raising the profile of basketball, the conversion of schools and students to mainstream basketball competitions (including the District competitions) has yet to be realised.

In 2002-03, BASA initiated as part of Basketball Australia's e-basketball strategy, a project involving the development of a registration database and the collection of participant registration information. This initiative, on full implementation, should result in an informed picture regarding South Australian basketball participation levels and improve strategy and planning development activities in respect of basketball.

5. OVERVIEW OF BASA AND ASSOCIATED ENTITIES

BASA is one of four closely associated entities. The other entities are the Sport Facilities Management of SA Incorporated (SFMSA), Adelaide 36ers Incorporated (Adelaide 36ers), and the Adelaide Lightning Incorporated (Adelaide Lightning). Refer to Appendix A.

The overall revenue associated with all four entities in 2003-04 is approximately \$8 million.

Background information important to an understanding of the structure and operations of the four entities is provided hereunder in this section.

5.1 BASA

5.1.1 Structure

BASA is an association incorporated under the *Associations Incorporation Act 1985* (as amended). Its history dates back to 1954 when it was established and named the District and Metropolitan Amateur Basketball Association Incorporated.

²³ Paper submitted to BASA Executive Board in May 2000 and titled 'BASA Development Program'.

²⁴ Refer section 9.2.2.2 of this Report regarding the 'Aussie Hoops' program.

Up to July 2003, pursuant to the BASA constitution 10 metropolitan based basketball clubs comprised the ordinary members of BASA. The clubs were:

- Adelaide Southern Suns Basketball Club Incorporated
- North Adelaide Basketball Club Incorporated
- Noarlunga City Tigers Basketball Club Incorporated
- Norwood Basketball Club Incorporated
- South Adelaide Basketball Club Incorporated
- Sturt Basketball Club Incorporated
- West Adelaide Bearcats Basketball Club Incorporated
- Forestville Eagles Basketball Club Incorporated
- Woodville District Basketball Club Incorporated
- Central Districts Basketball Club Incorporated.

In August 2003, the first and third mentioned clubs merged to form a new incorporated association, 'Southern Tigers Basketball Association Incorporated'. This merged club continues as an ordinary member of BASA.

BASA is a non-profit entity. The constitution of BASA lists 20 objects, the first being, 'The objects of this Association shall be to promote and advance the game of basketball in South Australia'.

BASA is governed by an Executive Board of nine persons, including the Chief Executive Officer of BASA. The Chief Executive Officer is appointed by the Executive Board, and is, subject to direction as may from time to time be given by the Executive Board, responsible for the management and control of BASA.

5.1.2 Operations

BASA is the policy and administrative entity. Its main activities involve the following:

- Managing relationships with member clubs and BA.
- Policy setting and implementation of programs for basketball development within South Australia.
- Managing/coordinating basketball competitions within the State.
- Administering coaching and referee activity relating to the sport of basketball.
- Proprietor of the Findon Basketball Stadium.
- Administering basketball finances including government grant monies.
- The provider of administrative and financial support services to SFMSA, Adelaide 36ers, and Adelaide Lightning.

Revenues to BASA comprise principally administration, facility and service fees from SFMSA, Adelaide 36ers and Adelaide Lightning. It also receives revenue receipts from usage and hire of the Findon Basketball Stadium, and government grants. Expenditures relate to staff costs associated with administration and basketball promotion, development and management; Treasury loan interest (suspended for five years from 2002-03); and depreciation related to stadia facilities.

Revenues and expenditures associated with its audited operations for 2002-03 were \$2.7 million and \$2.8 million respectively. It had a net asset position of \$2.6 million at 30 June 2003.

In accordance with the requirements of the *Associations Incorporation Act 1985* (as amended) and BASA's constitution, annual accounts of BASA's operations are prepared and independently audited by a professional accounting firm.

5.2 SFMSA

5.2.1 Structure

SFMSA is an association incorporated under the *Associations Incorporation Act 1985* (as amended). It was established in 1995.

In accordance with the SFMSA constitution the only present ordinary member of SFMSA is BASA.

The constitution states that SFMSA '... shall be a non-profit entity which shall not seek to make a pecuniary profit from any of its activities to the benefit of its members'. SFMSA objects centre on managing, developing and maintaining sporting facilities (including stadiums) on behalf of BASA.

SFMSA is governed by a Committee of Management. Members of the Committee are appointed by the Executive Board of BASA. The Chairman of the Committee and one other member of the Committee, being the Chief Executive Officer of BASA, are members of BASA's Executive Board.

5.2.2 Operations

SFMSA is the facility venue management entity. It manages nine sports facilities across Adelaide for use as recreational and competition based basketball venues. A range of sporting activities other than basketball are organised at the facility venues. Also each venue serves as a home base for one or more of the BASA member/affiliated clubs.

SFMSA revenues relate mainly to stadia facility venue user admission and venue hire charges (competitions, social games, private functions). Expenses include an administration, facility and service fee payable to BASA; stadia manager staffing costs; and stadia facility associated costs of rent, insurance, maintenance and energy expenses.

Revenues and expenditures associated with its audited operations for 2002-03 were \$1.8 million and \$1.8 million respectively. It had a net asset position of \$58 000 at 30 June 2003.

In accordance with the *Associations Incorporation Act 1985* (as amended) and the SFMSA constitution, annual accounts of SFMSA's operations are prepared and independently audited. The auditor is the same professional accounting firm that undertakes the audit of BASA's accounts.

5.3 Adelaide 36ers

5.3.1 Structure

As with BASA and SFMSA, the Adelaide 36ers is an association incorporated under the *Associations Incorporation Act 1985* (as amended). It was established in 1989 at the time when the NBL underwent a process of corporatisation. The Adelaide 36ers is a licensed participant in the NBL.

Pursuant to the constitution of the Adelaide 36ers the only present ordinary member of the Adelaide 36ers is BASA.

The constitution states that Adelaide 36ers '... shall be a non-profit entity which shall not seek to make a pecuniary profit from any of its activities to the benefit of its members'. The Adelaide 36ers objects focus around promoting and advancing the game of basketball in South Australia and among people in South Australia generally.

The Adelaide 36ers is governed by a Committee of Management. Members of the Committee are appointed by the Executive Board of BASA. The Chairman of the Committee and one other member of the Committee, being BASA's Chief Executive Officer, are members of BASA's Executive Board.

5.3.2 Operations

This association administers the operations of the Adelaide 36ers, one of the most successful basketball teams in the NBL. Its success and the extent of spectator demand from the South Australian public was the principal reason for the Findon Basketball Stadium being built.

Revenues to the Adelaide 36ers are sourced mainly from ticket sales, sponsorships and sale of corporate entertainment facilities. Expenditures relate principally to remuneration costs of coaching and playing personnel and payment of an administration, facility and service fee to BASA.

Revenues and expenditures associated with its audited operations for 2002-03 were \$3.3 million and \$3.6 million respectively. It had a net liability position of \$602 000 at 30 June 2003.

In accordance with the *Associations Incorporation Act 1985* (as amended) and the Adelaide 36ers constitution, annual accounts of the operations of the Adelaide 36ers are prepared and independently audited. The auditor is the same professional accounting firm that undertakes the audit of BASA's and SFMSA's accounts.

5.4 Adelaide Lightning

5.4.1 Structure

As is the case with the other three entities, Adelaide Lightning is an association incorporated under the *Associations Incorporation Act 1985* (as amended). It was incorporated in 1992.

Pursuant to the constitution of the Adelaide Lightning the only present ordinary member of Adelaide Lightning is BASA.

The constitution states that Adelaide Lightning '... shall be a non-profit making entity which shall not seek to make a pecuniary profit from any of its activities to the benefits of its members'. The Adelaide Lightning objects centre on promoting and advancing the game of basketball in South Australia and amongst people in South Australia generally.

The Adelaide Lightning is governed by a Committee of Management. Members of the Committee are appointed by the Executive Board of BASA. The Chairman of the Committee and two other members of the Committee, one being the Chief Executive Officer of BASA, are members of BASA's Executive Board.

5.4.2 Operations

This association administers the operations of Adelaide Lightning, a most successful team in the WNBL. On court success, however, has not attracted large enough sponsorships and spectator attendance levels to enable revenue to meet expenses of operations. As a consequence, BASA has consistently made financial contributions to Adelaide Lightning to support operations.

Revenues come mainly from sponsorships and ticket sales. The main expenditures relate to remuneration costs of coaching and playing personnel, administration, facility and service fee to BASA, and an administration payment to the WNBL.

Revenues and expenditures associated with its audited operations for 2002-03 were \$118 000 and \$268 000 respectively. BASA provided the entity with a grant of \$150 000 to make up the shortfall in revenues. It had a nil net asset position at 30 June 2003.

In accordance with the *Associations Incorporation Act 1985* (as amended) and the Adelaide Lightning's constitution, annual accounts of the operations of Adelaide Lightning are prepared and independently audited. The auditor is the same professional accounting firm that undertakes the audits of the accounts of the other three entities.

5.5 Review of Constitutions of BASA and Associated Entities

A review of the constitutions of BASA and associated entities commenced during 2002-03.

The 2002-03 Annual Report of BASA, released in September 2003, stated that the review of that entity's constitution is taking place, 'among its aims being the streamlining of operations and updating other committee structures'.

BASA and its Executive Board are supported by important special interest committees required to be established under its constitution. The Committees focus on specific areas, including development, junior and senior competitions, referees, tribunals, and finance.

As part of the review process, certain matters that have received consideration involve the potential benefits of bringing together the two non 'basketball team' focused associations of BASA and SFMSA and the associated payroll tax implications of such a merger. Prior to the establishment of SFMSA in 1995 its operations formed a component of the operations of BASA.

Any proposals regarding changes to the constitutions and the organisational and committee structures of BASA and the associated entities would require approval consistent with the requirements governing constitution changes of the various constitutions.

The BASA constitution was last altered in 2001. As a consequence, two positions of responsibility and authority, ie President and Vice President, which were independent of the Executive Board, were abolished. Their respective roles were essentially assumed by the Chairman and Deputy Chairman of the Executive Board of BASA.

In ascertaining familiarisation with the organisational structure of BASA and the other three entities, the constitution of each entity was reviewed.

Notwithstanding that the constitution of BASA was amended to reflect the abolition of the positions of President and Vice President, the constitutions governing the three other entities have not been so amended and as such still include reference to those positions. This matter has been identified for consideration in the context of the abovementioned constitutional review process.

A further matter identified for consideration in the constitutional review process relates to the provisions in the constitutions of each of BASA and the associated entities regarding financial accounts and audit. Certain provisions would benefit from a review in regard to consistency concerning stated requirements. For example, two entity constitutions stipulate '30 September' as the annual reporting date. The other two constitutions do not stipulate a date. A further example relates to stated requirements regarding financial statements. The terms used in three constitutions are 'Balance Sheet' and 'Profit and Loss Account' while 'Balance Sheet' and 'Statement of Receipts and Expenditure' are stated in the other constitution. This type of review is important having regard to the preparation of the financial statements on a basis recommended in this Report.²⁵

5.6 Member Clubs

As mentioned above nine metropolitan basketball clubs constitute the ordinary members of BASA. While these respective clubs' operations are not the focus of the audit examination, it was considered appropriate to obtain some brief knowledge of their relationship with BASA and the basketball community generally.

The clubs, in conjunction with BASA, foster the development of basketballers and basketball teams through involvement in junior and senior levels of district

²⁵ Refer section 9.5 in this Report.

basketball competitions and state competitions. Notable of the senior competitions that the clubs are involved with are the State League and Metro League competitions, and in respect of junior competitions, the Junior State Club championships.

To obtain a brief, but nonetheless, useful insight into the clubs' operations (principally aspects of financial performance), Audit obtained through BASA, certain member club constitutions, and the financial statements from all clubs. The financial statements covered the 2001-02 and 2002-03 financial years.

5.6.1 Financial Activity of Clubs

The review of the clubs' financial statements, indicated in the main, that clubs:

- operated with an annual turnover within the range of \$60 000 to \$200 000. One club had turnover of approximately \$295 000 and \$380 000 for the financial years 2001-02 and 2002-03 respectively;
- operated around breakeven or made losses. The highest recorded surplus was approximately \$40 000 for the financial year 2001-02;
- do not have large surplus assets and certain clubs had net liability recorded positions.

5.6.2 Financial Reporting Obligations of Clubs

The constitution of BASA provides that each member club submit to the Executive Board of BASA an audited statement of their financial affairs. The audited statement is required to be submitted no later than two months after the end of the member club's financial year. It was noted in the review of the minutes of the Executive Board that BASA has experienced difficulty in achieving overall compliance from member clubs with the obligation to submit audited statements of financial affairs. This was illustrated during the conduct of this examination. BASA was required to make several contacts with certain clubs to submit their audited financial statements to BASA for forwarding on to Audit for review.

In addition, the review of the clubs' financial statements that were submitted for Audit review, revealed marked variations in quality regarding the form and content of the financial statements. It was noted in one instance, that the financial statements submitted from one club in respect of the 2003 financial year, recorded total receipts and total payments of approximately \$380 000 and \$375 000 respectively. The financial statements were unaudited which is at variance with BASA's constitutional requirement for submission of an audited statement of financial affairs and is not consistent with the statutory requirements pursuant to the *Associations Incorporation Act 1985*. That Act requires that financial statements of an incorporated association with gross receipts in excess of \$200 000 be independently audited, and to lodge periodic returns, including the audited financial statements with the Office of Consumer and Business Affairs.²⁶ This matter, having been drawn to attention of BASA is now being addressed.

²⁶ Section 35 of the *Associations Incorporation Act 1985*.

Having regard to the evidence obtained in the course of the examination, in my opinion, the very important matter of preparation and audit of clubs' financial statements, requires attention by the clubs and BASA to ensure compliance with applicable legal and professional reporting requirements.

6. FINANCIAL ASSISTANCE ARRANGEMENTS BETWEEN BASA AND THE GOVERNMENT

6.1 Position up to 2002

BASA has, over many years received and is continuing to receive, significant ongoing financial assistance by the Governments of the day. The following presents an insight into the form and level of assistance given since the Government provided loan funds to BASA to help finance the construction of the Findon Basketball Stadium in 1989.

Initially, the loan facility provided by the Government was an inflation indexed loan of \$12 million. A further \$3 million was subsequently advanced to BASA in 1991.

From 1995, the Government provided BASA with an annual grant of \$250 000, as compensation for agreeing not to hold concerts at the Stadium, which would be in direct competition to the Entertainment Centre.²⁷ From 1999, the Government provided BASA with a further annual grant of \$250 000 for the purposes of promoting basketball in the State. The Government provides a funding allocation of \$500 000 to the Office of Recreation and Sport (ORS) budget to enable the ORS to pay the annual grant amounts to BASA.

It should also be mentioned that BASA has received financial grant assistance from the Management and Development Grant Program under the administration and control of the ORS. In recent years, the annual grant has amounted to \$222 000 and is applied by BASA and SACBA towards basketball development. The annual grant is not automatic. BASA, as with other sporting organisations, must apply on an annual basis to the ORS, justifying its requisition for assistance, and if assistance is granted, meet specific accountability criteria.

In April 2000, BASA advised the Government that it was facing financial difficulties and that the expected increase in the CPI as a result of the GST would cause a further decline in its operating position. In order to survive, BASA proposed that its debt be reduced to about \$7.5 million.

On 14 August 2000, Cabinet approved a partial write off of BASA's loan facility to the Government and agreed to extend the existing grants totalling \$500 000 per annum beyond 2003-04 to 2020. The agreement reached between BASA and the then Treasurer for the loan facility, culminated in a partial write off and restructuring of the original inflation indexed loan to a credit foncier loan of \$11 million, with instalments payable half-yearly over 20 years to 30 June 2020.

²⁷ Entertainment Centre now Adelaide Entertainments Corporation.

In addition, two further general purpose grants of \$300 000 (2000-01) and \$250 000 (2001-02) were granted by the then Treasurer to assist BASA to overcome its financial difficulties.

While BASA indicated that the revised arrangements would enable it to meet its commitments in the short term, concern was expressed by BASA on its ability to survive in the long term.

In the latter part of 2001 and early 2002, BASA related with the Department of Treasury and Finance and the then Treasurer, concerning its financial viability. In a letter dated 5 February 2002, from the Chairman of BASA to the then Treasurer, the Chairman requested the opportunity to meet with the then Treasurer (subject to the 2002 election outcome) to discuss a number of specific options for further assistance.

6.2 BASA Submission of May 2002

On assuming office, the current Treasurer responded to the letter from the Chairman of BASA to the former Treasurer. Officers of the Department of Treasury and Finance were to undertake an assessment of the financial difficulties being faced by BASA. BASA made a formal submission to the Government on 29 May 2002 for consideration by the Department of Treasury and Finance as part of its overall assessment process.

The submission from BASA was detailed. It outlined the organisational structure and activities of BASA and put the view forward that it was an efficient and successful operation. It included financial analysis and forecasts demonstrating its financial predicament should financial assistance not be forthcoming. It also presented options available to BASA to deal with BASA's financial predicament with some discussion as to their adequacy to resolve the issues. Further, it discussed impending concerns with regard to funding capital improvements associated with stadia facilities that BASA and SFMSA manage or use.

The following data obtained from BASA's Annual Reports (including audited accounts) from 2000-01 to 2002-03 reveals that BASA was facing significant financial difficulty and uncertainty at the time of its May 2002 submission.

BASA Aggregated Financial Performance and Financial Position

Item	Financial Year		
	2002-03	2001-02	2000-01
	\$'000	\$'000	\$'000
Operating Loss	425	566	74
Net Assets at 30 June:			
Cash Surplus (Deficit)	2 102 (94)	2 527 (240)	3 093 472

BASA's submission identified options that it indicated had been the subject of past and recent consideration, or action, in trying to ease its financial problems.

These options have involved pursuing savings in administrative costs and consideration of, for example, the sale of the Adelaide 36ers. BASA put forward in its submission a basis of discussion in respect of the options, that argued that the options individually or collectively would not deal adequately with BASA's difficulty of financial viability.

The BASA's submission made the point that its assumption of the debt burden as a result of agreeing to the loan financing arrangement with Government to fund the Findon Basketball Stadium had put BASA in an unviable position. The submission included comment that BASA had accepted the Government's loan offer at the time in the sincere belief that it would be able to service the debt. The submission went on to say that certain events, however, turned against BASA, including:

- *the development by the Government of the Entertainment Centre on a highly subsidised basis and the insistence ... that concerts (as distinct from the sporting events) not be held at the CPH; [Clipsal Powerhouse now Distinctive Homes Dome]*
- *generally depressed economic condition in the State;*
- *much increased competition not only for the consumer dollar, but particularly for sponsorship funding, especially given the rise of the two Adelaide teams in the AFL;*
- *competitive pressure on payments to players and coaches in the NBL;*
- *the fixing of the interest rate (in real terms) at the commencement of the loan, meaning that BASA was left making high loan payments when interest rates subsequently fell.*

The submission conveyed that BASA is responsible for a range of functions, some being similar with other peak sport bodies while in other ways being unique. BASA indicated that it is responsible for the management of stadia (other than the Findon Basketball Stadium) and these venues engage in activities other than basketball. This differs from other sporting organisations such as the South Australian National Football League and the South Australian Cricket Association. Also, BASA indicated that no other state basketball association owns, as it does, a license to operate a league team in the NBL. All the league teams elsewhere are privately owned.

BASA conveyed that its comprehensive approach to sport is one of the key factors in explaining its successful outcomes at all levels.

BASA expressed the view that 'Unless the financial arrangements between the Government and BASA are changed in a very major way, the organisation would have no alternative but to place itself in the hands of an Administrator or Liquidator, sometime in 2002-03'.

In this regard, BASA proposed the following revised financial arrangement in its submission for Government consideration.

- (i) *effective 30 June 2002 the Association be completely relieved of its debt obligation to the Government (\$10.595 million);*
- (ii) *the level of general Government grants to the Association continue at the planned 2002-03 level of \$500,000 for 10 years, for the specific purpose of funding a much-needed capital improvement program.*

Although not suggested as a possible answer to BASA's underlying financial problem, BASA raised the question of whether some rationalisation could be achieved in respect of the overlap of functions being undertaken by BASA and the Entertainment Centre with potential financial advantage to both organisations. BASA proposed that this should be the subject of review by a working party comprising Department of Treasury and Finance, BASA and the Entertainment Centre.

6.3 Government Offer to BASA of Revised Financial Arrangements

The Department of Treasury and Finance (through SAFA) conducted a review of BASA's submission and its finances. The review was documented in a minute from the Under Treasurer to the Treasurer, dated 26 June 2002 and confirmed the seriousness of the financial difficulty being faced by BASA.

As part of the review, SAFA's officers met with representatives of ORS to discuss BASA's predicament. The minute records the view of ORS concerning the provision of assistance to BASA. ORS acknowledged BASA's difficult financial position. Further, ORS considered that in view of difficulties being faced by most sporting facilities within the State, a wide ranging/comprehensive review should be conducted of all the sporting, recreation and entertainment complexes, before assistance of a permanent nature be provided to BASA (or any other body in a similar situation).

The Department of Treasury and Finance in the minute expressed support for a comprehensive review as a useful vehicle for Government to decide on the level and the basis of assistance to bodies generally. It also made reference in the minute to the rationalisation matter concerning BASA and the Entertainment Centre that had been raised by BASA in its May 2002 submission.

While the review proposal put forward by BASA regarding the possible rationalisation between BASA and the Entertainment Centre has not been taken up by the Government, a detailed review of the position/status of sporting facilities within the State is presently in progress. The review is being undertaken by ORS and it is expected to be completed in the early part of 2005.

On 26 July 2002, the Acting Under Treasurer, in a minute to the Treasurer presented financial assistance options for BASA. These options involved the avenues of loan restructure, mix of loan restructure and grant retention, and other considerations. The option agreed upon by the Treasurer was in the form of a loan restructure and grant retention mix. It involved:

- a loan restructure whereby interest would be foregone on BASA's loan from the Treasurer for a period of five years and principal would be repaid only on maturity of the loan in 2020;

- the continuation for a five year period of an existing grant of \$250 000 per year for BASA not to hold concerts at the Findon Basketball Stadium in direct competition with the Entertainment Centre.

The main reasons put forward by the Department of Treasury and Finance for these recommendations were to provide some flexibility going forward should the financial position of basketball in Australia and South Australia improve, and the recommended form of assistance would not result in the full write off of debt with immediate negative impact on the Government's accounts (including State net debt). Regarding the latter matter, however, the Department indicated that some level of provisioning against the loan may be necessary.

The assistance offer agreed upon by the Treasurer was less than that sought by BASA. It represented additional assistance to BASA of \$500 000 per annum (over the next five years commencing 2002-03) relative to the assistance provided to BASA under the terms of the financial assistance arrangements approved by Cabinet on 14 August 2000.

Under the August 2000 Cabinet approved arrangement, BASA would receive \$500 000 in ongoing grant assistance. Under the revised offer arrangement, BASA, for the ensuing five years from 2002-03, would receive \$1 million in financial assistance, comprising annual waiver of interest on the Findon Basketball Stadium loan of around \$750 000 and the continuation of the concert compensation grant of \$250 000. In addition, deferral of principal payments on the loan until its maturity in 2020 would result in an additional \$250 000 per annum cash flow available to BASA.

The Treasurer's agreed upon offer was submitted to BASA in a letter dated 31 July 2002 and approved by Cabinet on 28 August 2002. There were subsequent exchange of letters between the Treasurer and BASA during August and September 2002 regarding the offer and conditions attaching to the offer.

In initially responding to the Treasurer's offer, BASA indicated that it saw no realistic prospect of being able to resume interest payments in five years time or of being able to repay the debt of \$10.45 million in 2020.

On 3 September 2002, the Treasurer, in a letter to BASA emphasised that the Government's offer of assistance was being provided in the expectation that BASA would restructure its operations during the next five years to ensure that it was financially viable by that time. BASA's response of 24 September 2002 to the Treasurer's letter of 3 September 2002 communicated acceptance of the offer and conditions and expressed appreciation for the assistance afforded. The response conveyed BASA's intent to continue to seek new revenue streams and contain costs in order for BASA to remain viable in the longer term.

The Cabinet endorsed submission of 28 August 2002, approving the offer of assistance, drew Cabinet's attention to a number of adverse consequences should assistance not be forthcoming to BASA. Those consequences were of a financial cost to the Government and the community, and included the following:

- BASA would likely be put into voluntary liquidation in 2002-03 with a forecast operating loss of \$650 000.

- The Government would be left with a basketball stadium with no or little use.
- The Government would be required to write off the outstanding debt of \$10.5 million, which would have an immediate negative impact on State net debt. This outweighed the additional cost of the financial assistance package of \$500 000 per annum.
- There would be serious implications for basketball at all levels in South Australia. Not only would it result in the closure of the Adelaide 36ers and Adelaide Lightning teams but also the many children's and junior district grades which are supported by BASA.

6.4 Conditions of Offer

The letters from the Treasurer to BASA in August and September 2002 concerning the offer of financial assistance contained the conditions attaching to the offer.

The conditions essentially expect BASA, without further assistance, to resume its debt obligations to the Treasurer from 2007-08; require BASA to restructure its business to remain viable; require BASA to prepare longer term planning documents, including a strategic plan and a four year budget; require BASA accounts to include sound cost allocations between Adelaide 36ers, Adelaide Lightning and community basketball; and require BASA to regularly report to the Government.

Legal agreements relating to the revised financial arrangement and conditions, include a specific clause that requires a review of BASA's financial position in the three (3) months prior to 31 December 2006. The purpose of the review is to determine whether BASA is able to meet all of its ongoing obligations under the revised arrangement.²⁸

²⁸ Formal legal document titled 'Supplementary Deed of Variation' dated 15 January 2004.

11.7 Review

11.7.1 During the period of three months prior to 31 December 2006 the Borrower shall complete a review of the Borrower's then financial position and capacity to satisfy the Repayment Schedule over the term of the facility and meet all of its ongoing obligations pursuant to the Amended Loan Agreement and the funding requirements for Basketball on a long term basis.

11.7.2 The Borrower shall provide its completed review to the Lender in the form of a written report together with copies of and access to all financial information reasonably required by the Lender in respect to same.

11.7.3 It is acknowledged and understood that the purpose of the review is to determine whether the Borrower is able to meet all of its ongoing obligations pursuant to the Amended Loan Agreement. Following receipt of the Lender of the written report, the parties shall jointly and in good faith consider its implications for the terms and conditions of the loan and the future of basketball in South Australia.

7. PREVIOUS REVIEWS OF BASA'S OPERATIONS

7.1 Equity & Advisory Ltd Report

In early 1997-98, the Department of Treasury and Finance engaged a private consultancy firm, Equity & Advisory Ltd, to undertake a review of the financial arrangements that were then in place between BASA and the South Australian Government.

The purpose of the review was to provide the Department with a report which would enable a better understanding of the organisation and management structure of BASA as well as its financial operations and position.

The review was completed in September 1998 with the presentation of the review report to the Department of Treasury and Finance. The consultancy review report included comment on a number of matters concerning the management, operations and financial position of BASA at the time of performance of the review (ie early 1997-98).

The following provides some extracts from that consultancy report that I consider are relevant in the context of this audit examination. The extracts have been positioned under appropriate subject matter headings.

7.1.1 BASA Operations

BASA's organisation structure closely resembles that of other sporting associations ... Based on our review of BASA's organisational structure ..., we believe staffing and management levels are not excessive and overall executive remuneration is well below levels of other sporting organisations in South Australia and Interstate.²⁹

Sports Facility Management of South Australia ("SFMSA") manage ... indoor sports facilities across metropolitan Adelaide. Each of these facilities are home to one or more local affiliated basketball clubs of BASA. SFMSA earns the majority of its revenue through hall takings and hire of hall facilities and have paid BASA an administration fee (profit distribution) in the past of approximately \$650,000 to \$800,000.³⁰

BASA is heavily reliant on the success of the Adelaide 36ers to provide monies to meet administration costs and debt funding obligations. The Adelaide 36ers earns the majority of its revenue through ticket sales, sponsorship and sale of corporate entertainment facilities. The future profitability of the Adelaide 36ers will depend on the success of the NBL in general ...³¹

²⁹ Report on the Review of Financial Arrangements between the Basketball Association of South Australia and the South Australian Government: Equity & Advisory Ltd: September 1998: Page 7.

³⁰ *ibid*: page 7.

³¹ *ibid*: page 6.

*Adelaide Quit Lightning has enjoyed enormous on-field success since joining the WNBL ... Consistent with other teams in the WNBL, Adelaide Quit Lightning has found it difficult to attract sponsorship and attendances ... Adelaide Quit Lightning has consistently made operating losses in the range of approximately \$100,000 to \$180,000 which have been funded by BASA.*³²

7.1.2 Debt Servicing Capability

*BASA is unable to meet the principal and interest repayments on the Treasury loan based on the forecast cash flow of the BASA Group for the three years ending 30 June 2001.*³³

7.1.3 Capital Works Program

*... there is no capital provision in the accounts of BASA (and associated cash reserves) to provide for any future plant upgrade/overhaul associated with the Powerhouse which will be required.*³⁴

The report included a number of recommendations for consideration by the Department of Treasury and Finance that would assist the financial position and ongoing operations of BASA. The recommendations related mainly to consideration of the restructuring of the debt payable to the Government (involving debt forgiveness) and alternatives to debt forgiveness, including for example, debt interest concessions, debt servicing grants, or sale of the Adelaide 36ers.

7.2 Ferrier Hodgson Review

BASA in mid 2000 engaged accounting firm, Ferrier Hodgson, to provide a broad review of BASA's solvency position. The then Chairman of BASA's Finance Committee initiated the review following appraisal of the 2000-01 budget which showed a considerable deficit.

The broad review indicated that BASA would need to renegotiate with the Government regarding its debt repayment obligations in order to meet its debts or consider the appointment of a voluntary administrator.

7.3 General Audit Comment on Reviews

As can be understood from the earlier discussion in section 6 of this Report, the August 2000 and August 2002 Cabinet approved revisions of the financial arrangements between BASA and the former and current Governments, involved recognition by the Governments of BASA's high debt obligation position and a level of response by the Governments to improve that position.

³² *ibid*: page 7.

³³ *ibid*: page 8.

³⁴ *ibid*: page 78.

8. EXTERNAL AUDIT ARRANGEMENTS AND OUTCOMES

Section 5 of this Report has noted that BASA and each of the associated entities is subject to independent audit annually by a professional chartered accounting firm. The annual audit of each of the entities has been undertaken over the financial years, 2000-01 to 2002-03, by the same chartered accounting firm.

The audited financial accounts of the BASA Group entities and audit report correspondence arising from the independent audits have been reviewed. A meeting was also held with audit personnel of the chartered accounting firm who had engagement and execution responsibility for the audits.

The following comments are provided in respect of certain matters relating to the independent audits.

8.1 Performance of Audits

The Independent Audit Reports on the entities' financial accounts for the years ending 30 June 2001 to 2003 have been issued within three months of the close of the financial years. This indicates that proper regard has been given to the timeliness of production and audit of the financial accounts of the entities.

8.2 Audit Scope Extension – 'Salary Cap' Compliance

The review of audit report correspondence identifies consideration and coverage of various aspects of the financial accounting and internal control operations and the financial accounts of the entities.

Matters that have been subject to audit and that have received comments in audit report correspondence to BASA include:

- going concern assessment;
- assets including leasehold improvement at stadiums, inventories, outstanding receivables;
- liabilities including employee entitlements;
- financial accounting covering key account reconciliations; contra arrangements; fixed asset recording;
- internal control arrangements over financial accounting operations;
- process of preparation of financial accounts for BASA and the associated three entities.

The particular matter of 'salary cap' compliance by the Adelaide 36ers, is not subject to the independent audit process. Specific comment as such is provided in the audit report correspondence to BASA.

The audit report correspondence states:

Under the terms and conditions of our engagement to BASA to provide external audit services, our statutory responsibilities are to:

"form an opinion, and report on whether the financial report presented to us by the Committee members is in accordance with the Associations Incorporation Act, including:

- Presenting fairly the Associations financial position and performance, represented by the results of their operations and their cash flows; and*
- complying with Accounting Standards, the Associations Incorporations Act and other mandatory professional reporting requirements."*

Our audit does not provide any level of assurance to the Finance Committee or the Executive Board of the Adelaide 36er's compliance with the salary cap requirements as regulated by the National Basketball League ('NBL').³⁵

8.2.1 'Salary Cap'

The NBL sets an overall maximum limit pertaining to player payments for each participating club in the NBL. The overall limit is referred to as the 'salary cap' and is set prior to the commencement of each NBL season. The 'salary cap' is viewed as a critical factor in the control of player payments, and therefore NBL club expenses, for the future success of the NBL and the financial viability of the NBL clubs.

The NBL instituted revised 'salary cap' rules for the 2003-04 NBL season. The 'salary cap' was reduced from the 2002-03 season's mark of \$1.05 million to \$700 000 for the 2003-04 season. In respect of the Adelaide 36ers and three other NBL clubs, the NBL granted an exemption of \$70 000 allowing the overall maximum limit applying to player payments to be \$770 000. A 'salary cap' of \$736 000 is to apply in respect of the 2004-05 NBL season.

The Adelaide 36ers have breached 'salary cap' limits on two occasions, in 1993 and 1998.

For the 2002-03 league season, the Chairperson of each NBL club was required to submit to the NBL a statutory declaration acknowledging provisions pertaining to player payment limits as set out in the NBL rules and agreeing to abide by the provisions.

In response to a request from Audit, BASA formally advised its governance and accountability arrangements currently in operation to ensure 'salary cap' compliance by the Adelaide 36ers. The arrangements include involvement of the Chairman of the Adelaide 36ers, Chairman of the BASA Finance Committee, and BASA Chief Executive Officer and reporting by these parties to the BASA Executive Board. Oversight and accountability are elements of these arrangements.

³⁵ Basketball Association of South Australia Incorporated: External audit for the year ended 30 June 2003: Report to the Finance Committee: September 2003: page 14.

Specifically these parties have responsibility for reporting on player contract and 'salary cap' matters to the Executive Board. Further, the BASA Chief Executive Officer is required to sign player contracts and is therefore in a position to both monitor individual and overall situations carefully.

The Executive Board requires of the Chief Executive Officer a written statement confirming that:

- he has personally examined in detail all aspects of the financial and other arrangements with Adelaide 36ers players;
- he has personally ensured that all relevant details have been disclosed to members of the Adelaide 36ers Committee of Management, the Finance Committee and to the NBL;
- he has personally ensured that all aspects of the arrangements have been checked against the NBL 'salary cap' rules in detail and that the agreements are in full compliance with those rules in letter and spirit.

8.2.2 Independent Audit Coverage

Basketball player payments represent a major cost component of the financial operations of the Adelaide 36ers. This cost component is influenced by NBL rules relating to 'salary cap' arrangements.

'Salary cap' breaches do occur. The 1993 and 1998 breaches of the Adelaide 36ers evidences this. Other sports that operate 'salary cap' arrangements have also experienced breaches of their respective arrangements. Most notable breaches in recent times have involved the Carlton Football Club (Australian Football League) in 2002 and the Bulldogs (National Rugby League) in 2002. The breaches relating to these clubs were adverse in consequence, involving financial related penalties and other adverse potential exposures. The professional standing and credibility of the clubs was also put at some risk.

In my opinion, it is appropriate that the independent audit process applied to the financial accounting records and the financial accounts of the Adelaide 36ers incorporate the attestation of 'salary cap' compliance and the review of BASA's 'salary cap' governance and accountability arrangements. This would require a review of the current engagement arrangements with the appointed independent auditor.

8.2.3 BASA and External Audit Relationship

As mentioned previously, a meeting was held with audit personnel from the independent chartered accounting firm. The meeting took in place in August 2003. At this time the independent audits of the 2002-03 financial accounts of the BASA and the associated entities were being finalised.

The independent auditor advised that BASA management was responsive to the independent audit process, including outcomes regarding suggestions for improvements in business and financial operations, financial reporting, and control. This was generally confirmed through review of the audit report correspondence that has been submitted by the independent auditor to BASA.

The correspondence indicates high level BASA management involvement in discussion and consideration of matters raised by the independent auditor. The correspondence indicates that matters raised therein are discussed by the independent auditor with the Chief Executive Officer and representatives of the Finance Committee. The audit correspondence is submitted formally by the independent auditor to the Finance Committee which reports to the Executive Board of BASA.

The audit report correspondence mentions where appropriate, indications of improvement with respect to previously raised issues and where further improvement is required. An example of this was included in the 2002-03 audit report correspondence. The correspondence mentioned some improvement in 2002-03 regarding internal control processes and key general ledger reconciliations relative to 2001-02, but identified the need for further improvements.

9. AUDIT EXAMINATION OF OPERATIONS AND FINANCIAL CONDITION OF BASA AND ASSOCIATED ENTITIES

Sections 2 and 3 of this Report outlined the basis and emphasis of the audit examination of the operations of BASA and its associated entities.

This section of the Report presents observations and comments arising from the examination of certain matters associated with the governance and the operations of the entities concerned.

The specific matters that are subject to analysis and comment, relate to organisational structure and governance, basketball development, business management practice, financial performance and condition, and statutory reporting arrangements.

These specific matters are considered important to an understanding and an assessment of the adequacy, or otherwise, of the management and accountability practices applied in respect of the operations of the entities, including whether due regard is being given to the economy and efficiency of operations.

9.1 Organisational Structure and Governance Arrangements

9.1.1 *BASA and Associated Entities and Constitutional Review*

An overview of the respective functions and operations of BASA and the associated entities was provided in section 5 of this Report. Although not a focus of the audit examination, a brief insight into the metropolitan member clubs that constitute the ordinary members of BASA was also provided in section 5.

In providing that overview it was mentioned that the constitutions of BASA and the associated entities have been under review with a view to streamlining operations and updating committee structures.

As part of the examination process (and already commented on in section 5), Audit has identified some areas for consideration by BASA in their process of constitution review. The matters as discussed in that section relate not only to the constitutions of BASA and the associated entities but also to the constitutions of the metropolitan member clubs.

It is considered that the process of constitutional review initiated by BASA is important in the identification and the appropriate actioning of matters that can lead to improvement in BASA functions and operations. The matters relate to legal requirements, organisational structure and functions, and the role and accountability relationships.

9.1.2 Organisational Structure – BASA and SFMSA

As described earlier in this Report, BASA is the policy and administration entity. SFMSA is the entity that manages sports facilities across Adelaide for use as recreation and competition based basketball venues. Prior to the establishment of SFMSA in 1995 as a separate legal and reporting entity, its operations formed a component of the operations of the BASA legal and reporting entity.

Neither BASA nor SFMSA are 'basketball team' focused entities as are the other entities, ie the Adelaide 36ers and the Adelaide Lightning.

9.1.2.1 Equity & Advisory Ltd Review of 1998

In 1998, Equity & Advisory Ltd submitted to the Department of Treasury and Finance its independent report on the review of BASA and its financial arrangements at that time with the South Australian Government.³⁶

As part of their assessment of the operations and financial management of BASA and associated entities, Equity & Advisory Ltd reviewed the organisational structure and staffing levels associated with the functional activities of BASA and SFMSA.

Equity & Advisory Ltd indicated in their report that the organisational structure resembled that of other sporting organisations. The typical structure provided for functions of Executive Committee/Board; Commercial and Financial; Marketing and Public Relations; Coaching and Umpiring; Operations; and Facilities Management. These functions were being exercised through BASA and SFMSA.

Furthermore, Equity & Advisory Ltd commented that staffing and management levels were not excessive and executive remuneration was well below levels of other sporting associations.

The Equity & Advisory Ltd Report included, as an annexure, an organisation structure chart depicting the functional and staffing arrangements at the time of the review.

³⁶ Report on the Review of Financial Arrangements between the Basketball Association of South Australia and the South Australian Government: Equity & Advisory Ltd: September 1998.

9.1.2.2 Comparative Assessment – 1998 to 2004

Audit undertook a comparative review of the functional and associated staffing arrangements with respect to BASA and SFMSA from 1998 to 2004. In addition, by reference to audited accounts, the overall staffing cost comparison between the years ending 31 December 1997 and 30 June 2003 was also performed.

The abovementioned review was undertaken for the following reasons. Firstly, to identify any changes that had occurred since the 1998 independent review of Equity & Advisory Ltd. Secondly, to ascertain whether the changes were significant in nature so as to suggest that the organisation and staffing structure today was characterised by 'excessiveness' or managed without due regard to economy and efficiency. Should this be the case it would contrast with the opinion expressed by Equity & Advisory Ltd regarding the organisation and staffing structure in place in 1998.

Appendix B and Appendix C to this Report depict the organisation and staffing structure (relating to BASA and SFMSA functional arrangements) in place in 1998 and at June 2004. Appendix D presents a staff position profile for BASA and SFMSA covering the period 1998 to 2004. The profile assists in the review and understanding of the staffing arrangements that were in place over that period of years, and changes that have occurred during that period of time.

9.1.2.3 Outcome of the Comparative Review

During the period 1998 to June 2004 the overall staffing level associated with the functional operations of BASA and SFMSA has remained relatively the same. In 1998 the number of full time equivalent staff totalled 26. More recently full time equivalent staff have totalled 24.5 in June 2002, 23.5 in December 2003, and 25 at June 2004. In March 2003 and March 2004, the positions of General Manager 36ers/Lightning (Marketing) (2003) and Sponsorship Manager (2004), respectively became vacant and the positions were not filled. Rather, the marketing/sales activity was reviewed which resulted in the contracting in of 2.5 full time equivalent professional marketing staff.

Furthermore, between the years ending 31 December 1997 and 30 June 2003, aggregated salaries/wages costs for the two entities has seen only a moderate increase compared with general private sector wage increases. For the year ending 31 December 1997 aggregate salaries/wages costs amounted to \$950 000. They totalled \$1 024 000 for the year ending 30 June 2003. This represents a percentage increase of approximately 8 percent which compares favourably to the South Australian-wide private sector wage index increase of approximately 18 percent for that period of time.

The staff position profile of BASA and SFMSA that is presented in Appendix D, shows that within the relatively same staffing level, BASA and SFMSA continues to undertake today similar functional responsibilities that were undertaken in 1998.

The staff position profile also highlights that BASA and SFMSA review their staff resource structure and mix with the purpose of ensuring that appropriate priorities associated with the functional responsibilities of the entities are being carried out in an effective manner. Illustrative of this is the change that

occurred over the 2000 and 2001 years. Staff resources engaged in stadium management and maintenance responsibilities were significantly reduced, with resultant resource savings directed for the most part to basketball development through the appointment of development officers. The important functional responsibility of BASA in respect to basketball development is discussed in section 9.2 of this Report.

The Equity & Advisory Ltd Report of 1998 included comments that staffing and management levels at that time were not excessive. The review by Audit of the functional and associated staffing arrangements of BASA and SFMSA, from 1998 to 2004, indicate that since 1998 staffing structures and numbers are being managed with due regard to economy and efficiency. This is particularly the case with reference to staffing levels, costs of salaries and wages and the appropriateness of the staff resource mix relative to functional responsibilities.

9.1.3 Executive Board and Chief Executive Officer

In section 5 of this Report, mention is made of the Executive Board of BASA and the Chief Executive Officer of BASA, in connection with the governance arrangements of BASA itself and those of the associated entities.

In brief, both the Executive Board of BASA and the Chief Executive Officer of BASA undertake key roles in the effective governance of BASA and associated entities.

The Chief Executive Officer is appointed by the Executive Board and is a member of the Board. The Board comprises nine members. Both the Board and Chief Executive Officer are responsible for the operations of BASA. In addition, the Executive Board has responsibility for the appointment of persons to the Committees of Management that govern the operations of the associated entities, ie SFMSA, Adelaide 36ers and Adelaide Lightning. The appointed members of the Committees of Management include the Chief Executive Officer of BASA and one or two other representative members of the Executive Board of BASA.

The Executive Board and Committees of Management today, as well as in previous years, comprise members that possess skills and experience covering areas of sports administration, business enterprise and management, and finance and financial management. This range of expertise is important in the effective management and control of entities with an aggregate turnover of approximately \$8 million.

Members of the Executive Board (excluding the Chief Executive Officer) have generally over the years received remuneration for board/committee services.

The Equity & Advisory Ltd Report of 1998 included comment that members '... receive a modest monetary benefit for their services'. Benefit payments made for the year ending 31 December 1997 were in the order of \$40 000. Payments that have been made in subsequent years have totalled at around that level or lower, maintaining the modest approach to this type of outlay.

Indeed, members of the Executive Board in addressing the need for financial restraint, have at times chosen not to receive their respective annual

remuneration benefit. This has applied in respect of member services provided for the 2000-01 and 2002-03 years and is under consideration to apply in respect of the 2003-04 year.

The present Chief Executive Officer of BASA commenced duties in that position in early 2002.

9.2 Basketball Development

9.2.1 *Promoting the Sport of Basketball*

As noted above, the first of 20 objectives listed in the constitution of BASA, require that BASA promote and advance the game of basketball in South Australia.

The prominence given in the constitution to the advancement of the game would seem to reflect the view of the member clubs that constitute BASA that this is a key performance responsibility of BASA. Such a performance responsibility would ordinarily aim at maintaining or growing a healthy state for the sport of basketball relative to other competing sports, particularly in terms of participation numbers and status, financial condition, and the general contribution to the health and well being of members of the South Australian community. The latter takes on some public interest importance where the sport, like basketball, receives taxpayer funded assistance.

Comment was also made earlier in respect of the general financial state of basketball. It was indicated that the sport required a lift in the proportion of revenue that it receives from its members and customers. This emphasises the critical importance of the responsibility of promotion and advancement of basketball to increase participation numbers over time in competitive and leisure basketball activity. An increase in participation would enhance the capacity to improve the financial condition of BASA and all affiliated entities including member clubs.

9.2.2 *BASA's Development Activity*

As part of the review of the operations of BASA, Audit undertook to ascertain whether BASA was addressing the performance responsibility of advancing the game of basketball in this State. Confirmation of this matter was considered important in recognition of the matters discussed above concerning the state of the sport, including the financial health of BASA and its member clubs.

Audit identified that BASA is paying particular attention to this performance responsibility. This has been evidenced through implementation of a number of initiatives relating to basketball development programs and activities. Certain of the initiatives have been assisted through financial support from the State Government and BA. The commentary hereunder in this section discusses certain notable initiatives.

9.2.2.1 *Development Officers*

The 2000-01 year evidenced changes in the organisational structure and associated resourcing priorities within BASA. As already noted in section 9.1 of

this Report, stadium management was rationalised, resulting in the freeing up of financial resources and the application of these resources towards the appointment of a number of development officers.

The Development Committee of BASA and the development officers are implementing initiatives and programs, directed particularly at junior levels within the sport. This includes a focus on the school and basketball communities in an endeavour to enhance the profile of the sport and increase, over time, the participation level within the sport in this State.

Section 6.1 of this Report indicated that BASA has received in recent years annual financial grant assistance of \$222 000 from the Management and Development Program administered by ORS. The annual grant is directed to support the development program undertaken by BASA and SACBA, including junior development activity.

9.2.2.2 'Aussie Hoops'

A joint development initiative of BA and the Australian Sports Commission, the 'Aussie Hoops' program began its national rollout in 2002. The program aims to take basketball to over 700 000 primary school children throughout Australia over a three year period, and to reverse the disturbing trend of children moving away from exercise and organised sport in favour of more time in front of the television and computer.³⁷

BASA has been actively promoting the 'Aussie Hoops' program as a vehicle for introducing young children into the sport of basketball and lifting participation levels. The program has targeted children in the 5 to 10 year age group. In 2002-03 both BASA and SACBA made contact with over 60 000 primary school children during clinics conducted at metropolitan and country schools.

While the number of participant contacts is viewed by BASA as an achievement, BASA is now considering and pursuing strategies to link 'Aussie Hoops' participation into mainstream basketball, involving district basketball clubs and BASA competitions.

BASA, in its Annual Report for 2002-03, noted its reflected disappointment in the number of teams competing in the District Junior Competition.

The success of the pursuit of the linkage strategies has yet to be determined. Nevertheless, it is a positive strategy to address this particular concern and in an overall sense increase overall participation levels in various categories of the sport of basketball, competitive or leisure.

9.2.2.3 ZONE Concept

In the early part of 2001-02, BASA commenced a basketball development program known as the 36ers and Lightning Zone Concept.

³⁷ Basketball Australia Annual Report 2002; pages 10 and 11.

The program operated under a franchise arrangement with ZoneSport Limited.³⁸ It had a dual focus. Firstly, the development of basketball through the provision of particular development opportunities for children and young adults (9 to 18 years of age), and secondly, the establishment of a new revenue stream for BASA.

In more specific terms, the concept involved offering young male and female fee paying members to the program, structured activities to specifically nurture and develop their basketball skills to the level of their potential. It was to compliment existing basketball club and Identification Talent Course (ITC) programs, but also to attract and retain other young players or intended participants to the sport. It featured access to talented coaches and basketballers, innovative training aids, camps, exclusive merchandise, and special offers to members.

Participation in the franchise arrangement and commitment to the implementation of the program was based on a review by BASA (supported by appropriate analysis), that the program could achieve a positive return of approximately \$120 000 per annum after the first two years of operation. The positive return relied on a static membership level of children participating in the program of 600 per annum.

After its first year of operation the BASA Executive Board requested and received a full evaluation report on the program's status and its first year of operation. The report of February 2003 evidenced that the program was not achieving the membership level as originally anticipated and that increasing membership numbers would be a gradual and slow process. At the end of January 2003 membership numbers totalled 220. This compared with anticipated numbers of 300 children participating in the first year, building to 400 in the second year.

On the basis of the February 2003 report and subsequent progress reports to the BASA Executive Board, actions were taken in the ensuing months to the end of June 2003, to maintain the program development expectations to member participants within a close to break even financial position for 2002-03. The Board endorsed termination of the program post 2002-03 commitments in May 2003.

The franchise fee and expenses of \$118 000 incurred in connection with the set up of the program in 2001-02 were written off in the 2001-02 audited accounts of BASA. BASA also incurred an overall loss on operations of the program over the two years 2001-02 and 2002-03 of \$144 000.

As can be seen the Zone concept did not meet the expectations of BASA of establishing a new and unique initiative, that would contribute to the development of basketball (through the attraction and/or retention of a significant number of young participants), and at the same time establish a new and ongoing revenue stream for BASA.

³⁸ The franchisor company located in Western Australia that developed the ZoneSport Concept.

It should be noted that the involvement of BASA in the Zone initiative was undertaken on the basis of similar arrangements taking place interstate. It also took into consideration the analysis of potential cost benefit scenarios. The Zone initiative was undertaken within the overall context of attempting to promote basketball and its development and to establish a new and sustained revenue opportunity for BASA and basketball.

9.2.3 Internal and External Accountability for Basketball Development

The development activity of BASA is subject to internal accountability and reporting. The Development Manager of BASA, in a regular and detailed sense, reports to the BASA Development Committee. The Committee, in turn through its Chairman, reports to the Executive Board of BASA.

BASA is required to submit formal documentation to the ORS to meet accountability requirements under the annual financial grant assistance provided to BASA by ORS. The documentation includes performance measurement reports on particular projects, and outcomes that are assisted under the annual grant allocation, including aspects of BASA's development activity. In respect of the grant assistance provided to BASA under the 2002-03 Management and Development Program of ORS, Audit noted the submission of the appropriate documentation to ORS in September 2003 and that the documentation was comprehensive in nature.

9.3 Business Management Practice

The examination involved Audit obtaining an understanding of certain key aspects of the business practices associated with the operations of BASA and associated entities. Of particular focus were matters relating to strategic and financial management and the control of operations, as these matters influence or facilitate the efficiency and economy of overall operational performance.

The understanding by Audit was obtained through discussion with BASA management and by the review and analysis of documentation, including minutes and papers of the Executive Board/Committees of Management, administration and financial policies, strategic/business plans, internal management and financial reports, statutory financial reports and independent external auditor reports.

The examination by Audit indicates that the Executive Board and Management of BASA, as well as the Committees of Management of associated entities and the special interest committees, operate with regard to strategy, management accountability, and financial control. These matters are the subject of further comment hereunder.

9.3.1 Strategy

Up to 2004, BASA and associated entities operated within a strategic/business plan framework that was essentially a 12 month horizon. The agenda for the monthly meetings of the Executive Board of BASA includes, as a standing item, consideration of strategic/business plan matters.

One of the conditions attaching to the latest granting of financial assistance from the Government to BASA, is that BASA prepare a longer-term Strategic Plan to demonstrate how it is restructuring its business to operate within its means. In June 2004, BASA finalised a 'Strategic Plan' covering a three year period from 2004 to 2007 and a 'Business Plan' for the 2004-05 financial year. Copies of these documents have been provided to the Department of Treasury and Finance.

The Strategic Plan documents a number of strategies to be undertaken. The strategies include governance and management of BASA's operations; BASA's finance capability and capacity including the development of asset and debt management plans; marketing and revenue enhancement including developing a stadia facility income generation plan and revisiting catering contract arrangements; and in respect of basketball development participation, including review of club structure and competitions.

9.3.2 Management Accountability

The Executive Board, Chief Executive Officer of BASA, Committees of Management of associated entities and, the special interest committees (eg Development Committee, Finance Committee) undertake important direction setting or management responsibilities in connection with the operational and financial performance of BASA and the associated entities.

It was noted in the review of the minutes, papers and other documentation relating to the operations of the Executive Board, various committees and the entities, that the Chief Executive Officer and committees are accountable to the monthly meeting of the Executive Board in terms of reporting on their actions and important matters of note. Reporting from such parties is a standing agenda item for the monthly meetings of the Executive Board.

9.3.3 Financial Operations and Control

This important area of operations is under the oversight of a Finance Committee whose Chair reports to the monthly meetings of the Executive Board.

Particular observations associated with this area of business operations are discussed below. They indicate that financial management receives focused attention from the Board and senior management and that gradual improvements have taken place over the years.

9.3.3.1 Budgetary Control and Reporting

The system of budget management and reporting was reviewed.

In respect of 2003-04, BASA prepared a detailed budget. The document titled 'Budget Forecast 2003-08' presents a 2003-04 budget on an entity/segment/revenue and cost item basis, as well as a 2003-04 to 2007-08 budget/financial projection on an aggregated entity basis and a material revenue and cost item basis. Also, it includes stated assumptions and variance analysis and comment relative to the 2003-04 financial year.

At monthly meetings of the Executive Board certain reports are presented that update the budget position and, provide the basis for analysis and

decision-making regarding corrective action, if appropriate. The following is illustrative of the types of reports submitted to the meetings of the Executive Board:

- Summary Consolidated Profit and Loss of BASA business segments and associated entities, providing month/year-to-date budget and actual and full year forecast.
- Detailed Consolidated Profit and Loss for each BASA business segment and associated entity, providing month/year-to-date budget and actual and full year forecast.
- Budget/Revised forecast variations with explanations.
- Aged Debtor Analysis.
- Other reports as may be requested.

The audit review undertaken of Board/Committee minutes and papers indicate improvements made over time in the form and content of budget/financial management information provided to the members of the Executive Board of BASA.

9.3.3.2 Financial Accounting, Reporting and Control

Section 8 of this Report provided observations and comments with respect to the arrangements and outcomes associated with the independent external audit of the financial operations and financial accounts of BASA and associated entities.

It was mentioned that Audit examined the audit report correspondence of the independent external auditor in connection with the annual audits of the entities.

Audit has observed from the review of the correspondence that the independent audits have addressed various aspects of financial accounting and internal controls. In addition, the audit correspondence has included comments and suggestions for improvement in the areas of financial accounting, financial reporting, and control. These comments and suggestions have been received and considered by BASA.

In general, the financial accounting, financial reporting, and the control environment of BASA and associated entities has been characterised by gradual improvement over the years. The outcomes of the external audit process, involving implementation of suggested remedial actions have contributed to the improved position.

The following developments that have been taken in the recent past and that are currently being undertaken are indicative of a process of continuous improvement in financial accounting, financial reporting, and control, notably:

- BASA and associated entities principally adopted the full accrual method of financial accounting and reporting in 2000-01.

- Arising from the 2002-03 audit process, BASA intends to address with the external auditor appropriate financial accounting and reporting disclosures regarding 'contra' transaction arrangements³⁹ for the 2003-04 financial accounts.
- A recent new appointee to the Finance Manager position is introducing a revised chart of accounts and a new computerised financial accounting system, with operative effect for the 2004-05 financial reporting year. The changes aim to improve the efficiency of management and statutory reporting production and enhance data integrity processing through less reliance on data extraction and spreadsheet reporting processes. These extraction and spreadsheet processes were utilised in connection with the previous computerised accounting system.
- BASA is relating with the Department of Treasury and Finance in reference to the financial accounts reflecting revenue/cost identification associated with community basketball. This latter matter represents one of the conditions of the latest granting of financial assistance from the Government to BASA. The aforementioned improvements associated with the new computerised financial accounting system may facilitate the revenue/cost identification process.

9.4 Financial Performance and Condition

Section 6 of this Report explains the background and details of the revised financial assistance arrangements that are to operate between the Government and BASA over the period 2002-03 to 2006-07.

In providing that explanation it was indicated that the revised arrangements resulted from the Government's consideration of a formal submission that was received from BASA in May 2002. To briefly restate, the submission outlined financial difficulties being faced by BASA; provided financial analysis demonstrating its financial predicament; and discussed options available to BASA to deal with its predicament, including a request for consideration of additional financial assistance from the Government.

Section 6 of this Report also presents some aggregated financial results data, for BASA and the associated entities for the period 2000-01 to 2002-03, that reveals that BASA was facing significant financial difficulty and uncertainty at the time of its May 2002 submission to the Government.

This section of the Report provides certain observations and comments arising from an examination of notable matters associated with the financial performance and condition of BASA and the associated entities. Matters relating to both historical and forecast operations are discussed, including where relevant, issues regarding aspects of economy and efficiency of operations.

³⁹ A contra arrangement represents a non-cash exchange of goods and/or services between BASA (or an associated entity) and an external entity. For example, advertising time received in exchange for a corporate suite at the Findon Basketball Stadium. These transactions require measurement and recording in the financial accounts at fair value.

The examination included a review of the audited financial accounts of BASA and the associated entities, management accounts and reports of BASA, and the 'Budget Forecast 2003-08' that was submitted to the Department of Treasury and Finance in early 2003-04.⁴⁰

9.4.1 Historical Performance

9.4.1.1 Key Financial Data

Appendices E and F.1 to F.4 to this Report present summary and detailed key financial data in respect of BASA, SFMSA, Adelaide 36ers and Adelaide Lightning. Appendix E (summary data) covers the financial reporting periods, commencing year ending 31 December 1997 through to year ending 30 June 2003.⁴¹ Appendices F.1 to F.4 (detailed data) covers the financial periods 30 June 2000 to 30 June 2003.

The following discusses a number of salient matters relating to the operating performance and financial condition of the entities.

9.4.1.2 BASA Operations and Financial Position

Appendix E shows that over the period 1997 to 2003 BASA has, with one exception, incurred losses each year on operations. The year ending 30 June 2001 was an exception with a profit of \$3.8 million being recorded. In August 2000, the Government as part of a financial assistance arrangement for BASA, approved a partial write-off and restructure of the Treasurer's loan facility with BASA in connection with the Findon Basketball Stadium.⁴² The 1999-2000 recorded profit was a direct reflection of the financial reporting treatment of the debt restructure.

Due to the occurrence of operating losses over the financial reporting periods, BASA has been unable to maintain a positive cash position.

The losses and deficient cash position ultimately resulted in the approved revisions of the financial assistance arrangements between the Government and BASA in August 2000 and August 2002.⁴³

In its discussion with the current and former governments concerning the matter of revised financial assistance arrangements, BASA has indicated that its ongoing financial difficulties arise from the extent of the debt burden associated

⁴⁰ Refer section 6.4 of this Report. One of the conditions attaching to the revised financial assistance arrangements between the Government and BASA, was the provision by BASA to the Government of a budget covering a four year period.

⁴¹ The financial year ending for the entities changed from 31 December to 30 June, commencing 30 June 1999. The changeover resulted in an 18 month financial reporting period, 1 January 1998 to 30 June 1999. The change to a reporting period ending 30 June coincided with the move by the NBL from a winter basketball session to a summer basketball session.

⁴² Section 6 of this Report describes the financial assistance arrangements approved by the Government in 2000-01 and 2002-03.

⁴³ *ibid.*

with the loan financing arrangement with the Treasurer in connection with the Findon Basketball Stadium.

Outlined below are certain observations and comments on specific financial data items relating to BASA's operations and financial position as presented in Appendix F.1.

Revenue – Findon Stadium Operation and Hire

This income source relates mainly to the net revenues arising from the Stadium hire and restaurant/catering activities and car parking operations. This revenue source which is influenced by stadium usage and spectator levels has trended downwards.

Revenue – Grants from State Government

The operations of BASA have been supported in a major way through the provision of grant monies from the State Government. Section 6 of this Report provides details in relation to the grant monies provided to BASA.

In brief, some grant funding has been provided since 1995 to compensate BASA for revenue foregone for not being able to hold entertainment events and music concerts at the Stadium. Also since 1999 grant funding has been provided to assist BASA with basketball promotion and/or development programs. Furthermore, additional grants were provided to BASA in 2001 and 2002 to assist BASA to overcome its financial difficulties.

The reduction in grant monies from 2002 to 2003 reflects the revised financial assistance arrangement that was approved by the Government in August 2002. The arrangement, effective from 2002-03 for five years, involved a changed emphasis from grant provision to debt relief. While grant funding to BASA has been reduced, interest payable by BASA on its loan facility with the Treasurer has been waived. This matter is further commented on below under the heading 'Expenses – Interest on Loan from Treasurer'.

Revenue – Administration and Facilities Fees

This revenue stream represents the other major source of income that supports the operations of BASA.

It comprises amounts received from SFMSA, Adelaide 36ers and Adelaide Lightning in recognition of services and facilities provided by BASA to each of the associated entities.⁴⁴ Adelaide 36ers has been the major provider of the fee revenue.⁴⁵

The fees have not been determined on the basis of a cost allocation exercise or by reference to the application of normal commercial rates.

⁴⁴ Refer Appendices F.2, F.3, F.4, financial data item 'Administration, service and facility fee', under the heading 'Expenses'.

⁴⁵ *ibid.*

The Equity & Advisory Ltd Report of 1998 noted that these fees were not a reflection of normal commercial rates. Illustrative of this is the fee receivable from the Adelaide 36ers. The Equity & Advisory Ltd Report included comment that the fee payable by the Adelaide 36ers to BASA was greater than would be paid under commercial terms. The fee payable for the year ended 31 December 1997 was \$1.2 million. The Equity & Advisory Ltd Report indicated that a commercial related fee recovery amount at that time would be in the order of \$700 000.

In essence, over the years, the fees have represented a mix of characteristics of administration and facility service fee recovery and/or profit distribution from the associated entities. The characteristic of profit distribution has not applied to Adelaide Lightning as it has incurred losses on operations since its establishment. The matter of a profit distribution raises issues regarding the application of section 55 of the *Associations Incorporation Act 1985*. As discussed elsewhere in this Report BASA is taking the necessary action to clarify this matter.⁴⁶

This major revenue stream of BASA has remained relatively constant over the years. This essentially reflects a no growth trend in revenues and profit results of the associated entities. The operations of the associated entities are discussed later in this section of this Report.

Revenue – Aggregated Other Revenue

Note 1 at Appendix F.1 details certain main income components of this revenue data item. This item includes player and team nomination fees, sponsorship income, revenue from courses and camps, and income distributions received from BA.

The overall income level has remained relatively constant. Player/team nomination fees have been subject to increases resulting in increased levels of contributions from this component of revenue.

Expenses – Salaries and Wages Costs

Certain observations and comments relating to the costs of salaries and wages in relation to BASA's operations are provided in section 9.1.2 of this Report. That section of the report analysed and discussed aspects of the organisation and staffing structure and costs associated with BASA and SFMSA over the period 1998 to 2004.

The analysis indicated that the organisation and staffing structures were being managed with regard to economy and efficiency.

Expenses – Interest on Loan from Treasurer

This cost outlay incurred up to the year ending 30 June 2002 relates to the interest expense on the loan facility provided by the Treasurer in connection

⁴⁶ Refer section 1.2.2 'Compliance with Statutory Requirements' of this Report.

with the Findon Basketball Stadium. No such expense was incurred for the year ending 30 June 2003.

As discussed above, under the heading 'Revenue — Grants from State Government', interest cost payments were waived for five years from 2002-03, as part of the approved revised assistance arrangement in August 2002 between the Government and BASA.

Expenses — Depreciation

This cost relates to the aggregate of depreciation expenses associated with the Findon Basketball Stadium and other stadia including relevant equipment and seating associated with the stadia.

Expenses — Significant Items

Costs amounting to \$274 000 and \$197 000 were incurred for the years ending 2002 and 2001 respectively. Significant items reflect costs associated with specific events of generally a once off or non-recurring nature, including for example, accounting policy and accounting estimate changes, write-offs or provisioning.

The 2002 costs related to the write-off of 'set up costs' associated with the Zone Concept and doubtful debt provisioning. The 2001 costs related to organisation/staff restructuring and the impact of conversion to accrual accounting, including accruing for employee entitlement on-costs. In reference to the Zone Concept this issue was discussed at section 9.2.2.3 of this Report. Regarding doubtful debts, comment on this matter is provided below. The position of organisation/staff restructuring was discussed at section 9.1.2 and conversion to accrual accounting mentioned at section 9.3.3.2 of this Report.

Expenses — Aggregated Other Expenditure

Note 2 at Appendix F.1 details certain expense components of this expenditure item. This item covers a range of expenses including player promotion development, umpire expenses, superannuation, rate and tax related expenses, rent, repairs and maintenance, sanitary, insurance and fees.

These expense components have remained relatively constant over the years, or have been subject to change as a result of changed management policy, or have arisen from general price or service level activity adjustments by external service providers. No distinguishable characteristics of concern that may indicate excessiveness of costs or the absence of monitoring of expenses has been noted.

Assets and Liabilities — Findon Stadium and Treasurer's Loan Liability

The asset and liability structure of BASA for the most part relates to the Findon Basketball Stadium. At 30 June 2003, assets of \$14.7 million included \$11.4 million, representing the depreciated value of the Stadium. Liabilities at 30 June 2003 of \$12 million included \$10.5 million representing the value of the loan liability to the Treasurer in connection with the Stadium.

As commented above, BASA considers that its ongoing financial difficulties have arisen from its inability to meet the debt obligations associated with the loan liability to the Treasurer.

In addition to that consideration, it is also important to comment that BASA's operating loss performance has prevented it from establishing any cash reserve position to meet the cost of any significant upgrade of the Findon Basketball Stadium.

Assets and Liabilities – Debtors/Provision for Doubtful Debts

The assets of BASA also include amounts of some significance relating to debtors/provision for doubtful debts. At 30 June 2003, the value of debtors was \$846 000 (30 June 2001: \$1 113 000) and the provision for doubtful debts was \$110 000 (30 June 2001: \$34 600). Debtors includes amounts owed by member clubs. At 30 June 2003 member club debts totalled \$281 000 (30 June 2001: \$266 000).

Debtor management and control has been a matter of continuing attention at Executive Board and management levels, particularly from 2001 onwards. A Member Club Debt Reduction Policy was implemented in 2001 to improve debt recovery from member clubs. It has also been noted that detailed reports on debtor position are submitted by management to the Executive Board. Reports detailing aged analysis of debtors, club debtor analysis, and commentary relating to management action in progress regarding debtors, form part of the complement of financial reports presented to the monthly meeting of the Executive Board.

9.4.1.3 SFMSA Operations and Financial Position

Appendix E identifies that in the main, the stadia operations managed by SFMSA have yielded profitable results over the financial reporting periods between 1997 and 2003. The financial reporting year ending 30 June 2002 was an exception with a loss of \$98 000 being recorded. Appendix F.2 discloses that the loss result reflected the recognition of a 'significant item' of expense of \$280 000. The finalisation of a lease arrangement in respect of the Morphett Vale Stadium required recognition of a write-off of \$280 000 of leasehold assets.

The operating profits achieved by SFMSA have provided an important income stream to support the operations of BASA.

The expense item denoted in Appendix F.2 as 'Administration, service and facility fee' is the annual charge paid by SFMSA to BASA and represents a mix of characteristics of administration and facility service fee recovery and profit distribution from SFMSA. As explained elsewhere in this Report⁴⁷ the distribution of profit to BASA raises issues regarding the application of section 55 of the *Associations Incorporation Act 1985*.

Certain other observations regarding specific financial data items relating to SFMSA operations, as presented in Appendix F.2 are as stated hereunder.

⁴⁷ *ibid.*

Revenue – Sales and Stadium Hall Hire

These revenue sources relate to admission charges received from players and spectators attending/using the stadia facilities for competitions and social games, and hire charges received from various parties for hire of the facilities for private use or private competitions.

The level of income is mainly dependent on the level of stadia user activity. The overall level of annual revenue has remained relatively constant reflecting no growth in stadia user activity. Also, hire usage as a smaller component of the overall revenue source has been in decline.

Expenses – Salaries and Wages Costs

The reduction in costs from year ending 2000 reflected a major change in the staffing structure affecting both SFMSA and BASA. Staff resources engaged by SFMSA in stadia management and maintenance responsibilities were significantly reduced with resource savings utilised by BASA in the appointment of development officers. This matter is discussed in more detail in section 9.1.2 of this Report.

9.4.1.4 Adelaide 36ers Operations and Financial Position

Appendix E discloses annual recorded profits on operations for the financial reporting periods between 1997 and 2003. A loss on operations was incurred with respect to the year ending 30 June 2003. The loss resulted mainly from a combination of a lower level of revenue when compared to previous years and a higher salaries and wages expense in comparison to previous years.

Similar to SFMSA, the operating profit performance of the Adelaide 36ers provides an important income stream to support the operations of BASA. The expense item disclosed in Appendix F.3 as 'Administration, service and facility fee' is the annual charge paid by the Adelaide 36ers to BASA and represents a mix of administration and service facility fee recovery and profit distribution from the Adelaide 36ers. This distribution of profit to BASA, as stated above, raises issues regarding the application of section 55 of the *Associations Incorporation Act 1985*.⁴⁸

The level of financial operations performance of this entity over the years has been achieved in the context of the Adelaide 36ers being recognised as a proven successful team in the NBL. It won the premiership in 1998-99, 1999-2000 and 2001-02, and finished fifth in 2002-03 and eighth in the 2003-04 season.

The successful on-court performance and the successful participation in the playoffs (finals) influences strongly the bottom line profit performance of the Adelaide 36ers. Reference to Appendix E illustrates this point. The profit result for year ending 30 June 2002 in comparison to the loss result for year ending 30 June 2003 can be attributed to some extent to the premiership success of the Adelaide 36ers in 2001-02. This matter is further discussed hereunder in commentary on specific financial data items that are presented in Appendix F.3.

⁴⁸ *ibid.*

Revenue – Ticket Sales

This is one of the two main sources of revenue. It comprises income from season ticket sales, home game (match day) sale takings and finals ticket sales. The latter component eventuates when the Adelaide 36ers are successful in making the playoffs and achieve a home game final(s).

Appendix F.3 shows that revenue from sales has been at a constant level of \$1.35 million annually, except for year ending 30 June 2002 when it totalled \$1.87 million, due mainly to a successful season culminating in the staging of a number of home finals and a premiership win.

The following table highlights the extent of the contribution of each income component to the overall sales revenue source for the years ending 30 June 2001 to 30 June 2003. The table also includes other information to assist with a better understanding of the nature and influencing factors associated with this revenue source.

Adelaide 36ers Sales Revenue and Other Information

Item	Financial Year		
	2002-03	2001-02	2000-01
<i>Income Component:</i>	\$'000	\$'000	\$'000
Season tickets	1 033	932	945
Home game day takings	221	308	248
Finals revenue	95	631	161
Total Sales	<u>1 349</u>	<u>1 871</u>	<u>1 354</u>
<i>Finals Expenses</i>	<u>73</u>	<u>412</u>	<u>64</u>
<i>Game Details:</i>			
Home games	15	15	14
Home finals	1	5	2
Away finals	2	3	4
<i>Season Tickets Sold</i>	<u>4 049</u>	<u>3 588</u>	<u>3 825</u>
<i>Position Finished</i>	<u>5th</u>	<u>1st</u>	<u>6th</u>

The table above reveals the significance of the level of season ticket sales and the participation in playoffs (including the holding of home finals) to this revenue source.

Illustrative of the importance of these influencing factors, the table above and Appendix F.3, indicates that finals participation was significant to the level of sales revenue and profitability results in 2001-02, while season ticket sales was significant to the level of sales revenue achieved in 2002-03. The successful season in 2001-02 with premiership status would seem to have resulted in a positive impact of retaining and growing season ticket holders in 2002-03 and ultimately the level of sales revenue achieved in 2002-03.

The significance of season ticket sales can also be illustrated through comparison with season ticket sales performance of the latter part of the 1990s.

As commented in section 4 of this Report, basketball by the mid 1990s at a National and State level was in a prominent position.

In the year ending December 1996 and December 1997 income from season ticket sales amounted to \$1 045 000 and \$1 123 000 respectively. These amounts reflected season ticket sales of 4987 and 4598 in respect of these years. The number of season ticket sales and the revenue earned from these sales in 1996 and 1997 exceed 2003 ticket sales numbers and the related sales revenue level.

Revenue – Sponsorship

This represents the other main source of revenue. While the revenue level of \$1.98 million for the year ending 30 June 2000 equalled and compared favourably with the revenue level for the year ending 31 December 1997, it has decreased to \$1.74 million for the year ending 30 June 2003.

When considering the increased competition for the sponsorship dollar among major sports in recent years,⁴⁹ the Adelaide 36ers and BASA have applied effort to obtaining and retaining sponsorship of the Adelaide 36ers. The successful performance of the Adelaide 36ers over the years would have contributed positively to securing and retaining certain sponsorships.

Expenses – Salaries and Wages Costs

These expenses relate to the coaching staff and playing personnel of the Adelaide 36ers.

Appendix F.3 shows fluctuations in the expense level between the years ending 30 June 2000 to 30 June 2003, with the highest cost of \$1.5 million being recorded for the year ending 30 June 2003.

The major component of this expense relates to player payments. This matter is influenced by the NBL setting an overall limit for player payments for each NBL club participating in the NBL.

As mentioned in section 8.2.1 of this Report, the overall limit is referred to as the 'salary cap' and this 'salary cap' was reduced for the 2003-04 NBL season. The NBL reduced the 'salary cap' from the 2002-03 season mark of \$1.05 million to \$700 000 (\$770 000 for the Adelaide 36ers) for the 2003-04 season. The NBL viewed as critical the need to reduce initially and subsequently contain growth in these costs going forward, and therefore NBL club expenses, for the future success of the NBL and the financial viability of the NBL clubs.

Unlike player payments, coaching staff remuneration is not influenced by the NBL. Coaching remuneration is a matter for the Adelaide 36ers Committee of Management. In the context of the overall objective of the NBL attempting to achieve a viable cost structure going forward in regard to player payments, it is

⁴⁹ The introduction of Port Power as a second South Australian based Australian Rules football entity into the AFL influenced competition for sponsorship dollars. The establishment of Adelaide United Soccer Club in 2003 would also influence competition for sponsorship dollars.

also important that coaching remuneration is reviewed within a similar context at contract negotiation and/or renewal periods.

Expenses – Aggregate Other Expenditure

The Note at Appendix F.3 details certain expense components comprising this expenditure item. These items have either remained relatively constant, fluctuated moderately, or exhibited a moderate increasing cost trend. No distinguishable characteristics of concern indicating excessiveness of costs or the absence of monitoring of costs has been noted in relation to these expenses.

9.4.1.5 Adelaide Lightning Operations and Financial Position

Appendix E reveals that Adelaide Lightning has incurred losses on operations in respect of the financial reporting periods 1997 to 2003.

Adelaide Lightning is a most successful team in the WNBL. Since first participating in the WNBL in 1993 it has won six premierships and has never missed participating in the playoffs.

The success of Adelaide Lightning, however, has not attracted enough sponsorships and spectator attendance levels to enable revenues to meet expenses of operations. Appendix F.4 identifies that BASA has met the shortfall on an annual basis through the provision of a grant to Adelaide Lightning.

Revenue and expense items as presented in Appendix F.4 show a relative constant trend over the financial reporting periods.

9.4.2 Forecast Performance

In early 2003-04 BASA submitted to the Department of Treasury and Finance a document titled 'Budget Forecast 2003-08'.⁵⁰ The document presented 2003-04 budget information on an entity/segment/revenue and cost item basis; provided a 2003-04 to 2007-08 budget/financial projection on an aggregated entity basis and a material revenue and cost item basis; showed a five year cash position forecast; and included stated assumptions and variance analysis and comment in relation to the 2002-03 financial year.

Audit has examined the 'Budget Forecast 2003-08' document. The forecasts and assumptions were reviewed, in particular the 2003-04 budget as this represents the first of the five years financial projections. The review of the 2003-04 budget information included consideration of the forecasts relative to the audited historical financial performance of BASA and associated entities over recent years to 2002-03, and also the entities' financial performance for 2003-04 through reference to unaudited management accounts and information.⁵¹

⁵⁰ Refer Footnote 40 to this Report.

⁵¹ Unaudited June 2004 year-to-date Management Reports incorporating expected year-to-date adjustments to be applied for statutory financial statement reporting purposes.

9.4.2.1 Forecast Data and Information

Appendices G and H to this Report presents financial data and information relating to the forecast financial performance of BASA and the associated entities. The Appendices have been compiled using data and information sourced from the 'Budget Forecast 2003-08', or from management accounts or other information provided by BASA at the request of Audit.

Appendix G presents aggregated five year revenue, expense and profit/loss projections, and Appendix H provides aggregated five year cash position projections in the context of the recognition of material capital and financing commitments to be met in the forthcoming years.

As noted above, BASA management has stated a number of assumptions regarding the basis for the financial projections.⁵²

In an overview context BASA indicated that a number of assumptions had to be made with respect to certain matters:

- Factors of a variable nature associated with the 'basketball team' entities (Adelaide 36ers and Adelaide Lightning), such as, numbers of season ticket holders, walk up crowd, and sponsor numbers.
- Growth of the sport of basketball in relation, for example, to participation rates.
- Cost increases, for example, in regard to player 'salary cap' increases, insurance, and utility costs.

In a more particular context BASA stated specific assumptions with respect to the material items of revenue and expense that influence the aggregated profit and loss outcome arising from the operations of BASA and associated entities. These specific forecast assumptions have been described in notes forming part of Appendix G.

Audit reviewed the projections and assumptions, particularly the 2003-04 forecasts and the assumptions for growth, constancy, or decline, in those forecasts from the 2003-04 financial year.

The 2003-04 forecasts (first of the five year projections) have been prepared in recognition of the 2002-03 and prior years' historical performance experience. They also took into consideration the revised financial arrangements with the State Government for the five year period up to the end of 2006-07. Furthermore, the specific assumptions outlined in the notes to Appendix G, including forecasting growth or otherwise in regard to the various revenue and expense items reflected at the time of the preparation of the forecasts, reasonable judgment. For example, forecast growth of between two to four percent has been applied to a number of revenue and expense items reflecting moderate/realistic expectations. A further example, that of not budgeting in respect of finals participation by the Adelaide 36ers and Adelaide Lightning is a prudent practice.

⁵² By their nature, financial forecasts and associated assumptions can be affected by uncertain/unforeseen events, including events not under the absolute control of management.

The following provides certain observations and comments in relation to the forecast performance of BASA and associated entities for the period 2003-04 to 2007-08.

9.4.2.2 Aggregated Profit/Loss Projections

Appendix G shows yearly profit projections in the range of \$250 000-\$300 000 for the four years 2003-04 to 2006-07. The estimated profit outcomes are virtually extinguished by a projected significant loss of over \$800 000 for the 2007-08 year.

A review of the 2007-08 revenue of expense item forecasts presented in Appendix G, indicates that the projected significant loss in 2007-08 is expected to arise from the following factors:

- Possibility of discontinuance of the no concert compensation grant of \$250 000 from the State Government to BASA from the 2007-08 financial year.
- Recommencement in 2007-08 of interest payment obligations, in the order of \$750 000 annually, associated with the loan borrowing from the Treasurer in respect of the Findon Basketball Stadium.

Total forecast revenue is projected to increase by 6 percent from 2003-04 to 2006-07, matching the 6 percent growth in forecast expenditure over the same period of time. The inability to increase the rate of revenue above the modest rate of growth in expenditure does not provide the capacity for BASA and associated entities, to meet the recommencement of the interest payment obligations to the Treasurer from 2007-08.

The standing of basketball relative to other high profile sports, and the performance of its South Australian flagships (Adelaide 36ers and Adelaide Lightning) that affect that standing, are major factors that influence the revenue base of BASA and associated entities. That revenue base being for the most part sourced through the operations of the Adelaide 36ers and SFMSA entities.

Although the performance of the Adelaide 36ers and Adelaide Lightning have been relatively successful over the years, basketball has not yet attained a sufficiently high profile (in terms of participation numbers at competitive and social levels; spectator numbers; sponsorships) that facilitates the securing and growing of a strong revenue base by BASA and associated entities. As such State Government financial assistance has been vitally important in support of the financial operations and the viability of BASA and the associated entities.

9.4.2.3 Aggregated 2003-04 Budget/Actual Performance

The 2003-04 budget represents the first of five years' financial projections presented in BASA's 'Budget Forecast 2003-08'. As such the 2003-04 forecasts were reviewed in relation to the audited historical performance of BASA and associated entities over recent years to 2002-03, and also relative to the entities' financial performance for 2003-04 through reference to unaudited management accounts and information.⁵³

⁵³ Refer Footnote 7 to this Report.

An aggregated profit result of \$250 000 was budgeted for the 2003-04 financial year. The budget included a contingency amount of \$200 000 to cover unexpected variations to budgeted revenues and expenses.

A review of the unaudited 2003-04 year-to-date management accounts identifies variations regarding budgeted/unaudited actual revenues and expenses for 2003-04. While an aggregated profit result of \$250 000 was budgeted, the unaudited management accounts show an anticipated aggregate loss result of \$734 000.

The following presents the main contributing causes for the significant reversal from a budgeted profit outcome to an anticipated loss result.

- Material non-attainment of budgeted revenues, including:
 - Sponsorship and fundraising income — Adelaide 36ers and Adelaide Lightning (\$418 000 lower than budget),
 - Stadia/Hall player and spectator takings and hire income — SFMSA (\$147 000 lower than budget),
 - Season/Game Day ticket sales — Adelaide 36ers (\$140 000 lower than budget).
- Increased insurance expense. The cost of insurance renewal, mainly in respect of public liability and player participation, has been much higher than anticipated (\$77 000 higher than budget).
- Recognition of costs not budgeted. Management review of staff leave liability and inventory holdings, identified increments to leave provisioning expenses (\$120 000) and write-down expenses of inventory (\$83 000).

The non-attainment in revenue forecasts are not the result of inadequate forecasting. For example, Adelaide 36ers season ticket revenue was based on the assumption of a reduced number of season ticket sales in 2003-04 (3700) when compared with 2002-03 ticket sales (4049). The number was budgeted downward in consideration of the Adelaide 36ers 2003 basketball season being less successful than the 2002 season. Although the assumption of a reduced number of ticket sales in 2003-04 was reasonable the extent of the reduction was not anticipated. Actual season tickets sold for 2003-04 were 3394.

As noted in section 9.4.2.2 of this Report, the profile of basketball relative to other major sports is not at a sufficiently high level that attracts a strong revenue base. In addition, the revenue base can be significantly influenced by the annual on field success or otherwise of the Adelaide 36ers and to a lesser extent Adelaide Lightning. The fall by the Adelaide 36ers from premier position in 2001-02, to fifth position in 2002-03 and eighth position in 2003-04, has made it difficult for the Adelaide 36ers to retain or grow revenues from various sources, including from sponsors and season ticket holders.

The non-attainment of the 2003-04 revenue forecasts essentially reflects the abovementioned circumstances.

Section 9.3.3.2 of this Report included comment on developments in financial management. The commentary indicated the intention to action a process of continuous improvement by BASA in financial accounting, reporting, and control. It was noted that a recent new appointee to the Finance Manager position is implementing a revised chart of accounts and a new computerised accounting system. As part of the implementation process, the Chief Executive Officer and Finance Manager are reviewing associated account record keeping processes. These reviews have resulted in additional leave liability recognition and inventory write-down expenses for 2003-04.

The increased leave liability reflects a combination of factors, including growth in untaken annual recreation leave entitlements by staff; potential/actual long service leave entitlements of Adelaide 36ers coaching staff whose respective service years are close to legal entitlement; and outstanding leave entitlements of the former coach of Adelaide Lightning who resigned from the coaching position in June 2004. The Chief Executive Officer has introduced a leave management plan to ensure the taking of leave entitlements and the reduction in the associated leave liability. Write-down expenses were recognised in relation to certain BASA basketball promotional items and Adelaide 36ers merchandise and in respect to restaurant inventory. The items were not considered of saleable or usable quality.

It was also mentioned in the previous section of this Report that the 'Budget Forecast 2003-08' projected moderate growth in the revenue that is expected to match a projected moderate rise in expenditure over the forecast period. It is on the basis of those projections, that the 'Budget Forecast 2003-08' indicates that BASA and the associated entities will not have the capacity to meet the recommencement of the loan interest payment obligations to the Treasurer from 2007-08.

The identified lack of financial capacity is made even more apparent in consideration of the 2003-04 anticipated loss result of \$734 000. This result is in contrast to the first year of the five year forecasts, which projected a profit result for the 2003-04 financial year of \$250 000.

9.4.2.4 Cash Flow and Financial Projections

The 'Budget Forecast 2003-08' provides aggregated cash flow and financial projections for BASA and the associated entities over the forecast period 2003-04 to 2007-08. As a general principle, profit results ordinarily give rise to positive cash flow position(s), with a consequential build up of cash reserves and/or the application of that cash to meeting planned capital and financing commitments.

The 'Budget Forecast 2003-08' is based on projected aggregated profit results for BASA and the associated entities in each of the respective years over the forecast period. However, as mentioned in the section 9.4.2.3 of this Report, unaudited management accounts in respect of the 2003-04 financial year indicate a loss result in contrast to a forecast profit result.

Appendix H to this Report presents financial information relating to the aggregated cash forecasts for BASA and the associated entities. This Appendix has been prepared from the financial data and information contained in BASA's 'Budget Forecast 2003-08'.

The Appendix identifies the material capital and financing obligations that will impact significantly on the aggregate cash position of BASA and the associated entities, including the extent and usage of cash funds.

The two significant commitments are those obligations that BASA and the associated entities have been unable to meet with certainty and continuity in past years. They are the repayment of principal and interest payment obligations associated with the loan from the Treasurer in connection with the Findon Basketball Stadium. The revised financial assistance arrangements, between BASA and the State Government in August 2000 and August 2002 were in response to the difficulties being experienced by BASA in meeting these debt obligations.

The revised financial assistance arrangements of August 2002, waived the annual interest payment obligations from 2002-03 to 2006-07 and also deferred the loan principal repayment obligation of approximately \$10.5 million to 2020. Prior to the revised arrangements the overall debt obligation (comprising interest payments and principal repayment) was to be met annually. The significance of this annual debt obligation can be understood by reference to the 2001-02 obligation. That obligation amounted to \$1 030 000 (interest of \$746 000; principal repayment of \$284 000).

Appendix H identifies that the projected cash flow position over the forecast period (and if somewhat similar circumstances continue beyond the forecast period) will not be sufficient to meet the capital and financing commitments of BASA and the associated entities. It shows that cash flow difficulties would commence from 2007-08 onwards.

Particular reference to meeting the debt obligation to the Treasurer in connection with the Findon Basketball Stadium clearly demonstrates the cash flow problem that is projected to confront BASA and the associated entities. The Appendix recognises a tied annual allocation of cash of \$410 000⁵⁴ from 2003-04 onwards towards meeting the deferred loan principal repayment of \$10.5 million to the Treasurer in 2020. The Appendix also shows the resumption of the annual interest payment on the loan to the Treasurer from 2007-08 onwards amounting to \$730 000.

As illustrated in the Appendix the budgeted commitment to meet the interest and principal loan obligations to the Treasurer significantly impacts on the forecast cash flow and financial status of BASA and associated entities. The Appendix indicates a cash deficiency position from 2007-08 onwards. This position is based on the recognition that the tied cash allocations will only be applied in 2020 towards discharging the principal loan payment obligation of \$10.5 million to the Treasurer.

The nature of the cash flow problem projected to confront BASA and associated entities, may not, without significant enhancement in cash flows (underpinned by profit results and revenue growth), be dissimilar to the cash deficient position that was experienced by BASA and associated entities in 2001-02. The inability to meet a forecast profit result and revenue levels for 2003-04 would suggest little likelihood of achievement of a significant enhancement in future cash flows.

⁵⁴ The annual tied cash allocation of \$410 000 would need to be placed in an interest bearing facility to ensure sufficient available funds to fully meet the \$10.5 million balloon payment in 2020.

9.5 Statutory Reporting Obligations

At section 5 of this Report, information was provided concerning the legal status and the nature of operations of BASA, SFMSA, Adelaide 36ers and Adelaide Lightning.

With specific regard to legal status, each of the four associations (entities) is a non-profit entity incorporated under the *Associations Incorporation Act 1985* (as amended).

9.5.1 Associations Incorporation Act 1985 and Associations Incorporation Regulations 1993

The Act and Regulations contain certain provisions regarding the obligations of associations (entities) incorporated under the Act in relation to the preparation of financial accounts, audit of the financial accounts, and the lodgement of those accounts with the Office of Consumer and Business Affairs.

9.5.1.1 Rules

The Act makes reference to 'Rules' that bind the incorporated association (entity) and its members. The reference to 'Rules' extends to the constitution of the incorporated entity.

The constitution of BASA and the constitutions of each of the associated entities include provisions that require each entity to prepare financial accounts and have those accounts audited.⁵⁵

9.5.1.2 Prescribed Association

The Act specifically provides for a 'prescribed association' to prepare financial accounts and have those accounts audited.⁵⁶ A prescribed association includes an association incorporated under the Act that had gross receipts in that association's previous financial year in excess of \$200 000.

BASA, SFMSA and Adelaide 36ers come within the statutory ambit of prescribed association. The level of gross receipts associated with the incorporated association (entity), Adelaide Lightning, is less than \$200 000 annually. As such, Adelaide Lightning is not a prescribed association for purposes of the Act.

⁵⁵ The constitutions of BASA and the associated entities include the following terms to describe the financial accounts (financial statements) to be produced in respect of each entity. The constitution of BASA refers to 'Balance Sheet and Statements of Receipts and Expenditure'. The constitutions of SFMSA, Adelaide 36ers and Adelaide Lightning refer to 'Balance Sheet and Profit and Loss Account'. Refer to discussion in section 5.5 of this Report titled 'Constitution Review' regarding consistency of content of the provisions in the constitutions concerning financial accounts and audit.

⁵⁶ Section 35 of the *Associations Incorporation Act 1985*. Also, section 3 of the Act defines a 'prescribed association' and describes the financial accounts (financial statements) to be prepared in respect of an incorporated association (entity) and a prescribed incorporated association (entity). Under section 3, financial accounts can be taken to mean 'an account of income and expenditure ...' and 'a balance sheet' and '... notes ...'.

Notwithstanding that Adelaide Lightning is not a prescribed association, as mentioned above, it is required pursuant to its constitution to prepare financial accounts and have those accounts audited.

9.5.1.3 Lodgement of Audited Accounts

The Act and Regulations require a prescribed association to lodge with the Office of Business and Consumer Affairs a 'return' within six months after the end of the association's (entity's) financial year. The 'return' is to be accompanied with the audited accounts.

9.5.2 Compliance with the Act and Regulations

BASA and associated entities prepare annual financial accounts and those accounts have been subject to independent audit.⁵⁷ The audited accounts are included in an annual report produced for each entity.

It was noted in section 8.1 of this Report, that the Independent Audit Reports for BASA and associated entities have been issued within three months of the close of the financial year. This indicates that proper regard is being given to the provisions of the entities' constitutions regarding the timeliness of production and audit of the financial accounts of each entity.

In accordance with the *Associations Incorporation Act 1985* there is a requirement to lodge annual returns (including the submission of audited financial accounts) with the Office of Business and Consumer Affairs. It was noted during the examination that the administrative task of lodging returns required in regard to BASA, SFMSA and Adelaide 36ers had not been effected for the years 2000 to 2003. BASA has now confirmed the lodgement of the returns with the Office of Business and Consumer Affairs, together with the separately produced annual reports for each entity (including the audited financial accounts of the particular entities).

9.5.3 Form and Content of Financial Accounts

9.5.3.1 Financial Reporting Framework

Organisations, whether they be private or public sector entities, prepare financial statements in accordance with a framework of accounting pronouncements described as Generally Accepted Accounting Principles (GAAP). GAAP pronouncements⁵⁸ are developed by the Australian Accounting Standards Board and Urgent Issues Group and have the support of the professional accounting bodies and its members and governments (through legislation, as an example, in the case of the Corporations Act).

With reference to GAAP, an organisation has a certain 'reporting entity' status. That status influences the form and content of the financial accounts to be produced by the organisation. The status of an organisation can be characterised as a 'reporting entity' or 'non-reporting entity'.

⁵⁷ The financial accounts (financial statements) prepared in respect of BASA and each associated entity meet the descriptive requirements of each entity's constitution and the *Associations Incorporation Act 1985*. Refer footnotes 21 and 22 above.

⁵⁸ GAAP includes Accounting Standards, Accounting Interpretations, UIG Consensus Views, Statements of Accounting Concepts, Accounting Guidance Releases and Accounting Bulletins.

GAAP require a reporting entity to prepare its financial accounts in the nature of a 'general purpose financial report'.

A reporting entity is an entity where it is reasonable to expect the existence of users⁵⁹ dependent upon a general purpose financial report for information that will be useful to them in making or evaluating economic decisions. In essence, a reporting entity is an entity in which there is a public interest. This matter is discussed below at section 9.5.3.3 of this Report.

Miscellaneous Professional Practice APS 1⁶⁰ designates that the following entities will always be reporting entities: companies whose securities are publicly traded; listed trusts and other trusts that raise funds from the public; government-controlled business undertakings; Federal, State and Territory governments, local governments and most, if not all, government departments.

Other entities that may also exhibit the characteristics of a reporting entity include non-profit organisations and statutory authorities.⁶¹

A general purpose financial report consists of three statements — the Statement of Financial Performance (or under an alternative title Operating Statement or Profit and Loss Account), the Statement of Financial Position (or under an alternative title Balance Sheet) and the Statement of Cash Flows — and notes to these statements prepared in accordance with Accounting Standards and UIG Consensus Views.

An entity that is characterised as a non-reporting entity, generally prepares its financial accounts in the nature of a 'special purpose financial report'. This means that certain accounting standards, or the requirements of certain accounting standards that are mandated to be applied in respect of a reporting entity's general purpose financial report, may not be required to be applied to the form and content of the non-reporting entity's financial statements.

9.5.3.2 Financial Accounts of BASA and Associated Entities

The financial accounts of BASA, SFMSA, Adelaide 36ers and Adelaide Lightning are prepared and audited on the basis that they are 'special purpose financial reports'.

The Executive Board/Committees of Management of the entities have determined that the entities' financial reporting obligations are specifically to their respective members. There are no users dependent on general purpose financial reports. In this regard the financial statements have been prepared for distribution to the entities' members and to fulfil the financial reporting requirements under the *Associations Incorporation Act 1985*.

The notes and independent auditor's reports relating to the financial accounts of BASA and the associated entities, convey in a transparent manner the special

⁵⁹ Users of financial information include: resource providers; recipients of goods and services; parties performing an oversight or review function; management; and the governing body.

⁶⁰ APS 1 is a professional accounting pronouncement.

⁶¹ APS 1.

purpose basis of preparation of the financial accounts. In so doing the notes indicate that, with certain exceptions, the financial accounts have been prepared in compliance with accounting standards and other professional pronouncements. The exceptions include financial reporting on a consolidated entity basis, business segment reporting, and some disclosure matters.

Whilst the form and content of the financial accounts of the entities reflect many of the features and reporting disclosures of a 'general purpose financial report', nonetheless, they are 'special purpose financial reports'.

9.5.3.3 Public Interest Considerations

BASA has and continues to receive material financial assistance from the State Government. The assistance provided is in the form of annual grants towards operations and/or debt forgiveness in respect of the Findon Basketball Stadium. The financial assistance benefits BASA, the associated entities of BASA, and the community generally.

A significant factor that influenced the current and prior State Governments to provide financial assistance to BASA was the recognition of the adverse consequences on the community should its operations discontinue or be severely affected.⁶²

In recognition of the material nature, extent, and implications of the financial assistance provided to BASA, its operations and accountability and that of the associated entities are, in my opinion, a matter of 'public interest'.

It is within this context that, in my opinion, BASA and the associated entities should be viewed as 'reporting entities', as distinct from presently, 'non reporting' entities. This means that as reporting entities in which there is a public interest, optimal financial reporting presentation would require financial accounts to be prepared consistent with a general purpose financial report, rather than the preparation of a special purpose financial report.

9.5.3.4 Improvements in Statutory Financial Reporting by BASA and Associated Entities

For the reasons referred to above this is, in my opinion, the matter of public interest importance in the operations of BASA and the associated entities. Accordingly, the basis of preparation of the financial accounts of the entities requires review with the objective being the production of general purpose financial reports.

Within that general purpose financial reporting framework, which influences the form and content of the financial accounts, specific matters can be reviewed and considered. These matters would include consideration of the application of entity consolidation reporting and/or business segment reporting;⁶³ additional

⁶² Refer to section 6.3 of this Report titled 'Government Offer to BASA of Revised Financial Arrangements' – last paragraph.

⁶³ Refer to section 9.5.3.2 of this Report, penultimate paragraph.

non-current asset value disclosure;⁶⁴ and the matter of revenue/cost identification associated with community basketball as requested by the Department of Treasury and Finance.⁶⁵

As noted above in this section of the Report, BASA has made improvements in the area of financial accounting and reporting and shown an intention to effect further improvements.⁶⁶ Is it important that the overall improvement process entails the review and consideration of all the matters noted above. The process may be facilitated through consultation with the Department of Treasury and Finance and the independent external auditor of BASA and the associated entities.

9.5.3.5 State Government Assisted Non-Government Organisations

As is the case with BASA, the South Australian Government provides financial assistance to many non-government organisations. The provision of assistance is required to be subject to a number of accountability conditions.⁶⁷ The conditions include requirements concerning the preparation and audit of financial accounts (financial statements) and the submission of those accounts by the assisted recipient organisation to the Government agency that provided the financial assistance.

Audit is of the opinion that where a non-government organisation is in receipt of financial assistance of a material nature, the conditions relating to the preparation and audit of financial accounts should reflect the requirement that the accounts be prepared in the nature of a general purpose financial report. This matter is raised for consideration by the Treasurer and the central finance agency, the Department of Treasury and Finance.

10. BASA DEBT SERVICING CAPABILITY

This Report includes comment on the nature of the financial difficulties that BASA has experienced over the years. Furthermore, it outlines the nature of the revised arrangements that the current and former Governments have put in place with BASA in response to those difficulties.

The difficulties have related to BASA's high debt obligation to the State Government, in respect of the loan arrangement between the Treasurer and BASA relating to the Findon Basketball Stadium. Over the years, BASA has not with certainty and continuity, been able to meet the interest payment and principal repayment obligations of the loan.

⁶⁴ The financial accounts of BASA record non-current assets (including the Findon Basketball Stadium) at cost. There is no regular policy of revaluing land and buildings. The financial accounts of the South Australian National Football League Incorporated are a general purpose financial report. While non-current assets are recorded in those accounts at cost, note disclosures provide additional information in relation to the current values of land and buildings (including AAMI Stadium).

⁶⁵ Refer to section 9.3.3.2 of this Report, last paragraph.

⁶⁶ *ibid.*

⁶⁷ Treasurer's Instruction 15 'Grant Funding Conditions' details conditions that should apply to financial assistance provided to non-government organisations.

This Report also includes comment on the current and forecast aggregate financial performance of BASA and the associated entities that indicate that BASA will again experience financial difficulties in meeting the debt obligations in connection with the Findon Basketball Stadium.

The revised financial assistance arrangement approved by the Government in August 2002 provides for the annual waiver of interest on the loan of around \$750 000 for the years 2002-03 to 2006-07, and deferral of principal payments on the loan until its maturity in 2020. The loan principal to be paid at that time will be approximately \$10.5 million. The BASA 'Budget Forecast 2003-08' projects financial difficulties to occur from 2007-08, the year of recommencement of the annual loan interest payment obligations.

The August 2002 approved financial assistance arrangement arose out of consideration of a formal submission from BASA to the Government in May 2002. The BASA submission made the point that its assumption of the debt burden as a result of agreeing to the loan financing arrangement with the Government to fund the Findon Basketball Stadium had put BASA in an unviable position. The submission included comment that BASA had accepted the Government's loan offer at the time in the sincere believe that it would be able to service the debt. It has not been able to do so.⁶⁸

As a consequence of BASA's ongoing difficulty in meeting the debt obligations associated with the Stadium, it has not been able to establish any cash reserve position to meet the cost of any significant upgrade of the Stadium.

As explained in section 6.3 of this Report, the August 2002 financial assistance arrangement approved by the Government was based on a recommendation from the Department of Treasury and Finance. A consideration of the Department in the context of recommending the form of the arrangement, was to provide some flexibility going forward should the financial position of basketball in Australia and South Australia improve.

It was also briefly mentioned in section 6.3 of this Report that ORS is undertaking a detailed review of the position status of sporting facilities within this State. The review task is being directed to the development of a State Sporting Facility Strategy. The Strategy is intended to result in a framework and action plan for the future provision of State sporting facilities in South Australia. It aims to provide a planning process that will ensure South Australia has an appropriate range of venues to cater for State, National and International level sporting competition, training and events. In addition, the Strategy is intended to detail improvement and development requirements for current State sporting facilities together with an indication of specific facilities that are required in order to fill gaps in provision.

The BASA 'Budget Forecast 2003-08' and 2003-04 unaudited result, indicate that at this stage, there is little likelihood of improvement in the standing and financial position of basketball, that would result in the financial capacity of BASA to meet its debt obligations to the Treasurer and other capital obligations. It should be mentioned that BASA is presently in the process of revising its 'Budget Forecast 2003-08'.

⁶⁸ Refer section 6.2 of this Report.

BASA's Strategic Plan 2004-2007 identifies that by March 2005 it will have prepared a Debt Management Plan; Five Year Capital Expenditure Plan; and a Repair and Maintenance Plan for the Findon Basketball Stadium.

The revised 'Budget Forecast 2003-08' and the abovementioned plans should be taken into account by the Government (through the Department of Treasury and Finance) in assessing BASA's financial capacity to meet its obligations under the August 2002 approved financial arrangement. This review would also need to give regard to the contents and conclusions of the State Sporting Facility Strategy that is being developed by the ORS and which is anticipated to be completed in early 2005.

11. BASA'S UNDERTAKINGS TO GOVERNMENT

The August 2002 financial assistance arrangement between BASA and the Government was based on a number of conditions.

The conditions essentially expect BASA, without further assistance, to resume its debt obligations to the Treasurer from 2007-08; require BASA to restructure its business to remain viable; require BASA to prepare longer term planning documents, including a strategic plan and a four year budget; require BASA accounts to include sound cost allocations between Adelaide 36ers, Adelaide Lightning and community basketball; and require BASA to regularly report to government.

As mentioned and discussed in this Report, BASA prepared a 'Budget Forecast 2003-08' document in early 2003-04 detailing budget projections for the period 2003-04 to 2007-08. This document is presently being revised by BASA.

Again, as discussed in this Report, BASA has completed a Strategic Plan 2004-2007 and a Business Plan 2004-05. The previous section of this Report, conveyed that the Strategic Plan highlighted other important plans to be developed by March 2005, and that these plans together with the revised 'Budget Forecast 2003-08' document should form the basis for further review and consideration by the Government, of BASA's financial capability to meet its financial obligations under the August 2002 financial assistance arrangement.

In relation to BASA's accounts, BASA is presently implementing a new chart of accounts and computerised accounting system operative from the 2004-05 financial year. BASA has indicated that it will be relating with the Department of Treasury and Finance regarding the matter of revenue/cost allocation for BASA accounts. This audit examination has also identified certain issues affecting BASA's accounts. These issues, discussed in section 9.5 of this Report also require consideration by BASA for implementation.

Finally, BASA is continuing to relate to the Department of Treasury and Finance through the provision of information, documentation, and discussion concerning the financial assistance arrangement.

12. CONCLUDING COMMENTS

For the purpose of completeness there are some general comments that, in my opinion, are warranted in relation to this matter. These comments are as hereunder.

With respect to forecast financial performance, the aggregate 'Budget Forecast 2003-08' forecasts financial difficulties for BASA and the associated entities from 2007-08. Budgeted profit projections in the range of \$250 000 to \$300 000 for the four years 2003-04 to 2006-07 are virtually extinguished by a projected significant loss of over \$800 000 for the 2007-08 year. However, the unaudited 2003-04 June year-to-date unaudited management accounts show an anticipated significant loss of \$734 000 and is subject of comment hereunder.

The 2007-08 year sees the recommencement of interest payment obligations to the Treasurer, in the order of \$750 000 annually, in respect of the loan borrowing associated with the Findon Basketball Stadium.

The 'Budget Forecast 2003-08' projects a modest rate of growth in aggregate revenue matched by a similar modest rate of growth in aggregate expenditure. The inability to increase the rate of revenue above the rate of growth in expenditure does not provide the financial capacity for BASA and associated entities to meet the annual interest payment obligations to the Treasurer commencing from 2007-08 and other budgeted capital obligations.

The projected financial difficulties from 2007-08 is made even more apparent given that the 2003-04 aggregate operating result is not anticipated to meet the budgeted 2003-04 result. The 'Budget Forecast 2003-08' budgeted for a profit result of \$250 000 for 2003-04, yet a loss result of \$734 000 (unaudited) is anticipated. Section 9.4.2.3 of this Report provides comment in relation to the anticipated unaudited loss result.

In my opinion, it is unrealistic to expect that BASA can meet the expectations that are incumbent upon it under the existing financial arrangement with the Government.

13. AUDIT CONCLUSION REGARDING ECONOMY AND EFFICIENCY OF OPERATIONS

The examination involved the review of the operations, financial performance, and the financial position of BASA and the associated entities. The specific matters that were reviewed relate to organisational structure and governance, basketball development, business management practice, financial performance, financial position of the entities (historical and forecast) and statutory reporting arrangements.

For the reasons as stated in this Report, and subject to the comments herein, I am of the opinion that as regards the abovementioned matters the internal administrative and financial operations of BASA and the associated entities are being conducted with regard to economy and efficiency. Nonetheless, it is important that BASA and the associated entities take the necessary action to ensure continuing compliance with the requirements of the *Associations Incorporate Act 1985*. This is a matter in BASA's external affairs that, in my opinion, requires attention.

14. RECOMMENDATIONS

There are certain matters arising from the examination and referred to in this Report, that it is recommended receive appropriate consideration by both BASA and the Government.

With respect to BASA it is recommended that:

- BASA seek advice from the Corporate Affairs Commission and/or its legal adviser to ascertain whether there is a need for approval pursuant to section 55 of the *Associations Incorporation Act 1985* regarding the matter of the distribution of profits by SFMSA and Adelaide 36ers to BASA.
- BASA as part of its continuous financial accounting and reporting improvement process, introduce general purpose financial reporting. BASA is the recipient of substantial annual grants of public monies and is the recipient of a substantial loan obligation to the Treasurer. In these circumstances there is considerable public interest in BASA's affairs.
- BASA, in its position as the administrative coordinator of the sport, take the necessary action to ensure compliance with all requirements of the *Associations Incorporation Act 1985* by all associated entities.
- The independent external audit process applied to the financial accounting records and the financial accounts of the Adelaide 36ers, incorporate attestation of compliance with the 'salary cap' requirements of the NBL.
- BASA, following revision of its 'Budget Forecast 2003-08', proceed in accordance with its recently completed Strategic Plan to develop other important plans, including those associated with debt management and capital expenditure.
- Certain matters identified in relation to the constitutions of the associated entities of BASA and member clubs be considered in the context of BASA's review of constitutions and committee structures.

With respect to the Government it is recommended that:

- The Government, on receipt of the ORS State Sporting Facility Report (expected in early 2005) review with BASA the matter of its capacity to meet its existing obligations with respect to interest payments and repayment of principal on the outstanding debt of \$10.5 million.
- Certification be required by the Government from recipients of grant/loan monies, in circumstances where the grant/loan involves a material amount of public money, that the recipient has complied with all applicable statutory requirements associated with its internal and external affairs. It will be a judgment call by the Government agency making the grant/loan as to the amount of money that requires confirmation in this context.
- Consideration be given by the Department of Treasury and Finance and the Treasurer to amending the Treasurer's Instruction 15 'Grant Funding Conditions', to include the requirement that where the recipient is in receipt of material public grant/loan monies, the recipient be required to prepare its financial statements in the nature of a general purpose financial report. A requirement of this type would only be necessary in circumstances where there was a significant public interest element associated with the public grant/loan monies.

General Concluding Comment Regarding Governmental Arrangements

On the basis of all the available evidence, it is, in my opinion, unrealistic to expect that BASA, on the current 'level' of its indebtedness, can, in the foreseeable future, meet its financial obligations to the Government. In my opinion, there should be a review of the debt level with a view to the establishment of a 'level of indebtedness' that can, on a reasonable basis, be serviced as from 2007-08 from BASA's operations. For this reason, the review scheduled to be undertaken in the three (3) months prior to 31 December 2006 should be brought forward and undertaken as soon as practicable. Implicit in this recommendation is the need to consider extinguishment of such part of the debt as is required to establish a realistic basis for future expectations from the Government as to BASA's capacity to pay.

In my view, it is not consistent with good public administrative practice to continue to administer an arrangement that is not on any reasonably foreseeable basis, productive of a constructive outcome for either the Government or BASA. It must, however, be emphasised that a decision of this nature is, at the end of the day, a matter for political/Executive Government judgment. Provided such a decision is made on reasonable grounds it is not, in my opinion, open to informed criticism.

LIST OF APPENDICES

Appendix	Description
A	BASA and Associated Entities
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APPENDIX A BASA and Associated Entities

Basketball Association of South Australia Incorporated (BASA)	Sports Facilities Management of South Australia Incorporated (SFMSA)	Adelaide 36ers Incorporated (Adelaide 36ers)	Adelaide Lightning Incorporated (Adelaide Lightning)
---	--	--	--

Ordinary Members

Ordinary Members

Ordinary Members

Ordinary Members

BASA

Central Districts Basketball Club Incorporated
 North Adelaide Basketball Club Incorporated
 Norwood Basketball Club Incorporated
 South Adelaide Basketball Club Incorporated
 Sturt Basketball Club Incorporated
 West Adelaide Bearcats Basketball Club Incorporated
 Forestville Eagles Basketball Club Incorporated
 Woodville District Basketball Club Incorporated
 Southern Tigers Basketball Association Incorporated

BASA

BASA

BASA

Comments

The affairs of BASA are vested in an Executive Board. Each of the affairs of SFMSA, Adelaide 36ers and Adelaide Lightning are vested in a Committee of management. The Executive Board of BASA has representation on the committees of Management of SFMSA, Adelaide 36ers and Adelaide Lightning.

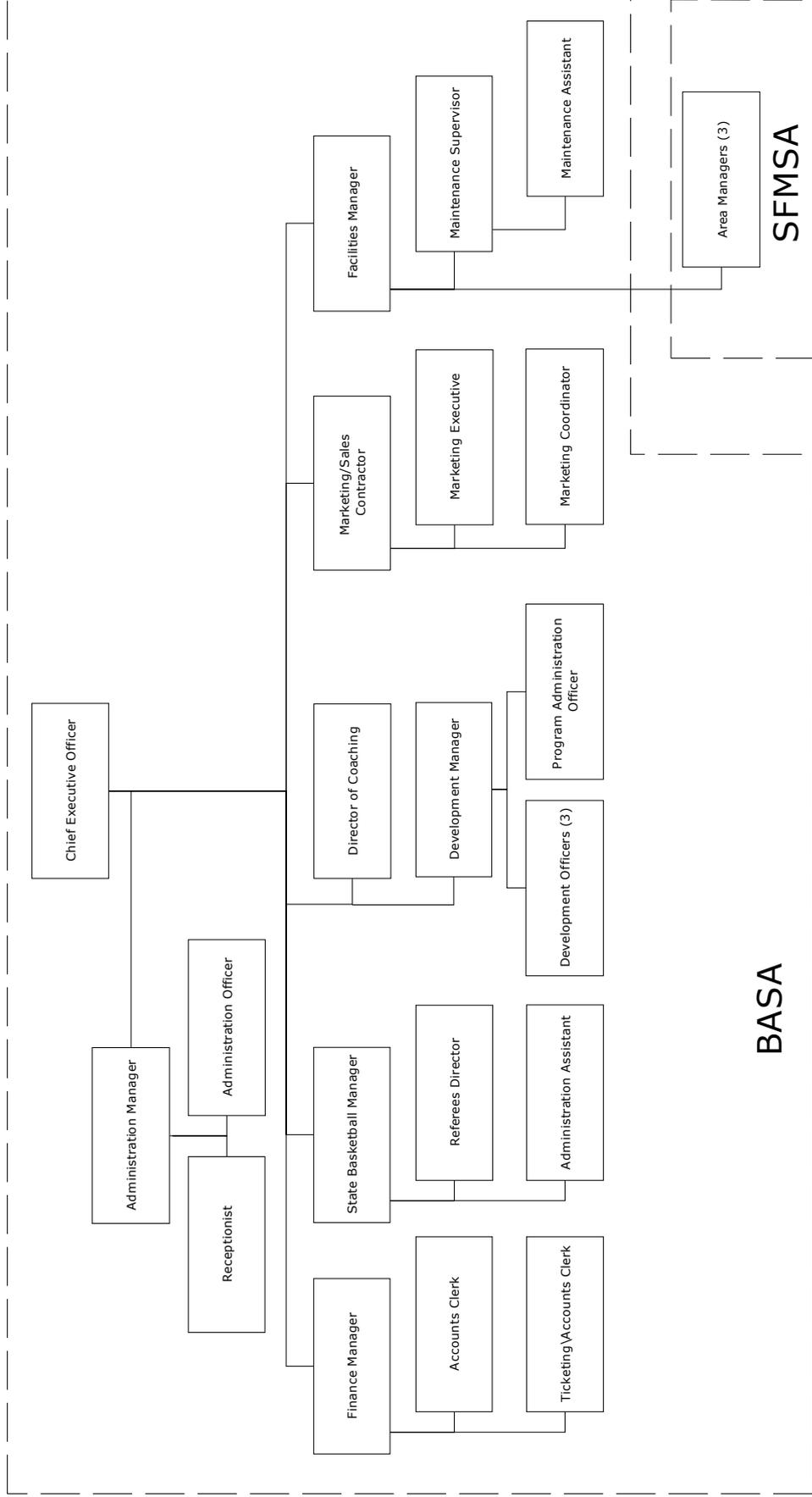
Financial Transactions occur between, BASA and SFMSA, Adelaide 36ers and Adelaide Lightning. The nature of the financial transactions include (1):

- Payments by member clubs to BASA as fees to enter competitions and to cover the costs of various services provided by BASA.
- Grants made by BASA to Adelaide Lightning as a subsidy to cover what would otherwise be operating losses.
- Loans made by BASA to Adelaide 36ers.
- Payments made by SFMSA, Adelaide 36ers, and Adelaide Lightning to BASA with respect to services provided by BASA to, for or on behalf of those three entities.
- Loans made by three other entities to BASA by way of the depositing of their cash balances with BASA to secure the benefits of an integrated banking arrangement.
- Distribution of any profits made by SFMSA and Adelaide 36ers to BASA (2).
- Minor grants made by BASA to member clubs to help meet their administrative costs for similar purposes.

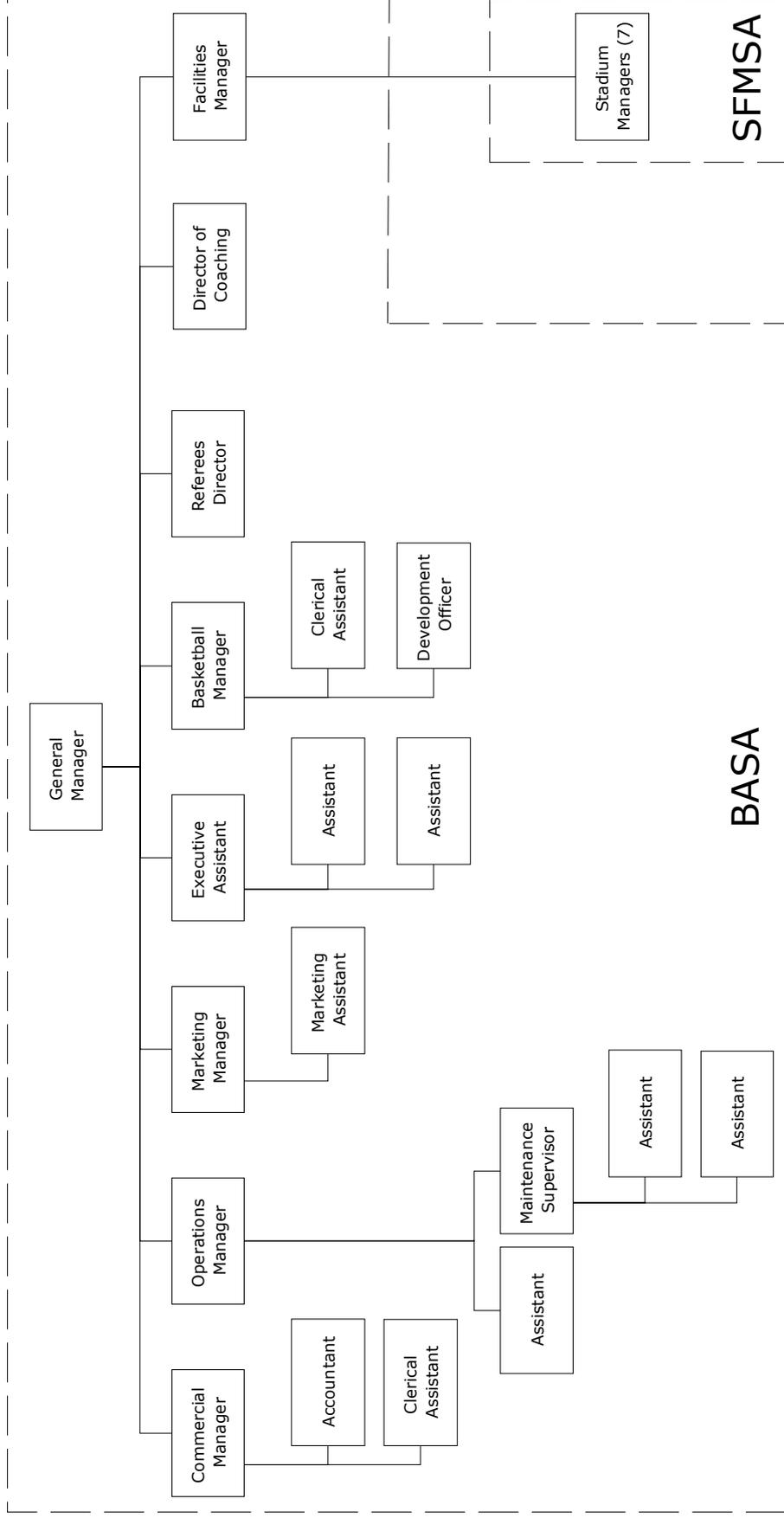
Footnotes

- (1) The types of financial transactions as advised in a letter from the Chief Executive Officer, BASA to the Auditor-General.
 (2) Refer section 1.2.2 of this Report

APPENDIX B
BASA and SFMSA
Organisational and Staffing Structure —June 2004



APPENDIX C
BASA and SFMSA
Organisational and Staffing Structure - 1998



APPENDIX D

BASA and SFMSA Staff Position Profile — June 1998 to June 2004

June 2004	June 2002	June 2001	June 2000	June 1999	June 1998
Chief Executive Officer Executive Assistant Administration Manager Finance Manager Facilities Manager Basketball Manager Marketing/Sales Contractors +	Chief Executive Officer Executive Assistant Administration Manager General Manager 36ers Lightning Finance Manager Facilities Manager Basketball Manager Zone Manager	General Manager Executive Assistant Administration Manager Marketing Manager Finance Manager Facilities Manager Basketball Manager	General Manager Executive Assistant Administration Manager Marketing Manager Finance Manager Operations Manager Basketball Manager	General Manager Executive Assistant Administration Manager Marketing Manager Finance Manager Operations Manager Basketball Manager	General Manager Executive Assistant Administration Manager Commercial Manager Operations Manager Basketball Manager Facilities Manager Marketing Manager
Sponsorship Manager Marketing Executive (part) Marketing Assistant Receptionist Administration Officer Administration Ticketing Officer Basketball Administration Assistant	Sponsorship Manager Marketing Executive (part) Marketing Assistant Receptionist Administration Officer Administration Ticketing Officer Basketball Administration Assistant	Sponsorship Manager Marketing Assistant Receptionist Administration Officer Administration Ticketing Officer	Marketing Assistant Receptionist Accountant Operations Officer Administration Secretarial Assistant	Marketing Assistant Receptionist Accountant Operations Officer Administration Secretarial Assistant Administration Secretarial (part)	Marketing Assistant Receptionist Accountant Operations Ticketing Officer Operations Assistant Administration Secretarial Assistant Administration Secretarial (part)
Coaching Director Referees Director Development Manager (part) *	Coaching Director Referees Director Development Manager (part)	Coaching Director Referees Director Development Manager (part)	Coaching Director Referees Director Development Manager (part)	Coaching Director Referees Director Development Manager (part)	Coaching Director Referees Director Development Manager (part)
Junior Development Officer Junior Development Officer Junior Development Officer	Junior Development Officer Junior Development Officer Junior Development Officer	Junior Development Officer Junior Development Officer Junior Development Officer			
Maintenance Supervisor Maintenance Assistant	Maintenance Supervisor Maintenance Assistant	Maintenance Supervisor Maintenance Assistant	Maintenance Supervisor Maintenance Assistant Maintenance Assistant	Maintenance Supervisor Maintenance Assistant Maintenance Assistant	Maintenance Supervisor Maintenance Assistant Maintenance Assistant
Area Manager - Stadiums Area Manager - Stadiums Area Manager - Stadiums Stadium Administration Officer (part)	Area Manager - Stadiums Area Manager - Stadiums Area Manager - Stadiums Stadium Administration Officer (part)	Area Manager - Stadiums Area Manager - Stadiums Area Manager - Stadiums Stadium Administration Officer (part)	Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Administration Officer (part)	Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Administration Officer (part)	Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Manager Stadium Manager

+ Two full time equivalent positions and one part time position

* Position principally funded by the Australian Sports Commission through Basketball Australia

APPENDIX E

BASA and Associated Entities: Summary Key Financial Data

Entity/Financial Data Item	Year Ending	Year Ending	Year Ending	Year Ending	18 months Ending	Year Ending
	30-Jun-2003	30-Jun-2002	30-Jun-2001	30-Jun-2000	30-Jun-1999	31-Dec-1997
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
BASA						
Profit (Loss)	(187)	(579)	(155)	3 838	(1 081)	(49)
Net Assets (Deficiency)	2 647	2 833	3 413	3 566	(278)	802
Cash Position as at 30 June	(95)	(241)	471	(79)	(282)	(96)
SFMSA						
Profit (Loss)	43	(98)	8	12	17	40
Net Assets (Deficiency)	58	15	113	107	94	79
Cash Position as at 30 June	-	-	-	-	-	-
Adelaide 36ers						
Profit (Loss)	(281)	111	74	80	592	106
Net Assets (Deficiency)	(602)	(321)	(432)	(506)	(585)	(1 102)
Cash Position as at 30 June	1	1	1	1	-	1
Adelaide Lightning						
Profit (Loss)	(150)	(179)	(160)	(156)	(228)	(144)
Net Assets (Liabilities)	-	-	-	-	-	-
Cash Position as at 30 June	-	-	-	-	-	-

* Source: Audited Accounts

APPENDIX F.1

BASA and Associated Entities: Detailed Key Financial Data BASA

Financial Data Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
Financial Operations				
Revenue:				
Findon Stadium operations and hire Administration, facility and service fees	203	258	244	299
Grants from State Government	1 300	1 210	1 390	1 399
Revaluation of loan from Treasurer	472	972	1 022	722
Aggregated other revenue (Note 1)	-	-	-	3 908
Total Revenue	680	756	530	667
Expenses:				
Salaries and wages costs	902	874	713	782
Adelaide Lightning grant	150	179	160	156
Interest on loan from Treasurer	-	746	765	418
Depreciation	397	445	436	470
Significant items	-	274	192	-
Aggregated other expenditure (Note 2)	1 393	1 257	1 075	1 291
Total Expenditure	2 842	3 775	3 341	3 117
PROFIT (LOSS)	(187)	(579)	(155)	3 838
Financial Position				
Assets	14 686	15 027	16 489	15 998
Liabilities	12 039	12 194	13 076	12 432
Net Assets (Liabilities)	2 647	2 833	3 413	3 566
Cash Position as at 30 June	(95)	(241)	471	(79)

* Source: Audited Accounts; Management Accounts. Notes 1 and 2 over page.

APPENDIX F.1 (Continued)

**BASA and Associated Entities: Detailed Key Financial Data
BASA**

Notes to Table of Financial Data

Note 1. Aggregated other revenue includes:

Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
Player/team nomination fees	200	167	148	131
Player promotion and development	199	185	183	259
Sponsorships	30	-	-	-
NBL rebate	-	125	-	-
BA income	85	70	70	-

Note 2. Aggregated other expenditure includes:

Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
BA Affiliation fee	85	78	69	105
Player promotion and development	132	187	-	-
Junior Development Officer Club				
Grants	27	30	65	118
Umpires	54	58	61	74
Metro League expenses	34	15	37	86
Payroll tax	47	50	28	29
Superannuation contributions	89	75	58	84
Rates and taxes	59	59	42	43
Light and power	78	83	54	52
Rent	*114	57	31	46
Repairs and maintenance	82	76	50	86
Sanitary	77	36	50	60
Telephone	52	60	45	31
Insurance	54	28	20	23
Motor vehicles	48	35	55	26
Bank charges	25	30	22	27

* Includes a 2000-01 arrears rental payment invoiced by the City of Charles Sturt in August 2002, and a rental payment subsidy to the Woodville District Basketball Club Inc.

APPENDIX F.2

BASA and Associated Entities: Detailed Key Financial Data SFMSA

Financial Data Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
Financial Operations				
Revenue:				
Sales	1 682	1 618	1 432	1 607
Stadium/hall hire	164	180	312	344
Other income	3	7	6	25
Total Revenue	1 849	1 805	1 750	1 976
Expenses:				
Salaries and wages costs	122	125	134	245
Umpire fees	454	444	406	430
Rent	229	216	196	193
Sanitary	103	77	66	80
Light and power	71	53	61	71
Significant item	-	280	-	-
Interest and amortisation	103	112	118	132
Stadium/hall supervision	109	105	96	99
Insurance	191	157	167	141
Aggregated other expenditure	174	174	158	222
Administration, service and facility fee	250	160	340	351
Total Expenditure	1 806	1 903	1 742	1 964
PROFIT (LOSS)	43	(98)	8	12
Financial Position				
Assets	58	17	115	111
Liabilities	-	2	2	4
Net Assets (Liabilities)	58	15	113	107

* Source: Audited Accounts; Management Accounts.

APPENDIX F.3

BASA and Associated Entities: Detailed Key Financial Data Adelaide 36ers

Financial Data Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
Financial Operations				
Revenue:				
Sales	1 349	1 871	1 354	1 334
Sponsorships	1 740	1 660	1 976	1 986
NBL rebate	-	125	-	13
Fundraising	203	178	97	137
Other income	23	16	-	3
Total Revenue	3 315	3 850	3 427	3 473
Expenses:				
Salaries and wages costs	1 500	1 254	1 388	1 259
Airfares	111	125	116	126
Travel and accommodation	87	77	68	44
Pre-game dinner and hospitality	315	241	265	302
Stadium/hall supervision	70	70	57	38
First aid	34	42	28	34
Motor vehicle	40	44	34	32
Finals expenses	73	412	64	119
Aggregated other expenditure (Note)	366	473	333	417
Administration, service and facility fee	1 000	1 000	1 000	1 022
Total Expenditure	3 596	3 739	3 353	3 393
PROFIT (LOSS)	(281)	111	74	80

Financial Position

Assets	49	116	191	90
Liabilities	651	437	623	596
Net Assets (Liabilities)	(602)	(321)	(432)	(506)
Cash Position as at 30 June	1	1	1	1

* Source: Audited Accounts; Management Accounts.

Note. Aggregated other expenditure includes:

Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
Hire cars	14	15	11	9
Game entertainment	34	28	30	21
Advertising	9	26	15	20
Ticket sale expenses	20	20	32	31
PA video hire	28	29	20	15
Professional fees	23	31	44	12
Telephone	15	10	13	16
Insurance	30	20	20	13
Most valuable player/singlet presentations	24	26	13	13
Bank charges	5	6	6	4

APPENDIX F.4

BASA and Associated Entities: Detailed Key Financial Data Adelaide Lightning

Financial Data Item	Year Ending 30-Jun-2003 \$'000	Year Ending 30-Jun-2002 \$'000	Year Ending 30-Jun-2001 \$'000	Year Ending 30-Jun-2000 \$'000
Financial Operations				
Revenue:				
Sponsorships	92	100	119	83
Sales	26	3	3	18
Other Income	-	-	33	6
Total Revenue	118	103	155	107
Expenses:				
Salaries and wages costs	104	94	146	106
Administration, service and facility fee	50	50	50	50
Airfares	2	3	8	6
Travel, meals, accommodation	27	24	18	22
Training	7	4	6	8
First aid	6	10	7	8
Motor vehicle	7	7	27	10
WNBL administration fee	40	39	30	30
Aggregated other expenditure	25	51	23	23
Total Expenditure	268	282	315	263
PROFIT (LOSS)	(150)	(179)	(160)	(156)
Grant from BASA	150	179	160	156
Statement of Financial Position				
Assets	-	-	-	-
Liabilities	-	-	-	-
Net Assets (Liabilities)	-	-	-	-

* Source: Audited Accounts; Management Accounts.

APPENDIX G

BASA and Associated Entities: Aggregated Five Year Profit and Loss Forecast as at July 2003

Item	Note	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Revenue:						
Sponsorships	1	2 095	2 255	2 295	2 355	2 395
Sales — Season ticket/Game day takings	2	1 443	1 475	1 505	1 505	1 550
Finals income	3	-	-	-	-	-
Sales — Stadia/Hall takings	4	2 039	2 079	2 140	2 180	2 245
Sales — Stadia/Hall hire	4	232	232	240	247	250
Grants from State Government	5	415	415	415	415	165
Administration, service and facility fee	6	1 050	1 050	1 050	1 050	1 050
Aggregated other revenue		1 156	1 169	1 190	1 208	1 230
Total Revenue		8 430	8 675	8 835	8 960	8 885
Expenses:						
Player/Coaching salaries and wages	7	1 524	1 385	1 310	1 260	1 355
Administration salaries and wages	8	1 132	1 322	1 374	1 415	1 470
Direct Game Day labour	9	124	126	130	130	134
Direct Game Day expenses	10	700	740	760	780	800
Finals expenses	11	-	-	-	-	-
Stadia/Hall supervision	12	118	120	124	126	130
Stadia referee/umpires	13	513	523	540	560	576
Depreciation	14	572	572	572	572	572
Rent	15	302	315	325	335	345
Repairs and maintenance	16	113	130	160	170	185
Utilities	17	246	258	268	280	288
Sanitary	18	156	160	165	170	176
Insurance	19	271	312	330	350	365
Loan interest — Treasurer	20	-	-	-	-	730
Loan interest — Unley Council	21	85	85	85	85	85
Administration, service and facility fee	6	1 050	1 050	1 050	1 050	1 050
Aggregated other expenditure		1 274	1 311	1 357	1 398	1 439
Total Expenditure		8 180	8 409	8 550	8 681	9 700
PROFIT (LOSS)		250	266	285	279	(815)

APPENDIX G (Continued)

BASA and Associated Entities

Aggregated Five Year Profit and Loss Forecast as at July 2003

Notes to Table of Financial Data

- Note 1 Mainly relates to sponsorships of the Adelaide 36ers and Adelaide Lightning. Forecast assumptions: acquiring and retaining a naming rights sponsor for the Findon Basketball Stadium; 2-3 percent annual growth in sponsorship income.
- Note 2 Mainly relates to the Adelaide 36ers. Forecast assumptions: session ticket holders of 3700 per year; price rises of 3 percent except for 2006-07.
- Note 3 Finals income. Management practice is not to budget for participation in finals by the Adelaide 36ers and Adelaide Lightning.
- Note 4 Relates to user admission and hire charges associated with competitions and social games/activities held at BASA and SFMSA managed stadia/hall facilities. Forecast assumption: 2-3 percent annual increase due to some growth in participants and some price increase.
- Note 5 Grants from State Government. Forecast assumption: consistent with 2002-03 grant arrangements or revised arrangements.
- Note 6 Relates to annual administration, service and facility fees received from the Adelaide 36ers and SFMSA. Forecast assumption: no improvement in profitability of operations of Adelaide 36ers and SFMSA. As such, reduced fee contributions from Adelaide 36ers and SFMSA to associated entity, BASA, when compared to recent past years.
- Note 7 Relates to player and coaching staff of Adelaide 36ers and Adelaide Lightning. Forecast assumptions: reduction in Adelaide 36ers player payments consistent with reduced 'salary cap' limits, then some rise expected in 2007-08 when 'salary cap' is proposed to increase; player payments of Adelaide Lightning to remain static; coaching costs to remain relatively constant.
- Note 8 Principally applies to staffing of BASA and SFMSA. Forecast assumptions: pay increases of 3 to 4 percent each year; appointment of a suitably qualified marketing manager in 2004-05.
- Note 9 Relates to cost of personnel engaged on game days for stadium supervision and operations for Adelaide 36ers and Adelaide Lightning. Forecast assumption: pay increases of 2-3 percent each year.
- Note 10 Expenses other than labour costs incurred on game days for Adelaide 36ers and Adelaide Lightning (eg ticket expenses; pre game hospitality; game entertainment; PA video hire). Forecast assumption: relative price/cost rises of 2-3 percent each year.

APPENDIX G (Continued)

BASA and Associated Entities

Aggregated Five Year Profit and Loss Forecast as at July 2003

Notes to Table of Financial Data (cont)

- Note 11 Finals expenses. Management practice is not to budget for participation in finals by the Adelaide 36ers and Adelaide Lightning.
- Note 12 Relates to costs of engaged personnel for stadium supervision and operations for SFMSA managed stadia facilities. Forecast assumption: some growth in participant activity levels and annual pay increases of 2 to 3 percent.
- Note 13 Relates to costs of referees/umpires officiating at sporting games/activities at SFMSA managed stadia facilities. Forecast assumption: some growth in participant activity levels and annual pay increases of 2 to 3 percent.
- Note 14 Principally relates to stadia assets, including leasehold improvements. Forecast assumption: asset level to remain relatively constant.
- Note 15 Relates to lease obligations associated with stadia assets. Forecast assumption: number and nature of leased asset obligations to remain relatively constant.
- Note 16 Estimated cost of the annual program of asset repair and maintenance. Forecast assumption: minimum maintenance program.
- Note 17 Relates to such costs as rates and electricity and gas expenses. Forecast assumptions: price rises of around 3 percent each year.
- Note 18 Applies to cleaning costs associated principally with the stadia facilities. Forecast assumption: price rises of around 3 percent per year.
- Note 19 Relates to public liability, player indemnity, and professional indemnity insurance. Forecast assumption: increased coverage and more than moderate increased premiums of 5 to 6 percent each year.
- Note 20 Relates to interest payments on the loan facility provided by the Treasurer in connection with the Findon Basketball Stadium. Interest payments waived from 2002-03 to 2006-07 and recommence in 2007-08.
- Note 21 Relates to interest payments on the loan facility provided by the Unley City Council in connection with the Wayville Stadium. Loan obligations discharged in 2007-08.

APPENDIX H

BASA and Associated Entities: Aggregated Five Year Cash Position Forecast as at July 2003

Item	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Forecast cash position 30 June (Before recognition of budgeted capital expenditure and financing commitments)	792	960	1 017	1 060	755
Budgeted capital expenditure and financing commitments					
— Capital expenditure	(150)	(280)	(280)	(280)	(280)
— Interest payment on loan from Treasurer (Findon Basketball Stadium)	-	-	-	-	(730)
— Interest payment on loan from Unley Council (Wayville Stadium)	(85)	(85)	(85)	(85)	(85)
— Principal loan repayment (Wayville Stadium)	(110)	(110)	(110)	(110)	(200)
— Provision for loan repayment (Findon Basketball Stadium)	(410)	(410)	(410)	(410)	(410)
	<u>(755)</u>	<u>(885)</u>	<u>(885)</u>	<u>(885)</u>	<u>(1 705)</u>
Forecast cash position 30 June (After recognition of budgeted capital expenditure and financing commitments)	37	75	132	183	(950)