

SOUTH AUSTRALIA

Report

of the

Auditor-General

for the

Year ended 30 June 2004

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Report of the Auditor-General 2003-04

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REFERENCES TO MATTERS OF SIGNIFICANCE

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

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

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

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PORTFOLIO – TREASURY AND FINANCE

TREASURER; DEPUTY PREMIER; MINISTER FOR INFRASTRUCTURE; MINISTER FOR ENERGY; MINISTER FOR GAMBLING; MINISTER FOR FEDERAL/STATE RELATIONS

INTRODUCTION

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

- Treasurer
- Deputy Premier
- Minister for Infrastructure
- Minister for Energy
- Minister for Gambling
- Minister for Federal/State Relations

The agencies included herein relating to the portfolio of Treasury and Finance are:

- Industrial and Commercial Premises Corporation
- Judges' Pensions Scheme
- Land Management Corporation
- Lotteries Commission of South Australia
- Motor Accident Commission
- Parliamentary Superannuation Scheme
- Police Superannuation Scheme
- South Australian Asset Management Corporation
- South Australian Government Captive Insurance Corporation
- South Australian Government Financing Authority
- South Australian Motor Sport Board
- South Australian Superannuation Board
 - South Australian Superannuation Scheme
 - Southern State Superannuation Scheme
- Superannuation Funds Management Corporation of South Australia
- Treasury and Finance – Department of

INDUSTRIAL AND COMMERCIAL PREMISES CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Industrial and Commercial Premises Corporation (the Corporation) was established as a subsidiary of the Minister for Infrastructure, pursuant to regulations under the *Public Corporations Act 1993* (the Act).

Functions and Structure

The Corporation was involved in the development of new factory and commercial properties and the management of established factories and commercial properties as part of the Government's program for assisting industry.

Various finance and accommodation tenure arrangements had been entered into with private sector entities for the provision of facilities designed to satisfy particular operating requirements and to secure their presence in South Australia. The Corporation operated in close collaboration with the Department for Trade and Economic Development.

The Corporation had a Board of Directors appointed by the Minister and was subject to the control and direction of the Minister. The Corporation had no staff of its own. Staff and facilities required to conduct the affairs of the Corporation were provided by the Department for Administrative and Information Services. Note 3 to the financial statements provides further details regarding this arrangement.

Changes to Functions and Structure

Pursuant to a proclamation in the South Australian Government Gazette on 23 October 2003, and effective from 1 December 2003, the:

- Industrial and Commercial Premises Corporation was dissolved;
- assets and liabilities of the Corporation were transferred to and vested in or attached to the Land Management Corporation;
- Public Corporations (Industrial and Commercial Premises Corporation) Regulations 1997 were revoked.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

The Schedule to the Act requires subsidiaries of Public Corporations, established pursuant to section 24 of the Act, to keep proper accounts of their financial affairs and to prepare financial statements in respect of each year. It further provides that the Auditor-General must audit the accounts and financial statements of the subsidiary.

Assessment of Controls

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

Scope of Audit

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

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

- review of construction in progress project developments
- expenditure of monies
- borrowings and related interest expense
- raising and recovery of monies due with respect to established properties.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Industrial and Commercial Premises Corporation as at 30 November 2003, its financial performance and its cash flows for the period then ended.

Assessment of Controls

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

Audit Communications to Management

There were no matters raised with the Corporation.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

As explained under 'Functional Responsibility and Structure' the Industrial and Commercial Premises Corporation was abolished 30 November 2003.

Some comment on the financial operations prior to abolition is provided below under the 'Statement of Financial Performance', 'Statement of Financial Position' and 'Statement of Cash Flows'.

Statement of Financial Performance

Operating Expenses

The major component of operating expenses is interest expense on loans the Corporation has with the South Australian Financing Authority (SAFA). Interest expense proportionately remained consistent with previous year's expenditure. Other expenses attributable to the Corporation's operations proportionately increased as the result of the Department for Administrative and Information Services recovering the cost of a termination payment.

In addition, the Corporation undertook an independent revaluation in 2002-03 of its Property, Plant and Equipment resulting in a \$7.144 million revaluation decrement. The Corporation did not undertake an independent valuation of its Property, Plant and Equipment in 2003-04.

Statement of Financial Position

The Corporation had two dominant assets in the Statement of Financial Position, being Property Plant and Equipment of \$35.64 million and Construction Projects in Progress of \$30.31 million, amounting to \$65.95 million. This represents 84 percent of the Corporation's assets.

The Corporation has liabilities amounting to \$85.80 million, which consists mainly of SAFA loans of \$84.30 million.

The Corporation had a net liability of \$6.99 million due primarily to the revaluation downwards of property in 2002-03.

Statement of Cash Flows

The analysis of cash flows shows that the Corporation, in anticipation of its wind up, did not undertake any financing activities such as incurring debt or investing activities such as purchase of land and buildings for the period. The Corporation's only non-operating activity was repayment of borrowings, significantly reducing cash held as at 30 November 2003.

Statement of Financial Performance
for the period ended 30 November 2003

		Nov 2003	June 2003
	Note	\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Interest		1 281	1 709
Rent		2 181	4 118
Recoveries and sundry income		658	1 717
Total Revenue		4 120	7 544
EXPENSES FROM ORDINARY ACTIVITIES:			
Interest		2 119	4 769
Administrative expenditure	3	1 421	1 886
Depreciation	2.3(b)	375	753
Revaluation decrement	2.3(b)	-	7 144
Total Expenses		3 915	14 552
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE			
INCOME TAX EXPENSE		205	(7 008)
Income tax expense relating to ordinary activities	4	61	-
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER			
RELATED INCOME TAX		144	(7 008)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING			
FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS			
OWNER		144	(7 008)

**Statement of Financial Position
as at 30 November 2003**

		Nov 2003	June 2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	14	70	3 007
Receivables	7	3 871	5 006
Accruals and prepayments		939	41
Total Current Assets		4 880	8 054
NON-CURRENT ASSETS:			
Receivables	7	11 795	12 843
Construction projects in progress	2.3(c)	30 309	28 198
Less: Deposits received	2.3(d)	3 822	4 419
		26 487	23 779
Property, plant and equipment	2.3(b), 8	35 643	36 018
Total Non-Current Assets		73 925	72 640
Total Assets		78 805	80 694
CURRENT LIABILITIES:			
Creditors and borrowings	9	25 512	27 191
Provisions	10	162	-
Other accruals	11	985	608
Total Current Liabilities		26 659	27 799
NON-CURRENT LIABILITIES:			
Creditors and borrowings	9	59 145	60 104
Total Non-Current Liabilities		59 145	60 104
Total Liabilities		85 804	87 903
NET LIABILITIES		(6 999)	(7 041)
EQUITY:			
Asset revaluation reserve	8, 12	114	114
Accumulated losses	20	(7 113)	(7 155)
TOTAL EQUITY		(6 999)	(7 041)
Liability Obligations	21(a)(b)		

Statement of Cash Flows
for the year ended 30 November 2003

		Nov 2003	June 2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Rent received		Note	\$'000
Principal received from mortgage and agreement loans		3 174	\$'000
Payments for land acquisition and construction projects in progress		3 247	2 903
Deposits received for construction projects		(4 285)	1 588
Recoveries and sundry receipts		-	(7 717)
Interest received		524	333
Servicing costs and payments to suppliers		505	1 228
Interest payments		(820)	1 549
Tax equivalent paid	4	(2 065)	(1 535)
Net Cash used in Operating Activities	13	(445)	(4 770)
		(165)	(508)
		(165)	(6 929)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of land and buildings	8	-	(16 571)
Net Cash used in Investing Activities		-	(16 571)
		-	(16 571)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		-	30 621
Dividends paid	6	-	(290)
Repayment of borrowings		(2 772)	(8 626)
Net Cash (used in) provided by Financing Activities		(2 772)	21 705
NET DECREASE IN CASH HELD		(2 937)	(1 795)
CASH AT 1 JULY		3 007	4 802
CASH AT 30 NOVEMBER	14	70	3 007

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Establishment and Dissolution of the Industrial and Commercial Premises Corporation

1.1 Establishment of the Industrial and Commercial Premises Corporation

Industrial and Commercial Premises Corporation (the Corporation), previously known as MFP Industrial Premises Corporation, was established on 1 March 1997 as a subsidiary of the Minister of the Crown pursuant to Regulations under the *Public Corporations Act 1993*.

As a subsidiary of the Minister for Infrastructure, the Corporation is a body corporate, has perpetual succession and a common seal, and is capable of suing and being sued in its Corporate name. It is governed by a Board of Directors consisting of three members appointed by the Minister (refer Note 15).

The functions of the Corporation are:

- to develop new factory and commercial properties and to manage existing properties under the Industrial Premises Development Scheme (functions previously carried out by the South Australian Urban Projects Authority (UPA);
- to carry out other functions conferred on it by the Minister.

The Corporation must obtain the approval of the Minister before it makes a material change to its policy direction.

1.2 Dissolution of the Industrial and Commercial Premises Corporation

Pursuant to a proclamation in the South Australian Government Gazette on 23 October 2003 and effective from 1 December 2003 the:

- Industrial and Commercial Premises Corporation was dissolved;
- the assets and liabilities (Net Liabilities \$6.999 million) of the Corporation were transferred to and vested in or attached to the Land Management Corporation;
- the 'Public Corporations (Industrial and Commercial Premises Corporation) Regulations 1997' were revoked.

The dissolution and transfer has been disclosed in accordance with Accounting Policy Statement 16 'Entity Restructuring'

2. Statement of Accounting Policies

2.1 Basis of Accounting

The accounts have been prepared in accordance with the Statements of Accounting Concepts, applicable Urgent Issues Group Consensus views and appropriate Australian Accounting Standards and in accordance with Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*. The accounts have been prepared on the basis of historical cost and do not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied, unless otherwise stated.

2.2 Comparative Figures

Comparative figures are for the period 1 July 2002 to 30 June 2003.

2.3 Significant Policies

The following is a summary of the significant accounting policies adopted by the reporting entity in the preparation of the accounts.

(a) Borrowing Costs

Borrowing costs are expensed in the reporting period in which they are incurred.

(b) Property, Plant and Equipment

Property, plant and equipment is brought to account at cost or market value, less, where applicable, any accumulated depreciation.

Land and buildings are valued on the basis of current market values by independent valuers Jones Lang LaSalle, in accordance with the requirements under Accounting Standard, AASB 1041 'Revaluation of Non-Current Assets' as defined by the National Council of the Australian Property Institute.

During July 2003 to November 2003 no valuations have taken place.

Depreciation

The depreciable amount of all non-current assets including properties, but excluding freehold land, is depreciated over their useful lives commencing from the time the asset is held ready for use. The depreciation rate applied to building assets is 3.3 percent per annum.

Where necessary, appropriate write downs are made to ensure that the carrying amount is not in excess of the recoverable amount.

(c) Construction Projects in Progress

Construction projects in progress are brought to account at cost.

(d) Deposits Received

The Corporation acts as a project manager and financier for the construction of buildings for clients. The cost of construction is met by the Corporation and accumulated in the Construction Projects in Progress account.

Prior to commencement of the project construction, the client in most cases, is required to pay a deposit towards the overall cost of construction. This deposit is offset against construction projects in progress.

(e) Guarantees

Guarantees exist in relation to a possible sale of the properties owned by the Corporation, such that the Minister for Industry, Investment and Trade guarantees to make up any shortfall between the actual cost price of the assets and that realised upon sale.

2.4 Goods and Services Tax

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

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

The Department for Administrative and Information Services (DAIS) prepares a Business Activity Statement on behalf of the Corporation under the grouping provisions of the GST legislation. Under these provisions, the Department is liable for the payments and entitled to the receipt of GST. As such, the GST applicable to the Corporation forms part of the Statement of Financial Position and Cash Flow Statement of the Department for Administrative and Information Services.

3. Administrative Expenditure

During the reporting period, DAIS was the principal supplier of administrative services to the Corporation, which does not employ staff directly.

The services provided included human resources, accommodation, commissions and building management, provision of office equipment and consumables, telecommunications and use of vehicles.

Administrative expenditure principally comprises servicing costs in respect of labour and on-costs, and the recovery of overheads by DAIS in respect of general operating expenditure attributable to the operations of the Corporation.

4. Tax Equivalents

In accordance with Treasurer's Instruction 22 issued pursuant to the *Public Finance and Audit Act 1987*, the Corporation is required to pay to the State Government an amount equivalent to that which it would have paid to the Commonwealth if it were not exempt from the taxation laws of the Commonwealth. Under this Instruction, the Corporation is deemed to be liable for the equivalents of income tax.

The Treasurer's Instruction provides for income tax to be calculated using either the substantive *Income Tax Assessment Act 1997* (ITAA) method or the accounting profit method. The Department of Treasury and Finance has advised that the Corporation is required to apply the accounting profit method. Under this method, the corporate income tax rate for ITAA purposes (presently 30 percent) is applied to the operating profit.

Income tax equivalent paid or payable to the State Government during the reporting period and recognised in the Statement of Financial Performance is summarised in the following table:

	Nov 2003 \$'000	June 2003 \$'000
Tax equivalent paid	445	508
Provision for tax equivalent (refer Note 10)	61	-

The tax equivalent paid by the Corporation is an amount of \$445 000 in relation to land tax for 30 November 2003. These amounts were subsequently recovered from the Department of Trade and Economic Development.

5. Financial Instruments

(a) Credit Risk Exposure

The credit risk on financial assets of the economic entity which have been recognised on the Statement of Financial Position, is generally the carrying amount, net of any provision for doubtful debts.

(b) Interest Rate Risk Exposure

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

	Financial Assets:	Floating Rate	Fixed Interest Maturing			Nov 2003 Total	June 2003 Total
			1 Year or less	Over 1 to 5 Years	Over 5 Years		
	Cash	70	-	-	-	70	3 007
	Receivables	1 866	101	1 649	13 051	16 667	18 849
		1 936	101	1 649	13 051	16 737	21 856
	Weighted average interest rate	6.25%	6.90%	9.40%	7.24%		
	Financial Liabilities:						
	Trade creditors	351	-	-	-	351	52
	SAFA Loans	43 506	20 066	18 244	2 490	84 306	87 192
		43 857	20 066	18 244	2 490	84 657	87 244
	Weighted average interest rate	5.03%	6.25%	10.31%	6.03%		
	Net Financial Assets (Liabilities)	(41 921)	(19 965)	(16 595)	10 561	(67 920)	(65 388)

(b) Interest Rate Risk Exposure (continued)

Reconciliation of Net Financial Assets (Liabilities) to Net Liabilities

	Nov 2003	June 2003
	\$'000	\$'000
Net financial liabilities as above	(67 920)	(65 388)
Non-financial assets and (liabilities):		
Construction projects in progress	26 487	23 779
Property, plant and equipment	35 643	36 018
Prepaid borrowings	-	116
Other accruals	(47)	(566)
Other Provisions	(1 161)	(1 000)
Net Liabilities as per Statement of Financial Position	(6 998)	(7 041)

(c) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, trade debtors and payables approximates their carrying amount.

The net fair value of Receivables and Payables excluding trade debtors and creditors has been calculated by discounting cash flows using a zero coupon curve derived from observable rates in the financial markets. The resultant net fair values represents the best estimate of replacement cost. Management consider the cost of realising fair values as immaterial. Furthermore, management consider that all financial instruments cannot be readily traded on organised markets in standardised form.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

Financial Assets:

	Carrying Amount	Net Fair Value
	\$'000	\$'000
Cash	70	70
Trade debtors	1 866	1 866
Deferred purchase agreements	14 801	15 459
Provision for doubtful debts	(1 000)	(1 000)
	15 737	16 395

Financial Liabilities:

Trade creditors	351	351
SAFA loans	84 306	86 421
	84 657	86 772

(d) Terms and Conditions

Financial Assets

Cash on Hand and Deposits

Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis.

Interest is calculated on the average daily balance of the account and the interest rate is the Common Public Sector Interest Rate (CPSIR) which averaged 6.25 percent for the year ended 30 November 2003.

Receivables

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

Receivables are due within 14 days.

Mortgage Debtors

Mortgage debtors are based on loans taken out by the Corporation on behalf of clients on back-to-back arrangements with SAFA where mortgage payments are paid quarterly over a fixed term. Provision is made for doubtful loans where collection of the loan or part thereof is judged to be less rather than more likely.

Mortgage loans are made under contract for fixed terms at either fixed or variable interest rates. The interest rates applied are based on rates provided by SAFA. The interest rate payable by the client includes the Corporation's administrative recovery margin. Principal is repaid at either negotiated instalments or in full at maturity. Mortgages carry a security over the debt.

Deferred Purchase Debtors

Deferred purchase debtors are based on loans taken out by the Corporation on behalf of clients on back to back arrangements with SAFA, where payments by the debtors are made quarterly over a fixed term. Provision is made for doubtful loans where collection of the loan or part thereof is judged to be less rather than more likely.

Deferred purchase loans are made under contract for fixed terms at either fixed or variable interest rates. The interest rates applied are based on rates provided by SAFA. The interest rate payable by the client includes the Corporation's administrative recovery margin. Principal is repaid at either negotiated instalments or in full at maturity. Deferred purchase properties are secured by title held in the name of the Corporation until settlement.

Financial Liabilities**Creditors**

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

Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

Borrowings

Borrowings are recorded at the amounts owed.

Loans are carried at the amounts borrowed. Loans are drawn from SAFA and the interest rate is based on current market rates. Repayments are determined in negotiation with SAFA.

6. Dividend Payment

The regulations which establish the Corporation provide for the payment of specified dividends or specified interim dividends. Prior to the end of the financial year, no recommendation was made by the Board to the Treasurer for a specified dividend or interim dividend to be paid in respect of the reporting period for the Corporation.

Pursuant to pre-existing arrangements between the former UPA and the Department of Trade and Economic Development, the Corporation is committed to return to Treasury as dividends all interest subsidies received from the Department of Trade and Economic Development in respect of commercial interest margins foregone by the Corporation on new lending under the Industrial Premises Development Scheme.

7. Receivables

Current:

Trade debtors and other receivables

Nov 2003	June 2003
\$'000	\$'000
1 866	2 854
1 866	2 854

Mortgage and sale under agreement loans:

Factories subject to:

Deferred purchase agreements

2 005	2 152
2 005	2 152
3 871	5 006

Non-Current:

Mortgage and sale under agreement loans:

Factories subject to:

Deferred purchase agreements

12 795	13 843
1 000	1 000
11 795	12 843
15 666	17 849

Total Receivables**8. (a) Property, Plant and Equipment**

Land and Buildings:

Industrial and commercial property:

Freehold land at independent valuation 2003

Freehold land at independent valuation 2001

3 270	3 270
3 090	3 090
6 360	6 360

Buildings at independent valuation 2003

Buildings at independent valuation 2001

Less: Accumulated depreciation

9 700	9 700
21 410	21 410
31 110	31 110
1 827	1 452
29 283	29 658
35 643	36 018

Total Industrial and Commercial Property**(b) Property, plant and Equipment, Movements in Carrying Amounts**

Carrying value at the beginning of year

Buildings	Land	Total	June 2003
\$'000	\$'000	\$'000	\$'000
29 658	6 360	36 018	27 251
-	-	-	16 571
-	-	-	93
-	-	-	(7 144)
(375)	-	(375)	(753)
29 283	6 360	35 643	36 018

		Nov 2003 \$'000	June 2003 \$'000
9. Creditors and Borrowings	Current:		
Trade creditors and accruals		351	52
SAFA loans ^(a)		25 161	27 139
		25 512	27 191
Non-Current:			
SAFA loans ^(a)		59 145	59 988
Borrowings prepaid		-	116
		59 145	60 104
	Total Creditors and Borrowings	84 657	87 295
(a)	Comprises borrowings from the South Australian Government Financing Authority (SAFA) in respect of funding of industrial and commercial projects under the Industrial Premises Development Scheme.		
The repayment schedule is as follows:			
Not later than one year (classified as current)		1 657	2 173
Later than one year but not later than two years		24 744	24 966
Later than two years but not later than five years		25 174	25 926
Later than five years		33 082	34 062
		84 657	87 127
10. Provisions	Current:		
Provision for income tax		62	-
Dividend		100	-
	Total Provisions	162	-
11. Other Accruals	Current Liabilities:		
Accrued interest on debt		637	584
Sundry accruals		348	24
		985	608
12. Asset Revaluation Reserve	Balance at 30 November 2003	114	114
	Closing Balance	114	114
13. Reconciliation of Net Cash used in Operating Activities to Profit After Income Tax Equivalent			
Profit (Loss) after income tax equivalent:		205	(7 008)
Non-cash flows in profit after income tax equivalent:			
Depreciation		375	753
Revaluation decrement		-	7 144
Changes in assets and liabilities:			
Decrease (Increase) in receivables		2 183	(117)
(Increase) in construction projects in progress		(2 707)	(7 497)
Increase in trade creditors and accruals		677	50
(Decrease) in provisions		-	(111)
(Increase) in accruals and prepayments		(898)	(143)
	Net Cash used in Operating Activities	(165)	(6 929)
14. Cash	Cash at the end of the reporting period, as shown in the Statement of Financial Position and the Statement of Cash Flows, comprises the following:		
Cash at Treasury		70	3 007
	Total Cash	70	3 007
15. Board of Directors	As at 20 December 2001 the following persons were appointed by the Minister for Government Enterprises to the Board, for a term expiring on 20 December 2003:		

Mr G Foreman (Chairperson)
Ms P J Martin
Mr J Wright (20 August 2002)

Mr J W Frogley resigned from the Board as at 1 August 2003.

Pursuant to government policy, remuneration is not applicable to the appointed directors as they are employees of the Government or officers of the Crown.

16. Consultants

There were no fees and expenses incurred during the reporting period as a result of engaging consultants.

17. Auditors' Remuneration

Amounts received or due and receivable by the auditors for auditing the accounts

Nov 2003	June 2003
\$'000	\$'000
19	17

The auditors received no other benefits.

18. Executive Officers' Remuneration

Disclosures required by the Treasurer's Accounting Policy Statement APS 13 'Form and Content of General Purpose Financial Reports', in respect of employees whose remuneration is \$100 000 or more is not applicable as the Industrial and Commercial Premises Corporation has no employees and operates under a servicing arrangement with the Department for Administrative and Information Services (refer Note 3).

19. Related Party Transactions

Where occurring, transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties.

The Industrial and Commercial Premises Corporation did not enter into any transactions with any member of either the Board or with any employees of the Department for Administrative and Information Services during the reporting period, other than normal transactions of a remunerative or reimbursement nature which may occur from time to time.

20. Movement in Accumulated Losses

Items relating to the net change in accumulated (losses) profits:

Opening accumulated (losses) profits

Net Profit (Loss) after tax

Dividends provided for or paid

Accumulated Losses 30 November

Nov 2003	June 2003
\$'000	\$'000
(7 155)	143
142	(7 008)
(100)	(290)
(7 113)	(7 155)

21. (a) Commitments

The Corporation has no Commitments.

(b) Contingent Liabilities

The Corporation has no Contingent Liabilities.

JUDGES' PENSIONS SCHEME

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Judges' Pensions Scheme (the Scheme) is a compulsory superannuation scheme established pursuant to the *Judges' Pensions Act 1971* (the Act).

Functions

The Treasurer is responsible for the payment of contributions from the Government for Scheme members and for the payment of superannuation benefits to members and members' families. The Scheme is non-contributory for members.

The main financial administration arrangements that apply to the Scheme involve a Special Deposit Account (the Account). The Account records as income contributions and revenue derived from the investment of those monies, and also records as payments from the Account benefit payments and administration costs.

The investment management responsibility for the Account is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA).

The services of the Department of Treasury and Finance — Superannuation Office (Super SA) are utilised to administer the Scheme.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Judges' Pensions Scheme for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- contributions by employers
- pension payments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

The audit of the Scheme indicated that the internal controls over its operations were satisfactory. No significant issues of concern were raised as a result of the audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Employer contributions	3.1	2.8	11
Past service funding	-	20.0	
Net investment earnings	17.9	(0.7)	
Total Operating Revenue	21.0	22.1	(5)
OPERATING EXPENDITURE			
Transfers to other schemes	4.0	-	-
Benefits and other expenses	6.8	14.4	(53)
Total Operating Expenses	10.8	14.4	(25)
Surplus	10.2	7.8	31
Net Cash Flows from Operations	(1.0)	(1.0)	-
ASSETS			
Investments	113.8	100.9	13
Other assets	0.1	0.2	(50)
Total Assets	113.9	101.1	13
LIABILITIES			
Liability for accrued benefits	106.5	103.9	3
Other liabilities	0.7	0.8	(13)
Total Liabilities	107.2	104.7	2
EQUITY	6.7	(3.6)	

Operating Statement

Operating Revenues

Investment activity for the year resulted in a positive return of \$17.9 million compared to a negative return of \$650 000 in the previous year. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

During the previous year the Government transferred \$20 million into the Scheme to meet accrued superannuation liabilities. This accounts for the decrease in employer contributions in 2003-04 as there were no past superannuation liability funding transfers from the Government into the Scheme in 2003-04.

Operating Expenses

Benefits expense decreased by \$7.6 million to \$6.7 million for the year. This is predominantly due to the liability for accrued benefits increasing by only \$2.6 million whereas in the previous year this liability increased by \$10.6 million. A higher discount rate was used to determine the liability for accrued benefits this year. Using a higher discount rate to discount the expected future benefit payments to present values results

in a lower liability for accrued benefits. Refer to Note 6 'Liability for Accrued Benefits to the Financial Statements' for further explanation.

Transfers to Other Schemes

After an actuarial assessment of the employer accrued liabilities as at 30 April 2004, the Treasurer approved a transfer of \$4 million to the 'South Australian Government Employer Contribution Account' of the South Australian Superannuation Scheme.

Operating Result

The operating result for the year records a surplus of \$10.2 million compared to a surplus of \$7.8 million last year. The year's result represents the excess of contributions of \$3.1 million and net investment revenue of \$17.9 million over benefits expense of \$6.7 million and transfer to other schemes of \$4 million.

Statement of Financial Position

As at 30 June 2004, there was an excess of net assets over liabilities of \$6.7 million (liabilities over net assets of \$3.6 million). The estimated liability for accrued benefits increased by \$2.6 million to \$106.5 million for which net assets of \$113.2 million (\$100.3 million) were available to pay benefits, therefore the Scheme is fully funded.

FURTHER COMMENTARY ON OPERATIONS

Members and Pensioners

As at 30 June 2004 there were 43 (44) members of the Scheme and 43 (41) pensioners.

Operating Statement
for the year ended 30 June 2004

		2004	2003
	Note	\$'000	\$'000
INVESTMENT REVENUE:			
Net investment revenue		17 920	(653)
INTEREST INCOME		3	4
		17 923	(649)
CONTRIBUTIONS REVENUE:			
Contributions by employers	1(c),3	3 120	22 817
TRANSFER TO OTHER SCHEMES	3	(4 000)	-
ADMINISTRATION EXPENSE	4	(35)	(44)
ACTUARIAL EXPENSE	12	(2)	(5)
AUDIT EXPENSE	13	(6)	(6)
GST EXPENSE	14	(1)	(1)
BENEFITS EXPENSE	6	(6 717)	(14 338)
		(10 761)	(14 394)
OPERATING RESULT FOR THE PERIOD		10 282	7 774

Statement of Financial Position
as at 30 June 2004

	Note	2004 \$'000	2003 \$'000
INVESTMENTS:	2(b)		
Inflation linked securities		13 127	12 580
Property		9 557	9 743
Australian equities		38 437	33 737
International equities		43 739	37 372
Australian fixed interest		3 228	2 559
International fixed interest		3 259	2 786
Cash		2 434	2 090
		113 781	100 867
FIXED ASSETS		2	1
OTHER ASSETS:			
Cash and deposits at Treasury	10	26	145
Cash and deposits at Treasury - Funds SA		10	8
Interest, dividends and rent due - Funds SA		3	3
Sundry debtors	11	2	3
Contributions receivable		13	12
		54	171
Total Assets		113 837	101 039
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		30	33
Sundry creditors and provisions - Funds SA		153	179
		183	212
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		475	530
Total Liabilities		658	742
NET ASSETS AVAILABLE TO PAY BENEFITS	5	113 179	100 297
<i>Less: LIABILITY FOR ACCRUED BENEFITS</i>	6	106 500	103 900
EXCESS OF NET ASSETS OVER LIABILITIES/			
(LIABILITIES OVER NET ASSETS)		6 679	(3 603)

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Contributions by employers		Note	\$'000
			3 119
Bank interest received			3
Pensions paid and transfers	6	(4 117)	(3 738)
Administration expense		(35)	(44)
Actuarial expense		(2)	(5)
Audit expense		(6)	(6)
Other expense		(1)	(6)
Net Cash used in Operating Activities	9	(1 039)	(979)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from Funds SA		3 430	2 860
Payments to Funds SA		(2 510)	(1 910)
Net Cash provided by Investing Activities		920	950
NET DECREASE IN CASH HELD		(119)	(29)
CASH AT 1 JULY		145	174
CASH AT 30 JUNE		26	145

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Financial Statements

(a) Judges' Pensions Scheme

The Judges' Pensions Scheme (the Scheme) is a compulsory superannuation scheme, which exists pursuant to the *Judges' Pensions Act 1971*. The Act provides for the payment of pension benefits to former South Australian Judges and their families.

The Act provides for a pension to be paid to a Judge who retires or who is over the age of 60 years and has had not less than ten years judicial service. A pension will also be paid to a Judge who resigns due to permanent disability or infirmity.

A member is entitled to a pension based benefit determined in accordance with the Act to be a percentage of the members' salary immediately prior to retirement or resignation. The Scheme is non-contributory.

(b) Superannuation Funds Management Corporation of South Australia

Superannuation Funds Management Corporation of South Australia (Funds SA) is established under the *Superannuation Funds Management Corporation of South Australia Act 1995*. Funds SA is responsible for the investment and management of the public sector superannuation funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Judges' Pension Scheme Account, reference should be made to the financial statements of Funds SA.

(c) Funding Arrangements

Under Section 14(1)(b) of the Act, any payment to a member must be made out of the Consolidated Account (which is appropriated to the necessary extent) or from a Special Deposit Account established for that purpose. During the period payments were made from a Special Deposit Account.

Since 30 June 1994 the Government has undertaken a process of funding its accrued past service liabilities and the scheme assets have broadly matched liabilities since 1997. The small size of the scheme, the nature of the way member benefits accrue and variations in investment performance mean that deficiencies and surpluses will arise from year to year.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

This financial report is a general purpose financial report and has been prepared on an accruals basis in accordance with Statements of Accounting Concepts, applicable Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instruction 19 'Financial Reporting' and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*, except as provided below.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25) where relevant. Directors believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

As investments are revalued to their respective net market values at balance date, depreciation and amortisation are not provided for in this financial report.

Funds SA utilises the consolidation method of accounting. Assets and liabilities of Funds SA's controlled entities have been consolidated into the financial report at their net market values. The effects of transactions between entities in the economic entity are eliminated in full. Financial information in respect of the parent entity separate to that of the economic entity has not been provided as the application of market value reporting concepts results in the parent entity's financial report fully reflecting the economic activities of controlled entities. It is believed that disclosure of the parent entity's results separate to those of the economic entity would not provide information which would add value to users of the financial report.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where material.

(i) Inflation Linked Securities

The inflation linked securities portfolio comprises two sub-sectors:

- *Internally Managed*

These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at 30 June 2004 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*

The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*

The value of Funds SA's directly held property has been determined by Directors of Funds SA.

- *Listed Property Trusts*

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Unlisted Property Vehicles*

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this portfolio have been valued in accordance with the exit valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises two sub-sectors:

- *Listed Australian Equities*

The listed Australian equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the exit valuations supplied by the managers.

- *Private Equity*
The private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited valuation guidelines.

(iv) *International Equities*
The International Equities portfolio comprises two sub-sectors:

- *Listed International Equities*
The listed international equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles (other than private equity) have been valued in accordance with the exit valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date.
- *Private Equity*
The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with the National Venture Capital Association (NVCA) guidelines.

(v) *Australian Fixed Interest*
The Australian Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) *International Fixed Interest*
The International Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vii) *Cash*
Deposits at call have been valued on the basis of principal plus accrued interest. Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers.

(viii) *Fixed Assets*
Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors of Funds SA are of the opinion that this provides a reasonable estimate of market value.

(ix) *Other Assets and Liabilities*
These items have been assessed and the Directors of Funds SA are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying on balance date.

(c) *Taxation*

All of the public sector superannuation funds under the management of Funds SA are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act 1936*. Consequently, no income tax expense has been brought to account in this financial report.

(d) *Accounting for Leases*

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) *International Financial Reporting Standards*

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for periods commencing on or after 1 January 2005.

The Judges' Pensions Scheme currently prepares its financial report in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25). The Australian Accounting Standards Board (AASB) has indicated that AAS 25 is not included within the scope of the 2005 AIFRS Convergence project and will continue to apply. Therefore it is expected that the introduction of AIFRS will have minimal impact on Judges' Pensions Scheme reporting.

3. *Transfer to Other Schemes*

Additional contributions of \$20 million were paid into the Scheme in June 2003 to ensure the fund was fully funded. After an actuarial assessment of the employer accrued liabilities as at 30 April 2004, the Treasurer approved a transfer of \$4 million to the South Australian Superannuation Scheme in 2003-04.

4. Administration

Costs of administering the Scheme comprise those costs incurred by Funds SA in administering the investment activities (deducted from investment revenue that is investment revenue is reported net of direct investment expenses) and those costs incurred by the Department of Treasury and Finance in administering the Scheme.

Costs incurred by the Department of Treasury and Finance in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Judges' Pension Scheme Account.

5. Net Assets Available to Pay Benefits

	2004 \$'000	2003 \$'000
Funds held at 1 July	100 297	81 923
Add: Contributions by employers	3 120	22 817
Investment earnings ⁽ⁱ⁾	17 920	(653)
Other income	3	4
	21 043	22 168
Less: Transfers to other schemes	4 000	-
Net benefits paid	4 117	3 738
Administration expense	35	44
Actuarial expense	2	5
Audit expense	6	6
GST expense	1	1
	8 161	3 794
Funds Held at 30 June	113 179	100 297

(i) Shown net of direct investment expenses.

6. Liability for Accrued Benefits

The expected future benefit payments have been determined using the same pensioner mortality assumptions as the 2001 triennial review of the South Australian Superannuation Scheme. Salary increases of 1.5 percent per annum above the Adelaide Consumer Price Index (CPI) have been assumed. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate of 4.5 percent per annum above the CPI. The discount rate above CPI has been increased from 4.0 percent in 2003 to 4.5 percent to align with the expected earning rate of Funds SA. Assumed salary increases have also been increased from 1.0 percent to 1.5 percent.

The accrued superannuation liability as determined by the State Superannuation Office of the Department of Treasury and Finance is estimated at \$106.5 million (\$103.9 million) as at 30 June 2004.

	2004 \$'000	2003 \$'000
Liability for accrued benefits at 1 July	103 900	93 300
Add: Benefits expense ⁽ⁱ⁾	6 717	14 338
Less: Benefits paid and transfers of members' balance	4 117	3 738
Liabilities for Accrued Benefits at 30 June	106 500	103 900

(i) This figure represents the change in Liability for Accrued Benefits plus Benefits Paid for the year.

7. Vested Benefits

Vested benefits are benefits, which are not conditional upon continued membership of the Scheme, or any factor other than resignation from the Scheme. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date. The vested superannuation liability as at 30 June 2004 is estimated at \$70.6 million.

	2004 \$'000	2003 \$'000
Vested benefits	70 600	70 700

8. Guaranteed Benefits

The entitlements of members are specified by the *Judges' Pensions Act 1971*.

9. Reconciliation of Net Cash used in Operating Activities to Operating Result

Operating result	10 282	7 774
Benefits expense	6 717	14 338
Benefits paid	(4 117)	(3 738)
Other	(1)	(5)
Employer contributions	-	(20 000)
Transfers to other schemes	4 000	-
Decrease in sundry debtors	1	-
Increase in contributions receivable	(1)	(1)
Investment earnings	(17 920)	653
Net Cash used in Operating Activities	(1 039)	(979)

10. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the statement of Financial Position as follows:

	2004 \$'000	2003 \$'000
Cash and Deposits at Treasury	26	145

11. Sundry Debtors

Sundry debtors - GST refundable	-	1
Sundry debtors - Funds SA	2	2
	2	3

The refund of GST relates to the reduced input tax credit, which offsets the GST paid.

12. Actuarial Fees

Actuarial fees for the 2003-2004 financial year have been deducted from the Scheme. These fees relate to Superannuation Policy and Actuarial advice received.

13. Audit Fees

Audit fees charged by the Auditor-General for the 2003-04 financial year will be deducted from the Scheme.

14. GST Expense

The GST expense represents the GST paid by the Scheme on administration fees, actuarial fees, and audit fees, less reduced input tax credits.

LAND MANAGEMENT CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Land Management Corporation (the Corporation) is a subsidiary corporation of the Minister for Infrastructure established pursuant to the provisions of the *Public Corporations Act 1993* (the Act). Its governing body is a board whose members are appointed by the Minister.

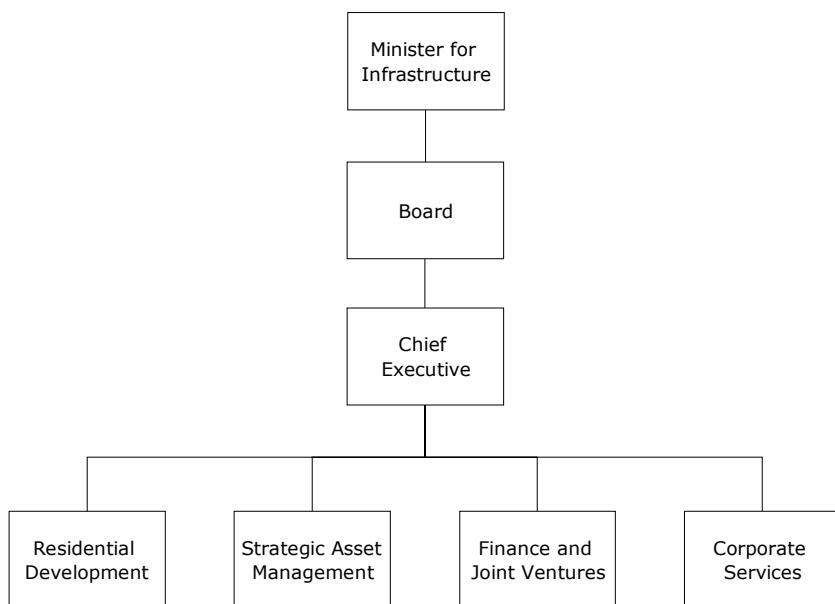
The Corporation was established on 24 December 1997 to undertake activities formerly controlled by the MFP Development Corporation, the MFP Projects Board and the then Minister for Government Enterprises.

Functions

The regulations establishing the Corporation provide for it to undertake various functions concerning the management of land and property including the acquisition, leasing and disposal of surplus and other land for commercial, industrial, residential or other purposes. In performing those functions the Corporation is required to ensure the orderly development of land.

Structure

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



Audit Committee

The Corporation has an Audit Committee comprising of three members of the Board. The Audit Committee meets on a quarterly basis and reports to the Board. The Audit Committee Charter requires the Committee to assess the quality of financial reporting, the effectiveness of internal controls and to maintain an effective and efficient audit. It is also required to advise the Board on procedures and ways of working within the Corporation so as to align these with the organisation's strategic direction. Representatives of the Auditor-General's Department attend meetings of the Audit Committee as observers.

Changes to Functions and Structure

Pursuant to a proclamation in the South Australian Government Gazette on 23 October 2003 and effective from 1 December 2003:

- the assets and liabilities of the Industrial and Commercial Premises Corporation were transferred to and vested in or attached to the Land Management Corporation;

- the Public Corporations (Land Management Corporation) Regulations 1997 were amended to include the functions formerly carried out by the South Australian Urban Projects Authority and the Industrial and Commercial Premises Corporation under the Industrial Premises Development Scheme.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Clause 13(3) of the Schedule to the *Public Corporations Act 1993* requires the Auditor General to audit the accounts and financial statements of subsidiary corporations.

Assessment of Controls

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

Scope of Audit

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

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

- inventories
- property, plant and equipment
- revenue, receipting and banking
- expenditure
- salary related payments
- budgetary control
- compliance with legislative requirements.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

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

Delegations of Authority

Review of the Corporation's current delegations of authority identified that there is no provision in relation to the authority to incur debts or roll over existing debts.

The Corporation indicated that the authority to incur debts or roll over existing debts has been included in proposed amendments to the delegations of authority.

Corporation Charter and Regulations

A review of the Corporation's Charter approved by the Minister for Infrastructure and the Treasurer in June 2004 identified that the Charter did not reflect the amendments made to the Public Corporations (Land Management Corporation) Regulations 1997 in December 2003.

The Corporation indicated that amendments to the Corporation's Charter will be reviewed prior to approval to ensure current regulations are reflected in the Charter.

Guarantees and Indemnities

Review of the former Industrial and Commercial Premises activities identified that the Corporation is the beneficiary of Indemnities issued by the Minister for Industry and Trade to cover shortfalls between the costs of construction of purpose built buildings and the market value of those buildings. Audit recommended the Corporation establish a register of guarantees and indemnities given and received.

The Corporation indicated a formal register will be maintained as part of the administration function for the Corporation.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Sales less cost of sales	28.6	8.8	225
Revenues from Government	23.8	8.6	177
Other revenue	20.4	16.7	22
Total Operating Revenue	72.8	34.1	113
OPERATING EXPENDITURE			
Salaries and related payments	5.5	4.7	17
Borrowing costs	4.6	1.2	283
Contractors and consultants	4.6	1.7	171
Other expenses	20.0	24.1	(17)
Total Operating Expenses	34.7	31.7	9
Surplus from Ordinary Activities before Income			
Tax Equivalent	38.1	2.4	
Dividends Paid/Payable	51.5	6.1	
Net Cash Flows from Operations	36.9	20.2	83
ASSETS			
Current assets	73.5	66.6	10
Non-current assets	119.3	57.2	106
Total Assets	192.8	123.8	56
LIABILITIES			
Current liabilities	31.7	3.8	
Non-current liabilities	73.5	11.1	
Total Liabilities	105.2	14.9	
EQUITY	87.6	108.9	(20)

Statement of Financial Performance

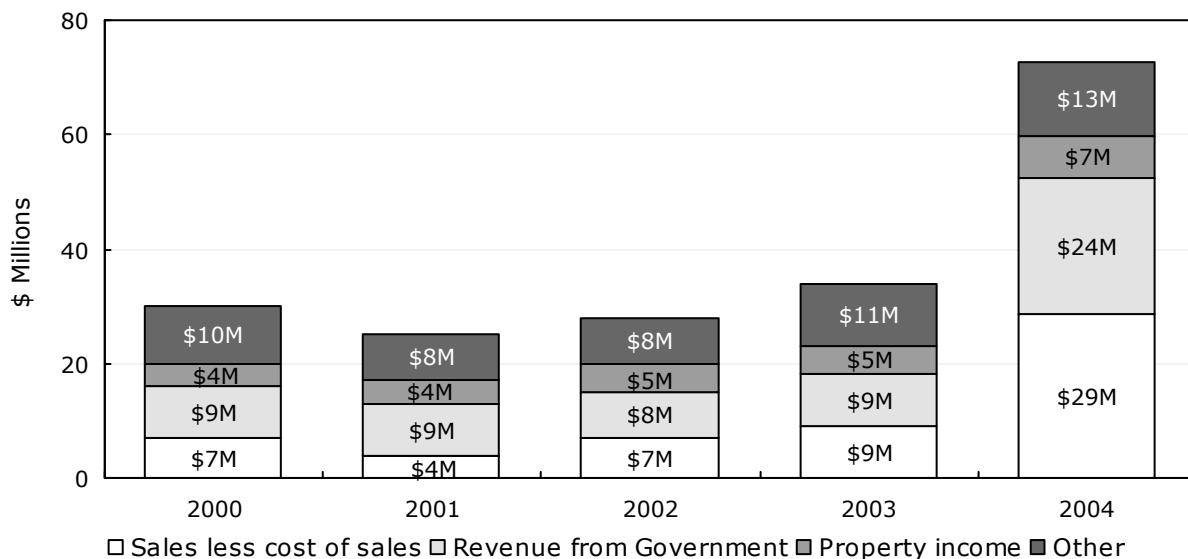
Contributions to the Government

In the four years to 30 June 2003 dividends paid by the Corporation to the Treasurer ranged from \$5.2 million in 2002 to \$1.8 million in 2001. In 2003-04 the Corporation paid a special dividend of \$50 million as part of total dividends for the year of \$51.5 million.

The Corporation also made a TER payment which in 2003-04 was \$11.4 million and ranged from \$0.7 million in 2003 to \$5.0 million in 2000.

Operating Revenues

The following chart shows the changing composition of the Corporation's revenues over the past four years.



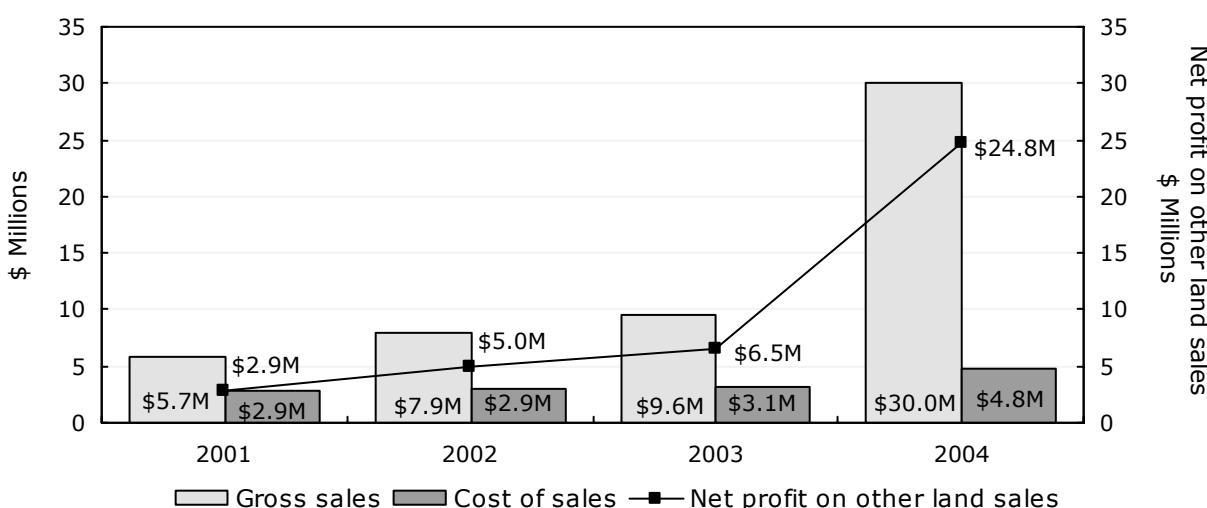
The above chart shows that revenue from both Sales and Government significantly increased in 2003-04 and that total operating revenue has steadily increased since 2001. In 2003-04 operating revenues increased by \$38.7 million (113 percent) compared to 2002-03 reflecting the impact of the following matters:

Joint Venture Land Sales

Sales of land, comprising sales proceeds from Joint Venture entities to which the Corporation is a party, increased by \$1.4 million to \$3.7 million.

Other Land Sales

The following chart shows the value of other land sales by the Corporation over the last four years.



Analysis of the composition of other land sales identified that the:

- material land sales in 2003-04 occurred in Northfield, Blakeview and Seaford and totalled \$23.4 million; while
- material land sales within 2002-03 occurred in Northfield and totalled \$6.4 million.

Property market conditions strengthened in 2003-04 resulting in a significant increase in net profit from the sale of land by \$18.3 million to \$24.8 million. The majority of land released by the Corporation in 2003-04 was broad hectare land for residential development.

Industrial and Commercial Property Sales

The Corporation is responsible for providing industry assistance through the construction of purpose built commercial and industrial facilities through the Industrial and Commercial Premises Scheme. Construction projects in progress are recorded as work in progress in the Statement of Financial Position. On completion the Corporation enters into Deferred Purchase Agreements with the client for the recovery of costs incurred in constructing the premise. Properties are secured by title held in the name of the Corporation until settlement.

The Corporation funds the cost of construction with back to back interest bearing loans with SAFA. Under the terms and conditions of the Agreement clients make interest and principal repayments resulting in the reduction of the SAFA loans.

During 2003-04 the Corporation entered into Deferred Purchase Agreements recognising the sale of premises to clients totalling \$9.5 million. The construction costs of \$9.5 million have been recognised as cost of sales. In addition, the Corporation also recorded a loan receivable and an interest bearing liability.

Revenue from Government

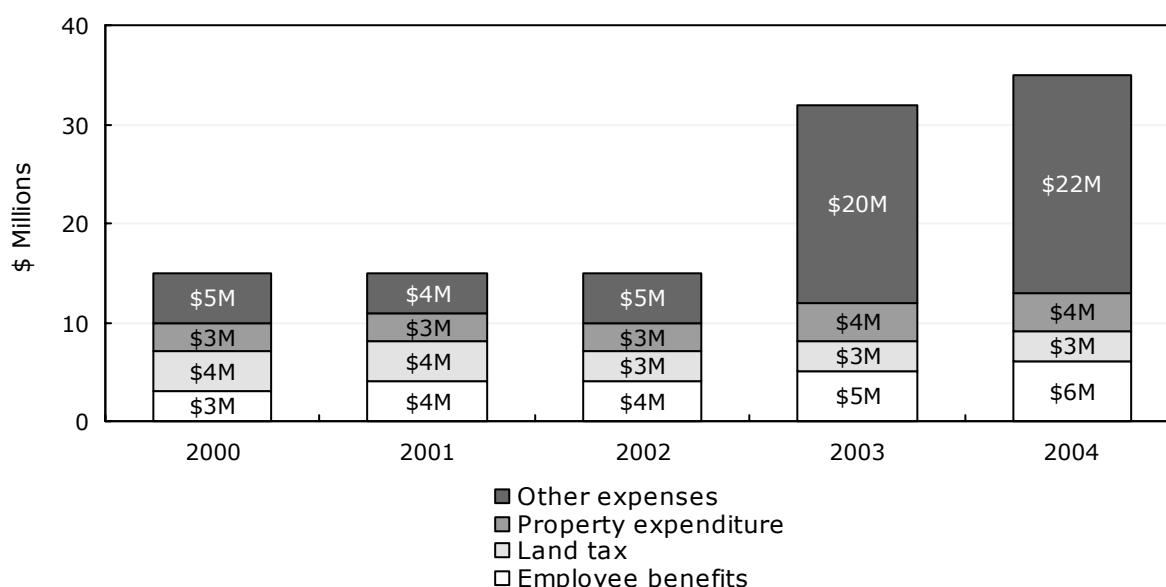
The Corporation's revenue from Government increased by \$15.2 million to \$23.8 million and included \$10.0 million to assist with costs associated with the Port Waterfront Redevelopment.

Other Revenue

Other revenue includes the Corporation's share of the net profits of joint venture entities and interest on cash balances held with Treasury. During 2003-04, other revenue has increased by \$2.2 million, due mainly to the increase in property income of \$2.6 million associated with additional properties owned as landlord. A reduction in other revenues offset the increase in property income.

Operating Expenses

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



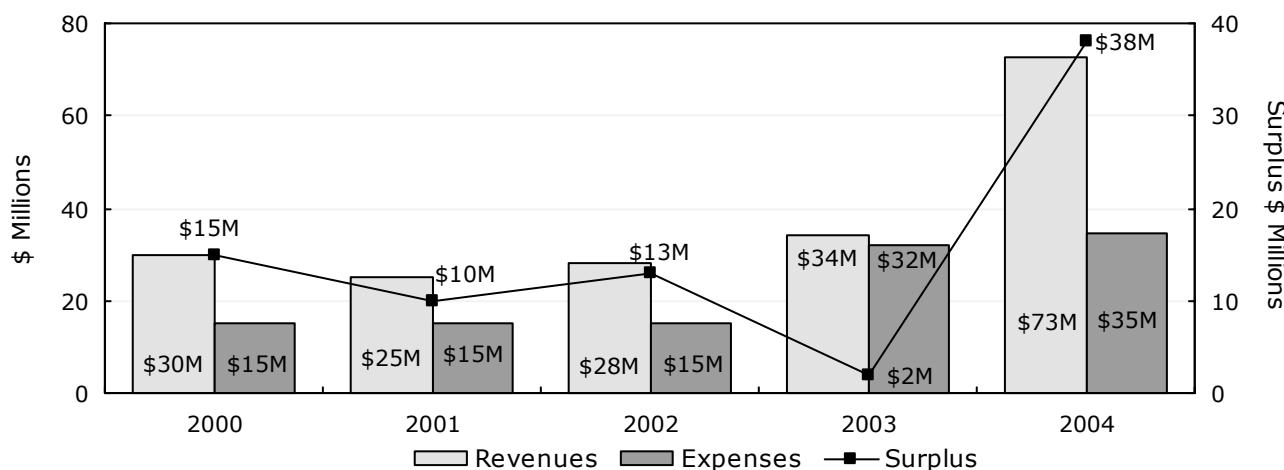
The increase in 2002-03 and 2003-04 reflects the effect of one-off expenses associated with the:

- write-down of inventory by \$4.1 million in 2002-03;
- loss of \$7.1 million on the transfer of the Industrial and Commercial Premises Corporation's assets, liabilities and operations to the Corporation in 2003-04.

Operating Result

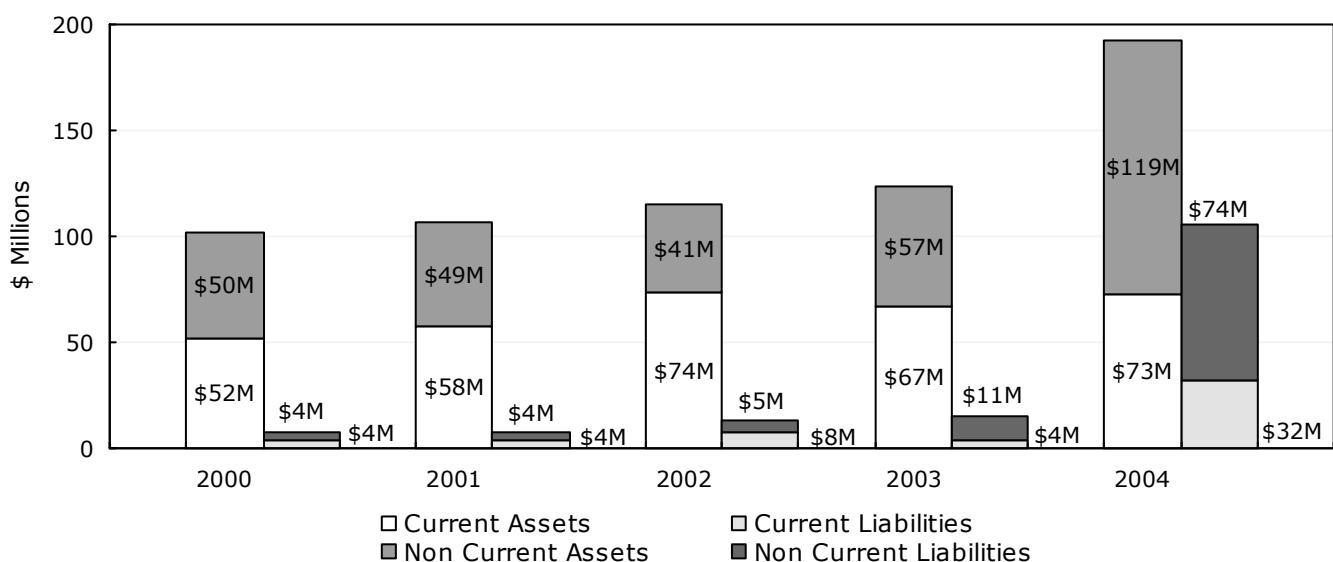
Under the earlier heading of Operating Revenues for 2003-04 the significant additional revenue from sales and revenue from Government was mentioned, in particular sales of land. The increase in total revenues of \$38.7 million in 2003-04, largely contributed to the surplus from ordinary activities, before income tax equivalent, of \$38.2 million.

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



Statement of Financial Position

A structural analysis of assets and liabilities for the five years to 2004 is shown in the following chart.



Over the period, the Corporation's net assets declined significantly by \$21.3 million to \$87.6 million. Factors impacting on the Corporation's net assets were:

Assets

The Corporation's total assets increased by \$69.0 million to \$192.8 million. Factors contributing to the net increase include:

- a reduction in the Corporation's cash holding by \$26.4 million to \$35.8 million from \$62.2 million. The reduction in cash is due mainly to a \$50 million special dividend paid to Treasury, which was partially off-set by cash receipts from land sales and appropriated funds;
- trade debtors increased by \$3.4 million with respect to capital repayments due from the Mawson Lakes Joint Venture and the carrying amount of the investment in the Mawson Lakes Joint Venture which increased by \$6.6 million;
- Land Inventory held by the Corporation for sale increased by \$6.4 million due to the purchase of additional properties.

The following assets were transferred from the Industrial and Commercial Premises Corporation to the Corporation:

- Mortgage Debtors of \$17.8 million
- Land and Buildings of \$38.2 million
- Work in progress of \$22.9 million.

Liabilities

The Corporation's total liabilities increased by \$90.3 million to \$105.2 million following the transfer from the former Industrial and Commercial Premises Corporation of interest bearing loans payable to SAFA. The loans, totalling \$77.8 million, financed the construction of industrial and commercial premises under the Industrial and Commercial Premises Scheme.

Payables increased by \$12.5 million reflecting the recognition of the Corporation's obligation to fund the Reclaimed Water Scheme associated with the Mawson Lakes Government Infrastructure Project and income tax payable to Treasury under the TER.

Asset Valuations

Land held for resale is recognised in the Statement of Financial Position at the lower of original cost or net realisable value in accordance with AASB 1019 'Inventories'.

The land inventory value recorded by the Corporation with respect to land sold in 2003-04 in Northfield, Blakeview and Seaford was \$2.0 million compared with the achieved gross sale price of \$23.4 million.

In recognition that the market value is materially greater than the recorded book value, the Corporation have disclosed, by note to the financial statements (refer Note 2.7), the estimated market value- of \$234.4 million with respect to land held for sale as at 30 June 2003.

In determining the estimated market value consideration was given to the planned sales strategy adopted by the Corporation which anticipates that land held for sale will be disposed over an extended period of time. The valuation assumes the Corporation's entire land holding is not taken to market in its entirety. In addition the valuation does not take into consideration the development costs to be incurred to prepare the land for sale or the future property market conditions.

Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	36.9	20.2	9.6	3.3
Investing	(4.9)	6.1	1.3	5.0
Financing	(58.4)	(28.9)	(3.0)	(1.9)
Change in Cash	(26.4)	(2.6)	7.9	6.4
Cash at 30 June	35.8	62.2	64.7	56.8

The analysis of cash flows shows that the Corporation's cash reserves have declined due mainly to the \$50.0 million payment of a special dividend to Treasury. The reduction is off-set by the proceeds of land sales of \$21.2 million and appropriated funds received of \$15.2 million.

FURTHER COMMENTARY ON OPERATIONS

Mawson Lakes Government Infrastructure Project

As part of the overall joint venture arrangements in respect of the Mawson Lakes Economic Development Project, the State Government committed to various infrastructure works in July 1997 under a project commitment deed. The deed committed the State Government through a number of government agencies (ie Transport SA, Planning SA, Passenger Transport Board and Land Management Corporation) to deliver a scope of work at estimated costs and timeframes.

The Corporation's obligations, per the original project commitment deed, executed in July 1997, amounted to \$17.6 million (in 1996 dollars) over a nine year period. The Corporation's most recent forecast of its future commitments under the arrangements is estimated at \$5.7 million (in current dollars) to be spent in the next 12 months.

In February 2001 Cabinet approved a number of variations to the project commitment deed. In essence, the variations revised the scope of work associated with the Mawson Connector (previously the North East Ring Route) and the timing of certain works.

In October 2004 tenders were called for the construction of the 'Mawson Centre' and the construction contract was awarded in December 2003. The Land Management Corporation, as joint owner, will commit \$928 000 towards the construction of the Centre.

Cabinet approved the variation of works in November 2003 relating to the Reclaimed Water Scheme. The variation accommodates an alternative water resource management system. The Land Management Corporation as joint contributor will commit \$3.9 million towards the scheme. It is anticipated that the reclaimed water scheme will be commissioned in September 2004.

To date the Corporation has spent a total of \$14.9 million meeting the Government's obligations on Mawson Lakes infrastructure.

Port Adelaide Waterfront Redevelopment

The Port Adelaide Waterfront Redevelopment Project represents a major urban renewal project of waterfront land at Port Adelaide. A key phase of the project involves completing a detailed development proposal for the economic and urban revitalisation of the inner Port Adelaide region. To facilitate the completion of this development proposal, Cabinet approved the Corporation proceeding with a registration of interest process. In June 2001 the Corporation, commenced this process to select two parties to prepare comprehensive development proposals for the project.

In September 2001, the Corporation selected two consortia which were subsequently engaged contractually, by the Corporation to prepare development proposals. Development proposals were submitted by the two selected consortia in April 2002. In June 2002 the Board endorsed the selection of a preferred consortia, Newport Quays Consortia.

During 2002-03 year, a public consultation process was undertaken regarding the development proposal while the Corporation and the Newport Quays Consortia were involved in extensive negotiations to finalise the Development Agreement.

During the 2003-04 year, negotiations between the Corporation and Newport Quays Consortia continued. The Corporation and Newport Quays Consortia have reached in principle agreement of the terms and conditions of the Development Agreement, however the parties are still undertaking negotiations.

At the time of this report the Development Agreement had yet to be signed.

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

	Note	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Sales	4	43 241	11 923
Less: Cost of sales		14 685	3 143
		28 556	8 780
Share of net profits of joint venture entities	5.1	5 157	5 217
Revenues from Government	6	23 773	8 587
Interest	4	5 959	3 353
Property income		7 169	4 523
Other income		2 203	3 608
Total Revenues		72 817	34 068
EXPENSES FROM ORDINARY ACTIVITIES:			
Land tax		3 335	3 147
Property expenditure		4 220	4 264
Contractors and consultants		4 604	1 672
Salaries and related payments		5 539	4 738
Accommodation		488	431
Borrowing costs	3	4 601	1 232
Depreciation	3	977	437
Other expenditure		3 789	2 861
Write down of land held for resale	2.7	-	4 067
Net Expense from take up of ICPC	19.3	7 113	-
Net expense from take up of administered projects	20	-	8 866
Total Expenses		34 666	31 715
SURPLUS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT			
Income tax equivalent paid or payable to the State Government	8	38 151	2 353
		11 445	706
SURPLUS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EQUIVALENT			
Increase in asset revaluation reserve	19.1	26 706	1 647
	19.2	3 578	9 607
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		30 284	11 254

Statement of Financial Position
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
ASSETS:			
CURRENT ASSETS:			
Cash assets	24	35 814	62 162
Work in progress	2.9, 14	22 879	-
Inventories	11	4 520	2 658
Receivables	10	10 247	1 728
Prepayments	12	68	25
Total Current Assets		73 528	66 573
NON-CURRENT ASSETS:			
Receivables	10	12 793	-
Inventories	11	27 965	23 430
Property, plant and equipment	13	63 273	25 044
Investment in joint venture entities	5.1	15 263	8 706
Prepayments	12	-	14
Total Non-Current Assets		119 294	57 194
Total Assets		192 822	123 767
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	15	6 750	3 584
Tax liabilities	8, 17	9 187	-
Interest bearing liabilities	16	15 506	-
Employee benefits	18.1	238	249
Total Current Liabilities		31 681	3 833
NON-CURRENT LIABILITIES:			
Payables	15	576	565
Interest bearing liabilities	16	72 251	9 983
Employee benefits	18.1	653	530
Total Non-Current Liabilities		73 480	11 078
Total Liabilities		105 161	14 911
NET ASSETS		87 661	108 856
EQUITY:			
Accumulated surplus	19.1	74 476	99 249
Asset revaluation reserve	19.2	13 185	9 607
TOTAL EQUITY		87 661	108 856
Contingent Liabilities	22		
Commitments	21		

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Government grants and subsidies received	6	23 773	8 587
Land tax paid		(3 335)	(3 147)
Receipts from sales		33 752	11 875
Receipts from mortgage debtors		8 973	-
Receipts from tenants		6 199	4 759
Interest received		4 042	3 391
Deposits received under ICPC		242	-
Recoveries and sundry receipts		10 500	7 799
Payments for salaries and related costs		(5 305)	(4 650)
Payments to suppliers		(18 352)	(14 474)
Payments for land purchase and development		(11 164)	(2 680)
Payments for work in progress		(5 971)	-
Cash received from take up of administered projects	20	-	12 685
Interest paid		(4 418)	(1 330)
GST receipts from taxation authority		1 473	1 376
GST payments to taxation authority		(1 943)	(268)
Income tax equivalent paid	8	(1 591)	(3 722)
Net Cash provided by Operating Activities	23	36 875	20 201
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital contributions to joint venture entities	5.1	(11 100)	(5 375)
Capital repayments by joint venture entities		6 350	9 725
Distributions of profit by joint venture entities		-	1 726
Proceeds from sale of property, plant and equipment		-	483
Purchase of property, plant and equipment		(102)	(446)
Net Cash (used in) provided by Investing Activities		(4 852)	6 113
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of borrowings		(7 995)	(22 753)
Proceeds from borrowings		1 103	-
Dividends paid	9	(51 479)	(6 133)
Net Cash used in Financing Activities		(58 371)	(28 886)
NET DECREASE IN CASH HELD		(26 348)	(2 572)
CASH AT 1 JULY		62 162	64 734
CASH AT 30 JUNE	24	35 814	62 162

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Establishment of the Land Management Corporation

The Land Management Corporation (the Corporation) was established on 24 December 1997 as a subsidiary corporation of the Minister for Government Enterprises (the Minister) pursuant to the *Public Corporations Act 1993* (the Act). The Corporation is a body corporate, has perpetual succession and a common seal, and is capable of suing and being sued in its corporate name. It is governed by a Board of Directors consisting of seven members appointed by the Minister (refer Note 30).

Pursuant to a proclamation in the South Australian Government Gazette on 23 October 2003 and effective from 1 December 2003, the assets and liabilities of the Industrial and Commercial Premises Corporation were transferred to and vested in or attached to the Corporation, and the Public Corporations (Land Management Corporation) Regulations 1997 were amended to include the functions of the dissolved Industrial and Commercial Premises Corporation.

As at reporting date the Corporation's functions and performance were limited to the following by Regulations under the Act:

- (aa) To carry out the functions formerly carried out by the South Australian Urban Projects Authority and the Industrial and Commercial Premises Corporation under the Industrial Premises Development Scheme;
- (a) To acquire, hold, manage, lease and dispose of surplus land, improvements and other property previously held by the MFP Development Corporation or other agencies or instrumentalities of the Crown;
- (b) To acquire, hold, manage, lease and dispose of other land, improvements and property, particularly with a view to:-
 - (i) managing the release of large areas of undeveloped (or under-developed) land; and
 - (ii) holding land and other property to be made available, as appropriate, for commercial, industrial, residential or other purposes; and
 - (iii) ensuring the orderly development of areas through the management and release of land, as appropriate;
- (c) To manage the Crown's interest in various joint ventures and land development projects as identified by the Minister;
- (d) To manage, develop, lease and, where appropriate, dispose of land and improvements at Science Park at Bedford Park;
- (e) To manage, develop, lease and, where appropriate, dispose of land and improvements at Technology Park at Mawson Lakes with specific emphasis on using the assets to facilitate economic development;
- (f) To manage the sale of surplus government land on behalf of other agencies or instrumentalities of the Crown;
- (g) To manage urban projects (on its own behalf or on behalf of other agencies or instrumentalities of the Crown) to achieve urban regeneration or other government policy outcomes;
- (h) To carry out other functions conferred on the Corporation by the Minister.

2. Statement of Significant Account Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report which has been prepared in accordance with the Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and applicable Australian Accounting Standards, Statements of Accounting Concepts and Urgent Issues Group Consensus Views. The financial report has been prepared on an accrual basis and in accordance with the historical cost convention (except for assets measured and reported at their fair value- refer Notes 2.10 and 13). The accounting policies have been consistently applied, unless otherwise stated.

2.2 Monies Held in Trust

During the previous reporting period the Corporation received \$1.25 million from the Department of Education and Children's Services (DECS) as its contribution to construction of the Mawson Centre at Mawson Lakes (the Centre). These funds are held in trust pending payment to the University of South Australia in accordance with a Memorandum of Understanding. Transactions and balances relating to these monies are not recognised in the Corporation's Statement of Financial Performance or Statement of Financial Position.

As at 30 June 2004 construction of the Centre was still in progress and a total of \$82 730 funds were being held.

2.3 Project Expenditure

Costs associated with projects are capitalised where it is expected that future economic benefits will be derived by the Corporation so as to recover those capitalised costs. Project costs are expensed where it is expected that the costs incurred will not be recovered.

2.4 Employee Benefits

The financial report includes accruals for employee benefits arising from services rendered by employees up to balance date. Related on-costs have been included in the determination of these liabilities. However, in accordance with the Treasurer's Accounting Policy Statement 9 'Employee Benefits', the related on-costs are included in payables. The aggregate of employee benefits is disclosed at Note 18.

(i) *Annual Leave*

A liability has been recorded for the unused component of annual leave as at balance date. The liability has been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. A salary inflation of 2 percent has been applied and the liability is expected to be settled within 12 months.

(ii) *Sick Leave*

As sick leave taken by employees is considered to be taken from the current year's accrual, no liability is recognised.

(iii) *Long Service Leave*

A liability for long service leave has been accrued as at balance date in accordance with Australian Accounting Standard AASB 1028 'Accounting for Employee Entitlements'. The short-hand method of determining the long service leave entitlements has been adopted and a liability has been recognised for all employees with 7 or more years of service, being the benchmark number of years as determined by the Department of Treasury and Finance.

(iv) *Superannuation*

Salaries and related payments include the following superannuation contributions paid by the Corporation:

(a) During the reporting period, the Corporation paid \$212 000 (\$182 000) to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of the Corporation's employees. The Corporation does not record a liability for the value of superannuation payments to be made to employees of preservation age, as this liability is recorded by the SA Superannuation Board;

(b) In relation to some officers employed by the Corporation, contractual arrangements provide superannuation benefits payable to externally managed funds. Payments by the Corporation in respect of these arrangements totalled \$297 000 (\$260 000) including amounts to cover the Commonwealth Government's Superannuation Guarantee legislation.

2.5 Revenue Recognition and Cost of Sales

(i) *Inventories - Land Held for Resale*

Sales revenue in respect of land made available to the Mawson Lakes Joint Venture is brought to account when settlements occur on individual allotments, on the basis of a percentage of gross sales revenue as specified in the Mawson Lakes Joint Venture Agreement.

With respect to all other land sales, recognition of sales revenue occurs when settlements are completed and legal title has transferred to purchasers.

Cost of sales comprises all direct costs of acquisition, planning, development and construction in respect of land sold during the reporting period.

(ii) *Works in Progress*

Sales revenue for construction projects is recognised when settlement occurs and legal title transfers to the purchaser.

For construction projects which are the subject of a deferred purchase agreement, sales revenue is recognised at the commencement of the agreement (which coincides with expiration of the twelve month building defects liability period), however title to the property does not transfer to the purchaser until the deferred purchase agreement has been paid out in full.

Construction projects held for resale are recognised at cost (refer Note 2.7(ii)).

2.6 Interests in Joint Venture Entities

The Corporation's interest in joint ventures is measured by applying the equity method of accounting. The Corporation's share of the assets and liabilities of joint venture entities in which it has a participating interest is included in the Statement of Financial Position as Investment in Joint Venture Entities. The Corporation's share of net profit from joint venture entities is included as revenue in the Statement of Financial Performance as Share of Net Profits of Joint Venture Entities. Details of the Corporation's interests in joint venture entities are shown in Note 5.

2.7 Inventories

(i) *Inventories - Land Held for Resale*

Land held for resale is carried at the lower of cost or net realisable value. Costs are assigned on the basis of specific identification and comprise all direct costs of acquisition, planning, development and construction. Historically, net realisable values are determined by independent valuers on the basis of discounting expected cash flows from holding and disposing of the land. All land inventory is classified as a non-current asset unless its value is anticipated to be realised through sale within twelve months.

(i) *Inventories - Land Held for Resale (continued)*

At the establishment of the Corporation (refer Note 1) land inventories transferred to the Corporation were recognised at cost following prior revaluation by the transferring entities on the basis of discounted cash flows determined by independent valuers. Similar independent valuations obtained at subsequent balance dates have confirmed the appropriateness of the values for financial reporting purposes. For the year ended 30 June 2003 the Corporation obtained an independent valuation of its entire inventory of land. As a result of this valuation certain land holdings were revalued downwards to reflect a net market or realisable value which was lower than the carrying value for the particular asset.

The Corporation has recognised land inventory within the Statement of Financial Position in accordance with AASB 1019, however, the fair value of inventory held at balance date, as determined by the 30 June 2003 valuation referred to above was \$234.3 million.

The valuation prepared by Alex Smithson B App. Sc. (Val) FAPI, James Pledge B Bus. Prop. (Val) AAPI, Nick Bell B Bus. Prop. (Val) AAPI and Clinton Ramm B Bus. Prop. (Val) AAPI of Knight Frank, recognised that the Corporation has a planned sales strategy over an extended period of time and the fair value does not reflect any impact on value which may apply if the entire portfolio were taken to market. The fair value as at 30 June 2003 does not reflect the land development costs needed to prepare the land for sale or the market conditions which may apply at the actual time that a land parcel is sold.

(ii) *Construction Projects Held for Resale*

Construction projects held for resale are recognised at cost. Costs are assigned on the basis of specific identification and comprise all direct costs of acquisition, planning, development and construction. All construction project inventory is classified as a current asset as its value is generally anticipated to be realised through sale within twelve months. Developments which are the subject of a deferred purchase agreement are classified as inventory for the duration of the building defects liability period.

2.8 Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts (refer Note 10). An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

2.9 Works in Progress(i) *Construction Projects in Progress*

Expenditure associated with the construction of projects held for resale is capitalised as work in progress as incurred, in accordance with Note 2.3 (refer Note 14). When a project of this nature reaches practical completion (which coincides with the commencement of the building defects liability period), the accumulated costs are transferred from works in progress to inventory.

(ii) *Deposits Received*

The Corporation acts as a project manager and financier for the construction of buildings for clients under the Industrial Premises Development Scheme. Prior to the commencement of construction the client in most cases is required to pay a deposit towards the overall cost of construction. The deposit held is offset against construction projects in progress.

2.10 Property, Plant and Equipment

Property, plant and equipment is recognised at cost or fair value, less, where applicable, any accumulated depreciation or amortisation (refer Note 13). The depreciable amounts of all property, plant and equipment assets (excluding freehold land) are depreciated on a straight line basis over their estimated useful lives, commencing from the time the assets are held ready for use. Where necessary, appropriate write downs are made to ensure that the carrying amount is not in excess of the recoverable amount for an individual class of asset. The depreciation rates used for each class of depreciable assets are:

	Percent
Buildings	2.5
Plant and equipment	10-33

The Corporation's portfolio of land and building assets were revalued on a fair value basis as at 30 June 2003, in accordance with Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets'. These valuations were prepared by Alex Smithson B App. Sc. (Val) FAPI, James Pledge B Bus. Prop. (Val) AAPI, Nick Bell B Bus. Prop. (Val) AAPI and Clinton Ramm B Bus. Prop. (Val) AAPI of Knight Frank. The resultant revaluation increment was credited direct to an asset revaluation reserve (refer Note 19.2).

During the current reporting period the Corporation assumed control of properties which were owned by the former Industrial and Commercial Premises Corporation (refer Note 1). Valuations on a fair value basis were obtained for three properties within this portfolio as at 30 June 2004. These independent valuations were performed by Simon Hickin B App. Sc. (Val) AAPI ASIA and Amy Tilden GAPI of Jones Lang LaSalle. The resultant revaluation increment was credited direct to an asset revaluation reserve (refer Note 19.2).

2.11 Payables

Trade and other creditors are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Corporation (refer Note 15).

2.12 Borrowing Costs

Borrowing costs are expensed in the reporting period in which they are incurred.

2.13 Guarantees and Indemnities

The Corporation constructs and owns specialised building premises which are leased or sold to private companies under the Industrial and Commercial Premises Scheme. The construction of these buildings is financed through the use of SAFA loans. In some instances the outstanding loan amount in respect of construction exceeds the market value of the building. In order to address these value shortfalls, the former Industrial and Commercial Premises Corporation obtained guarantees and indemnities from the Minister for Industry, Trade and Regional Development.

The Corporation is now the beneficiary of these guarantees and indemnities.

2.14 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis.

2.15 Comparative Figures

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

2.16 Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australian equivalents to International Financial Reporting Standards (AIFRS) will be adopted in the financial statements for the year ending 30 June 2006 and in the comparative information presented in the financial statements for the year ending 30 June 2005. In preparation for the transition, opening balances as at 1 July 2004 for the comparative year ending 30 June 2005 will be converted to AIFRS in accordance with a new Standard AASB 1 'First-time Adoption of International Financial Reporting Pronouncements'.

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

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

The Corporation is keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Expected Differences in Accounting Policies

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

Non-Current Asset Acquisition and Recognition

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

Currently the Corporation expenses borrowing costs (where attributable to qualifying assets). This policy is consistent with an APS which is anticipated to require borrowing costs to be expensed to assist with the convergence between Government Finance Statistics (GFS) and GAAP. Asset values will be maintained at fair value.

Employee Benefits

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

Income Tax

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

Investment Property

The Corporation owns and controls a number of properties, comprising land and buildings, from which rental income is derived on an ongoing basis. These properties will be classified as Investment Property pursuant to AASB 140. In accordance with the election required under this AIFRS, it is planned that the Corporation will elect the cost model rather than the fair value model, which is consistent with past treatment and reflects the long term nature of the investment made.

If the fair value model were to be elected, then this would require any change in fair value, calculated by discounting future cash flows, to be taken to the profit and loss on an annual basis.

	2004 \$'000	2003 \$'000
3. Surplus from Ordinary Activities		
Surplus from ordinary activities before income tax equivalent has been determined after:		
(a) Charging as Expenses		
Borrowing costs	4 601	1 232
Depreciation of:		
Buildings	806	293
Plant and equipment	171	144
Bad and doubtful debts (refer Note 7)	10	13
Rental expense on operating leases	591	537
Transfer to employee benefits	151	132
(b) Crediting as Income		
Interest received or receivable from other persons	5 959	3 353
Net gain on disposal of property plant and equipment	-	94
4. Revenues from Ordinary Activities		
(a) Sales Revenue		
Sales revenue comprises revenue earned from the sale of land for residential, commercial and community purposes, including land made available for joint venture developments at Golden Grove and Mawson Lakes (refer Note 5).		
Sales revenue for the reporting period is summarised as follows:	2004 \$'000	2003 \$'000
Land sales to:		
Joint ventures	3 741	2 315
Other	39 500	9 608
Total Sales Revenue	43 241	11 923
(b) Other Revenue from Ordinary Activities		
Other revenue from ordinary activities comprises:		
Interest received	5 959	3 353
Rent and other property income received	7 169	4 763
Share of net profit of joint venture entities (refer Note 5)	5 157	5 217
Revenues from Government (refer Note 6)	23 773	8 587
Proceeds on disposal of property, plant and equipment	-	483
Recoveries and sundry income	2 203	3 274
<i>Less:</i> Written down value of property, plant and equipment disposals	44 261	25 677
Total Other Revenue from Ordinary Activities	44 261	25 228
5. Joint Venture Entities		
5.1 Joint Venture Summary		
Income from joint venture entities of \$5.157 million for the reporting period comprises the Corporation's share of the profit from ordinary activities of joint venture entities in which the Corporation has a participating interest, summarised as follows:	2004 \$'000	2003 \$'000
Revenues	20 966	18 909
Expenses	15 809	13 692
Profit from ordinary activities	5 157	5 217

5.1 Joint Venture Summary (continued)

Movements in the Corporation's investment in joint venture entities during the reporting period are summarised as follows:

	2004 \$'000	2003 \$'000
Capital contributions and acquisition of additional interest:		
Balance at 1 July	-	-
Contributions during the reporting period	11 100	5 375
Repayments during the reporting period	(9 700)	(5 375)
Transfer to share of accumulated profits (accumulated loss on joint venture termination)	-	-
 Balance at 30 June	1 400	-
Share of accumulated profits:		
Balance at 1 July	8 706	4 615
Profit for the reporting period	5 157	5 217
Distribution of profit to the Corporation during the reporting period	-	(1 126)
 Balance at 30 June	13 863	8 706
Total Carrying Amount of Investment in Joint Venture Entities	15 263	8 706

The Corporation's investment in joint venture entities is represented by its share of assets and liabilities as follows:

Current Assets:		
Cash	430	1 650
Receivables	847	931
Inventories	7 084	4 096
Prepayments	6	38
	8 367	6 715
Non-Current Assets:		
Inventories	10 107	5 766
Property, plant and equipment	299	551
	10 406	6 317
Total Assets	18 773	13 032
Current Liabilities:		
Creditors and borrowings	1 488	1 496
Provisions	2 022	2 575
	3 510	4 071
Non-current Liabilities:		
Creditors and borrowings	-	-
Provisions	-	255
	3 510	4 326
Net Assets	15 263	8 706

5.2 Golden Grove Joint Ventures

The Corporation had a 50 percent interest in the Golden Grove Development joint venture, involving the development of land at Golden Grove by the Corporation and Delfin Lend Lease Ltd (formerly Delfin Property Group Limited). The joint venture was established pursuant to the *Golden Grove (Indenture Ratification) Act 1984* and operated under the Indenture and associated joint venture and management agreements.

All land made available to the joint venture by the Corporation was sold prior to 30 June 2004. Settlement of the final land sale triggered termination of the joint venture under the Project Completion Arrangements Deed and the formal structure of the joint venture was wound up with effect from 30 June 2003. Pursuant to the terms of the finalisation deed, provision has been made for the Joint Venture partners to share equally any final winding up costs incurred subsequent to 30 June 2003.

5.3 Mawson Lakes Economic Development Project

On 10 July 1997 documentation was executed with Delfin Property Group Limited (now Delfin Mawson Lakes Pty Ltd), Lend Lease Corporation Limited (now Lend Lease Development Pty Ltd) and associated entities of those companies to establish a joint venture to develop the Mawson Lakes Economic Development Project at the Levels. This project comprises residential, retail and industrial accommodation to be developed over a ten to twelve year timeframe. Other parties with commitments to the joint venture arrangements are City of Salisbury, University of South Australia and the Government of South Australia.

The Corporation has a 50 percent interest in the joint venture. Under the terms of the agreements for the joint venture, the Corporation will make available to the joint venture land for development. In addition the State Government has obligations for various infrastructure works associated with the project.

	2004	2003
	\$'000	\$'000
6. Revenues from Government		
Government appropriations received during the reporting period are as follows:		
Land tax appropriation	3 334	3 150
Recurrent appropriation	12 743	2 945
Capital appropriation	7 696	2 483
State Government grants - other	-	9
	23 773	8 587
7. Bad and Doubtful Debts		
Bad debts written off:		
Trade debtors	-	1
Transfer to provision for doubtful debts:		
Trade debtors	10	12
	10	13
8. Tax Equivalents		
In accordance with Treasurer's Instructions issued under the <i>Public Finance and Audit Act 1987</i> , the Corporation is required to pay to the State Government an income tax equivalent. The income tax liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate (presently 30 percent) be applied to the surplus after extraordinary items. The income tax equivalent paid or payable for the reporting period was \$11.445 million.		
Income tax equivalent paid in respect of the surplus for the reporting period	2004	2003
Provision for income tax equivalent in respect of surplus for the reporting period (Refer Note 17)	\$'000	\$'000
1 591		1 434
Less: Refund due for income tax equivalent overpaid in respect of the surplus for the reporting period (refer Note 10)	9 854	-
	-	(728)
	11 445	706
The total income tax equivalent paid during the reporting period was as follows:		
Income tax equivalent paid in respect of the surplus for the reporting period	1 591	1 434
Balance of income tax equivalent paid in respect of the previous reporting period	-	2 288
	1 591	3 722
9. Dividends		
Pursuant to Regulations under the <i>Public Corporations Act 1993</i> , the Corporation may be required to pay dividends to the Treasurer. Following recommendations by the Board, and after consultation with the Minister, the Treasurer determined that the total dividends of \$51.479 million (\$6.133 million) be paid in respect of the reporting period. This included a special dividend of \$50 million as part repatriation of retained earnings to Government.		
10. Receivables	2004	2003
Current:	\$'000	\$'000
Trade and other debtors ^(a)	5 355	1 060
Income tax equivalent overpaid	-	728
Mortgage debtor receivables	4 962	-
Provision for doubtful debts	(70)	(60)
	10 247	1 728
Non-Current:		
Mortgage debtor receivables	13 793	-
Provision for doubtful debts	(1 000)	-
	12 793	-
	23 040	1 728
Total Receivables		
(a) Trade and other debtors include \$3.35 million receivable from joint ventures in respect of capital repayments applicable to the reporting period but not received by the Corporation at balance date.		
11. Inventories - Land Held for Resale	2004	2003
Current:	\$'000	\$'000
Cost of acquisition	2 601	2 296
Development cost capitalised	1 919	362
	4 520	2 658
Non-Current:		
Cost of acquisition	23 298	20 468
Development cost capitalised	4 667	2 962
	27 965	23 430
	32 485	26 088

		2004 \$'000	2003 \$'000
12. Prepayments	Current: Prepayments	68	25
Non-Current: Prepayments		-	14
Total Prepayments		68	39
13. Property, Plant and Equipment			
Land and Buildings:			
Freehold land at fair value:			
Independent valuation - 2003		13 693	10 423
Independent valuation - 2004		3 870	-
		17 563	10 423
Buildings at fair value:			
Independent valuation - 2003		23 771	14 071
Independent valuation - 2004		22 380	-
		46 151	14 071
Accumulated depreciation		(922)	-
		45 229	14 071
Total Land and Buildings		62 792	24 494
Plant and Equipment:			
At cost		2 248	2 146
Accumulated depreciation		(1 767)	1 596
Total Plant and Equipment		481	550
Total Property, Plant and Equipment		63 273	25 044
Movements in Carrying Amounts			
Movements in the carrying amounts for each class of property, plant and equipment are as follows:			
Freehold Land:			
Carrying amount at 1 July		10 423	1 745
Transfer from ICPC		6 360	-
Transfer from administered projects		-	2 816
Disposals		-	(110)
Reclassifications to inventory		-	(95)
Revaluation increment		780	6 067
Carrying amount at 30 June		17 563	10 423
Buildings:			
Carrying amount at 1 July		14 071	11 046
Additions		-	57
Transfer from ICPC		29 283	-
Disposals		-	(279)
Depreciation		(806)	(293)
Revaluation increment		2 681	3 540
Carrying amount at 30 June		45 229	14 071
Plant and Equipment:			
Carrying amount at 1 July		550	499
Additions		102	195
Disposals		-	-
Depreciation		(171)	(144)
Carrying amount at 30 June		481	550
Total Carrying Amount at 30 June		63 273	25 044
14. Work in Progress			
Consists of:			
Construction projects in progress		26 722	-
Client deposits received		(3 843)	-
Total Construction Projects in Progress		22 879	-
15. Payables			
Current:			
Trade creditors		2 539	1 941
Sundry creditors and accrued expenses		4 211	1 643
		6 750	3 584
Non-Current:			
Non-interest bearing loan - Department of Business, Manufacturing and Trade		500	500
Sundry creditors and accrued expenses		76	65
		576	565
Total Payables		7 326	4 149

		2004 \$'000	2003 \$'000
16. Interest-Bearing Liabilities			
Current:			
Loans - South Australian Government Financing Authority ^(a)		15 506	-
Non-Current:			
Loans - South Australian Government Financing Authority ^(a)		62 298	-
Loans - South Australian Government Financing Authority ^(b)		9 953	9 983
	Total Interest-Bearing Liabilities	72 251	9 983
		87 757	9 983
(a)	Comprises borrowings from the South Australian Government Financing Authority (SAFA) in respect of funding of industrial and commercial construction projects under the Industrial Premises Development Scheme.		
(b)	Comprises borrowings from SAFA in respect of other activities of the Land Management Corporation.		
17. Tax Liabilities		2004 \$'000	2003 \$'000
Current:			
Income tax equivalent		9 187	-
	Total Tax Liabilities	9 187	-
18. Employee Benefits			
18.1 Total Employee Benefits			
Current:			
Annual leave		198	209
Long service leave		40	40
		238	249
Non-Current:			
Long service leave		653	530
	Total Employee Benefits	891	779
18.2 Aggregate Employee Benefits and Related On-Costs			
Accrued salaries and wages		55	16
Annual leave - Current			
Liability for employee benefits		198	209
On-costs included in payables (refer Note 15)		21	21
		219	230
Long service leave - Current			
Liability for employee benefits		40	40
On-costs included in payables (refer Note 15)		4	4
		44	44
Long service leave - Non-Current			
Liability for employee benefits		653	530
On-costs included in payables (refer Note 15)		72	61
		725	591
	Aggregate Employee Benefits and Related On-Costs	1 043	881
19. Equity			
Equity represents the residual interest in the Corporation's net assets. The South Australian Government holds the equity interest in the Corporation on behalf of the community. Equity comprises:			
19.1 Accumulated Surplus			
Balance at 1 July		99 249	101 602
Surplus from ordinary activities for the year after income tax equivalent		26 706	1 647
Dividend paid or payable to the Treasurer (refer Note 9)		(51 479)	(4 000)
	Accumulated Surplus at 30 June	74 476	99 249
19.2 Asset Revaluation Reserve			
Balance at 1 July		9 607	-
Transfer from Industrial and Commercial Premises Corporation (Refer Note 19.3)		117	-
Revaluation increment - Land and buildings (refer Note 2.10, 13)		3 461	9 607
	Balance at 30 June	13 185	9 607

19.3 Equity Transferred from Industrial and Commercial Premises Corporation

During the 2003-04 financial year the activities of the former industrial and Commercial Premises Corporation (ICPC) were transferred to the Land Management Corporation and accordingly the ICPC net liabilities (\$6.999 million) were transferred to the Corporation. Details of the assets and liabilities transferred were:

	2004 \$'000	2004 \$'000
Current Assets:		
Cash		70
Receivables		3 871
Accruals and prepayments		939
		<u>4 880</u>
Non-Current Assets:		
Receivables		11 795
Construction projects in progress	30 309	
Deposits received	<u>(3 822)</u>	
		26 487
Property, plant and equipment		<u>35 643</u>
		73 925
Total Assets		<u>78 805</u>
Current Liabilities:		
Creditors and borrowings		25 512
Provisions		162
Other Accruals		985
		<u>26 659</u>
Non-Current Liabilities:		
Creditors and borrowings		59 145
		<u>59 145</u>
Total Liabilities		<u>85 804</u>
Net Liabilities		<u>(6 999)</u>
Equity:		
Asset revaluation reserve		114
Accumulated deficit		<u>(7 113)</u>
Total Equity		<u>(6 999)</u>

20. Administered Transactions

In the previous financial year, formerly administered projects were transferred to the full control of the Corporation. The net expense from take-up and the net cash balance were disclosed in the Statement of Financial Performance and Statement of Cash Flows for the year ended 30 June 2003.

21. Commitments

Operating Lease Commitments

Non-cancellable operating leases contracted for at balance date but not provided in the accounts, net of GST:

	2004 \$'000	2003 \$'000
Payable not later than one year	886	443
Payable later than one year but not later than five years	1 578	1 348
Payable later than five years	355	624
	<u>2 819</u>	2 415

Operating lease commitments comprise a property lease and leases for computer equipment and motor vehicles. The property lease is a non-cancellable lease with a ten year term, with rent payable monthly in advance. Motor vehicles and computer equipment are leased over varying terms up to three years.

Capital Expenditure Commitments

At the reporting date the Corporation had capital expenditure commitments from general operations as follows:

	2004 \$'000	2003 \$'000
Payable not later than one year	6 702	7 958
Payable later than one year but not later than five years	-	2 657
Payable later than five years	-	-
	<u>6 702</u>	10 615

The majority of these commitments comprise the Corporation's remaining commitment for the State Government's component of the infrastructure works at Mawson Lakes (refer Note 5.3), estimated to be \$5.676 million (\$9.168 million).

Additional commitments in respect of the Edinburgh Parks acquisition are detailed below and are not included in the above amounts.

Capital Expenditure Commitments arising from Edinburgh Parks Acquisition

On 10 May 2004 Cabinet approved the transfer of the management of the land known collectively as Edinburgh Parks to the Land Management Corporation, from the Department of Trade and Economic Development, to be exercised in stages and effective from 1 July 2004. At balance date commitments for the purchase from the Department of Trade and Economic Development are summarised as follows:

	2004 \$'000	2003 \$'000
Stage O Land and Buildings		
Payable not later than one year (refer note below)	5 000	-
Payable later than one year but not later than five years	3 854	-
	8 854	-

The amount payable within one year is a guaranteed minimum of \$5 million up to a maximum of \$6 million, subject to lease negotiations with an occupant of the Park which affects the capital value of the portfolio of land and buildings and at balance date had not been finalised to enable greater certainty over this amount.

A further amount may be payable to the Department of Trade and Economic Development, representing 25 percent of the net operating surplus arising from completion of the development and sale of Stage O. At balance date, this amount is estimated to be in the order of \$1 million, potentially payable later than one year but not later than five years from balance date.

Stages 1, 2 and 3

Assets included in Stages 1 and 3 will be acquired by the Corporation on a deferred payment basis. The Net proceeds from Stage 1 will be remitted to the Department of Trade and Economic Development on receipt, and are estimated to total \$11.1 million. The Land Management Corporation is acting in the capacity as manager on behalf of the Department of Trade and Economic Development in regard to this stage. Based upon current sales forecasts it is envisaged that the payments to the Department of Trade and Economic Development will occur in two stages, up to \$9.0 million in the 2004-05 year and the balance no later than five years, subject to sales expectations exceeding current forecasts.

Previously expended Stage 3 Costs (\$3.1 million) will be reimbursed to the Department of Trade and Economic Development on completion and sale of Stage 3. It is forecast that this amount will be paid in the 2005-06 financial year.

Stage 2 had previously been completed by the Department of Trade and Economic Development.

On 31 May 2004 Cabinet also approved the commercial principles for the acquisition of a further 505.6 hectares from the Commonwealth. Following this, agreement has been reached with the Commonwealth, but at balance date, no further commitment exists until the full approval process is undertaken by both parties.

Other Expenditure Commitments

Other expenditure commitments at balance date were \$46 000 payable within 12 months (\$757 000).

22. Contingent Liabilities	2004 \$'000	2003 \$'000
Golden Grove Development (refer Note 5.3)		
Indemnity for bank guarantees in favour of Local and State Government Authorities.		
The maximum limit available at balance date to the joint venture is \$nil (\$2 350 000).		
The maximum liability amounts to \$nil (\$1 315 000).		
The Corporation's contingent liability in respect of this amount is 50 percent	-	658

Mawson Lakes Joint Venture (refer Note 5.4)

Indemnity for letter of guarantee in favour of Local and State Government Authorities.

The maximum liability amounts to \$4 189 000 (\$15 640 000).

The Corporation's contingent liability in respect of this amount is 50 percent

2 095

7 820

Former Industrial and Commercial Premises Corporation

The Corporation has a contingent liability to provide funding, via the Industrial and Commercial Premises Scheme, up to the amount of \$3.85 million subject to execution of a deferred purchase agreement by the contracting party. The Corporation will obtain loan funds drawn from the South Australian Government Financing Authority to finance the project.

Other

The Corporation has other contingent liabilities arising from its contractual arrangements. These were not considered to be material at balance date.

23.	Reconciliation of Cash Flows from Operating Activities with Surplus from Ordinary Activities after Income Tax Equivalent	2004	2003
		\$'000	\$'000
Surplus from Ordinary Activities after Income Tax Equivalent		26 706	1 647
Non-cash flows in Surplus from Ordinary Activities after Income Tax Equivalent:			
Share of net profit of joint venture entities		(5 157)	(5 217)
Net gain on disposal of property, plant and equipment		-	(94)
Depreciation		977	437
Movement in income tax equivalent payable		9 187	(3 016)
Provision for long service leave		158	43
Provision for annual leave		(7)	9
Provision for employee entitlement on-costs		11	-
Provision for doubtful debts		10	12
Net expense on take up of ICPC		7 113	-
Net expenses from take up of administered projects		-	8 866
Changes in assets and liabilities:			
Cash received from take up of administered projects		-	12 685
(Increase) Decrease in receivables		7 162	448
(Increase) Decrease in prepayments		(8)	8
(Increase) Decrease in work in progress		(5 971)	-
Decrease (Increase) in inventories		(6 397)	4 651
(Decrease) Increase in payables		3 091	(278)
	Net Cash provided by Operating Activities	36 875	20 201

24.	Cash Assets	2004	2003
	Cash at Treasury	35 091	61 957
	Cash in trust, at bank and on hand	723	205
	Cash shown in the Statement of Financial Position and Statement of Cash Flows	35 814	62 162

25. Additional Financial Instruments Disclosure

25.1 Credit Risk

The credit risk on financial assets of the Corporation which have been recognised on the Statement of Financial Position, is generally the carrying amount, net of any provision for doubtful debts.

25.2 Interest Rate Risk Exposure

The Corporation's exposure to interest rate risk and the effective weighted average interest rates for classes of financial assets and liabilities is as follows:

	2004						2003 Total \$'000	
	Fixed Interest Rate Maturing							
	Floating Interest Rate \$'000	Up to 1 Year \$'000	More than 1 year up to 5 Years \$'000	More than 5 Years \$'000	Total \$'000	Total \$'000		
Financial Assets:								
Cash assets	35 814	-	-	-	35 814	62 162		
Trade and other debtors	8 541	-	-	-	8 541	1 788		
Mortgage debtors	-	1 775	7 743	6 051	15 569	-		
	44 355	1 775	7 743	6 051	59 924	63 950		
Weighted Average Interest Rate		4.44%	7.90%	7.57%	7.11%			
Financial Liabilities:								
Payables	7 326	-	-	-	7 326	4 149		
Interest-bearing liabilities	33 493	1 442	23 549	29 273	87 757	9 983		
	40 819	1 442	23 549	29 273	95 083	14 132		
Weighted Average Interest Rate		5.56%	6.57%	9.32%	6.94%			
Net Financial Assets (Liabilities)		3 536	333	(15 806)	(23 222)	(35 159)	49 818	

25.3 Net Fair Value of Financial Instruments

The net fair value of cash, trade debtors and payables approximates their carrying amount.

The net fair value of receivables and payables excluding trade debtors and creditors has been calculated by discounting cash flows using a zero coupon curve derived from observable rates in the financial markets. The resultant net fair values represent the best estimate of replacement cost. Management consider the cost of realising fair values as immaterial. Furthermore, management consider that all financial instruments cannot be readily traded on organised markets in standardised form.

25.3 Net Fair Value of Financial Instruments (continued)

	2004		2003	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	35 814	35 814	62 162	62 162
Trade and other debtors	8 541	8 541	1 788	1 788
Mortgage debtors	15 569	11 509	-	-
Provision for doubtful debts	(1 070)	(1 070)	(60)	(60)
Total Financial Assets	58 854	54 794	63 890	63 890
Financial Liabilities:				
Payables	7 326	7 326	4 149	4 149
SAFA loans	87 757	89 979	9 983	11 901
Total Financial Liabilities	95 083	97 305	14 132	16 050
Net Financial Asset (Liabilities)	(36 229)	(42 511)	49 758	47 840

26. Directors' Remuneration

The number of Directors of the Board whose remuneration from the Corporation was within the following bands were:

	2004	2004
	Number of Directors	Number of Directors
\$Nil	3	1
\$10 001 - \$20 000	6	-
\$20 001 - \$30 000	-	3
\$50 001 - \$60 000	1	-
\$60 001 - \$70 000	-	1

Total income received or due and receivable by all Directors of the Corporation for the period they held office was \$136 000 (\$144 000), including fees received by two Directors in relation to the appointment to the Mawson Lakes Joint Venture Committee.

The number of Directors who held office at 30 June 2004 was 7 (5).

27. Employees' Remuneration

Remuneration is inclusive of superannuation, motor vehicle and other employee benefits, together with associated fringe benefits tax.

The number of employees whose remuneration from the Corporation was within the following bands were:

	2004	2003
	Number of Employees	Number of Employees
\$100 001 - \$110 000	2	3
\$110 001 - \$120 000	7	3
\$120 001 - \$130 000	1	1
\$130 001 - \$140 000	-	1
\$140 001 - \$150 000	-	2
\$150 001 - \$160 000	1	-
\$160 001 - \$170 000	1	-
\$210 001 - \$220 000	-	1
\$220 001 - \$230 000	1	-

Total income received or due and receivable by the above employees for the period they held office was \$1.69 million (\$1.44 million).

The number of employees at the reporting date was 71.2 (64.1).

Targeted Voluntary Separation Packages (TVSPs)

One employee of the Corporation was paid a TVSP during the reporting period. This payment was met by the Corporation. The amount paid or payable totalled \$71 000. In addition to this, accrued annual leave and long service leave entitlements amounting to \$40 000 were paid to that employee. These payments are included in salaries and related payments.

28. Auditors' Remuneration

Amounts received or due and receivable by the principal auditors for auditing the accounts

Total Auditors' Remuneration	2004	2003
	\$'000	\$'000
	60	58

29. External Consultants

Fees and expenses incurred during the reporting period as a result of engaging consultants were:

Recognised in the Statement of Financial Performance	559	420
Capitalised (Written Back) in the Statement of Financial Position	(8)	255
Total	551	675

30. Related Party Disclosure

Directors

The Directors of the Corporation appointed in accordance with the Regulations under the *Public Corporations Act 1993* were:

J B Hogan, Chairman	P F Grimes (appointed 30-6-03)
A L Ashby (expired 30-11-03)	R G Hook (appointed 1-12-03)
S M Day (expired 30-11-03)	A Maddern (appointed 1-12-03)
B M Deed (appointed 1-12-03)	P J Martin
B P Gardner (appointed 1-12-03)	W L Stokes (expired 30-11-03)

Details of Directors' remuneration are set out in Note 26.

During the period of their appointment to the Land Management Corporation:

Mr J B Hogan was Chairman of the South Australian Housing Trust Board, Presiding Member of the Torrens Catchment Water Management Board, Deputy Chairman of HomeStart Finance and Board Member of other unrelated companies.

Ms A L Ashby was a Director of AME Recruitment Pty Ltd and a Board Member of North Western Adelaide Health Service.

Mr S M Day was a Board Member of the Public Trustee Investment Advisory Board, a Director of Corporate Treasury Consulting Pty Ltd and Chairman of the Electricity Industry Superannuation Scheme.

Ms B M Deed was Vice-Chairman of the Australian Red Cross SA Divisional Board.

Mr B P Gardner was Executive Director of the Housing Industry Association, Board Member of the Construction Industry Training Board, Board Member of GullyCorp Ltd, and a Board Member of HIA Group Apprentice Scheme.

Dr P F Grimes was Deputy Under Treasurer, Department of Treasury and Finance, and a Board Member of the South Australian Superannuation Board.

Mr R G Hook was Executive Director, Office for Infrastructure Development, Chair of the South Australian Infrastructure Corporation (and Chair of the Management Committee for the Adelaide Thunderbirds Netball Team, and the State League Netball).

Ms A Maddern was a full time employee of WMC (Olympic Dam Corporation) Pty Ltd, a wholly-owned subsidiary of WMC Resources Ltd.

Ms P J Martin was Director, Commercial Advice, Department of the Premier and Cabinet, a Board Member of the Industrial and Commercial Premises Corporation, the South Australian Film Corporation, Austral Asia Railway Corporation, Adelaide to Outback GP Training Program Inc and a Council Member of the University of Adelaide.

Mr W L Stokes was a Member of the National Capital Authority (Canberra, ACT) (until July 2002) and appointed to the Defence Housing Authority (Canberra, ACT) (from June 2003). He was also Chairman of the N L Stokes Group of companies.

From time to time the Corporation may have dealings with the above entities. Any transactions entered into with these entities are carried out in the ordinary course of business and on normal commercial terms and conditions.

Apart from the above interests, no Directors have a pecuniary interest, either direct or indirect, in any firm, trust or company with which the Land Management Corporation had entered into a transaction during the year ended 30 June 2004.

LOTTERIES COMMISSION OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

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

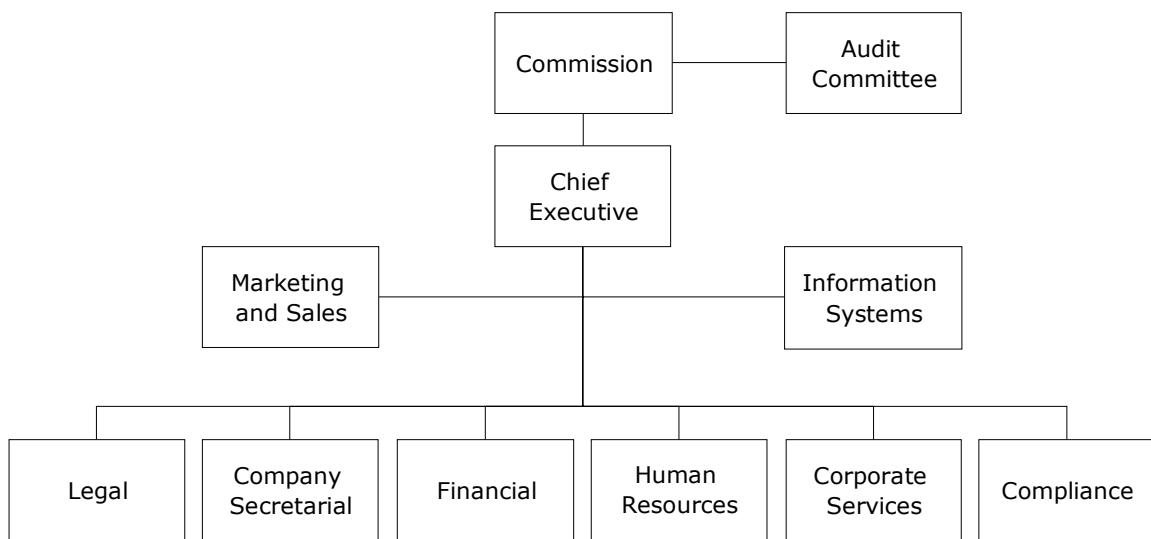
Functions

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

- SA Lotto
- Oz Lotto
- Powerball
- Lotto
- Super 66
- The Pools
- Keno
- Instant Scratchies.

Structure

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



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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

Assessment of Controls

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

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

Scope of Audit

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

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

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

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

- fraud detection and prevention
- IT environment controls
- draw operations and dividend calculations.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

There were no matters arising from the audit which warranted being brought to the attention of management. The results of the audit were conveyed in a management letter to the Chief Executive Officer.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Sales	345	336	3
Less cost of sales	(290)	(282)	3
Other revenue	7	10	(30)
Total Operating Revenue	62	64	(3)
OPERATING EXPENDITURE			
Services and supplies	13	15	(13)
Goods and Services Tax	12	12	-
Employment expenses	8	7	14
Other expenses	4	5	(20)
Total Operating Expenses	37	39	(5)
Operating Profit from Ordinary Activities after Income Tax Equivalent	18	18	-
Net Cash Flows from Operations	86	84	2
ASSETS			
Current assets	49	49	-
Non-current assets	17	19	(10)
Total Assets	66	68	(3)
LIABILITIES			
Current liabilities	27	29	(7)
Non-current liabilities	12	14	(14)
Total Liabilities	39	43	(9)
EQUITY	27	25	8

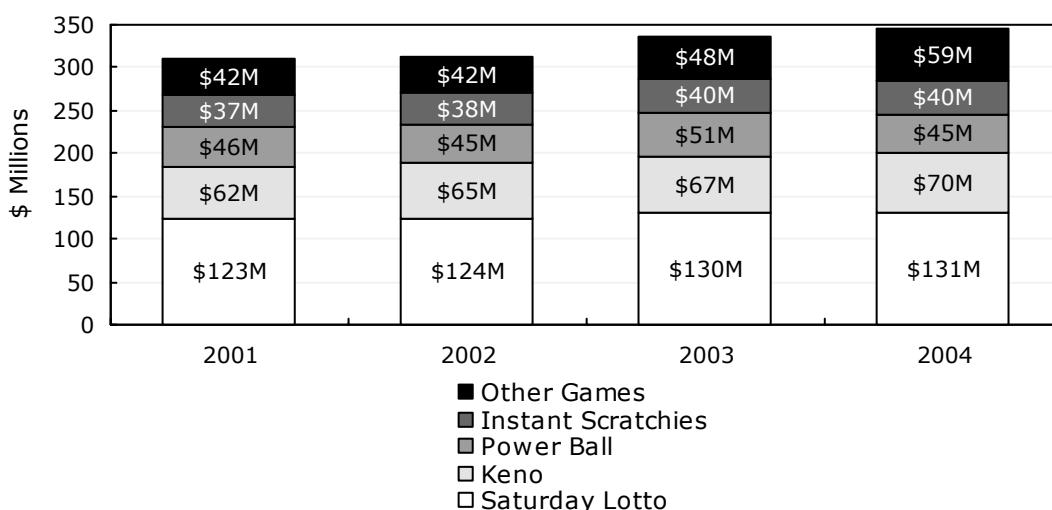
Statement of Financial Performance

Sales Revenue

A structural analysis of sales revenue generated by the lottery products provided by the Commission in the four years to 2004 is presented in the following chart.

Notably, Saturday Lotto sales were \$131 million and Keno sales were \$70 million, representing 38 percent and 20 percent of sales respectively.

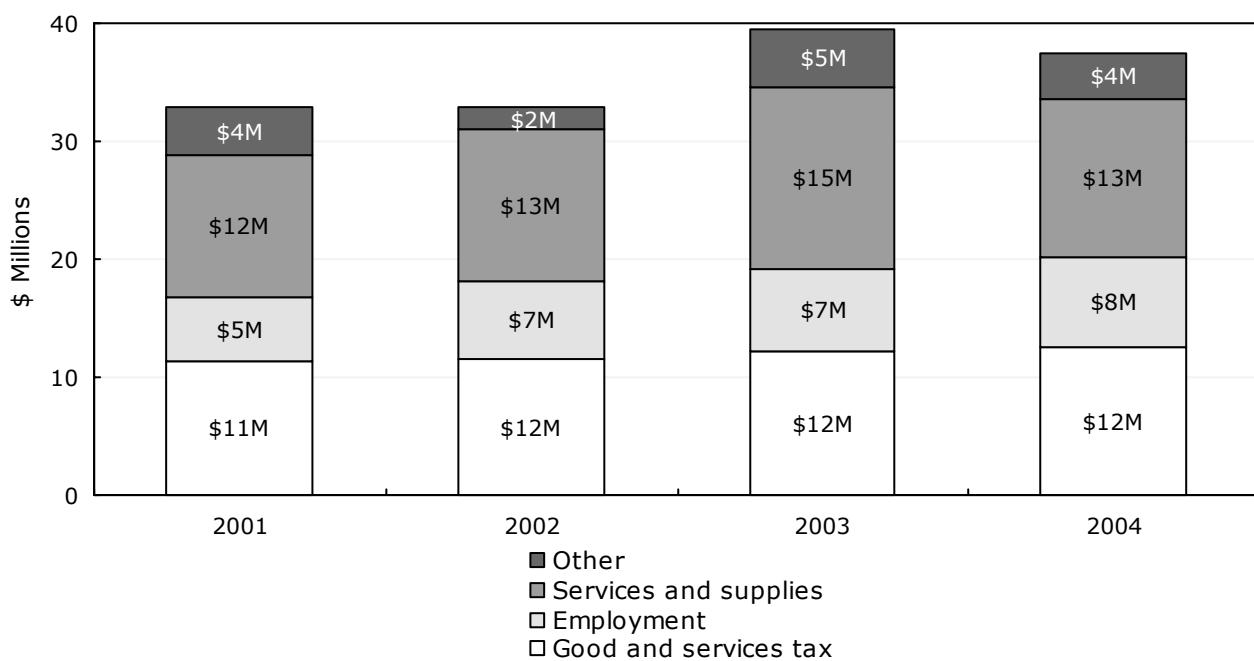
The analysis shows that there has been a steady increase in revenues over the four years across most games. Sales of other games increased in 2003-04 by \$11 million due mainly to an increase in SA Lotto sales of \$13 million, offset by reduced sales in other games. SA Lotto sales increased due primarily to the introduction of an additional Wednesday night draw from November 2003 together with increased ticket prices. Sales of Powerball tickets decreased by \$6 million, the first significant decrease in a number of years. The primary reason was that fewer large jackpots occurred during the year.



Operating Expenses

A structural analysis of the main operating expense items for the Commission for the four years to 2004 is shown in the following chart.

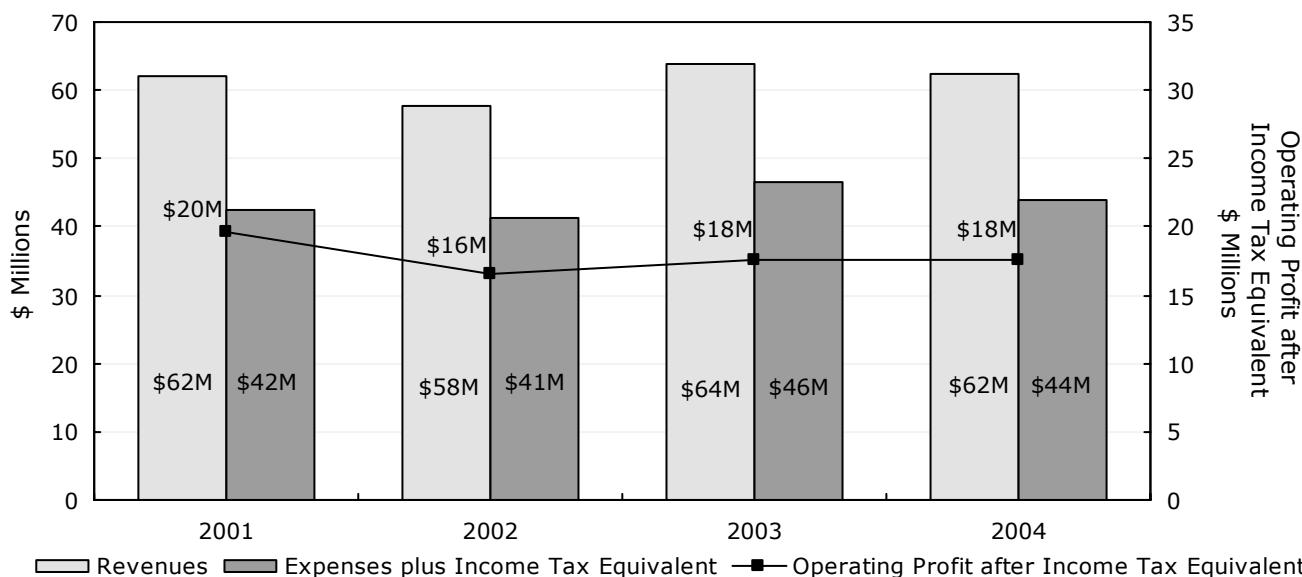
Services and supplies decreased by \$2 million in 2004. This was due to the one-off expense in 2003 for the Commission hosting the World Lottery Association Congress in Adelaide in November 2002. Other expenses decreased by \$1 million in 2004 due mainly to a decrease in depreciation following devaluation of the on-line lotteries system in 2003.



Operating Result

For the four years to 2004 the Commission's performance has been relatively stable. The decrease in operating profit from 2001 to 2002 was primarily as a result of a decrease in trading surplus arising from a change in accounting policy in 2001.

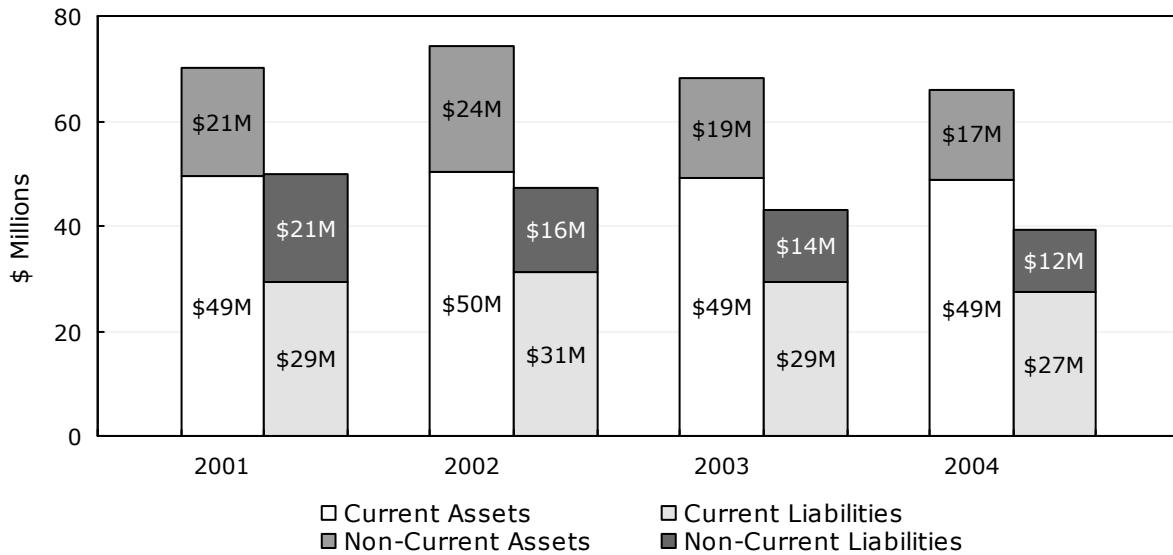
The following chart shows the operating revenues, operating expenses plus income tax equivalent and operating profit after income tax equivalent for the four years to 2004.



Statement of Financial Position

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

The decreases in non-current liabilities over the four years is due mainly to the decrease in the unclaimed prize reserve, resulting from the payment of more promotional and additional prizes and the decrease in borrowings. The decrease in non-current assets in 2004 is due mainly to the depreciation of the assets held.



Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	86	84	79	84
Investing	(1)	(1)	(1)	(2)
Financing	(85)	(84)	(76)	(80)
Change in Cash	-	(1)	2	2
Cash at 30 June	45	45	46	44

The table highlights the significant cash generating capacity of the Commission's operations. A large portion of the cash balance at 30 June represents unpaid prizes (\$10 million) and distributions owed to the Government (\$6 million). The financing cash flows in 2004 represent the amount being distributed to the Government, \$83.9 million, and the repayment of borrowings, \$1.5 million.

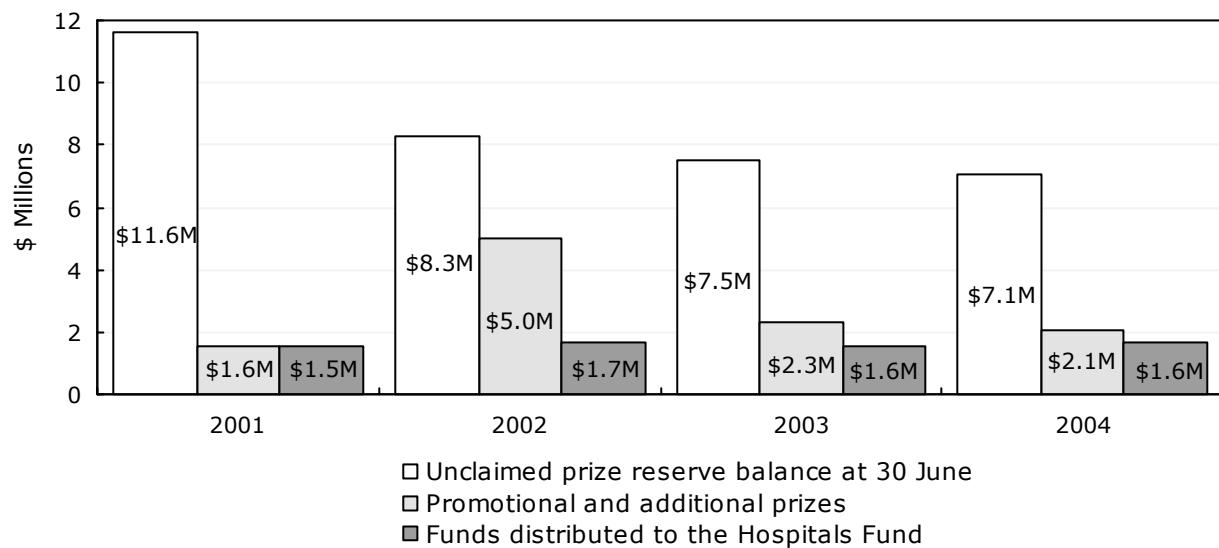
FURTHER COMMENTARY ON OPERATIONS

Unclaimed Prizes and Additional Prizes

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

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

The analysis shows that over the last two years the amount of monies paid out to players from the unclaimed prize reserve in promotional and additional prizes has remained steady, having decreased from the high payout in 2002. Of the \$2.1 million expended from the reserve in 2004, \$1.1 million related to promotional tickets, recorded as sales in the Statement of Financial Performance, and \$1 million for additional prizes. Payments to the Hospitals Fund have remained steady over the four years.



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

	Note	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Sales revenue	5	345 096	335 911
Less cost of sales	6	289 585	281 796
Trading Surplus		55 511	54 115
Interest		2 463	2 211
Other	7	4 481	7 635
Total Revenues		62 455	63 961
 EXPENSES FROM ORDINARY ACTIVITIES:			
Services and supplies	8	13 401	15 297
Goods and Services Tax		12 474	12 143
Employee expenses	9	7 635	7 063
Depreciation	10	3 463	3 801
Borrowing costs		427	518
Total Expenses		37 400	38 822
 OPERATING PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT			
Income tax equivalent expense relating to ordinary activities	22	25 055	25 139
OPERATING PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EQUIVALENT		7 516	7 542
Increase (Decrease) in asset revaluation reserve	20	1 490	(1 814)
 TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		19 029	15 783

Statement of Financial Position
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash		45 349	44 816
Receivables	13	2 591	3 820
Inventories		458	397
Prepayments		178	126
Total Current Assets		48 576	49 159
NON-CURRENT ASSETS:			
Property, plant and equipment	14	17 419	19 010
Total Non-Current Assets		17 419	19 010
Total Assets		65 995	68 169
CURRENT LIABILITIES:			
Payables	15	18 792	19 353
Interest-bearing liabilities		1 542	1 452
Provision for employee benefits	16	283	319
Other	17	6 705	8 133
Total Current Liabilities		27 322	29 257
NON-CURRENT LIABILITIES:			
Payables	15	220	208
Interest-bearing liabilities		3 887	5 429
Provision for employee benefits	16	769	776
Unclaimed prizes reserve	18	7 061	7 489
Total Non-Current Liabilities		11 937	13 902
Total Liabilities		39 259	43 159
NET ASSETS		26 736	25 010
EQUITY:			
Funds retained for capital purposes	19	2 976	2 976
Reserves	20	23 760	22 034
Retained operating profit	21	-	-
TOTAL EQUITY		26 736	25 010
Commitments	25		

Statement of Cash Flows
for the year ended 30 June 2004

	Note	2004		2003	
		Inflows	Inflows	Inflows	Inflows
		(Outflows)	(Outflows)	(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:					
CASH INFLOWS:					
Receipts from customers		324 888		317 973	
Interest received		2 434		2 209	
GST receipts on sales		422		624	
		<hr/>	<hr/>	<hr/>	<hr/>
		327 744		320 806	
CASH OUTFLOWS:					
Prizes paid		(207 040)		(201 117)	
Payments to suppliers and employees (excluding GST)		(20 808)		(22 061)	
GST payments to taxation authority		(9 161)		(8 986)	
GST payments on purchases		(3 800)		(3 954)	
Borrowing costs paid		(449)		(553)	
		<hr/>	<hr/>	<hr/>	<hr/>
Net Cash inflows from Operating Activities	12(ii)	86 486		84 135	
CASH FLOWS FROM INVESTING ACTIVITIES:					
CASH INFLOWS:					
Proceeds on disposal of non-current assets		-		1	
CASH OUTFLOWS:					
Payments for property, plant and equipment		(623)		(405)	
Net Cash outflows from Investing Activities		(623)		(404)	
CASH FLOWS FROM FINANCING ACTIVITIES:					
CASH OUTFLOWS:					
Repayment of borrowings		(1 452)		(1 368)	
Distribution to the Hospitals Fund and Recreation and Sport Fund:					
Gambling tax	22	(56 465)		(55 577)	
Dividend	22	(17 667)		(18 232)	
Unclaimed prizes	22	(1 734)		(1 461)	
Distribution to the Hospitals Fund for income tax equivalent	22	(8 012)		(7 787)	
Net Cash outflows from Financing Activities		(85 330)		(84 425)	
NET INCREASE (DECREASE) IN CASH HELD		533		(694)	
CASH AT 1 JULY		44 816		45 510	
CASH AT 30 JUNE	12(i)	45 349		44 816	
		<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of Lotteries Commission of South Australia

The Lotteries Commission of South Australia (the Commission) was established under the *State Lotteries Act 1966* (as amended) to promote and conduct lotteries in South Australia.

2. Accounting Policies

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the *State Lotteries Act 1966*, and the Lotteries Rules promulgated under the *State Lotteries Act 1966*, in addition to the Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and Accounting Policy Statements, the Statements of Accounting Concepts, Australian Accounting Standards and Urgent Issues Group Consensus Views.

The financial statements are based on the historical cost convention and except where stated, have not been adjusted to take account of current valuations or current costs.

(b) Depreciation of Non-Current Assets

Property, plant and equipment, excluding freehold land, are depreciated by the Commission on the straight line basis to reflect their decline in service potential over their estimated useful lives.

The depreciation rates used for each class of asset are as follows:

	Percent
Buildings	2.9 and 3.3
Plant and equipment	5, 6.67, 10, 20 and 33.3
On-line lotteries system	12.5, 20 and 33.3

(c) Valuation of Non-Current Assets

Property, plant and equipment are brought to account at fair value.

(i) Independent valuations for freehold land and buildings were obtained in June 2004.

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

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

(ii) An independent valuation for the on-line lotteries system was obtained in June 2003 from Andrew Lucas, MBA, BappSc (Val), AAPI, ASA, Certified Practicing Valuer of Valcorp Australia Pty Ltd and represents the written down current cost of items in this group of assets.

(iii) Plant and equipment is at historical cost.

(d) Recognition of Income

Sales for Lotto, SA Lotto, Oz Lotto, Powerball, Super 66, Keno and The Pools are recognised as at the date of the draw or competition. Sales for Instant Scratchies are recognised daily. Lotto, SA Lotto, Oz Lotto, Powerball, Super 66 and The Pools sales as at 30 June for draws or competitions subsequent to that date are treated as sales in advance.

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

(e) Inventories

Inventories include Instant Scratchies tickets, on-line coupons, ticket rolls and ribbons and are carried at actual cost.

(f) Employee Benefits

Provision has been made in the financial statements for the Commission's liability for employee benefits arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees have been included in payables in the determination of the liability.

(i) Superannuation

The Commission contributes to externally managed superannuation funds. Contributions are charged as an expense in the period in which they occur (refer Note 26).

(ii) Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision has been determined by estimating the amount expected to be paid at the time the liability is settled.

(iii) **Long Service Leave**

Provision has been made for employee benefits for long service leave. An estimate of the present value of future cash outflows for all eligible employees has been made using a benchmark of seven years' service as a method of estimating long service leave liability. Provision for employees with service benefits expected to be settled within the next 12 months is accounted for as a current liability with the balance of the provision accounted for as a non-current liability.

(iv) **Sick Leave**

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

(v) **Workers Compensation**

A workers compensation levy rate of 1.968 percent is paid to WorkCover Corporation to cover any claims.

(g) Building Maintenance Reserve

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

(h) Capital Asset Reserve

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

(i) Keno Prize Reserve

This reserve was established to meet a payment for a second and subsequent payment of Keno Spot 10 (10 hits) Jackpot Prize within a financial year.

(j) Receivables*Debtors*

Debtor agents and sundry receivables are settled within 7 days and 14 days respectively and are carried at amounts due. All debts considered bad or doubtful are written off to bad debt expense in the year in which they are recognised as irrecoverable.

Prizes Receivable from Blocs

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

(k) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and short term deposits at call.

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

(l) Payables*Creditors*

Creditors are recognised for amounts to be paid in the future for goods and services received and are normally settled within 30 days.

Prizes Payable

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

Amounts payable for prizes won in South Australia are generally available for settlement the day following the draw, or in the case of Instant Scratchies and minor Keno prizes, on the date of sale or draw. Division 1 and 2 prizes for Lotto type games are normally settled 14 days after the date of draw in accordance with the Lotteries Rules.

Amounts payable to Blocs represents monies due to other lottery operators for prizes won in interstate jurisdictions. Settlement of amounts payable to Bloc members are normally due 14 days after the date of draw.

(m) Foreign Currency

Exchange differences arising up to the date of purchase or sale are deferred and are included in the measurement of the purchase or sale.

(n) Unclaimed Prizes Reserve

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

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

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

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

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

(o) Tax Equivalent Regime

Pursuant to Treasurer's Instruction 22, a tax equivalent regime applies to the Commission. The regime requires the Commission to pay amounts deemed equivalent to that which would have been paid to the Commonwealth if it was not exempt from the taxation laws of the Commonwealth.

The accounting profit method of tax effect accounting with respect to income tax has been adopted whereby income tax expense is calculated on operating profit from ordinary activities. Permanent and timing differences do not arise. Tax due but not paid at balance date is recognised as a current liability.

(p) Goods and Services Tax (GST)

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

Revenues, expenses and non-current assets are recognised net of the amount of GST. The net amount of GST recoverable from, or payable to the ATO, is included as a current asset or liability in the Statement of Financial Position.

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

(q) Distribution of Funds to Government

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

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

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

The composition of amounts due and payable to Government on account of the Hospitals Fund and Recreation and Sport Fund is detailed in Note 22.

(r) Interest Bearing Liabilities

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

The loans are unsecured and repayments are made six monthly on a credit foncier loan basis, with interest charged at the lender's benchmark rate. The carrying amount for borrowings therefore approximates fair value.

(s) Leases

The Commission has an operating lease agreement for a remote computer site at Kidman Park and an accommodation lease agreement for the new Head Office premises at 24-25 Greenhill Road, Wayville. The lessors effectively retain all risks and benefits incidental to ownership. Operating lease payments are representative of the pattern of benefits derived from the leased assets and are charged to the Statement of Financial Performance in the period in which they occur.

3. Changes to Accounting Policies

(a) No changes to the Commission's accounting policies, as set out in Note 2, have been made during the financial year.

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

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

Managing the Process

An analysis of exposure drafts issued by the Australian Accounting Standards Board (AASB) will be undertaken to identify potential issues that may need to be addressed. A plan to manage the transition to the new standards will be prepared. The plan will require the identification of:

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

In addition, changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) will be monitored by attending exposure draft reference group meetings (facilitated by the Department of Treasury and Finance (DTF)) and information forums organised by the DTF and professional accounting bodies.

Expected Differences in Accounting Policies

- *Changes in Accounting Policy*
A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.
- *Non-Current Asset Acquisition and Recognition*
The Australian equivalent to International Accounting Standards (IAS) 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life greater than three years) will continue to apply.
- *Employee Benefits*
Superannuation contributions paid into the defined benefit fund are currently reported as an expense. IAS 19 'Employee Benefits' specifies the method of calculating superannuation expenses for inclusion in the Statement of Financial Performance and will require the net value of the Plan's assets and liabilities to be shown in the Statement of Financial Position.
- *Income Tax Equivalent*
The Australian equivalent to IAS 12 'Income Taxes' is proposing a comprehensive method/balance sheet approach to account for income tax. It is anticipated that Treasurer's Instruction 22 will continue to mandate the accounting profit method. Therefore, it is not anticipated that there will be a change in income tax accounting for the Commission.

4. Segment Reporting

The Commission has not established any partnership, body corporate or trust to carry out any function of its business operations. The business operations are conducted in the one business and geographical segment, selling lottery games within the economic environment of South Australia.

5. Sales Revenue

	2004	2003
	\$'000	\$'000
Lotto	130 825	129 603
SA Lotto	41 706	28 931
Oz Lotto	15 467	16 575
Powerball	44 760	51 379
Keno	70 425	67 155
Instant Scratchies	39 812	39 864
Super 66	1 479	1 662
The Pools	622	742
	345 096	335 911

Sales revenue includes agents' commission.

6. Cost of Sales	2004 \$'000	2003 \$'000
Prizes	207 886	202 336
Gambling Tax	56 256	54 766
Agents' commission*	25 443	24 694
	289 585	281 796

* Agents' commission represents the service fee on sale of lottery tickets retained by agents at point of sale with net sales being remitted to the Commission.

7. Other Revenues	2004 \$'000	2003 \$'000
Agents' fees and charges	3 497	3 539
Commission on Head Office sales	376	406
Easiplay Club service fee	324	323
Sundry	284	399
WLA Congress*	-	2 968
	4 481	7 635

* Revenue from hosting the 2002 World Lottery Association Congress in Adelaide in November 2002.

8. Services and Supplies	2004 \$'000	2003 \$'000
Advertising and marketing	5 659	5 398
Computer operations	3 607	3 447
Printing of tickets	1 607	1 543
Other	2 379	2 562
Operating leases	146	75
Bad debts	3	8
WLA Congress*	-	2 264
	13 401	15 297

* Expenditure incurred in hosting the 2002 World Lottery Association Congress in Adelaide in November 2002.

The number and dollar amount of Consultancies paid/payable that fell within following bands:	2004 Number	2004 \$'000	2003 Number	2003 \$'000
\$1 - \$9 999	10	35	14	50
\$10 000 - \$49 999	4	87	8	232
\$50 000 and above	4	404	2	147
Total Amount Paid/Payable to Consultancies Engaged	18	526	24	429

9. Employee Expenses	2004 \$'000	2003 \$'000
Wages and salaries	5 484	5 540
Superannuation	686	671
TVSP (refer below)	582	-
Long service leave	166	176
Employment on costs	602	564
Commission Members' fees	115	112
Total Employee Expenses	7 635	7 063

Targeted Voluntary Separation Packages (TVSPs)

TVSPs paid to employees during the reporting period
Annual leave and long service leave accrued over years of service

Number of employees who were paid TVSPs during the year	2004 Number of Employees	2003 Number of Employees
	15	-

Remuneration of Employees	2004 Number of Employees	2003 Number of Employees
The number of employees whose remuneration paid or payable was within the following bands:		
\$100 000 - \$109 999	-	1
\$110 000 - \$119 999	-	1
\$130 000 - \$139 999	-	1
\$140 000 - \$149 999	2	1
\$200 000 - \$209 999	1	-
\$240 000 - \$249 999	1	1

Remuneration paid or payable to these employees includes salary, fringe benefit tax and superannuation payments made to or on behalf of employees.

Remuneration of Employees (continued)

The total remuneration paid or payable on behalf of employees whose remuneration was \$100 000 or more

	2004 \$'000	2003 \$'000
	743	747

Commission Members' Remuneration

The number of Commission Members whose remuneration was within the following bands:

\$20 000 - \$29 999
\$30 000 - \$39 999
\$40 000 - \$49 999

2004 Number of Members	2003 Number of Members
4	4
1	-
-	1

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

Total remuneration received or due and receivable, by Commission Members

2004 \$'000	2003 \$'000
137	135

Number of Employees

Number of employees at 30 June
Number of full-time equivalent at 30 June

2004 Number of Employees	2003 Number of Employees
80	97
77.4	93.1

10. Depreciation

Buildings
Plant and equipment
On-line lotteries system

2004 \$'000	2003 \$'000
81	81
353	275
3 029	3 445
3 463	3 801

11. Remuneration of Auditors

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

144	130
------------	-----

12. Cash Reconciliation**(i) Reconciliation of Cash**

Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash

45 349	44 816
---------------	--------

(ii) Reconciliation of Net Cash Inflows from Operating Activities to Operating Profit from Ordinary Activities before Income Tax Equivalent

Operating profit from ordinary activities before income tax equivalent

25 055	25 139
---------------	--------

Add: Gambling tax

56 256	54 766
---------------	--------

Add Non-cash items:

3 463	3 801
--------------	-------

Depreciation

1 116	316
--------------	-----

Changes in assets/liabilities:

1 211	774
--------------	-----

Increase in receivables

(1 900)	278
----------------	-----

Increase in unclaimed prize reserve

1 327	(1 049)
--------------	---------

(Decrease) Increase in prize reserve fund

(42)	110
-------------	-----

Increase (Decrease) in payables

86 486	84 135
---------------	--------

(Decrease) Increase in provisions

13. Receivables

Debtors agents
Prizes receivable from Blocs
Sundry

735	1 972
1 203	1 139
653	709
2 591	3 820

14. Property, Plant and Equipment

Freehold Land and Buildings:

Buildings at independent valuation
Accumulated depreciation

2 930	2 490
-	(169)

Land at independent valuation

2 930	2 321
--------------	-------

Plant and Equipment:

Plant and equipment at historical cost
Accumulated depreciation

4 853	4 873
(3 879)	(3 729)
974	1 144

14.	Property, Plant and Equipment (continued)	2004	2003
	On-line Lotteries System:	\$'000	\$'000
	On-line lotteries system at valuation	12 054	12 054
	Accumulated depreciation	(2 978)	-
		9 076	12 054
	On-line lotteries system at historical cost	380	181
	Accumulated depreciation	(51)	-
		329	181
	Total On-Line Lotteries System	9 405	12 235
	Total Property, Plant and Equipment	17 419	19 010

Reconciliation of Property, Plant and Equipment

	2004				
	Land	Buildings	Plant and Equipment	Online Lotteries System	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Reconciliation of Property, Plant and Equipment:					
Carrying amount at 1 July	3 310	2 321	1 144	12 235	19 010
Additions	-	-	183	201	384
Disposals	-	-	-	(2)	(2)
Revaluation increment	800	690	-	-	1 490
Depreciation	-	(81)	(353)	(3 029)	(3 463)
Carrying Amount at 30 June	4 110	2 930	974	9 405	17 419

	2003				
	Land	Buildings	Plant and Equipment	Online Lotteries System	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Reconciliation of Property, Plant and Equipment:					
Carrying amount at 1 July	3 310	2 402	941	17 319	23 972
Additions	-	-	478	181	659
Disposals	-	-	-	(6)	(6)
Revaluation decrement	-	-	-	(1 814)	(1 814)
Depreciation	-	(81)	(275)	(3 445)	(3 801)
Carrying Amount at 30 June	3 310	2 321	1 144	12 235	19 010

15.	Payables	2004	2003
	Current:	\$'000	\$'000
	Creditors	2 784	3 288
	Prizes payable	10 035	9 494
	Undistributed funds (refer to Note 22)	5 973	6 571
		18 792	19 353
	Non-Current:		
	Creditors	220	208
		19 012	19 561

16.	Employee Benefits	2004	2003
	Current:	\$'000	\$'000
	Provision for employee benefits:		
	Annual leave	236	266
	Long service leave	47	53
	On-costs (accounted for in payables)	56	59
	Accrued salaries and wages	71	20
		410	398
	Non-Current:		
	Provision for employee benefits:		
	Long service leave	769	776
	On-costs (accounted for in payables)	220	208
		989	984
	Aggregate Employee Benefits and Related On-Costs Liabilities	1 399	1 382

17.	Other Liabilities	2004	2003
	Prize Reserve Fund ⁽ⁱ⁾	\$'000	\$'000
	Sales in advance	1 513	1 041
		6 705	8 133
(i)	Prize Reserve Fund:		
	Balance at 1 July	7 092	6 814
	Allocated to prize fund	9 633	9 182
		16 725	15 996
	Applied to prizes	(11 533)	(8 904)
	Balance at 30 June	5 192	7 092

17. Other Liabilities (continued)

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

	Percent
Lotto and SA Lotto	5.0
Oz Lotto and Super 66	3.5
Powerball	2.5
The Pools	2.0

These funds are distributed from time to time as additional or increased prize money in the respective games.

18. Unclaimed Prizes Reserve

	2004	2003
	\$'000	\$'000
Balance at 1 July	7 489	8 266
Unclaimed monies forfeited	3 278	3 102
	10 767	11 368
Monies provided for distribution to the Hospitals Fund	(1 638)	(1 550)
Monies provided for distribution to the Recreation and Sport Fund	(1)	(1)
Promotional tickets	(1 058)	(1 527)
Additional prizes	(1 009)	(801)
Balance at 30 June	7 061	7 489

19. Funds Retained for Capital Purposes

The Commission has retained funds of \$2.976 million which represent the historical cost of the investment in land and buildings at 23 Rundle Mall, Adelaide and 26 Payneham Road, Stepney.

20. Reserves

Asset revaluation ⁽ⁱ⁾	8 089	6 599
Building maintenance ⁽ⁱⁱ⁾	94	94
Capital asset ⁽ⁱⁱⁱ⁾	14 657	13 628
Keno prize ^(iv)	920	1 713
	23 760	22 034
(i) Asset Revaluation:		
Balance at 1 July	6 599	8 413
Transfer to reserve	1 490	-
	8 089	8 413
Transfer from reserve	-	1 814
Balance at 30 June	8 089	6 599
(ii) Building Maintenance		
Balance at 30 June	94	94
(iii) Capital Asset:		
Balance at 1 July	13 628	12 567
Transfer to reserve	2 000	2 000
Transfer to retained profit	(971)	(939)
Net transfer to reserve	1 029	1 061
Balance at 30 June	14 657	13 628
Capital asset comprises the:		
Capital Fund account	11 373	9 757
Capital Fund assets (at amortised value)*	3 284	3 871
	14 657	13 628
Capital Fund Account:		
Balance at 1 July	9 757	8 415
Transfer to reserve	2 000	2 000
Asset financed	(384)	(658)
Balance at 30 June	11 373	9 757
Capital Fund Assets:		
Amortised value at 1 July	3 871	4 152
Assets financed	384	658
Depreciation	(971)	(939)
Amortised value at 30 June	3 284	3 871
* Assets financed from the Capital Fund:		
Balance at 1 July	8 579	7 927
Assets financed	384	658
	8 963	8 585
Assets disposed	(2)	(6)
Balance at 30 June	8 961	8 579
Accumulated depreciation write-down	(5 677)	(4 708)
Capital Fund assets (at amortised value)	3 284	3 871

20.	Reserves (continued)		2004	2003
	(iv) Keno Prize:		\$'000	\$'000
	Balance at 1 July		1 713	2 850
	Transfer to reserve		566	-
			2 279	2 850
	Transfer from reserve		(1 359)	(1 137)
	Balance at 30 June		920	1 713

21.	Retained Operating Profit			
	Retained operating profit at 1 July		-	-
	Transfer to capital asset reserve		(2 000)	(2 000)
	Transfer from Keno prize reserve		1 359	1 137
	Transfer from capital asset reserve		971	939
	Operating profit for the year after income tax equivalent		17 539	17 597
	Dividend provided for in the current year		17 869	17 673
	Transfer to Keno prize reserve from prior profits		(566)	-
	Dividend provided for in the current and prior years		(17 303)	(17 673)
	Retained Operating Profit at 30 June		-	-

22.	Distribution of Funds to Government	Balance 01.07.03 \$'000	Distribution Provided \$'000	Distribution Paid \$'000	Balance 30.06.04 \$'000
	Gambling tax	4 800	56 256	56 465	4 591
	Income tax equivalent	498	7 516	8 012	2
	Dividend	1 078	17 869	17 667	1 280
	Unclaimed prizes	195	1 639	1 734	100
		6 571	83 280	83 878	5 973
	Comprising:				
	Distribution to Hospitals Fund:				
	Gambling tax	4 781	56 119	56 316	4 584
	Income tax equivalent	498	7 516	8 012	2
	Dividend	1 064	17 777	17 567	1 274
	Unclaimed prizes	195	1 638	1 733	100
		6 538	83 050	83 628	5 960
	Distribution to Recreation and Sport Fund:				
	Gambling tax	19	137	149	7
	Dividend	14	92	100	6
	Unclaimed prizes	-	1	1	-
		33	230	250	13
	Total 2003-04	6 571	83 280	83 878	5 973
	Total 2002-03	8 096	81 532	83 057	6 571

23.	Financial Instruments			
	(a) Terms and Conditions of Financial Liabilities			
		The Commission has six loans from the Department of Treasury and Finance, with fixed interest rates ranging from 5.59 percent to 7.21 percent together with a 0.75 percent guarantee fee. All loans are repayable over eight years and the maturity schedule as at 30 June is set out in (b) below.		

	(b) Interest Rate Risk	The effective weighted average interest rate risk is outlined below for the following financial assets and liabilities.
--	-------------------------------	---

Financial Instrument	Floating Interest Rate \$'000	2004				Weighted Average Interest Rate Percent	
		Fixed Interest Maturing					
		1 year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non- Interest Bearing \$'000		
Financial Assets:							
Cash	45 221	-	-	-	128	45 349	
Receivables	-	-	-	-	2 591	2 591	
Total	45 221	-	-	-	2 719	47 940	
Financial Liabilities:							
Payables	-	-	-	-	19 012	19 012	
Interest bearing liabilities	-	1 542	3 887	-	-	5 429	
Total	-	1 542	3 887	-	19 012	24 441	

(b) Interest Rate Risk (continued)

Financial Instrument	Floating Interest Rate	Fixed Interest Maturing				Non-Interest Bearing	Total Amount	Weighted Average Interest Rate
		1 year or Less	Over 1 to 5 Years	More than 5 Years				
		\$'000	\$'000	\$'000	\$'000			
Financial Assets:								
Cash	44 691	-	-	-	-	125	44 816	4.83
Receivables	-	-	-	-	-	3 820	3 820	-
Total	44 691	-	-	-	-	3 945	48 636	
Financial Liabilities:								
Payables	-	-	-	-	-	19 561	19 561	-
Interest bearing liabilities	-	1 452	5 423	6	-	6 881		6.84
Total	-	1 452	5 423	6	19 561	26 442		

(c) Foreign Exchange Risk

The Commission entered into forward exchange contracts to hedge anticipated purchase commitments in US dollars.

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

Buying US Dollars:	2004	2003	Weighted Average	2004	2003
			Rate	\$'000	\$'000
Not longer than one year	0.67	0.59	751	341	
Longer than one year but not longer than two years	0.67	-	751	-	
Longer than two years but not longer than three years	0.67	-	751	-	
			2 253	341	

(d) Credit Risk

The Commission's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position. Credit risk represents the loss that would be recognised if parties holding financial assets of the Commission at balance date fail to honour their obligations under contract.

The Commission minimises its credit risk on trade debtors by undertaking its sales transactions with a large number of agents and requires those agents to remit outstandings on a twice weekly basis; therefore, the Commission is not materially exposed to credit risk.

(e) Net Fair Values

The Commission's accounting policies used to determine the net fair value of financial assets and liabilities are disclosed in Note 2. The aggregate net fair values of recognised financial assets and financial liabilities at the balance date are equal to the carrying values as per the Statement of Financial Position.

24. Related Party Disclosures**Commission Members**

For the full financial year the following persons held the position of Member of the Commission:

Mr H J Ohff, FIEAust, CPEng, BA (Hons) (Presiding Member);
 Mr D P LeMessurier, Ass Dip (Man) SIA (Aff), FAICD, MSDIA, MBA;
 Ms S J Mackenzie, BComm (Accounting), LLB (Hons);
 Mr S K Shirley, BEc, CA, CPA, FTIA; and
 Ms C M Crago, Ass Dip (Bus) BBus (Mktg).

Details of Commission Members' remuneration are set out in Note 9.

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

25. Commitments for Expenditure**Capital Commitments**

Commitments in relation to capital commitments contracted for at the reporting date but not recognised as liabilities, payable:

Not later than one year

	2004	2003
	\$'000	\$'000
	-	183
	-	183

Lease Commitments	2004	2003
	\$'000	\$'000
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than 1 year	604	87
Later than 1 year and not later than 5 years	2 307	186
Later than 5 years and not later than 10 years	3 159	-
	6 070	273

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

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

Other Commitments	2004	2003
	\$'000	\$'000
Commitments in relation to other expenditure contracted for, but yet to be supplied, at the reporting date but not recognised as liabilities, payable:		
Not later than one year	2 890	1 999
Later than one year and not later than five years	3 014	1 434
	5 904	3 433

26. Superannuation

The Commission contributed to the following employee superannuation schemes:

(a) The Commission has an established superannuation scheme for its employees. The scheme accommodates both defined benefit members and accumulation members for benefits payable on resignation, retirement, death or disability.

The scheme is known as Lotteries Commission of South Australia Superannuation Plan (the Plan), a sub-plan of the Corporate Division of the Mercer Super Trust. The assets supporting the defined benefits are invested in the 'Mercer Growth' investment option of the sub-plan.

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

Information from the last actuarial report:	\$'000
Accrued benefits as at 30 June 2003, the last measurement date	7 270
Net market value of assets as at 30 June 2003	7 017

Information from the last audited annual accounts:	
Vested benefits as at 30 June 2003	7 100
Net market value of assets as at 30 June 2003	7 017
Net market value of assets as at 30 June 2003 in excess of vested benefits	(83)

Due to negative investment returns in prior years, the Plan's assets as at 30 June 2003 were less than its vested benefits, resulting in the Plan being in an unsatisfactory financial position (99 percent coverage). The Trustee put in place a plan to restore the Plan to a satisfactory financial position by 30 June 2004 by adopting the actuarial recommended employer contribution rates.

As at 30 June 2004 the Policy Committee for the Plan comprised:

Commission appointed
- S J Mackenzie (Chairman)
- J R Roache

Member representatives
- J Favretto
- P H Wright

For defined benefit members, the Commission pays the contribution level recommended by the actuary appropriate to meet the expected long term cost of benefits being provided. Contribution to the defined benefit plan during the year was \$482 000 (\$431 000).

The contribution by the Commission for the accumulation benefit members of the Plan during the year was \$196 000 (\$164 000).

(b) The Commission contributed \$3 000 (\$3 000) for superannuation on behalf of an employee who is a member of a private fund.

(c) The Commission contributed \$5 000 (\$19 000) to the State Pension Scheme on behalf of an employee who is a member of that scheme.

MOTOR ACCIDENT COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

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

Functions

The functions of the Motor Accident Commission are as follows:

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

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

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

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

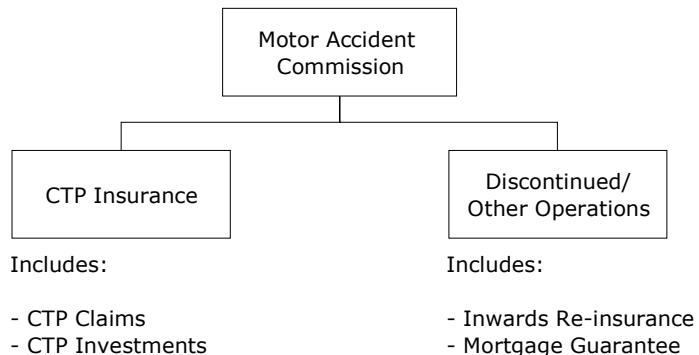
The Commission's Charter specifies that the Commission is empowered to undertake the following classes of insurance:

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

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

Structure

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



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

The administration and management of the CTP claims insurance business was transferred from 1 July 2003 to Allianz Australia Insurance Limited (Allianz) for a period of five and a half years. Investments are managed by a number of external fund managers with the exception of the direct property portfolio which is managed 'in-house'.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 28(3) of the *Motor Accident Commission Act 1992* provides for the Auditor-General to audit the accounts and financial statements of the Commission in respect of each financial year.

Assessment of Controls

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

Scope of Audit

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

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

- investment assets
- investment income
- claims payable
- premiums
- management agreements (CTP) including transition to new CTP managers
- provisions for outstanding claims
- accounts payable
- receivables.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report of the Motor Accident Commission is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Motor Accident Commission's and consolidated entity's financial position as at 30 June 2004 and their performance for the year ended on that date;
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001;
- (b) other mandatory professional reporting requirements in Australia.

Assessment of Controls

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

Audit Communications to Management

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

Claims Management - Compulsory Third Party Fund

2003-04 is the first year that Allianz have been responsible for the claims management of the Compulsory Third Party Fund. The results of the audit indicated that the transition from the previous claims manager to Allianz was satisfactory and that internal controls were in place and operating at the desired level. The audit noted, however, that there were several areas relating to the computerised claims management system used by Allianz where controls could be improved. Allianz is a multinational company with its Australian head office interstate, however the claims management function is undertaken in Adelaide using the claims management system located at its head office. The main areas of audit concern related to availability of system documentation to Adelaide staff, local staff knowledge of business continuity plans which are promulgated by Allianz head office, control over logical access to the system and functionality of the system regarding the calculation of unearned premiums.

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

Provision for Outstanding Claims

The provision for outstanding claims is based upon an actuarially determined estimate of the future cost of settling claims plus a prudential margin to ensure that the amount provided is sufficient given the degree of uncertainty in the estimation process. Audit review of the actuarial report indicated that no analysis had been undertaken of the variability of the scheme to determine the probability of sufficiency that the prudential margin adopted represents. Recent changes to Accounting Standard AASB 1023 'General Insurance Contracts' as part of the International Harmonisation process, effective for reporting periods commencing on or after 1 January 2005, require the disclosure of this information.

Audit recommended that, in view of the future disclosure requirements and to provide the Commission with an enhanced level of comfort regarding the adequacy of the outstanding claims provision, future actuarial reviews include an analysis of the sufficiency of the prudential margin and an estimate of probability it represents.

In response the Commission indicated that such an analysis would be undertaken.

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

	2004 \$'million	2003 \$'million	Percentage Change
UNDERWRITING RESULT			
Net premium revenue	346	305	13
Net claims	(300)	(314)	(4)
Other underwriting expenses	(64)	(59)	8
Underwriting Loss	(18)	(68)	(26)
INVESTMENT RESULT			
Net investment revenue	72	66	9
Investment market value movements	57	(33)	-
Profit on Investment Activities	129	33	-
Net Profit (Loss)	111	(35)	-
Net Cash Flows from Operations	13	(30)	-
ASSETS			
Current assets	390	448	(13)
Non-current assets	1 136	859	32
Total Assets	1 526	1 307	17
LIABILITIES			
Current liabilities	370	432	(14)
Non-current liabilities	1 039	865	20
Total Liabilities	1 409	1 297	9
EQUITY	117	10	-

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

- Underwriting result — Underwriting operations are influenced by premium income, the number of claims and the estimated costs of settling those claims. The underwriting result is determined as premium revenue less claims expense (after the cost and recoveries associated with reinsuring a portion of the insurance portfolio's risk with third parties) and other underwriting costs.
- Investment result — Investment operations is an integral part of any insurance business as the estimated return on invested funds is a significant component of the pricing strategy employed by the business.

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

Statement of Financial Performance

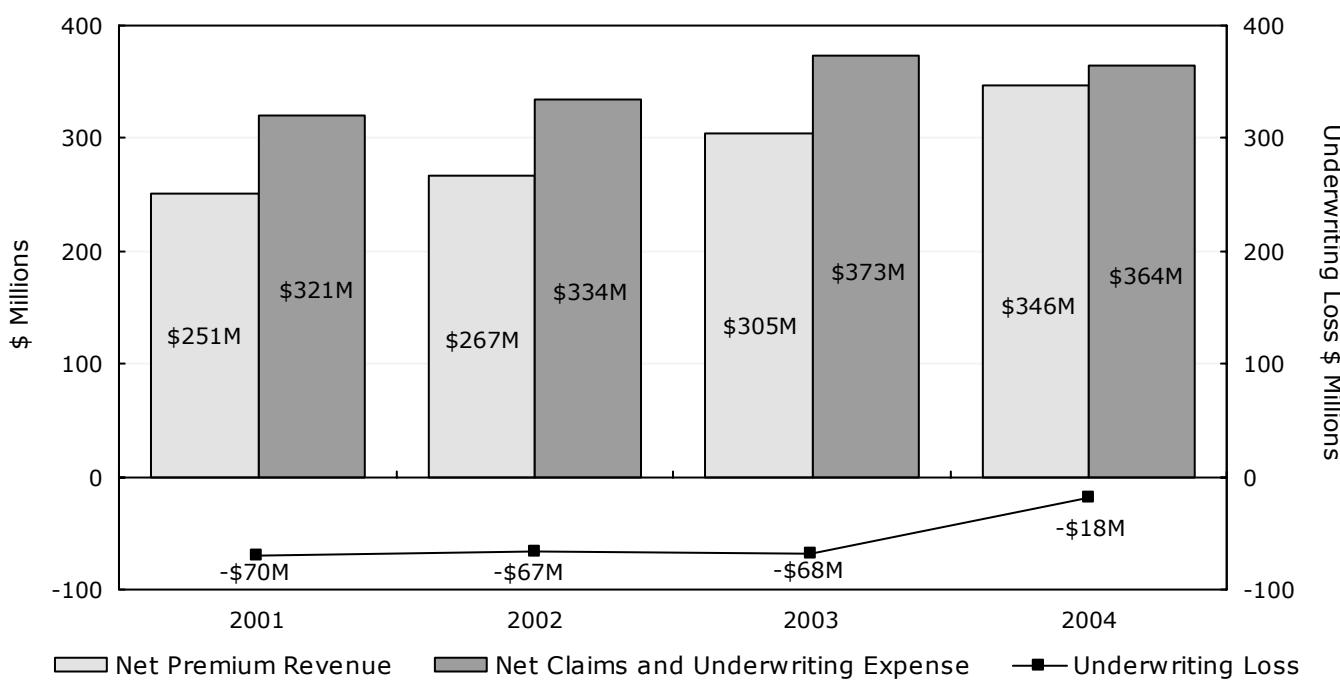
Underwriting Result

The underwriting loss decreased by \$50 million in 2004 to a loss of \$18 million following the relatively stable results of the previous three years. The increase in premiums coupled with decreased claims and underwriting expenses has led to this improved result.

Net premium revenue increased in 2004 by \$41 million or 13 percent which is in line with the premium increase approved by the Treasurer effective from 1 July 2003. The premium increase was 16.4 percent for most classes of vehicles but capped at 9 percent for certain classes. Net premium revenue has increased steadily since 2001. Details of premium increases over the four years to 2004 is provided under the heading 'Solvency Level' herein.

Net claims and underwriting expenses have increased steadily over the same period until 2004 when a decrease of \$9.1 million was experienced. Net claims expense is a combination of actual claim payments and the movement in outstanding claims provision. The claims expense for 2004 was \$301 million, a decrease of \$16 million and comprised gross claim payments of \$196 million (\$256 million in 2003) coupled with the increase in the outstanding claims provision of \$105 million (\$61 million in 2003). This decrease was offset by an increase in other underwriting expenses of \$5 million primarily as a result of increased stamp duty paid on premiums (up \$4.6 million) as shown in the item 'Levies and charges' in Note 6.

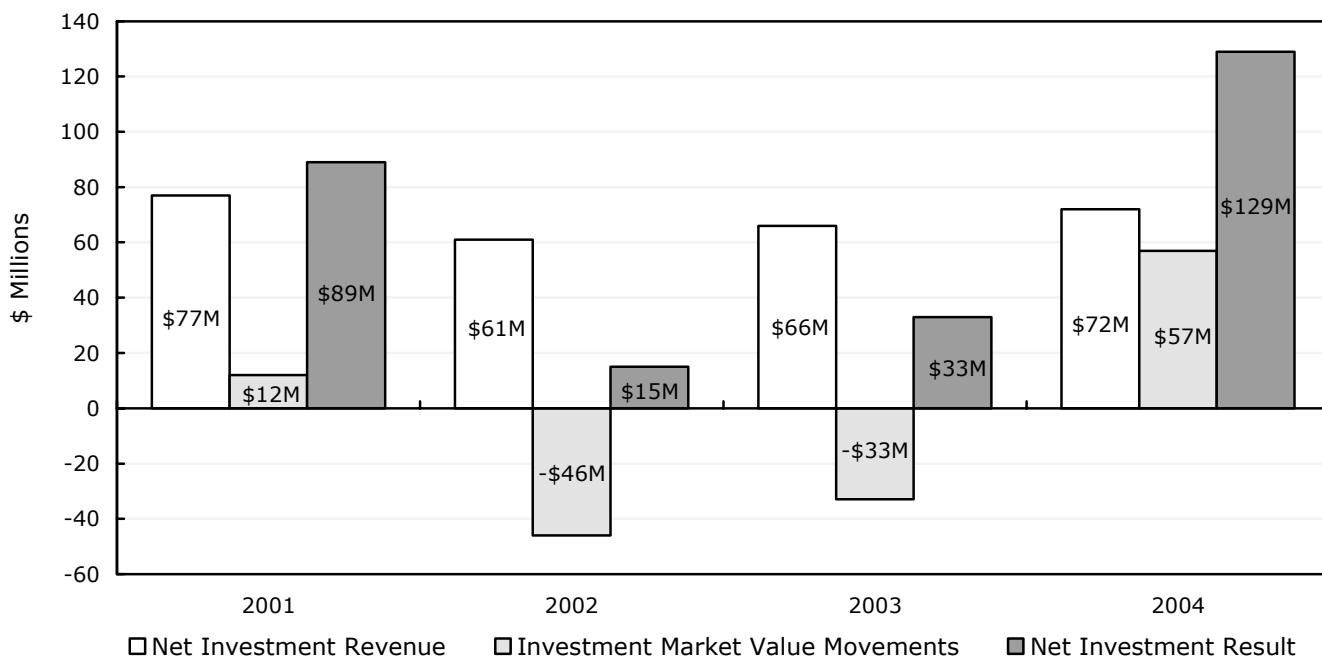
An analysis of the underwriting result for the Commission for the four years to 2004 is presented in the following chart.



Investment Result

The investment result has fluctuated considerably over the last four years primarily as a result of the variation in market value movements. Net investment revenue has remained relatively stable with a \$6 million increase in 2004. Investment market value movements increased by \$57 million in 2004 following decreases of \$46 million and \$33 million for the 2002 and 2003 years respectively. The overall investment result has improved by \$96 million in 2004, of which unrealised market value movements contributed \$90.3 million, which is reflective of the improvements in investment markets following two years of poor results.

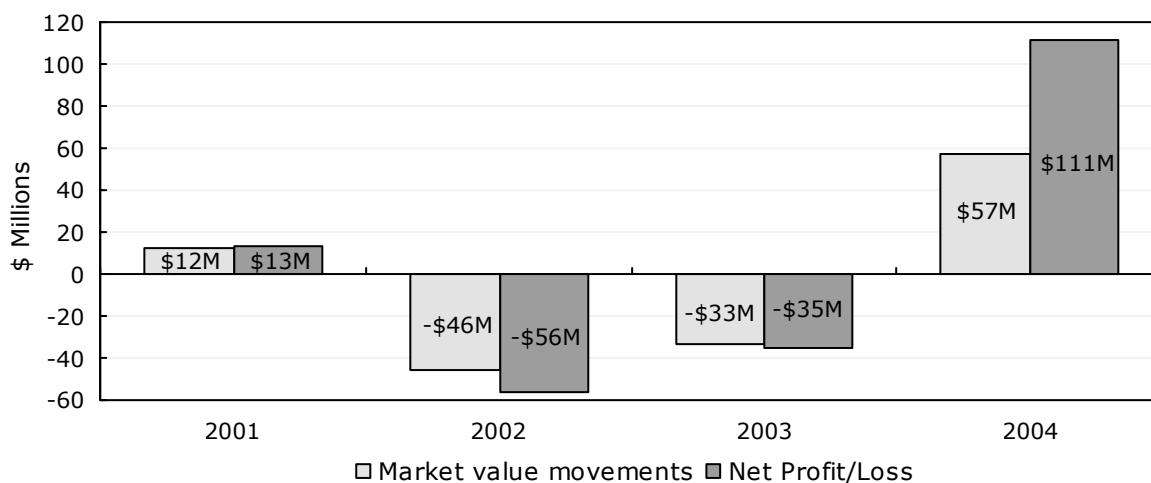
An analysis of the investment result for the Commission for the four years to 2004 is shown in the following chart.



Operating Result

The Commission has recorded an operating profit of \$111 million in 2004, a significant improvement over the losses of the previous two years. The turnaround in operating result is due mainly to the effects of the positive movement in the market value of investments together with a decrease in the cost of net claims.

The following chart shows the correlation between the operating result and the movement in the market value of investments over the four years to 2004 and highlights the significance of market value movements notwithstanding other factors that influence costs and revenues of the Commission. Importantly, the chart highlights that for 2003-04 unrealised market value movements contributed 51 percent of the net profit/loss, much less than in the previous three years. This indicates other factors (eg premium increases and decline in claims expense) have substantially contributed to the improved result.

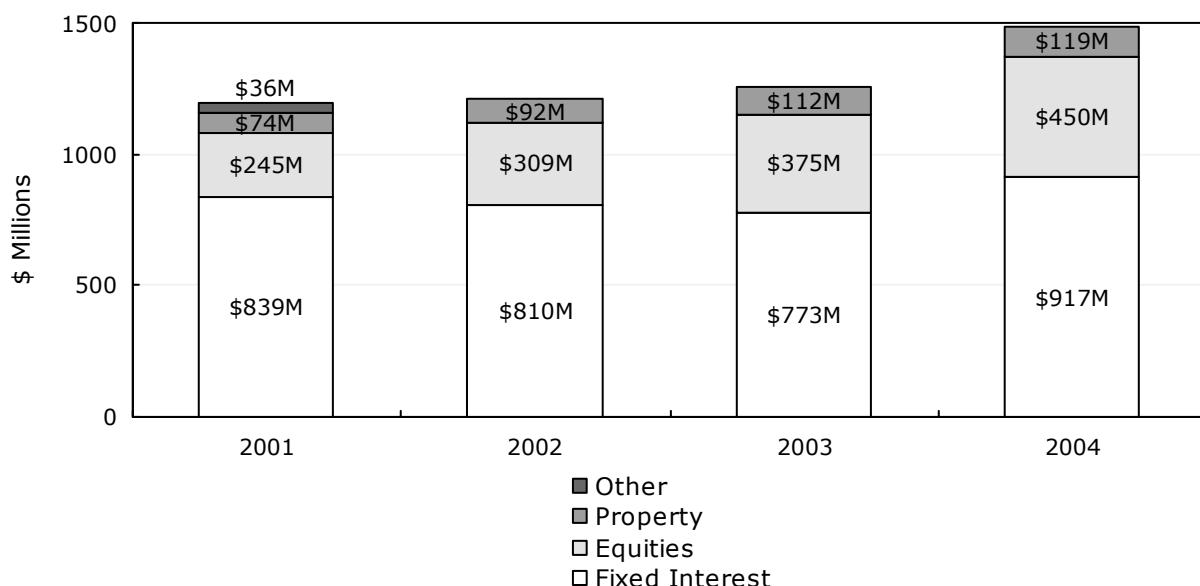


Statement of Financial Position

Investments

The total value of investment assets has increased by \$292 million over the four years to 2004 with investments totalling \$1.5 billion as at 30 June 2004. The portfolio mix over the last two years has been relatively constant. As at 30 June 2004 fixed interest investments accounted for 62 percent, equity 30 percent and property 8 percent of the investment portfolio.

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



Outstanding Claims

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

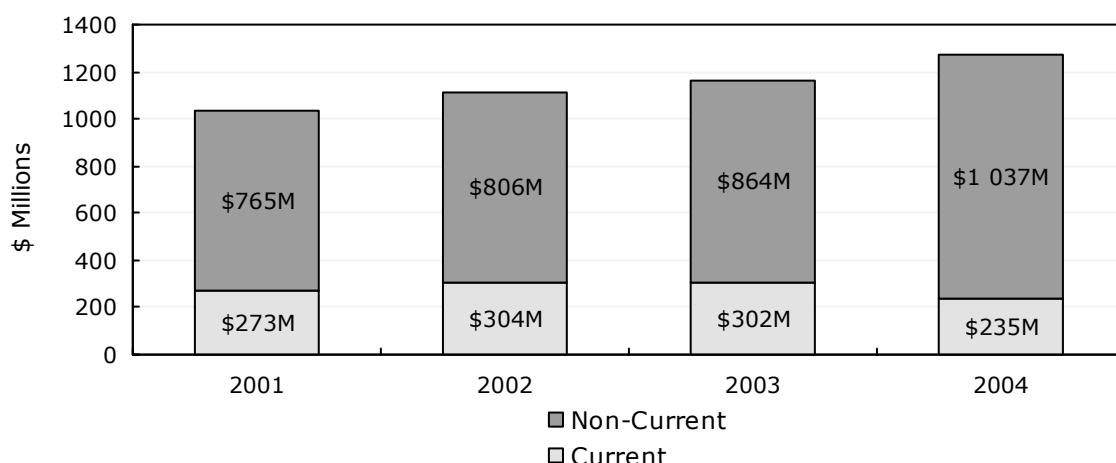
Calculation of the liability is an estimation process and a range of factors, including economic assumptions, affect the calculation. There is therefore a need for professional actuaries to undertake the calculation and for reporting purposes detailed disclosure of a range of the assumptions made in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

The liability calculation is reviewed by independent actuaries for the Commission. Detail of the calculation is provided in Notes 1(g) and 13 to the financial statements.

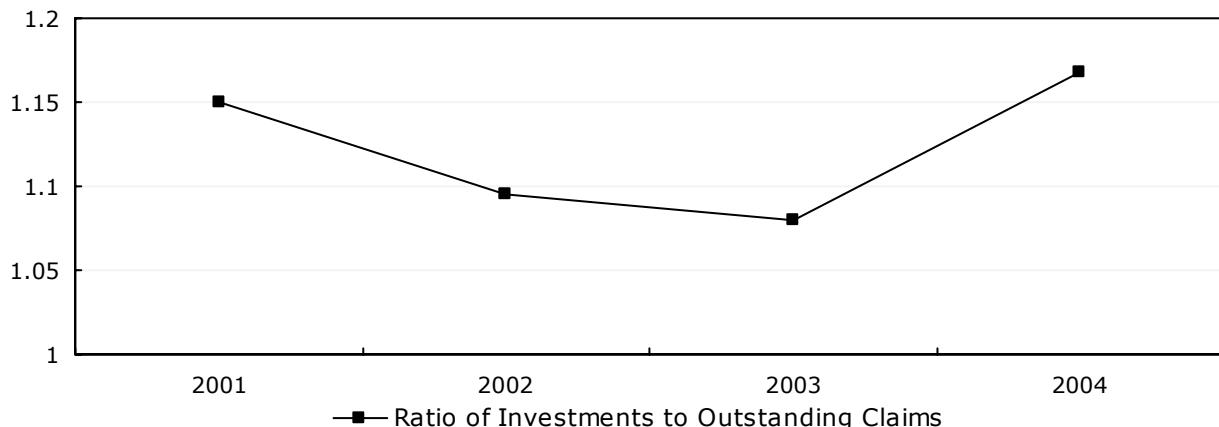
The provision for outstanding claims increased by \$106 million to \$1.3 billion. The movement in the provision is a combination of the estimated cost of settling claims incurred in 2003-04, any changes in the estimated cost of settling claims incurred in previous years, together with any payments made to settle claims. Factors considered by the Actuary which have impacted the estimate of amounts required to settle claims include:

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

The following chart sets out details of the liability for the four years to 2004.



The ratio of investments to outstanding claims liability is shown in the following chart. The ratio has increased markedly in 2004 primarily as a result of an increase in the value of investment assets held as at 30 June.



Solvency Level

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

The primary aim of establishing a benchmark level of solvency is to ensure that the fund can reasonably meet all of its liabilities as they fall due and essentially reflects the target level of reserves deemed by the Treasurer to be appropriate for the CTP fund to provide comfort that the scheme will endure future market turbulence with minimal risk of falling into a negative net assets position. The level of solvency determined by the Treasurer requires that the Commission's assets exceed its liabilities by an amount equal to 10 percent of the provision for outstanding claims plus 10 percent of investments in equities and real properties.

As at 30 June 2004 the target level of reserves, as determined by application of the formula, was \$182.5 million. The net assets of the CTP fund as at that date were \$115.5 million or 63.3 percent of the target level of reserves, a shortfall of \$67 million. This is a significant improvement over the position as at 30 June 2003 where only 2.6 percent of the target solvency level was achieved and was due primarily to the improved performance of investment markets. This turnaround highlights the volatility of the CTP fund on an annual basis and the impact that investment market conditions can have on the achievement of sufficient solvency.

To achieve the target level of reserves required by the Government the Commission in 2003 implemented a five year plan which takes into account expected claims and investment activity and is dependent on the Treasurer allowing premium increases as determined by the independent Third Party Premium Committee (TPPC).

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

TPPC:	2004	2003	2002	2001
	Percent	Percent	Percent	Percent
Recommended rise (effective for the financial year)	16.4	21.7	13.6	7.8
Actual rise	16.4*	15.5	4.7	2.6
Difference	-	6.2	8.9	5.2

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

As can be seen from the foregoing table, for the 3 years prior to 2004 there was a considerable difference between the premium recommended by the TPPC and the amount approved by the Treasurer and only over the last two years has the rise in premiums been close to that recommended by the TPPC.

Subsection 25(3a) of the Act requires that subject to any direction of the Treasurer to the contrary, the Commission must not, while there is less than sufficient level of solvency in the Fund, fix its third party insurance premiums at amounts less than those determined by the TPPC. Application of this subsection since its promulgation in 2002 has contributed to the improved solvency level. For premiums effective from 1 July 2004 the Treasurer approved an increase of 5.5 percent which was the amount recommended by the TPPC.

While the position of the fund has improved as at 30 June 2004 the required level of solvency is still to be achieved. In a practical sense it does not mean that the Commission will be unable to meet its claim obligations. The nature of the insurance industry is such that claims can take many years to settle and generally cash flows from premiums received in any one year are sufficient to meet the claim payments in that year. The liabilities of the Commission are also supported by a Government guarantee pursuant to subsection 21(1) of the *Motor Accident Commission Act 1992*.

Statement of Cash Flows

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

	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
Net Cash Flows				
Operations	12 857	(30 212)	29 508	35 989
Investing	(168)	(33)	270	373
Financing	(5 000)	(10 000)	-	(10 000)
Change in Cash	7 689	(40 245)	29 778	26 362
Cash at 30 June	76 349	68 660	108 905	79 127

The analysis of cash flows shows that the Commission's cash position has improved in 2004 primarily as a result of cash flows from operating activities. This mainly related to an increase in the net cash generated in the course of operations (\$116.6 million, up \$99.6 million from 2003) offset by an increase in the net cash used in the purchase of investments (\$144.2 million, up \$53.2 million from 2003). The increase in the net cash generated in the course of operations in 2004 has resulted from increased cash received from premiums together with a reduction in claim payments in 2004 as compared with 2003. In 2003 claim payments were unusually high as there was a push to finalise claims before the change over in claims manager took effect from 1 July 2003.

MOTOR ACCIDENT COMMISSION AND CONTROLLED ENTITIES**Statement of Financial Performance
for the year ended 30 June 2004**

		CTP		Consolidated		MAC
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000
Premium revenue	4	350 258	307 241	350 258	307 241	350 258
Outwards reinsurance expense		(3 851)	(2 459)	(3 851)	(2 459)	(3 851)
NET PREMIUM		346 407	304 782	346 407	304 782	346 407
Claims expense	5	(301 409)	(317 099)	(301 409)	(317 314)	(301 409)
Reinsurance and other recoveries	4	1 208	2 865	1 218	2 871	1 218
NET CLAIMS	16	(300 201)	(314 234)	(300 191)	(314 443)	(300 191)
Other underwriting expenses	6	(63 644)	(58 685)	(63 797)	(58 914)	(63 797)
UNDERWRITING LOSS		(17 438)	(68 137)	(17 581)	(68 575)	(17 581)
Investment revenue	4	73 559	67 332	73 718	68 279	73 718
Other revenue	4	1	2	2	7	2
Investment management fee		(1 939)	(1 953)	(1 939)	(1 953)	(1 939)
NET INVESTMENT REVENUE		71 621	65 381	71 781	66 333	71 781
Contribution from non-insurance controlled entities		-	-	122	(11)	-
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE MARKET VALUE MOVEMENTS		54 183	(2 756)	54 322	(2 253)	54 200
Investment market value movements (AASB 1023)	4	57 132	(33 203)	57 132	(33 203)	57 132
NET PROFIT (LOSS)		111 315	(35 959)	111 454	(35 456)	111 332

Statement of Financial Position
as at 30 June 2004

	Note	CTP		Consolidated		MAC	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
CURRENT ASSETS:							
Cash		2 136	7 063	3 211	12 585	3 072	12 445
Receivables	7	4 650	7 585	4 685	7 643	4 684	7 763
Reinsurance and other recoveries							
receivable	8	2 990	2 837	2 990	2 837	2 990	2 837
Other financial assets	9	364 485	412 145	364 557	412 219	364 677	412 339
Prepayments		14 338	12 701	14 338	12 701	14 338	12 701
Total Current Assets		388 599	442 331	389 781	447 985	389 761	448 085
NON-CURRENT ASSETS:							
Reinsurance and other recoveries							
receivable	8	12 260	12 015	12 260	12 015	12 260	12 015
Other financial assets	9	1 121 160	847 253	1 121 160	847 253	1 121 180	847 273
Property, plant and equipment	10	-	-	295	228	295	228
Prepayments		2 098	-	2 098	-	2 098	-
Total Non-Current Assets		1 135 518	859 268	1 135 813	859 496	1 135 833	859 516
Total Assets		1 524 117	1 301 599	1 525 594	1 307 481	1 525 594	1 307 601
CURRENT LIABILITIES:							
Payables	11	9 169	12 119	8 975	11 524	8 974	11 521
Unearned income	12	126 307	118 166	126 307	118 166	126 307	118 166
Outstanding claims	13	234 912	302 139	234 914	302 141	234 914	302 141
Provisions	14	-	-	129	86	129	86
Total Current Liabilities		370 388	432 424	370 325	431 917	370 324	431 914
NON-CURRENT LIABILITIES:							
Unearned income	12	1 594	625	1 594	625	1 594	625
Outstanding claims	13	1 036 617	864 347	1 036 710	864 442	1 036 710	864 442
Provisions	14	-	-	79	65	79	65
Total Non-Current Liabilities		1 038 211	864 972	1 038 383	865 132	1 038 383	865 132
Total Liabilities		1 408 599	1 297 396	1 408 708	1 297 049	1 408 707	1 297 046
NET ASSETS		115 518	4 203	116 886	10 432	116 887	10 555
EQUITY:							
Retained profit	24	115 518	4 203	116 886	10 432	116 887	10 555
TOTAL EQUITY		115 518	4 203	116 886	10 432	116 887	10 555
Commitments	17						
Contingent liabilities	26						

Statement of Cash Flows
for the year ended 30 June 2004

	Note	CTP		Consolidated		MAC	
		2004	2003	2004	2003	2004	2003
		Inflows	Inflows	Inflows	Inflows	Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)	(Outflows)	(Outflows)	(Outflows)	(Outflows)
Cash receipts in the course of operations		394 870	356 496	394 878	355 227	394 871	355 227
Cash payments in the course of operations		(283 790)	(332 680)	(283 252)	(338 209)	(283 244)	(338 202)
Proceeds from sale of investments		1 331 430	1 841 336	1 331 432	1 841 655	1 331 432	1 841 655
Payment for investments		(1 475 582)	(1 932 605)	(1 475 582)	(1 932 605)	(1 475 582)	(1 932 605)
Taxes paid		(18 889)	(15 497)	(18 905)	(15 542)	(18 905)	(15 542)
Dividends received		4 811	6 112	4 811	6 114	4 811	6 114
Interest and other investment income		59 286	52 155	59 475	53 148	59 475	53 141
Net Cash Inflows (Outflows) from Operating Activities	23	12 136	(24 683)	12 857	(30 212)	12 858	(30 212)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Payment for property, plant and equipment		-	-	(168)	(33)	(168)	(33)
Net Cash Outflows from Investing Activities		-	-	(168)	(33)	(168)	(33)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Dividends paid		-	-	(5 000)	(10 000)	(5 000)	(10 000)
Net Cash Outflows from Financing Activities		-	-	(5 000)	(10 000)	(5 000)	(10 000)
NET INCREASE (DECREASE) IN							
CASH HELD		12 136	(24 683)	7 689	(40 245)	7 690	(40 245)
CASH AT 1 JULY		63 138	87 821	68 660	108 905	68 520	108 765
CASH AT 30 JUNE	1(s), 23	75 274	63 138	76 349	68 660	76 210	68 520

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

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

The following terms have been used in this report:

Entity – MAC incorporating the CTP Insurance Fund (Fund).
 Economic Entity – MAC and its controlled entities.

(b) This financial report is a general purpose financial report which has been prepared in accordance with applicable Accounting Standards, the *Corporations Act 2001*, relevant Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*, and other mandatory professional requirements (Urgent Issues Group Consensus Views).

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the economic entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

(c) Principles of Consolidation

The consolidated accounts incorporate the results and the assets and liabilities of all entities which, in terms of Accounting Standard AASB 1024 'Consolidated Accounts', are controlled by the entity as at 30 June 2004.

The balances and effects of transactions between controlled entities included in the consolidated accounts have been eliminated.

The entities controlled by MAC are listed in Note 18.

(d) Premium Revenue

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

(e) Investment Income

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

(f) Outwards Reinsurance

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

(g) Claims

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

(i) CTP Claims

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

(ii) Other Claims

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

(h) Reinsurance and Other Recoveries Receivable

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

(i) Collection Charges

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

(j) Levies and Charges

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

(k) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as a part of the cost of acquisition of the asset, or as a part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statements of Financial Position.

Cash flows are included in the Statements of Cash Flows on a gross basis.

(l) Receivables

(i) Trade Debtors

Trade debtors principally relate to premiums collected by Transport SA (Registration and Licensing Section), an agent of MAC, not yet passed over to the Fund. The settlement of these amounts occurs within seven working days.

(ii) Investment Debtors

Investment debtors consist of securities for which contracts for sale had been completed but for which settlement had not been received at balance date together with interest, dividends and rental due on other investments.

The collectability of debts is assessed at balance date and specific allowance is made for any doubtful debts.

(m) Foreign Currency Transactions

Foreign currency transactions are translated at the rates of exchange ruling at the date of the transactions. Amounts in foreign currencies at balance date have been translated at the spot rate of exchange ruling at the close of trading on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the Statements of Financial Performance in the financial year in which the exchange rates change.

(n) Investments

Investments, other than investments in controlled entities, are valued at net fair value, ie net of the expected costs of disposal. Changes in the net fair values of investments at balance date from their net fair values at the previous balance date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the Statements of Financial Performance. Net fair value for each category is established as follows:

(i) Properties

All properties were valued at independent valuations as at 30 June 2004. All independent valuations have been prepared in accordance with guidelines issued by Australian Securities and Investment Commission (ASIC) which embrace the definition of market value established by the Australian Property Institute Incorporated. The definition provides that market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In accordance with the provisions of Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities', properties are treated as integral to the general insurance activities of the entity. As such they are classified as investment properties and are not depreciated.

(ii) Listed Equities and Securities

By market quotations as at 30 June 2004.

(iii) Other Investments

Other investments are valued based on current economic conditions, market interest rates and the latest available information on the investments as considered appropriate by the directors. In respect of significant controlled entities, valuations are reviewed to support the carrying amount.

(o) Employee Benefits

A liability for employee benefits has been accrued at 30 June 2004.

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

Provisions for the employee benefits of wages, salaries, annual leave and long service leave at 30 June 2004 represent the amount which MAC has a present obligation to pay resulting from employees' services provided up to that date. The annual leave and current portion of the long service leave provision are determined based on MAC's estimate of what will be paid at the time the leave is actually taken. It is estimated that the non-current portion of the long service leave provision will be taken outside of 12 months and in accordance with the requirements of Accounting Standard AASB 1028 'Employee Benefits', measurement of this portion of the provision is based on an estimate of the present value of future cash outflows. Related employment on-costs are provided for under payables. No provision was made for sick leave as entitlements do not vest.

(p) Income Tax

MAC is an income tax exempt organisation pursuant to section 24AK of the *Income Tax Assessment Act 1936*.

(i) Controlled Entities

Controlled entities forming part of the consolidated result are exempt from income tax pursuant to section 24AK of the *Income Tax Assessment Act 1936*.

(ii) Other Taxes and Charges

The entity is a registered entity for GST purposes and, effective 1 July 2000, collects and remits GST in the normal course of business. GST collected on premiums paid in advance has been recognised as a liability in the accounts.

Other taxes such as stamp duty are remitted in the normal course of business to the respective authorities.

(q) Property, Plant and Equipment

MAC has adopted the fair value method of valuing its property, plant and equipment assets. Plant and equipment, furniture, fixtures and fittings and computing equipment are recorded at cost and depreciated over their estimated useful lives using the reducing balance method of depreciation. The rates of depreciation are detailed below. Land and buildings are treated as investments and are consequently not subject to depreciation.

Asset Class	Depreciation Rate Percent
Plant and equipment	20.0
Furniture and fittings, office equipment and other assets	20.0
Computing equipment	40.0

(r) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to MAC or the economic entity. Trade accounts payable are normally settled within 30 days.

(s) Cash

For purposes of the Statements of Cash Flows, cash includes cash on hand and at bank, and short term deposits at call, net of bank overdrafts.

(t) Derivatives

The economic entity's activities expose it to changes in interest rates, foreign exchange rates and general consumer prices. It is also exposed to credit, liquidity and cash flow risks from its operations.

It is economic entity policy to consider derivative financial instruments to enhance performance and to hedge cash flows subject to interest rate, foreign exchange rate and general consumer price risks. Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

2.**Changes In Accounting Policies***Impact of Adopting Australian Equivalents to International Financial Reporting Standards*

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

The new standard, AASB 1047 'Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards', requires a note disclosure in this year's financial statements that explains how the entity is managing the transition to IFRS and gives a narrative of the expected key differences in accounting policies as a result of the adoption of IFRS.

Managing the Process

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

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- key dates for monitoring and reviewing progress.

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

Key Potential Implications

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

Change in Accounting Policy

Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects, except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Insurance Contracts

In relation to the insurance standard AASB 1023 'General Insurance Contracts', potential impacts arise in relation to the levels of prudential margins in claims provision, revaluation of assets held against claim liabilities and unearned income provision requirements.

Financial Instruments

In accordance with AASB 139 'Financial Instruments: Recognition and Measurement', financial instruments must be recognised in the Statement of Financial Position and all derivatives and most financial assets must be carried at fair value rather than at net fair value as currently required.

	Profit from Ordinary Activities	CTP	Consolidated		MAC	
			2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
3.	Profit from ordinary activities before income tax is arrived at after crediting and charging the following specific items:					
	Credits:					
	Interest received/receivable:					
	Other persons and/or corporations	51 322	50 330	51 322	51 273	51 322
	Dividends received/receivable:					
	Other persons and/or corporations	7 192	7 609	7 192	7 611	7 192
	Charges:					
	Amounts set aside to provide for:					
	Employee benefits	-	-	-	52	-
	Bad and doubtful debts	(164)	(19)	(164)	(19)	(164)
	Depreciation of plant and equipment	-	-	101	13	101
4.	Revenue from Ordinary Activities					
	Premium Revenue:					
	Direct	350 258	307 241	350 258	307 241	350 258
		350 258	307 241	350 258	307 241	350 258
	Reinsurance and Other Recoveries:					
	Reinsurance	-	(923)	-	(923)	-
	Other	1 208	3 788	1 218	3 794	1 218
		1 208	2 865	1 218	2 871	1 218
	Investment Revenue:					
	Dividends	7 192	7 609	7 192	7 611	7 192
	Interest	51 320	50 330	51 479	51 273	51 479
	Rentals	6 939	6 554	6 939	6 554	6 939
	Profit (Loss) - Investments realised	8 108	2 839	8 108	2 841	8 108
		73 559	67 332	73 718	68 279	73 718
	Investment Market Value Movements					
	- Unrealised gains (losses) (AASB 1023):					
	Fixed interest	(3 610)	6 091	(3 610)	6 091	(3 610)
	Equities	58 663	(41 270)	58 663	(41 270)	58 663
	Properties	2 032	1 976	2 032	1 976	2 032
	Futures	47	-	47	-	47
		57 132	(33 203)	57 132	(33 203)	57 132
	Other Revenue:					
	Foreign exchange gains	1	2	1	6	1
	Other revenue	-	-	1	1	1
		1	2	2	7	2
	Total Revenue from Ordinary Activities					
		482 158	344 237	482 328	345 195	482 328
5.	Claims Expense					
	Direct	301 409	317 099	301 409	317 314	301 409
		301 409	317 099	301 409	317 314	301 409

	Other Underwriting Expenses		Consolidated		MAC	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Management expenses	20 212	20 527	20 365	20 756	20 365	20 756
Levies and charges	37 807	33 162	37 807	33 162	37 807	33 162
Collection charges	5 625	4 996	5 625	4 996	5 625	4 996
	63 644	58 685	63 797	58 914	63 797	58 914

Receivables						
	Current:					
Trade debtors	1 950	3 487	1 964	3 509	1 963	3 500
Other debtors	10	5	26	5	26	134
	1 960	3 492	1 990	3 514	1 989	3 634
Investment debtors	2 739	4 306	2 744	4 342	2 744	4 342
Less: Allowance for doubtful debts	49	213	49	213	49	213
	2 690	4 093	2 695	4 129	2 695	4 129
	4 650	7 585	4 685	7 643	4 684	7 763

Other debtors generally arise from transactions outside the usual operating activities of the economic entity.

Investment debtors consists of equities listed on stock exchanges for which contracts of sale had been completed but for which settlement had not been received at balance date together with interest, dividends and rental due on other investments.

Reinsurance and Other Recoveries	Receivable					
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Expected future recoveries (undiscounted)	18 855	17 618	18 855	17 618	18 855	17 618
Discount to present value*	(3 605)	(2 766)	(3 605)	(2 766)	(3 605)	(2 766)
Reinsurance and other recoveries receivable	15 250	14 852	15 250	14 852	15 250	14 852
Reinsurance and other recoveries receivable:						
Current	2 990	2 837	2 990	2 837	2 990	2 837
Non-Current	12 260	12 015	12 260	12 015	12 260	12 015
	15 250	14 852	15 250	14 852	15 250	14 852

* Refer to Note 13(b) for details of the inflation and discount rates used in the determination of this discounting adjustment.

Other Financial Assets	CTP					
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current:						
Fixed Interest:						
Deposits at call	73 138	56 075	73 138	56 075	73 138	56 075
Bank bills	67 494	119 295	67 494	119 295	67 494	119 295
Foreign currency	-	-	72	74	72	74
Floating rate notes	-	30 135	-	30 135	-	30 135
Government securities	86 175	119 369	86 175	119 369	86 175	119 369
Corporate debentures	137 387	87 271	137 387	87 271	137 387	87 271
Loans to controlled entities	-	-	-	-	120	120
Futures	291	-	291	-	291	-
Total Current Investments	364 485	412 145	364 557	412 219	364 677	412 339
Non-Current:						
Fixed Interest:						
Government securities	330 728	117 648	330 728	117 648	330 728	117 648
Corporate debentures	127 099	152 823	127 099	152 823	127 099	152 823
Commercial mortgages	4 344	4 656	4 344	4 656	4 344	4 656
Floating rate notes	20 342	20 240	20 342	20 240	20 342	20 240
Capital indexed bonds	69 438	64 942	69 438	64 942	69 438	64 942
Equities:						
Listed on stock exchanges	265 914	225 495	265 914	225 495	265 914	225 495
Unlisted	-	-	-	-	20	20
International equities	184 000	149 303	184 000	149 303	184 000	149 303
Property:						
Independent valuation/certificate	81 813	78 888	81 813	78 888	81 813	78 888
Domestic listed property trusts	37 482	33 258	37 482	33 258	37 482	33 258
Total Non-Current Investment	1 121 160	847 253	1 121 160	847 253	1 121 180	847 273
Total Investments	1 485 645	1 259 398	1 485 717	1 259 472	1 485 857	1 259 612

Property Valuations

Independent valuations as at 30 June 2004 were determined by:

Mark Smallhorn	Certified Practising Valuer, FAPI
Simon Hickin	Certified Practising Valuer, FAPI
Elisa Fennelly	Certified Practising Valuer, AAPI
David Mintern	Certified Practising Valuer, AAPI
Andrew Purton	Certified Practising Valuer, AAPI

10.	Property, Plant and Equipment	CTP	Consolidated		MAC
			2004 \$'000	2003 \$'000	
	Furniture and fittings, office equipment and other assets				
	Accumulated depreciation				
		-	-	323	199
		-	-	(57)	(27)
				266	172
	Plant and equipment				
	Accumulated depreciation				
		-	-	(10)	(18)
		-	-	29	43
	Computing equipment				
	Accumulated depreciation				
		-	-	(39)	(39)
				-	-
				13	13
	Total Property, Plant and Equipment			295	228
	Furniture and fittings, office equipment and other assets:				
	Carrying amount at beginning of year				
		-	-	172	177
	Additions			132	-
	Depreciation			(38)	(5)
	Carrying amount at end of year			266	172
	Plant and equipment:				
	Carrying amount at beginning of year				
		-	-	43	17
	Additions			10	31
	Disposals			-	(2)
	Depreciation			(24)	(3)
	Carrying amount at end of year			29	43
	Computer equipment:				
	Carrying amount at beginning of year				
		-	-	13	18
	Additions			26	3
	Disposals			-	(3)
	Depreciation			(39)	(5)
	Carrying amount at end of year			-	13
11.	Payables				
	Current:				
	Trade creditors				
		-	-	227	140
	Investment creditors			1 061	4 054
	Other creditors and accruals			7 687	7 330
	Due to related parties			421	735
				9 169	12 119
				8 975	11 524
	9 169	12 119	8 975	11 524	8 974
12.	Unearned Income				
	Current:				
	Unearned premium			126 045	117 668
	Unearned rental income			262	498
				126 307	118 166
	Non-Current:				
	Unearned premium			1 231	-
	Unearned rental income			363	625
				1 594	625
				127 901	118 791

13. Outstanding Claims

	CTP		Consolidated		MAC	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Expected future claims payments (undiscounted)	1 644 646	1 347 129	1 644 741	1 347 226	1 644 741	1 347 226
Discount to present value	(373 117)	(180 643)	(373 117)	(180 643)	(373 117)	(180 643)
Liability for Outstanding Claims	1 271 529	1 166 486	1 271 624	1 166 583	1 271 624	1 166 583
Current	234 912	302 139	234 914	302 141	234 914	302 141
Non-Current	1 036 617	864 347	1 036 710	864 442	1 036 710	864 442
	1 271 529	1 166 486	1 271 624	1 166 583	1 271 624	1 166 583

	2004		
	CTP \$'000	Consolidated \$'000	MAC \$'000
<i>Reconciliations</i>			
Outstanding claims - Current:			
Carrying amount at beginning of year	302 139	302 141	302 141
Provisions made during the year	(50 250)	(50 250)	(50 250)
Payments made during the year	(16 977)	(16 977)	(16 977)
Carrying Amount at End of Year	234 912	234 914	234 914

	2004		
	CTP \$'000	Consolidated \$'000	MAC \$'000
<i>Reconciliations</i>			
Outstanding claims - Non-current:			
Carrying amount at beginning of year	864 347	864 442	864 442
Provisions made during the year	350 557	350 557	350 557
Payments made during the year	(178 287)	(178 289)	(178 289)
Carrying Amount at End of Year	1 036 617	1 036 710	1 036 710

	2003		
	CTP \$'000	Consolidated \$'000	MAC \$'000
<i>Reconciliations</i>			
Outstanding claims - Current:			
Carrying amount at beginning of year	303 593	304 046	304 046
Provisions made during the year	16 957	16 957	16 957
Payments made during the year	(18 411)	(18 862)	(18 862)
Carrying Amount at End of Year	302 139	302 141	302 141

	2003		
	CTP \$'000	Consolidated \$'000	MAC \$'000
<i>Reconciliations</i>			
Outstanding claims - Non-current:			
Carrying amount at beginning of year	801 767	806 470	806 470
Provisions made during the year	300 142	300 142	300 142
Payments made during the year	(237 562)	(242 170)	(242 170)
Carrying Amount at End of Year	864 347	864 442	864 442

(b) The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:

	CTP		Consolidated		MAC	
	2004 Percent	2003 Percent	2004 Percent	2003 Percent	2004 Percent	2003 Percent
For the succeeding year:						
Inflation rate	6.75	6.25	6.75	6.25	6.75	6.25
Discount rate	5.80	4.60	5.80	4.60	5.80	4.60
For subsequent years:						
Inflation rate	6.75	6.25	6.75	6.25	6.75	6.25
Discount rate	5.80	4.60	5.80	4.60	5.80	4.60
(c) The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be:	2004 Years	2003 Years	2004 Years	2003 Years	2004 Years	2003 Years
	5.0	3.4	5.0	3.4	5.0	3.4

The method of calculating outstanding claims is set out in detail in Note 1(g).

The claims provision as at 30 June 2004 for the Compulsory Third Party Fund has been reviewed by Mr L C Brett B.Sc, FIA, FIAA and Mr B A Watson B.Sc, FIAA of Brett & Watson Pty Ltd. For this Fund, the directors have adopted the central estimate as determined by the actuary and applied the recommended prudential margin of 15 percent (15 percent).

For Inwards Reinsurance, the directors have adopted an internal valuation of the estimated outstanding liability.

14.	Provisions	2004		2003		2004		2003	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Current:								
	Employee benefits	-	-	129	86	129	86	129	86
		-	-	129	86	129	86	129	86
	Non-Current:								
	Employee benefits	-	-	79	65	79	65	79	65
		-	-	79	65	79	65	79	65
		-	-	208	151	208	151	208	151

15. Additional Financial Instrument Disclosures

(1) Derivative Financial Instruments

Options

The economic entity may enter into options that give it the right but not the obligation to purchase or sell specified securities and financial instruments. Options are entered into as a hedge against market risk. As at balance date there were no options held.

Net Fair Values

The net fair values of the economic entity's derivative financial instruments which are traded on organised markets at balance date are those disclosed below under Interest Rate Risk. All exchange traded financial instruments are carried at net fair value.

(2) Foreign Exchange Risk

The economic entity enters into forward exchange contracts to hedge certain financial assets and claims liabilities denominated in foreign currencies (principally United States dollars). The terms of these commitments are rarely more than three months. It is economic entity policy to enter into forward foreign exchange contracts to hedge a proportion of foreign currency purchases and sales expected in each month. The amount of anticipated future purchases and sales is forecast in the light of current conditions in foreign exchange markets and information from insurers.

As at 30 June 2004, the economic entity held no open forward foreign exchange contracts however it did hold physical foreign currency deposits as a hedge against liabilities denominated in foreign currencies.

(3) Interest Rate Risk

The economic entity's exposure to interest rate risk, repricing maturities and the weighted average effective interest rates on financial assets and liabilities at balance date is set out below:

	Financial Assets:	Interest	Consolidated*			Non-Interest Bearing	2004 Total		
			Fixed Interest Rate Maturities						
			Less than 1 Year	1 - 5 Years	Over 5 Years				
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
	Cash	76 349	-	-	-	-	76 349		
	Debtors	-	-	-	-	5 106	5 106		
	Bonds	-	86 175	330 728	-	-	416 903		
	Corporate bonds	-	137 387	127 099	-	-	264 486		
	Floating rate notes	20 342	-	-	-	-	20 342		
	Indexed annuities	-	-	-	4 344	-	4 344		
	Capital indexed bonds	-	-	7 281	62 158	-	69 439		
	Non-Callable deposits and promissory notes	-	67 494	-	-	-	67 494		
	Foreign currency	-	72	-	-	-	72		
	Futures	-	-	-	-	291	291		
	Shares and other equity instruments	-	-	-	-	487 395	487 395		
	Total Financial Assets	96 691	291 128	465 108	66 502	492 792	1 412 221		
	Weighted average interest rate percent	4.99	5.58	5.54	3.51				
	Financial Liabilities:								
	Creditors	-	-	-	-	9 396	9 396		
	Total Financial Liabilities	-	-	-	-	9 396	9 396		
	Net Financial Assets	96 691	291 128	465 108	66 502	483 396	1 402 825		

(3) Interest Rate Risk (continued)

	Financial Assets:	Interest Rate	Consolidated*				Non-Interest Bearing	2003 Total		
			Fixed Interest Rate Maturity							
			Less than 1 Year	1 - 5 Years	Over 5 Years					
		\$'000	\$'000	\$'000	\$'000		\$'000	\$'000		
Cash		68 660	-	-	-	-	-	68 660		
Debtors		-	-	-	-	8 507	8 507			
Bonds		-	119 369	117 648	-	-	-	237 017		
Corporate bonds		-	87 271	152 823	-	-	-	240 094		
Floating rate notes		50 375	-	-	-	-	-	50 375		
Indexed annuities		-	-	-	4 656	-	-	4 656		
Capital indexed bonds		-	-	7 329	57 613	-	-	64 942		
Non-Callable deposits and promissory notes		-	119 294	-	-	-	-	119 294		
Foreign currency		-	74	-	-	-	-	74		
Shares and other equity instruments		-	-	-	-	408 057	408 057			
Total Financial Assets		119 035	326 008	277 800	62 269	416 564	1 201 676			
Weighted average interest rate percent		4.49	3.84	4.65	3.23	-	-			
Financial Liabilities:										
Creditors		-	-	-	-	12 388	12 388			
Total Financial Liabilities		-	-	-	-	12 388	12 388			
Net Financial Assets		119 035	326 008	277 800	62 269	404 176	1 189 288			

* In accordance with Accounting Standard AASB 1033 'Presentation and Disclosure of Financial Instruments', only consolidated disclosure is provided.

<i>Reconciliation of Net Financial Assets</i>	2004	2003
	\$'000	\$'000
Net Financial Assets	1 402 825	1 189 288
<i>Add:</i>		
Reinsurance and other recoveries receivable	15 250	14 852
Prepayments	16 436	12 701
Investments - Property assets	81 813	78 888
Property, plant and equipment	295	228
<i>Less:</i>		
Unearned premium	127 901	118 791
Outstanding claims	1 271 624	1 166 583
Provisions	208	151
Net Assets	116 886	10 432

(4) Credit Risk

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

Recognised Financial Instruments

The carrying amounts of financial assets included in the Statements of Financial Position represent the economic entity's maximum exposure to credit risk to these assets. The economic entity minimises concentrations of credit risk by undertaking transactions with a large number of counterparties. The economic entity is not materially exposed to any individual counterparty.

Unrecognised Financial Instruments

Credit risk on unrecognised derivative contracts is minimised as counterparties are recognised financial intermediaries trading on recognised and reputable exchanges or have acceptable credit ratings determined by a recognised ratings agency. The credit exposure of financial derivative assets is represented by the net fair value of the contracts as disclosed.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the economic entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the economic entity.

(5) Market Risk

In addition to the effects of movements in interest rates, the CTP Fund is exposed to market risks influencing investment valuations.

Market risk represents the risk of adverse movements in markets for derivatives, or the underlying asset or index to which the derivative relates. Market risk analysis is conducted on a regular basis and before any new positions are put into place. It is conducted on a total portfolio basis, incorporating both physical investments and the effective exposure of all derivative positions.

(6) Liquidity and Cash Flow Risk

The liquidity risks associated with the need to satisfy requests for redemptions are mitigated by maintaining sufficient cash reserves to satisfy usual levels of demand and ensuring a very high proportion of the Fund is invested in securities that are actively traded and highly liquid. Liquidity risks are minimised through trading with approved exchanges and counterparties.

16. Net Claims Incurred

Current period claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods.

Direct Business	2004			2003			MAC		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
Gross claims incurred and related expenses - Undiscounted	411 497	82 416	493 913	411 497	82 416	493 913	411 497	82 416	493 913
Reinsurance and other recoveries	(4 277)	1 907	(2 370)	(4 277)	1 897	(2 380)	(4 277)	1 897	(2 380)
Net Claims Incurred - Undiscounted	407 220	84 323	491 543	407 220	84 313	491 533	407 220	84 313	491 533
Discount and discount movement	(101 472)	(90 709)	(192 181)	(101 472)	(90 709)	(192 181)	(101 472)	(90 709)	(192 181)
- Gross claims incurred									
Discount and discount movement									
- Reinsurance and other recoveries									
Net Discount Movement	928	(89)	839	928	(89)	839	928	(89)	839
NET CLAIMS INCURRED	(100 544)	(90 798)	(191 342)	(100 544)	(90 798)	(191 342)	(100 544)	(90 798)	(191 342)
	306 676	(6 475)	300 201	306 676	(6 485)	300 191	306 676	(6 485)	300 191

Direct Business	2003			2002			MAC		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
Gross claims incurred and related expenses - Undiscounted	340 656	(27 253)	313 403	340 656	(27 038)	313 618	340 656	(27 038)	313 618
Reinsurance and other recoveries	(4 051)	1 748	(2 303)	(4 051)	1 742	(2 309)	(4 051)	1 742	(2 309)
Net Claims Incurred - Undiscounted	336 605	(25 505)	311 100	336 605	(25 296)	311 309	336 605	(25 296)	311 309
Discount and discount movement	(44 906)	48 602	3 696	(44 906)	48 602	3 696	(44 906)	48 602	3 696
- Gross claims incurred									
Discount and discount movement									
- Reinsurance and other recoveries									
Net Discount Movement	694	(1 256)	(562)	694	(1 256)	(562)	694	(1 256)	(562)
NET CLAIMS INCURRED	(44 212)	47 346	3 134	(44 212)	47 346	3 134	(44 212)	47 346	3 134
	292 393	21 841	314 234	292 393	22 050	314 443	292 393	22 050	314 443

17. Commitments	Operational Expenditure Commitments	2004 \$'000	CTP	Consolidated		MAC 2004 \$'000	2003 \$'000
			2003 \$'000	2004 \$'000	2003 \$'000		
Sponsorship expenditure*							
Contracted but not provided for and payable:							
Not later than one year	500	500	500	500	500	500	500
Later than one year and no later than five years	2 000	2 000	2 000	2 000	2 000	2 000	2 000
Later than five years	1 500	2 000	1 500	2 000	1 500	2 000	2 000
	4 000	4 500	4 000	4 500	4 000	4 500	4 500

* The amounts indicated above are contract amounts and do not allow for CPI adjustments.

Management Agreements

Pursuant to a CTP Operations Contract, MAC has contracted Allianz Australia Insurance Limited (AAL) to manage the claims management operations of the Fund for a period of 5 1/2 years, commencing on 1 July 2003. A base management fee is payable each year to AAL until the contract concludes. AAL is part of Allianz AG.

18. Investment in Controlled Entities	Principal Activity	Entity Interest		Investment of MAC at Cost		Contribution to Consolidated Profit	
		2004 Percent	2003 Percent	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
MAC							
Controlled Entities:							
Southern Group Insurance Corporation Limited	Trustee	100	100	20	20	122	(11)
Consolidated Profit (Loss)						111 454	(35 456)

The controlled entity is incorporated in Australia.

19. Investment in Associated Entities

Material investments as at 30 June 2004 in associated entities are as follows:

Name of Company	Principal Activity	Contribution to Entity ^(a)	
		2004 \$'000	2003 \$'000
Unlisted:			
SBC Warburg Dillon Read Capital Partners Trust	Investments	-	2
SBC Warburg Dillon Read Mezzanine Fund	Investments	-	2

(a) Contribution to entity includes interest, dividends received and movements in market value.

20. Segment Information

The entity's predominant operation is that of the Compulsory Third Party insurer in South Australia.

21. Auditors' Remuneration

Amounts received or due and receivable for auditing the accounts and consolidated accounts of the entity and the accounts of each of its controlled entities by:

Auditor-General's Department

	CTP	Consolidated		MAC		
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Auditor-General's Department	95	93	107	104	105	103

The auditors provided no other services to the entity during the financial year.

22. Employee Benefits

Aggregate liability for employee benefits including on costs:

Current:

Employee benefits provision:

Annual Leave

On costs

Non-Current:

Employee benefits provision:

Long service leave

	CTP	Consolidated		MAC		
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Employee benefits provision:						
Annual Leave	-	-	129	86	129	86
On costs	-	-	34	25	34	25
	-	-	163	111	163	111
Non-Current:						
Employee benefits provision:						
Long service leave	-	-	79	65	79	65
	-	-	79	65	79	65
	-	-	242	176	242	176

23. Reconciliation of Cash**(1) Reconciliation of Cash**

Cash

Deposits at call

2 136	7 063	3 211	12 585	3 072	12 445
73 138	56 075	73 138	56 075	73 138	56 075
75 274	63 138	76 349	68 660	76 210	68 520

(2) Reconciliation of Net Cash Inflows from Operating Activities

Net profit (loss)

Add (Less) Non-cash items:

Depreciation

Amounts set aside to provisions

(Profit) loss on sale and revaluation to market value of investments

Net foreign exchange profit (loss)

Increase (Decrease) in taxes payable and provisions

Net cash inflows (outflows) from operating activities before changes in assets and liabilities

Change in assets and liabilities:

(Increase) Decrease in investments

(Increase) Decrease in receivables

Increase (Decrease) in payables and provisions

Increase (Decrease) in outstanding claims

Increase (Decrease) in unearned premium

Net Cash Inflows (Outflows) from Operating Activities

111 315	(35 959)	111 454	(35 456)	111 332	(35 445)
-	-	101	17	101	17
(164)	(19)	(164)	(19)	(164)	(19)
(65 239)	30 364	(65 239)	30 364	(65 239)	30 364
(1)	2	(3)	(12)	(3)	(12)
-	-	(16)	12	(16)	12
45 911	(5 612)	46 133	(5 094)	46 011	(5 083)
(147 083)	(98 202)	(147 079)	(97 877)	(147 079)	(97 877)
760	(2 527)	1 195	(3 839)	1 187	(3 837)
(1 707)	3 253	(1 644)	3 252	(1 513)	3 239
104 644	61 222	104 641	56 163	104 641	56 163
9 611	17 183	9 611	17 183	9 611	17 183
12 136	(24 683)	12 857	(30 212)	12 858	(30 212)

24.	Retained Profit	CTP	Consolidated		MAC
			2004 \$'000	2003 \$'000	
	Retained profit at 1 July		4 203	40 162	10 432
	Initial adoption of AASB 1004 'Provisions, Contingent Liabilities and Contingent Assets'		-	-	10 000
	Net profit (loss)		111 315	(35 959)	111 454
	Total Available for Appropriation		115 518	4 203	121 886
	Dividend payable to the South Australian Government		-	-	(5 000)
	Retained Profit at 30 June		115 518	4 203	116 886
					10 432
					116 887
					10 555

25. Sufficient Level of Solvency

Subsection 14(3) of the *Motor Accident Commission Act 1992* (MAC Act) defines as one of the principal objectives of the Commission, the objective of achieving and maintaining a Sufficient Level of Solvency in the CTP Fund. The formula to calculate a Sufficient Level of Solvency was published in The South Australian Government Gazette on 19 December 2002 and specifies that the Fund will have a Sufficient Level of Solvency if its assets are greater than its liabilities by an amount equal to 10 percent of the provision for outstanding claims plus 10 percent of investments in equities and real property.

The Statement of Financial Position for the CTP Fund as at 30 June 2004 discloses net assets \$115.6 million, or 63.3 percent of the target level of sufficient solvency as calculated using the above formula. The accounts are prepared on a going concern basis after consideration of the following issues:

- The Fund reports positive net assets as at 30 June 2004;
- The Fund's investment strategy ensures adequate liquidity to meet liabilities as and when they fall due;
- MAC has developed a strategy to work towards the achievement of a Sufficient Level of Solvency over a five year time period;
- MAC is supported by a Government guarantee pursuant to subsection 21(1) of the MAC Act.

26. Contingent Liabilities

Insurance underwriting by its very nature has liabilities contingent upon certain events occurring which give rise to a claim under the policy of insurance. All of the known and expected claims in respect of events that have occurred up to balance date have been accounted for in the preparation of these financial statements. Occasionally certain claims may require legal judgement to determine a suitable settlement. The result of such legal arbitration may result in a liability to the entity different to that incorporated in these accounts.

The entity has undertaken to support Southern Group Insurance Corporation Limited, a controlled entity.

27.	External Consultants used during the Financial Year	Consolidated		MAC
		2004 \$'000	2003 \$'000	
	Total income received, or due and receivable by external consultants from MAC and the economic entity during the financial year:	425	703	425
	The number and value of consultancies were:	Number of Consultancies	Number of Consultancies	Number of Consultancies
	\$0 - \$9 999	24	13	24
	\$10 000 - \$19 999	5	1	5
	\$20 000 - \$29 999	5	3	5
	\$30 000 - \$39 999	-	4	-
	\$40 000 - \$49 999	1	1	1
	\$50 000 - \$59 999	-	5	-
	\$60 000 - \$69 999	-	1	-
	\$100 000 - \$109 999	-	1	-
	\$120 000 - \$129 999	1	-	1
28.	Directors' Remuneration	2004 \$'000	2003 \$'000	2004 \$'000
	Total income paid or payable, or otherwise made available, to all directors of the entity or any related party:	-	-	281
	Total income paid or payable, or otherwise made available, to all directors of each entity from the entity or any related party:	281	266	-
				-

Directors' Remuneration (continued)

The number of directors of the entity whose income from the entity or any related party falls within the following bands:	Consolidated		MAC	
	2004 Number of Directors	2003 Number of Directors	2004 Number of Directors	2003 Number of Directors
\$0 - \$9 999	1	1	1	1
\$10 000 - \$19 999	-	1	-	1
\$30 000 - \$39 999	4	3	4	3
\$40 000 - \$49 999	2	2	2	2
\$50 000 - \$59 999	1	1	1	1

Directors of the economic entity receive income in the form of statutory fees. Those directors who are employed by the State Government of South Australia do not receive income from the entity.

Superannuation and Retirement Benefits

Directors of the economic entity are not paid superannuation or retirement benefits for their activities associated with the entity and its controlled entities other than the amount set aside by the entity in compliance with the Superannuation Guarantee Charge of \$23 000 (\$22 000).

29. Executives' Remuneration

Total income in respect of the financial year received, or due and receivable from the economic entity by executive officers of the economic entity whose income is \$100 000 or more:

Consolidated	
2004 \$'000	2003 \$'000
439	518

The number of MAC executive officers whose remuneration from MAC or related parties falls within the following bands:

2004 Number of Executive Officers	2003 Number of Executive Officers
1	3
1	-
-	1
1	-

30. Related Parties**Directors**

The names of each person holding the position of director of the entity during the financial year are:

R J McKay	J Matysek
D H Archbold	B G Rowse
C L Harris	D J Watkins
J T Hill	K A Weir

Details of directors' remuneration, superannuation and retirement payments are set out in Note 28.

Apart from the details disclosed in this note, no director has entered into a contract with the entity or the economic entity since the end of the previous financial year and there were no contracts involving directors' interests existing at year end.

Directors' Loans

There have been no loans advanced to directors of the entity during the financial year.

The total of loans outstanding to directors of the entity at year end is nil.

Directors' Holdings of Shares and Shares Options

The interests of directors of the reporting entity and their director-related entities in shares of entities within the economic entity at year end are set out below.

Southern Group Insurance Corporation Limited: \$1 Ordinary shares	Consolidated	
	2004 Number Held	2003 Number Held
	2	2

Directors' Transactions with the Entity or the Economic Entity

The economic entity sold CTP insurance to directors of entities in the economic entity or their director-related entities during the year within a normal customer relationship on terms and conditions no more favourable than those available on similar transactions to other members of the public.

Directors of the entity may hold positions in other entities in which the entity invests funds in the ordinary course of business. The terms and conditions of those transactions with director-related entities are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

Controlled Entities

Details of interests in controlled entities are set out at Note 18.

MAC provides management services to its controlled entity, Southern Group Insurance Corporation Limited, which was charged an amount of \$9 000 for the financial year (\$9 000). At its meeting held in July 2004, the Board agreed to write-off the total outstanding management fees amounting to \$139 000.

Details of other dealings with controlled entities are set out below.

Balance with Entities within the Wholly-Owned Group

The aggregate amounts receivable from, and payable to, wholly-owned controlled entities by the entity at balance date:

Receivables

Current:

Receivables

Loans from the entity

	MAC	
	2004	2003
	\$'000	\$'000
Receivables	-	129
Current:		
Receivables	120	120
Loans from the entity		

Other Related Entities

The entity has dealings with other Government instrumentalities. All dealings are in the ordinary course of business and on normal terms and conditions.

Associated Entities

Details of interests in associated entities are set out at Note 19.

Ultimate Parent Entity

The entity is constituted under the *Motor Accident Commission Act 1992* (formerly the *State Government Insurance Commission Act 1992*) and is a Public Authority within the meaning given in the *Public Finance and Audit Act 1987*.

PARLIAMENTARY SUPERANNUATION SCHEME

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Parliamentary Superannuation Board (the Board) was established under the *Parliamentary Superannuation Act 1974* (the Act).

Functions

The Board is responsible for the collection of contributions from members of the Parliamentary Superannuation Scheme (the Scheme) and for the payment of superannuation benefits to members and members' families.

The main financial administration arrangements that apply to the Scheme involve the Parliamentary Superannuation Fund (the Fund). The Fund, established under the Act, records as income to the Fund, members' and the Government's contributions and revenue derived from the investment of those monies, and also records as payments from the Fund benefit payments and administration costs.

The investment management responsibility for the Fund is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA) under the Act.

The Board utilises the services of the Department of Treasury and Finance - Superannuation Office (Super SA) to administer the Scheme.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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

Assessment of Controls

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

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

Scope of Audit

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

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

- Contributions from members and employers
- Pension payments

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

The audit of the Scheme indicated that the internal controls over its operations were satisfactory. No significant issues of concern were raised as a result of the audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Contributions	3.9	3.6	8
Past service funding	-	30.0	
Net investment earnings	21.8	(0.8)	
Total Operating Revenue	25.7	32.8	(22)
<i>OPERATING EXPENDITURE</i>			
Benefits and other expenses	2.5	13.6	(82)
Total Operating Expenses	2.5	13.6	(82)
Transfers to other schemes	17.0	-	
Surplus	6.2	19.2	(68)
Net Cash Flows from Operations	(1.4)	(1.4)	-
<i>ASSETS</i>			
Investments	126.2	122.9	3
Other assets	0.1	0.4	
Total Assets	126.3	123.3	2
<i>LIABILITIES</i>			
Liability for accrued benefits	118.5	121.5	(3)
Other liabilities	0.7	0.9	(22)
Total Liabilities	119.2	122.4	(3)
EXCESS OF NET ASSETS OVER LIABILITIES	7.1	0.9	

Operating Statement

Operating Revenues

Investment activity for the year resulted in a return of \$21.8 million compared to a negative return of \$772 000 in the previous year. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

During the previous year the Government transferred \$30 million into the Scheme to meet accrued superannuation liabilities. This accounts for the decrease in employer contributions in 2003-04 as there were no past service superannuation liability transfers from Government into the scheme in 2003-04.

Operating Expenses

Benefits expense decreased by \$11.1 million to \$2.4 million for the year. This is predominantly due to the liability for accrued benefits decreasing by \$3.0 million whereas in the previous year this liability increased by \$8.5 million. A higher discount rate was used to determine the liability for accrued benefits this year. Using a higher discount rate to discount the expected future benefit payments to present value results in a lower liability for accrued benefits. Refer Note 7 Accrued Superannuation Liability for further explanation.

Transfer to other Schemes

After an actuarial assessment for the employer accrued liabilities as at 30 April 2004, the Treasurer approved a transfer of \$17 million to the 'South Australian Government Employer Contribution Account' of the South Australian Superannuation Scheme in 2003-04.

Operating Result

The year's result represents the excess of investment revenue of \$21.8 million and contributions of \$3.9 million over benefits expense of \$2.4 million and transfers to other schemes of \$17.0 million.

Statement of Financial Position

As at 30 June 2004, there was an excess of net assets over liabilities of \$7.1 million (\$855 000); the Scheme is therefore fully funded. The estimated liability for accrued benefits decreased by \$3.0 million to \$118.5 million for which net assets of \$125.6 million (\$122.4 million) were available to pay benefits. Refer to Operating Expenses for an explanation of the decrease.

FURTHER COMMENTARY ON OPERATIONS

Members and Pensioners

As at 30 June 2004 there were 69 (69) contributors to the Scheme and 101 (103) pensioners.

**Operating Statement
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
INVESTMENT REVENUE:			
Net investment revenue		21 794	(772)
INTEREST INCOME		3	5
CONTRIBUTION REVENUE:			
Contributions by members	1(d)	1 015	957
Contributions by employers	1(d), 3	2 855	32 653
		3 870	33 610
ADMINISTRATION EXPENSE	5	(93)	(95)
ACTUARIAL EXPENSE	13	(9)	(5)
AUDIT EXPENSE	14	(12)	(12)
GST EXPENSE	15	(3)	(3)
TRANSFERS TO OTHER SCHEMES	3	(17 000)	-
BENEFITS EXPENSE	7	(2 359)	(13 539)
OPERATING RESULT FOR THE PERIOD		6 191	19 189

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

	Note	2004 \$'000	2003 \$'000
INVESTMENTS:			
Inflation linked securities		14 564	15 329
Property		10 603	11 872
Australian equities		42 644	41 109
International equities		48 527	45 538
Australian fixed interest		3 581	3 118
International fixed interest		3 615	3 394
Cash		2 700	2 547
		126 234	122 907
FIXED ASSETS		2	1
OTHER ASSETS:			
Cash and deposits at Treasury	11	23	112
Cash and deposits at Treasury - Funds SA		11	9
Interest, dividends and rent due - Funds SA		4	3
Sundry debtors	12	2	5
Contributions receivable	4	-	223
		40	352
Total Assets		126 276	123 260
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		33	40
Sundry creditors and provisions - Funds SA		170	219
		203	259
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		527	646
Total Liabilities		730	905
NET ASSETS AVAILABLE TO PAY BENEFITS	6	125 546	122 355
<i>Less: LIABILITY FOR ACCRUED BENEFITS</i>	7	118 500	121 500
EXCESS OF NET ASSETS OVER LIABILITIES	7	7 046	855

Statement of Cash Flows
for the year ended 30 June 2004

	2004	2003
	Inflows	Inflows
	(Outflows)	(Outflows)
	Note	\$'000
		\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
CONTRIBUTIONS RECEIVED:		
Contribution by members	1 070	962
Contribution by employers	3 022	2 765
	<hr/>	<hr/>
	4 092	3 727
BANK INTEREST RECEIVED	3	5
	<hr/>	<hr/>
BENEFITS PAID:		
Pensions	(5 292)	(5 018)
Commutation of pension benefits	(67)	(25)
	<hr/>	<hr/>
	(5 356)	(5 043)
Actuarial expense	(9)	(5)
Audit expense	(12)	(12)
Administration expense	(93)	(95)
GST expense	(1)	(18)
	<hr/>	<hr/>
Net Cash used in Operating Activities	10	(1 379) (1 441)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from Funds SA	4 180	4 220
Payments to Funds SA	(2 890)	(2 790)
	<hr/>	<hr/>
	1 290	1 430
Net Cash provided by Investing Activities		
	<hr/>	<hr/>
NET DECREASE IN CASH HELD		
CASH AT 1 JULY		(89) (11)
CASH AT 30 JUNE	11	112 23 112
	<hr/>	<hr/>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Financial Statements

(a) Parliamentary Superannuation Scheme

The Parliamentary Superannuation Scheme (the Scheme) is a compulsory superannuation scheme which exists pursuant to the *Parliamentary Superannuation Act 1974* (the Act). The Act provides for the payment of superannuation benefits to persons who have served as members of Parliament and makes provisions for the families of such persons.

Section 14(2) of the Act requires every member of Parliament with less than 20 years and one month's service, to make contributions of 11.5 percent of their salary (including any additional salary) to the Treasurer. Section 14(3) requires members of Parliament with 20 years and one month's service or over, to make contributions of 5.75 percent of their basic salary and 11.5 percent of any additional salary.

Member contributions are deposited by the Treasurer into the Parliamentary Superannuation Fund, established under section 13 of the Act. The Fund is managed and invested by Funds SA.

A member is entitled to a pension based benefit determined in accordance with the Act to be a percentage of the members' salary. A member may elect to commute to a lump sum a percentage of their pension entitlement.

(b) The South Australian Parliamentary Superannuation Board

The South Australian Parliamentary Superannuation Board (the Board) a body corporate, is established under section 8(1) of the Act.

(c) Superannuation Funds Management Corporation of South Australia

The Superannuation Funds Management Corporation of South Australia (Funds SA), a body corporate, was established for the purpose of managing and investing the accounts of various public sector superannuation schemes. Funds SA is responsible for the management and investment of the Parliamentary Superannuation Fund.

For further information on the investment of the Parliamentary Superannuation Fund, reference should be made to the financial statements of Funds SA.

(d) Funding Arrangements

Under Section 39(1) of the Act, any payment to a member must be made out of the Consolidated Account (which is appropriated to the necessary extent) or from a Special Deposit Account established for that purpose. During the period ended 30 June 2004 payments were made from a Special Deposit Account.

Member's contributions are paid to the Treasurer, who deposits these contributions into the Parliamentary Superannuation Fund, with \$1 015 000 (\$957 000) being credited during the year ended 30 June 2004.

Since 30 June 1994 the Government has undertaken a process of funding its accrued past service liabilities and the scheme assets have broadly matched liabilities since 1997. The small size of the scheme, the nature of the way member benefits accrue, the effect of elections and variations in investment performance mean that deficiencies and surpluses will arise from year to year.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

This Financial Report is a general purpose financial report and has been prepared on an accrual basis in accordance with Statements of Accounting Concepts, applicable Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instruction 19 'Financial Reporting' and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* except as provided below.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principals of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25) where relevant. Directors believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

As investments are revalued to their respective net market values at balance date, depreciation and amortisation are not provided for in this financial report.

Funds SA utilises the consolidation method of accounting. Assets and liabilities of Funds SA's controlled entities have been consolidated into the financial report at their net market values. The effects of transactions between entities in the economic entity are eliminated in full. Financial information in respect of the parent entity separate to that of the economic entity has not been provided as the application of market value reporting concepts results in the parent entity's financial report fully reflecting the economic activities of controlled entities. It is believed that disclosure of the parent entity's results separate to those of the economic entity would not provide information which would add value to the users of the financial report.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where material.

(i) Inflation Linked Securities

The inflation linked securities portfolio comprises two sub-sectors:

- *Internally Managed*

These investments, the returns of which are linked to movements in either the Consumer Price Index (CPI) or Average Weekly Earnings (AWE), have been valued using the discounted cash flow method. The valuation as at 30 June 2004 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*

The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) *Property*

The Property portfolio comprises three sub-sectors:

- *Directly Held Properties*

The value of Funds SA's directly held property has been determined by the Directors of Funds SA.

- *Listed Property Trusts*

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Unlisted Property Vehicles*

Unlisted property vehicles portfolio is invested and managed by external managers. Investments in this portfolio have been valued in accordance with the exit valuations supplied by the managers.

(iii) *Australian Equities*

The Australian Equities portfolio comprises two sub-sectors:

- *Listed Australian Equities*

The listed Australian equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the exit valuations supplied by the managers.

- *Private Equity*

The private equity portfolio comprises holdings in a number of externally managed specialist funds. The funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited Valuation Guidelines.

(iv) *International Equities*

The International Equities portfolio comprises two sub-sectors:

- *Listed International Equities*

The listed international equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles (other than private equity) have been valued in accordance with the exit valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.

- *Private Equity*

The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with the National Venture Capital Association (NVCA) guidelines.

(v) *Australian Fixed Interest*

The Australian Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) *International Fixed Interest*

The International Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vii) *Cash*

Deposits at call have been valued on the basis of principal plus accrued interest. Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers.

(viii) *Fixed Assets*

Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors of Funds SA are of the opinion that this provides a reasonable estimate of net market value.

(ix) Other Assets and Liabilities

These items have been assessed and the Directors of Funds SA are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) Taxation

All of the public sector superannuation funds under the management of Funds SA are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act 1936*. Consequently, no income tax expense has been brought to account in these financial statements.

(d) Accounting for Leases

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for periods commencing on or after 1 January 2005.

The Parliamentary Superannuation Scheme currently prepares its financial report in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25). The Australian Accounting Standards Board (AASB) has indicated that AAS 25 is not included within the scope of the 2005 AIFRS Convergence project and will continue to apply. Therefore it is expected that the introduction of AIFRS will have minimal impact on reporting by the Parliamentary Superannuation Scheme.

3. Transfer to Other Schemes

Additional contributions of \$30 million were paid into the Scheme in June 2003 to ensure the fund was fully funded. After an actuarial assessment of the employer accrued liabilities as at 30 April 2004, the Treasurer approved a transfer of \$17 million to the South Australian Superannuation Scheme in 2003-04.

4. Contributions Receivable

Contributions receivable from:

	2004	2003
	\$'000	\$'000
Members	-	55
Employers	-	168
	<hr/>	<hr/>
	-	223

All contributions due including 2002-03 accruals were received in 2003-04 financial year.

5. Administration

Costs of administering the Scheme comprise those costs incurred by Funds SA in administering the investment activities (deducted from investment revenue ie investment revenue is reported net of direct investment expenses) and those costs incurred by the Department of Treasury and Finance in administering the Scheme.

Costs incurred by the Department of Treasury and Finance in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Parliamentary Superannuation Scheme.

6. Net Assets Available to Pay Benefits

Funds held at 1 July

Add:

Contributions by members	1 015	957
Contributions by employers	2 855	32 653
Investment earnings ⁽ⁱ⁾	21 794	(772)
Other income	3	5
	<hr/>	<hr/>
	25 667	32 843

Less:

Net benefits paid	5 359	5 039
Transfer to other schemes	17 000	-
Administration expense	93	95
Actuarial expense	9	5
Audit expense	12	12
GST expense	3	3
	<hr/>	<hr/>
	22 476	5 154
Funds held at 30 June	125 546	122 355

(i) Shown net of direct investment expenses.

7. Accrued Superannuation Liability 30 June 2004

The expected future benefit payments have been determined using the same pensioner mortality assumptions as the 2001 triennial review of the South Australian Superannuation Scheme. Salary increases of 1.5 percent per annum above the Adelaide Consumer Price Index (CPI) have been assumed. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate of 4.5 percent per annum above the CPI. The discount rate above CPI has been increased from 4.0 percent in 2003 to 4.5 percent to align with the expected earning rate of Funds SA. Assumed salary increases have also been increased from 1.0 to 1.5 percent.

The accrued superannuation liability as determined by State Superannuation Office of the Department of Treasury and Finance is estimated at \$118.5 million (\$121.5 million) as at 30 June 2004. The vested superannuation liability as at 30 June 2004 is estimated at \$136 million.

	2004	2003
	\$'000	\$'000
Liability for accrued benefits at 1 July	121 500	113 000
Add: Benefits expense ⁽ⁱ⁾	2 359	13 539
Less: Benefits paid	5 359	5 039
Liability for Accrued Benefits at 30 June	118 500	121 500

(i) This figure represents the change in liability for accrued benefits plus benefits paid for the year.

8. Vested Benefits

Vested Benefits are benefits which are not conditional upon continued membership of the Scheme, or any factor other than resignation from the Scheme. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date. The value of vested benefits is greater than the Liability for Accrued Benefits, as vested benefits are based on the involuntary expiration of service, and this would result in an entitlement to benefits occurring immediately.

	2004	2003
	\$'000	\$'000
Vested benefits	136 000	132 000

9. Guaranteed Benefits

The entitlements of members are specified by the *Parliamentary Superannuation Act 1974*.

10. Reconciliation of Net Cash used in Operating Activities to Operating Result

Operating result	6 191	19 189
Benefits expense	2 359	13 539
Benefits paid	(5 359)	(5 039)
Employer contributions	-	(30 000)
Transfer to another Scheme	17 000	-
Decrease in sundry debtors	1	7
Decrease in contributions receivable	223	116
Decrease in sundry creditors	-	(14)
Decrease in tax payable	-	(11)
Investment earnings	(21 794)	772
Net Cash used in Operating Activities	(1 379)	(1 441)

11. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2004	2003
	\$'000	\$'000
Cash and deposits at Treasury	23	112

12. Sundry Debtors

Funds SA accruals	2	3
GST refundable	-	2
	2	5

13. Actuarial Fees

Actuarial fees for 2003-04 financial year have been deducted from the Scheme. These fees relate to Superannuation Policy and Actuarial advice received.

14. Audit Fees

Audit fees charged by the Auditor-General for the 2003-04 financial year will be deducted from the Scheme.

15. GST Expense

The GST expense represents the GST paid by the Scheme on administration fees, actuarial fees, and audit fees, less reduced input tax credits.

POLICE SUPERANNUATION SCHEME

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Police Superannuation Board (the Board) is a body corporate established under the *Police Superannuation Act 1990* (the Act). The Board is responsible to the Treasurer for all aspects of the administration of the schemes established by the Act, except for the management and investment of the Fund.

Functions

The Board is responsible for the collection of contributions from members of the Police Superannuation Scheme (the Scheme) and for the payment of superannuation benefits to members and members' families.

The main financial administration arrangements that apply in relation to the Scheme involve:

- The Police Superannuation Fund — The Fund, established under the Act, records as income to the Fund, members' contributions and revenue derived from investment of those monies, and also records as payments from the Fund, the employee share of benefit payments and administration costs.

The Fund is comprised of two divisions, the Old Scheme Division which provides pension benefits with a lump sum option and the New Scheme Division which provides lump sum benefits.

The Act vests responsibility for investment management of the Fund with the Superannuation Funds Management Corporation of South Australia (Funds SA).

- The Police Superannuation Scheme Employer Contribution Account was established in 1994-95 to record employer contributions on behalf of the police officers and cadets.

The employer share of the benefits paid and administration costs is met from the Police Employer Contribution Account. Monies deposited into the account are invested and managed by Funds SA but do not form part of the Fund.

Police officers and cadets who commenced employment on or before 31 May 1990 are members of the Old Scheme Division. Those police officers and cadets who commenced employment on or after 1 June 1990 are members of the New Scheme Division. The New Scheme Division was formally closed to new members through amendments to the *Police Superannuation Act 1990* in October 1994. From 1 July 1995 police officers and cadets who commenced employment became members of the Southern State Superannuation Scheme which is administered by the South Australian Superannuation Board.

Structure

The Police Superannuation Office (PSO) is a business unit within the Financial Management Services Branch of the Police Department and is responsible to the Board for the management and administration of the day to day operations of the Police Superannuation Schemes.

Funds SA provide investment management services and the Department of Treasury and Finance provide accounting services to the PSO.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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

Assessment of Controls

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

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

Scope of Audit

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

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

- cash at bank
- contributions
- benefits paid
- administrative expenses.

The audit also included a review of the general ledger system implemented for the first time for the 2003-04 financial year.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements, the net assets of the Police Superannuation Scheme as at 30 June 2004 and the changes in net assets for the year then ended.

Assessment of Controls

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

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Presiding Member, Police Superannuation Board. The response to the management letter was not due at the time of this report. Major matters raised with the Police Superannuation Scheme are considered herein.

General Ledger

The Police Superannuation Scheme implemented a new general ledger system for 2003-04. Audit reviewed controls over the general ledger and found that there were areas where there was scope for improvement. The areas included:

- developing policies and procedures to support reconciliations to the general ledger;
- ensuring month end balances were established and consistently used as a basis for reconciliations and, in particular, for the bank reconciliation.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

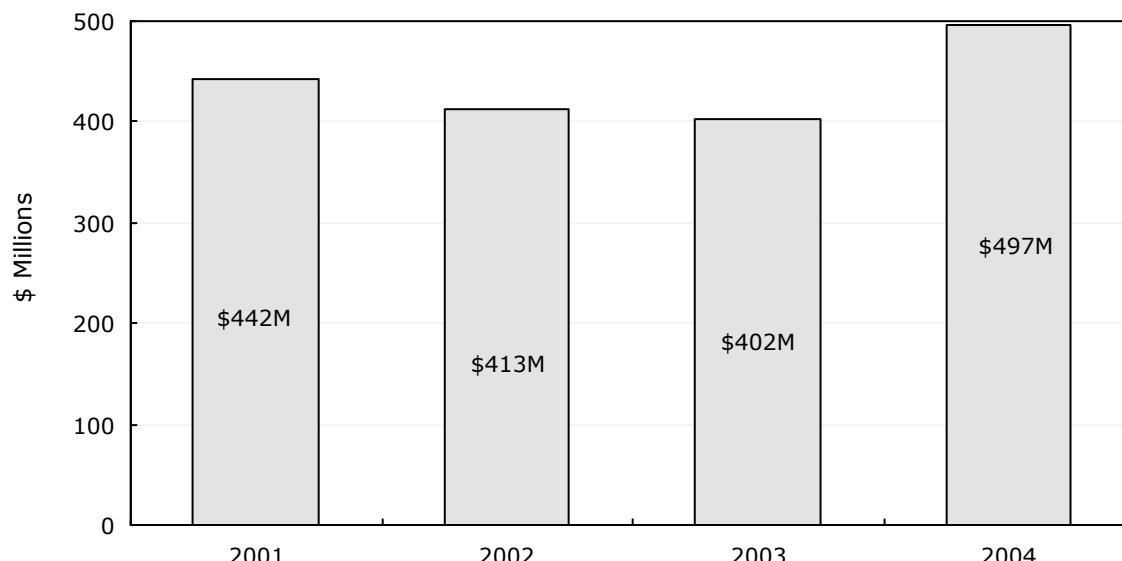
	2004 \$'million	2003 \$'million	Percentage Change
ASSETS			
Investments	496.7	402.4	23
Other assets	2.6	1.9	37
Total Assets	499.3	404.3	23
LIABILITIES			
Current liabilities	1.7	1.1	55
Non-current liabilities	2.1	2.1	-
Total Liabilities	3.8	3.2	19
Net Assets Available to Pay Benefits	495.5	401.1	24
CHANGES IN NET ASSETS			
Contribution revenue	64.0	31.2	105
Investment revenue	71.7	(3.0)	N/A
Other revenue	0.1	0.1	-
Benefit expenses	(40.9)	(39.6)	3
Administration expenses	(0.5)	(0.4)	25
Net Increase (Decrease) in Funds	94.4	(11.7)	N/A

Pursuant to Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', the Board has elected to present their financial report in the format of a Statement of Net Assets and a Statement of Changes in Net Assets. Consequently, a Statement of Cash Flows has not been prepared and benefit related liabilities are disclosed in the notes to the financial statements.

Statement of Net Assets

Investments of the Scheme increased by \$94.3 million for the year ended 30 June 2004. Investment returns and the effect on net assets are further discussed in the Auditor-General's Report to Parliament for the year ended 30 June 2004 in the commentary for Funds SA.

The following chart illustrates the increase in investments in 2004 reflecting an increase in investment revenue and contribution revenue. The reduction in the scheme's investments over the previous three years mainly reflected the impact of negative returns from investment markets on a relatively constant investment base.

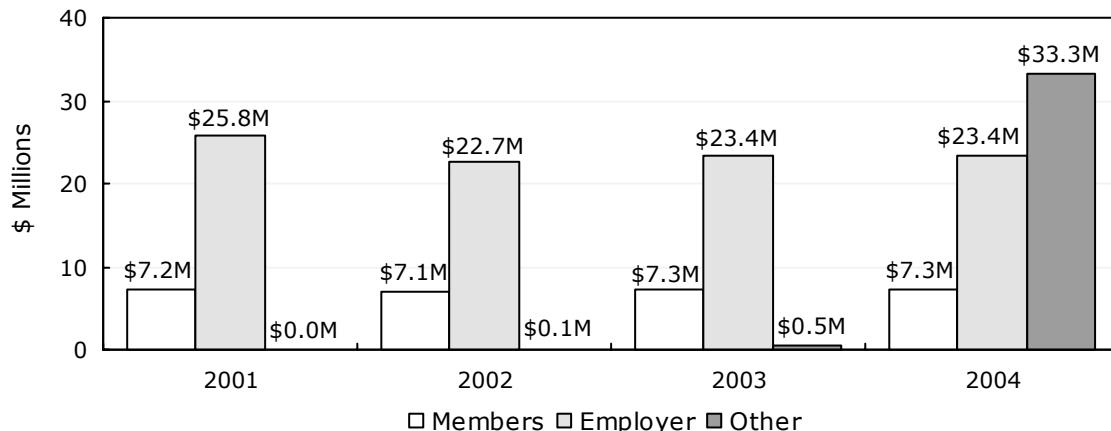


Statement of Changes in Net Assets

Revenues

- Investment revenues for the year resulted in a return of \$71.7 million compared to a negative return of \$3 million in the previous year.
- Contribution revenues increased by \$32.8 million to \$64.0 million due mainly to a contribution by the Government of \$32.5 million towards past service liabilities.

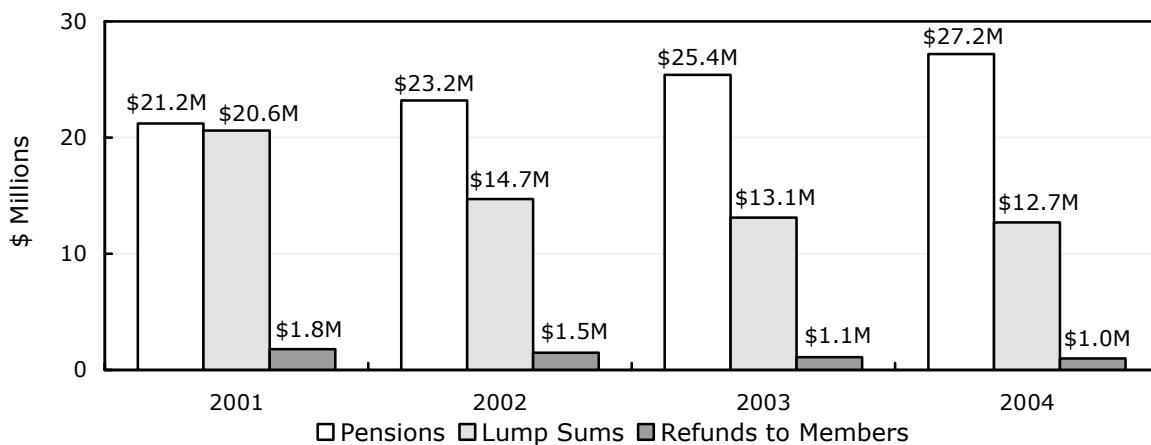
For the four years to 2004 an analysis of contribution revenue for the Scheme is shown in the following chart.



Expenditure

- The Scheme's dominant expenditure relates to benefit payments.
- Benefits and refunds paid for the year ended 30 June 2004 totalled \$40.9 million compared to \$39.6 million in the previous year.
- Of benefit payments made, \$40.3 million relates to the Old Scheme Division with \$27.2 million of benefits taken as pensions, \$12.3 million commuted to lump sum payments and \$0.8 million returned to members upon resignation from the Scheme.

For the four years to 2004 a structural analysis of benefits paid is shown in the following chart.



FURTHER COMMENTARY ON OPERATIONS

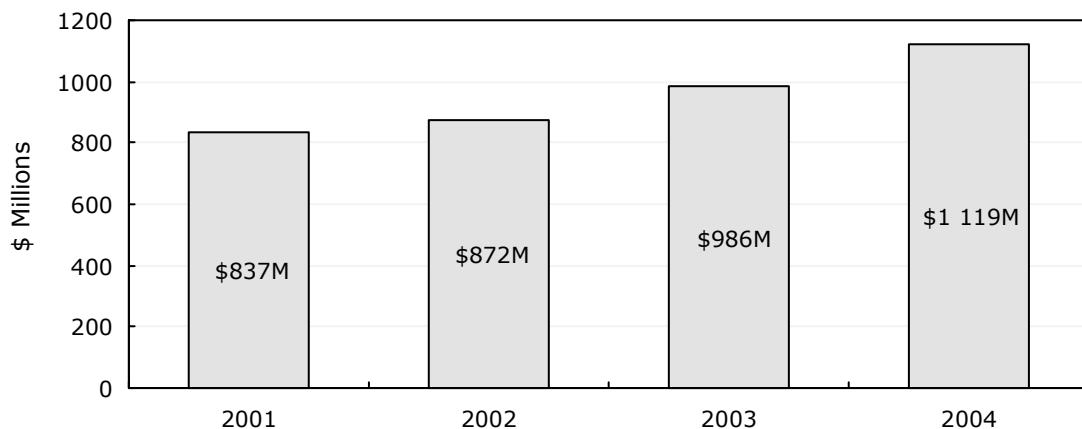
Accrued Liabilities

The estimated accrued liability for the Scheme, as determined by actuarial assessment and disclosed in the notes to the accounts, increased by \$133.2 million to \$1119.3 million for the year ended 30 June 2004.

An actuarial review is undertaken every three years with assessed assumptions from this review used to calculate the accrued liability in years between reviews. The last actuarial review was undertaken as at 30 June 2002.

For the year ended 30 June 2004, the discount rate applied to calculate the present value of the expected future benefit payments decreased from 5.0 percent as at 30 June 2003 to 4.5 percent.

For the four years to 2004 an analysis of accrued liabilities for the Police Superannuation Scheme is shown in the following chart.



Net Assets Available to Pay Benefits

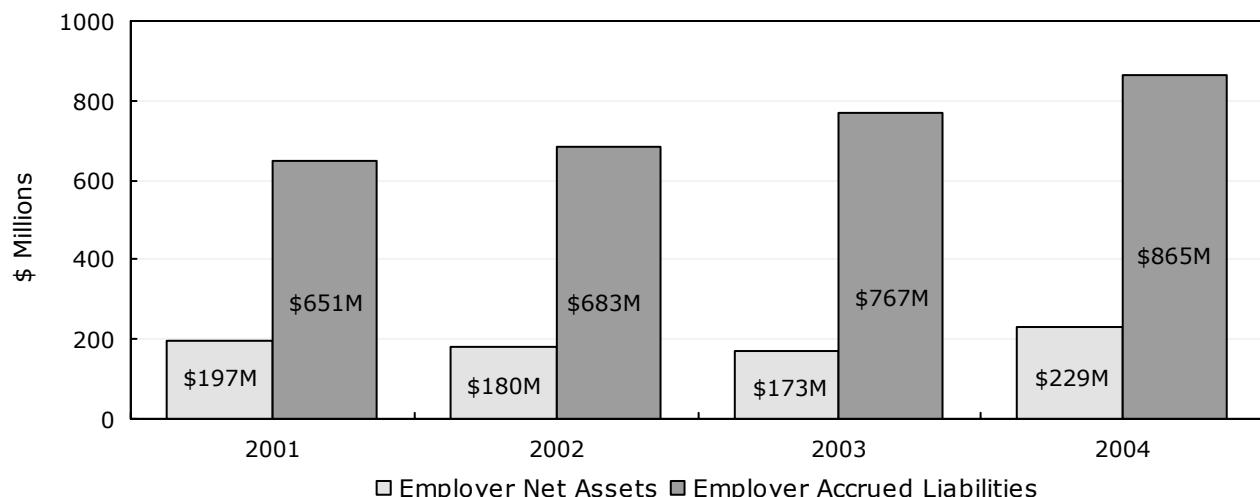
The net assets of the Scheme increased to \$495.6 million during the period whilst accrued liabilities increased to \$1119.3 million. This has resulted in an excess of accrued liabilities over net assets of \$623.7 million.

Analysis of net assets and accrued liabilities for the Police Superannuation Fund (employee account) revealed net assets available to pay benefits of \$266.8 million compared to an accrued liability of \$254.7 million. This represents an excess of net assets over accrued liabilities of \$12.1 million.

Analysis of net assets and accrued liabilities for the Police Employer Account revealed net assets available to pay benefits of \$228.7 million compared to an accrued liability of \$864.6 million. This represents a shortfall of net assets over accrued liabilities of \$635.9 million.

The Government transferred additional funding to the Police Employer Account towards the accrued past service liability of the Scheme of \$32.5 million during the period.

For the four years to 2004 a structural analysis of net assets available to pay benefits and accrued liabilities for the Police Employer Account is shown in the following chart.



Pensioners

The number of pensioners and pensions paid for the past four years was:

	2004 Number	2003 Number	2002 Number	2001 Number
Pensioners	1 134	1 119	1 098	1 076
	\$'000	\$'000	\$'000	\$'000
Pensions paid	27 195	25 414	23 160	21 187

Contributions by Members

The number of contributors and contributions received from members for the past three years was:

	2004			2003	2002
	Old Scheme Number	New Scheme Number	Total Number		
Contributors (excludes preserved members)	2 183	408	2 591	2 674	2 783
	\$'000	\$'000	\$'000	\$'000	\$'000
Contributions received*	7 006	1 108	8 114	7 298	7 073

* Excluding voluntary contributions

**Statement of Net Assets
as at 30 June 2004**

			2004		2003
		Note	\$'000	\$'000	\$'000
INVESTMENTS:		13			
Inflation linked securities			57 304		50 190
Property			41 718		38 873
Australian equities			167 789		134 599
International equities			190 933		149 102
Australian fixed interest			14 089		10 208
International fixed interest			14 225		11 114
Cash			10 624		8 339
Total Investments			496 682		402 425
OTHER ASSETS:		2			
Cash and deposits at Treasury			1 876		1 499
GST receivable			6		10
Income due and accrued			16		12
Sundry debtors			696		438
Fixed assets			10		5
Total Other Assets			2 604		1 964
Total Assets			499 286		404 389
CURRENT LIABILITIES:		2			
Rent paid in advance			132		131
Provisions			9		37
Sundry creditors			1 513		963
			1 654		1 131
NON-CURRENT LIABILITIES		2	2 073		2 116
Total Liabilities			3 727		3 247
NET ASSETS AVAILABLE TO PAY BENEFITS			495 559		401 142

**Statement of Changes in Net Assets
for the year ended 30 June 2004**

	Note	2004 \$'000	2004 \$'000	2003 \$'000
	14			
NET ASSETS AVAILABLE TO PAY BENEFITS				
AT 1 JULY	2		401 142	412 818
INVESTMENT REVENUE			71 739	(2 958)
OTHER INCOME			79	107
ADMINISTRATION EXPENSE	9		(455)	(409)
GST EXPENSE	10		(12)	(10)
CONTRIBUTIONS:				
Past service liabilities		32 500		-
Contributions by employer		23 353		23 383
Contributions by members		7 303		7 298
Voluntary contributions by members		811		511
		63 967		31 192
BENEFITS PAID:				
Pensions	15	(27 195)		(25 414)
Lump sums	15	(12 694)		(13 103)
		(39 889)		(38 517)
REFUNDS TO MEMBERS:				
Contributions	15	(577)		(616)
Interest	15	(435)		(465)
		(1 012)		(1 081)
NET INCREASE (DECREASE) IN FUNDS				
NET ASSETS AVAILABLE TO PAY BENEFITS			94 417	(11 676)
AT 30 JUNE			495 559	401 142

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Format of Accounts

The Police Superannuation Scheme (the Scheme) was created pursuant to the *Police Superannuation Act 1990* (the Act). The Act provides for superannuation benefits for Police Officers who are members of the Scheme.

The Police Superannuation Board (the Board) was established on 1 June 1990. The Board is responsible for the administration of the Police Superannuation Scheme which comprises:

- contributors to the Old (Pension) Scheme Division which was closed to members on 31 May 1990; and
- contributors to the New (Lump Sum) Scheme Division which was closed to members effective from May 1994.

Pursuant to the *Police Superannuation Act 1990* contributions from members of the Scheme are paid to the Treasurer, who in turn deposits those contributions with the Police Superannuation Fund (the Fund). The assets of the Scheme belong (both at law and in equity) to the Crown. The Scheme is subject to the management and control of the Superannuation Funds Management Corporation of South Australia (Funds SA). Member contributions are based on a percentage of superannuation salary and range between five percent and six percent. Contributions are adjusted in July each year based on salary payable to contributors at the previous 31 March.

The Scheme provides defined benefits for members of the Pension and Lump Sum Divisions. All benefit payments were met from the Consolidated Account which was then reimbursed in accordance with the prescribed employer and employee shares. The employer and employee shares of all benefits are determined by the Board, in accordance with the *Police Superannuation Act 1990*, taking into account the most recent Actuarial Report.

1. Format of Accounts (continued)

Employer contributions on behalf of members of the Scheme are deposited into the 'Police Superannuation Scheme Employer Contribution Account' (Police Employer Account). Employer contributions are based on a percentage of salary at rates based on actuarial valuations. As from 1 July 2001 the rates for the Pension and Lump Sum schemes were 15.5 percent and 11 percent respectively. The employer share of benefits paid from the Scheme is met from the Police Employer Account. The employee share of benefits of the Scheme is met from the Fund.

For the year ended 30 June 2004 \$23.4 million (\$23.4 million) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

Funds SA is responsible, under the Act, for the investment and management of the Fund. Monies deposited into the Police Employer Account are invested and managed by Funds SA but do not form part of the Fund.

Since 30 June 1994 the Government has adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employee contributions to meet the accruing liability for current employees. For the year ended 30 June 2004 the Government transferred a further \$32.5 million (\$nil in 2002-03) to the Police Employer Account to meet liabilities in respect of the Scheme.

Under the terms of the Act, the Board is required to determine rates of return to be credited to members' accounts in the Pension and Lump Sum divisions of the Scheme. Rates of return are credited to each contributors' account at the end of the financial year. In determining the rate of return to be applied, the Act requires that the Board have regard to the net rate of return achieved by Funds SA for each division.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements are general purpose statements and have been prepared on an accrual basis in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instruction 19 'Financial Reporting' and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

The financial statements are prepared in accordance with the Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans'. The members of the Board believe that this policy best discloses the financial status of funds under management, and provides consistency with the Scheme's financial statements. Consequently, assets and liabilities are recorded at net market values as at the balance date, and realised and unrealised gains or losses are brought to account through the Statement of Changes in Net Assets.

As investments are revalued to their respective market values at balance date, depreciation and amortisation are not provided in these financial statements.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*
These investments, the returns of which are linked to movements in either the Consumer Price Index (CPI) or Average Weekly Earnings (AWE), have been valued using the discounted cash flow method. The valuation as at 30 June 2004 was performed by an independent valuer, Macquarie Bank Limited.
- *Externally Managed*
The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*
The value of directly held property has been determined by the Directors of Funds SA.
- *Listed Property Trusts*
The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.
- *Unlisted Property Vehicles*
The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this portfolio have been valued in accordance with the exit valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises two subsectors:

- *Listed Australian Equities*

The listed Australian equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the exit valuations supplied by the managers.

- *Private Equity*

The private equity portfolio comprises holdings in a number of externally managed specialist funds together with internally managed assets. The externally managed specialist funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited (AVCAL) valuation guidelines. Internally managed assets have been valued either in accordance with market prices applicable at balance date, or having regard to market conditions and the current and expected future performance of the investments.

(iv) International Equities

The International Equities portfolio comprises two subsectors:

- *Listed International Equities*

The listed international equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles (other than private equity) have been valued in accordance with the exit valuations supplied by the managers.

Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.

- *Private Equity*

The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with National Venture Capital Association (NVCA) guidelines.

(v) Australian Fixed Interest

The Australian Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) International Fixed Interest

The International Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vii) Cash

Deposits at call have been valued on the basis of principal plus accrued interest. Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers.

(viii) Fixed Assets

Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors of Funds SA are of the opinion that this provides a reasonable estimate of net market value.

(ix) Other Assets and Liabilities

These items have been assessed and the Directors of Funds SA are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) Other Disclosures

The investment of the Police Superannuation Scheme is subject to the management and control of the Superannuation Funds Management Corporation of South Australia (Funds SA).

Specific disclosure requirements of Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' are fully set out in the notes to the financial statements of Funds SA and have not been repeated in this financial report.

3. Liability for Accrued Benefits

The accrued liabilities of the Police Superannuation Scheme as determined by the Department of Treasury and Finance are shown below.

The accrued liabilities are the present values of expected future benefit payments arising from membership of the Schemes up to 30 June 2004 based on membership data as at 30 June 2003.

The expected future benefit payments have been determined using the 30 June 2002 actuarial Scheme review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', the expected future benefit payments have then been discounted to present values by a discount rate of 4.5 percent per annum above CPI. The discount rate above CPI has been reduced from the 5.0 percent per annum used to calculate liabilities as at 30 June 2003.

Accrued Liabilities 30 June 2004

Police Superannuation Fund
Police Employer Account

Total

Pension Scheme	Lump Sum Scheme	Total
Division	Division	\$'million
\$'million	\$'million	\$'million
242.1	12.6	254.7
837.4	27.2	864.6
1 079.5	39.8	1 119.3

Accrued Liabilities 30 June 2003

Police Superannuation Fund
Police Employer Account

Total

Pension Scheme	Lump Sum Scheme	Total
Division	Division	\$'million
\$'million	\$'million	\$'million
209.8	9.7	219.5
743.6	23.0	766.6
953.4	32.7	986.1

Pursuant to the *Police Superannuation Act 1990* actuarial reviews of the Police Superannuation Scheme must be conducted three yearly to address, *inter alia*, the ability of the Fund to meet its current and future liabilities. The review as at 30 June 2002 was carried out by Mr S Mules, FIAA of Buck Consultants. His report, dated 30 June 2003, to the Minister was tabled in Parliament on 15 September 2003. In his report, Mr Mules made the following conclusions:

- a) The Lump Sum Scheme division will be in a balanced position if the funding proportion of the Fund is decreased from the current level of 40 percent back to the previous level of 30 percent; and
- b) The Pension Scheme division has reverted to a deficit position, requiring the funding proportion of the Fund to be decreased from the current level of 26 percent to 21 percent.

The actuarial reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

4. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Police Superannuation Scheme and include benefits which members would be entitled to receive on termination of membership of the Schemes.

When members resign from the Police Superannuation Scheme, they have two options. Firstly they can elect to take cash refunds of their own contributions, accumulated with interest, together with preserved employer benefits as required by Commonwealth Superannuation Guarantee legislation. Alternatively they can elect to take fully vested, preserved benefits which will be based on their full accrued entitlements at the date of resignation and will be increased during preservation in line with increases in the CPI.

The vested benefits shown below assume that all resignation benefits will be taken in the form of fully preserved benefits. The value of vested benefits have then been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

Vested Liabilities 30 June 2004

Police Superannuation Fund
Police Employer Account

Total

Pension Scheme	Lump Sum Scheme	Total
Division	Division	\$'million
\$'million	\$'million	\$'million
212.3	8.5	220.8
759.8	20.3	780.1
972.1	28.8	1 000.9

4. Vested Benefits (continued)
Vested Liabilities 30 June 2003

Police Superannuation Fund
 Police Employer Account

Total

Pension Scheme Division	Lump Sum Scheme Division	Total
\$'million	\$'million	\$'million
185.7	6.8	192.5
664.9	16.1	681.0
850.6	22.9	873.5

5. Benefits which Accrued Between 30 June 2003 and 30 June 2004

Benefits accrued during the financial year 2003-04 are measured as the sum of the net changes in the accrued liabilities over the year and the amount of benefits paid to beneficiaries during the year.

Benefits Accrued 30 June 2004

Liability for accrued benefits at 1 July

Add: Benefits expense

Less: Benefits paid

Liability for accrued benefits at 30 June

Pension Scheme Division	Lump Sum Scheme Division	Total
\$'million	\$'million	\$'million
953.4	32.7	986.1
166.4	7.7	174.1
40.3	0.6	40.9
1 079.5	39.8	1 119.3

Benefits Accrued 30 June 2003

Liability for accrued benefits at 1 July

Add: Benefits expense

Less: Benefits paid

Liability for accrued benefits at 30 June

Pension Scheme Division	Lump Sum Scheme Division	Total
\$'million	\$'million	\$'million
844.8	26.9	871.7
147.9	6.1	154.0
39.3	0.3	39.6
953.4	32.7	986.1

6. Guaranteed Benefits

Members benefit entitlements are set out in State Legislation under the *Police Superannuation Act 1990*.

7. Purchase of Additional Benefits

There are no provisions under the *Police Superannuation Act 1990* for contributing members to purchase additional benefits.

8. Taxation

The Scheme is exempt from federal income tax and no income tax expense has been brought to account in these financial statements.

9. Administration

The Scheme's administration costs comprise of:

- costs incurred by Funds SA in administering the investment activities of the Fund and the Police Superannuation Scheme Contribution Account (Police Employer Contribution Account);
- costs incurred by the Board in administering the Scheme.

Investment expenses and administration costs incurred by Funds SA are charged directly against the investment income of the Fund and the Police Employer Contribution Account.

Administration costs incurred by the Board are financed in the first instance by the Police Superannuation Scheme (the Scheme) from the 'Police Superannuation Scheme Employer Contribution Account' through a Special Deposit Account. Under the provisions of the Act, the Fund is required to meet a prescribed proportion, currently 30 percent, of the administration costs incurred by the Scheme. Administration costs incurred by the Scheme for 2003-04 amounted to \$455 000 (\$409 000) of which the fund is required to reimburse \$136 000 (\$123 000) to the Scheme through the Police Employer Contribution Account.

Administration costs are apportioned between the Pension and Lump Sum Scheme Divisions on a cost per member basis.

10. Net GST Paid

This figure in the Statement of Changes in Net Assets represents the GST paid on administration costs less any credits received from the Australian Taxation Office (ATO) as the Scheme is entitled to a 75 percent refund on all GST paid. A refund is due from the ATO for the June 2004 quarter. The credit of \$6 000 (\$10 000) has been disclosed as a debtor in the financial statements.

11. Members' Remuneration

Members' fees are set according to State Government guidelines for Statutory Authorities. Members who are State public sector employees, do not receive fees for their Board membership.

Total remuneration received or due and receivable by the members of the Board in 2003-04 was \$8 000 (\$10 000).

The number of Board members whose remuneration was within the following bands are as follows:

	2004	2003
	Number of Members	Number of Members
\$Nil	3	3
\$1 - \$10 000	2	2

12. Remuneration of Auditors

Amounts received or due and receivable by the Auditors for auditing the Accounts of the Board in 2003-04 total \$23 000 (\$22 000).

13. Assets

The interests of each Scheme in the unitised investment portfolio as at the balance date are:

	2004			2003		
	Old Scheme Division	New Scheme Division	Police Employer Account	Old Scheme Division	New Scheme Division	Police Employer Account
INVESTMENTS:						
Inflation linked securities	\$29 329	1 593	26 382	27 222	1 380	21 588
Property	21 352	1 160	19 206	21 084	1 069	16 720
Australian equities	85 878	4 665	77 246	73 004	3 702	57 893
International equities	97 724	5 308	87 901	80 870	4 101	64 131
Australian fixed interest	7 211	392	6 486	5 537	281	4 390
International fixed interest	7 281	395	6 549	6 028	306	4 780
Cash	5 438	295	4 891	4 523	229	3 587
Total Investments	254 213	13 808	228 661	218 268	11 068	173 089
OTHER ASSETS:						
Cash and deposits at Treasury	185	208	1 483	263	97	1 139
GST receivable	2	-	4	3	-	7
Income due and accrued	8	1	7	6	1	5
Sundry debtors	170	29	497	95	15	328
Fixed assets	5	-	5	3	-	2
Total Other Assets	370	238	1 996	370	113	1 481
Total Assets	254 583	14 046	230 657	218 638	11 181	174 570
<i>Less: CURRENT LIABILITIES:</i>						
Rent paid in advance	67	4	61	71	4	56
Provisions	5	-	4	20	1	16
Sundry creditors	550	46	917	442	21	500
NON-CURRENT LIABILITIES: ⁽¹⁾	1 061	58	954	1 148	58	910
Total Liabilities	1 683	108	1 936	1 681	84	1 482
NET ASSETS AVAILABLE TO PAY BENEFITS	252 900	13 938	228 721	216 957	11 097	173 088

(1) Non-Current Liabilities
Bank Bill Facility

Non-current liabilities include the Scheme's portion of an arrangement entered into by Funds SA during 1993. Under the arrangement the future income stream arising from the long term lease to the Australian Taxation Office (ATO) of the whole of a Hobart office property has been redirected to a syndicate of international banks. The redirection took the form of a concurrent lease of the property to the banks under which the banks received the right to the rental and fixed outgoing payments made by the ATO. The concurrent lease requires the banks to make rental payments to Funds SA equal in value to the payments receivable from the ATO. As part of the transaction, the banks provided a bank bill facility to Funds SA. Under a set-off agreement, the rental payments due to Funds SA under the concurrent lease are applied by the banks to service the bill facility. The amounts outstanding under the facility are predetermined and are capable of being fully serviced and repaid from the concurrent lease rentals.

14. Changes in Net Assets

Transactions within each Scheme are summarised below:

	Old Scheme Division	New Scheme Division	Police Employer Account	Old Scheme Division	New Scheme Division	Police Employer Account
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY						
INVESTMENT REVENUE	38 689	2 041	31 009	(1 610)	(31)	(1 317)
OTHER INCOME	23	3	53	42	5	60
ADMINISTRATION EXPENSE	(121)	(15)	(319)	(109)	(14)	(286)
GST EXPENSE	(3)	(1)	(8)	(3)	-	(7)
CONTRIBUTIONS:						
Past service liability	-	-	32 500	-	-	-
Employer	-	-	23 353	-	-	23 383
Members	6 248	1 055	-	6 257	1 041	-
Voluntary members	758	53	-	368	143	-
	7 006	1 108	55 853	6 625	1 184	23 383
BENEFITS PAID:						
Pensions	(6 089)	(2)	(21 104)	(6 606)	(3)	(18 805)
Lump sums	(2 787)	(56)	(9 851)	(3 343)	(28)	(9 732)
	(8 876)	(58)	(30 955)	(9 949)	(31)	(28 537)
REFUNDS TO MEMBERS:						
Contributions	(416)	(161)	-	(448)	(168)	-
Interest	(359)	(76)	-	(384)	(81)	-
	(775)	(237)	-	(832)	(249)	-
NET INCREASE (DECREASE) IN FUNDS	35 943	2 841	55 633	(5 836)	864	(6 704)
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE	252 900	13 938	228 721	216 957	11 097	173 088

15. Benefit Payments

All benefit payments were met in the first instance from the Consolidated Account. The Treasurer, in turn, recouped the value of the employee share of benefits paid from the Police Superannuation Fund and the employer share from the Police Superannuation Scheme Contribution Account.

	Old Scheme Division	New Scheme Division	Total	Old Scheme Division	New Scheme Division	2003 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
PENSIONS:						
Gross scheme costs	27 188	7	27 195	25 406	8	25 414
Funded from:						
Police Superannuation Fund	6 089	2	6 091	6 606	3	6 609
Police Superannuation Scheme Contribution Account	21 099	5	21 104	18 800	5	18 805
	27 188	7	27 195	25 406	8	25 414
LUMP SUMS:						
Gross scheme costs	12 350	344	12 694	13 031	72	13 103
Funded from:						
Police Superannuation Fund	2 787	56	2 843	3 343	28	3 371
Police Superannuation Scheme Contribution Account	9 563	288	9 851	9 688	44	9 732
	12 350	344	12 694	13 031	72	13 103
RESIGNATION BENEFITS:						
Gross scheme costs:						
Contributions	416	161	577	448	168	616
Interest	359	76	435	384	81	465
	775	237	1 012	832	249	1 081
Funded from:						
Police Superannuation Fund	775	237	1 012	832	249	1 081

SOUTH AUSTRALIAN ASSET MANAGEMENT CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

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

SAAMC and its controlled entities (ie former subsidiary and associated entities of the former State Bank of South Australia) commenced operations on 1 July 1994 with consolidated assets and liabilities of \$8.3 billion and \$8.2 billion respectively. At 30 June 2004 assets and liabilities of SAAMC stood at \$786 million and \$665 million respectively. SAAMC has now largely realised its property and loan portfolios and has invested the resulting funds in liquids so as to meet future liabilities.

At 30 June 2004 SAAMC staffing consisted of a part time Chief Executive Officer and one temporary part time employee. SAAMC treasury operation is managed by the South Australian Government Financing Authority (SAFA) under a formal agreement between SAAMC and SAFA.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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

Assessment of Controls

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

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

Scope of Audit

Consistent with the approach taken in prior years the 2003-04 statutory audit of SAAMC is undertaken by a private sector auditing firm under sub-contract arrangement to the Auditor-General.

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

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

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

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report of SAAMC is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of SAAMC's financial position as at 30 June 2004 and of its performance for the year ended on that date;
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001;
- (b) other mandatory professional reporting requirements in Australia.

Assessment of Controls

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

Audit Communications to Management

The review of the auditable areas (including verification of financial statements) proceeded to finalisation, and consistent with previous years, the assessment of SAAMC's general financial controls was determined as satisfactory. There were no matters identified during the course of the audit that necessitated communication in the form of a management letter to SAAMC. Matters that were raised with SAAMC management during the audit process were not material in nature and were addressed in a positive manner.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

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

Highlights of Financial Statements

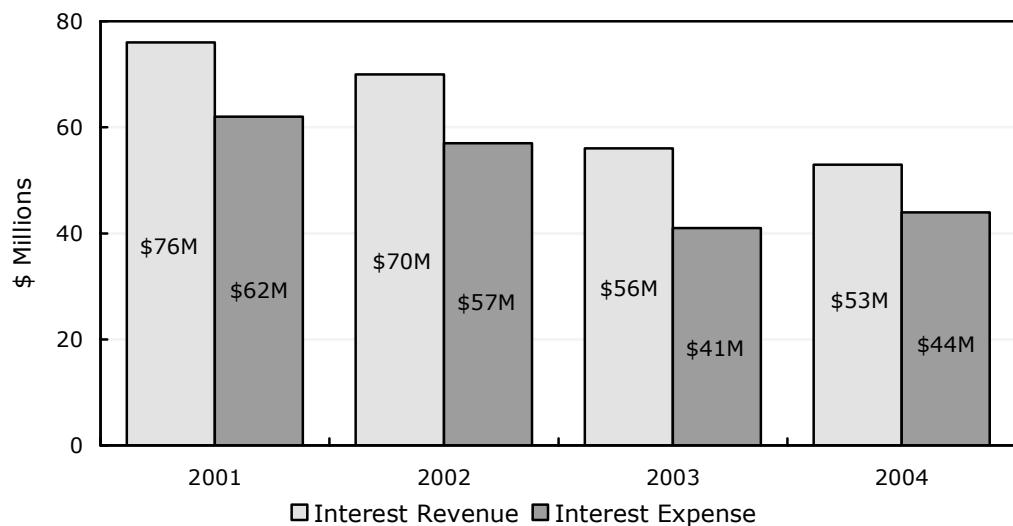
	2004 \$'million	2003 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Interest revenue	53	56	(5)
Non-interest income	2	9	(78)
Recoveries of debts	3	5	(40)
Total Revenue and Recoveries	58	70	(17)
<i>OPERATING EXPENDITURE</i>			
Interest expense	44	41	7
Other expenses	1	1	0
Total Expenses	45	42	7
Net Profit	13	28	(54)
Net Cash Flows from Operations	10	33	(70)
ASSETS	786	935	(16)
LIABILITIES	665	767	(13)
EQUITY	121	168	(28)

Statement of Financial Performance

Operating Revenues and Expenses

Interest revenue and interest expense constitute the main components of SAAMC's annual revenue and expense flows. The chart below compares the interest income and expense flows over the four years to 2004. The trend in both flows since 2001 reflects the continuation in the downsizing of SAAMC's balance sheet, involving the realisation of income earning assets and subsequent discharging of interest incurring liabilities.

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

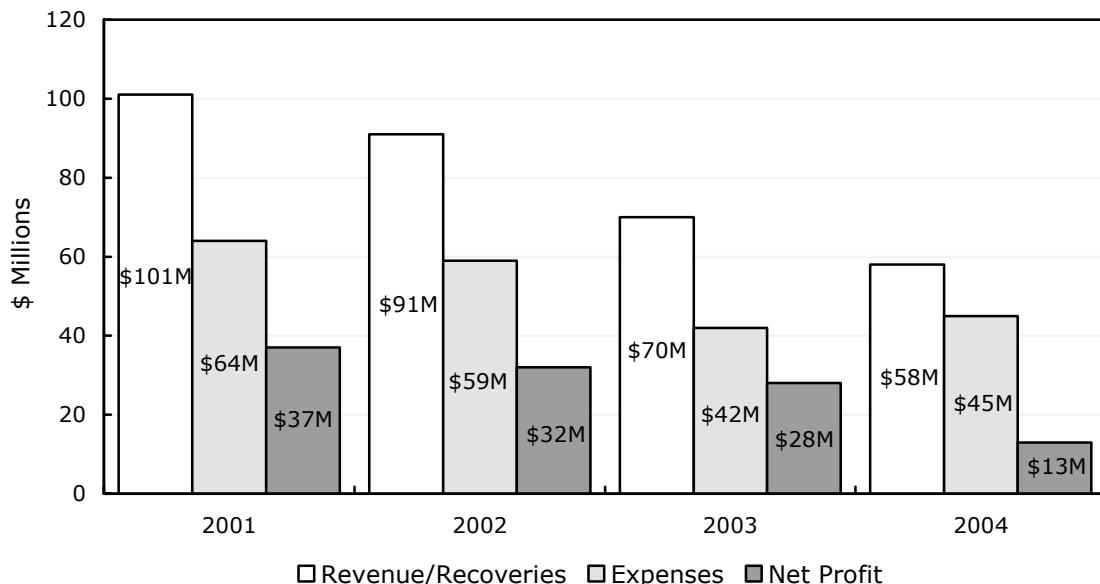


The main expense items other than interest expense in 2004 were, the service fee of \$512 000 (\$512 000) payable to SAFA for management of the SAAMC Treasury portfolio (refer to Note 4(b)) and expenses of \$468 000 (\$nil) relating to the management of the residual liabilities in the activities of a joint venture arrangement with Hellenic Cadastre Consult (HCC) in Greece (refer to Notes 2 and 4(b)).

Operating Result

The following chart shows the revenues/recoveries, expenses and net profits for the four years to 2004. Net profits achieved over the four year period have ranged between \$13 million in 2004 and \$37 million in 2001.

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



Statement of Financial Position

The table below presents a broad analysis of the assets and liabilities and equity position of SAAMC for the four years to 2004. The table shows a trend reduction in assets and liabilities. Over the four year period assets have reduced by 48 percent and liabilities by 44 percent.

It can also be seen that SAAMC over the four year period, has been in a highly liquid position. Fund receipts from securities have been applied to the discharge of obligations associated with SAAMC's interest bearing liabilities. In 2004 fund receipts were also used towards payment of a dividend of \$58.5 million (\$230 million) to the Consolidated Account on direction of the Treasurer pursuant to section 22 of the *State Bank of South Australia Act 1983* (as amended). At 30 June 2004 retained profits of SAAMC stood at \$59 million.

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
ASSETS				
Securities	599	765	1 189	1 396
Other	187	170	242	115
Total Assets	786	935	1 431	1 511
LIABILITIES				
Interest bearing liabilities	656	758	1 060	1 171
Other	9	9	5	6
Total Liabilities	665	767	1 065	1 177
EQUITY				
Retained Profits	59	106	310	279
Other	62	62	56	55
TOTAL EQUITY	121	168	366	334

Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	10	33	34	20
Investing	152	483	198	487
Financing	(161)	(517)	(233)	(514)
Change in Cash	1	(1)	(1)	(7)
Cash at 30 June	5	4	5	6

Cash flows predominately result from investing and financing activities. The cash flows from SAAMC's investing activities result mainly from receipts from securities (refer to Note 9). These receipts are used to make repayments associated with the discharge of SAAMC's interest bearing liabilities (refer to Note 12) and distribution of capital and/or retained profits to the Consolidated Account. As mentioned earlier, a dividend payment of \$58.5 million was made to the Consolidated Account in the current year.

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

		2004	2003
	Note	\$'000	\$'000
Interest revenue	3	53 242	56 012
Interest expense	4(a)	(43 705)	(40 554)
Net Interest Revenue		9 535	15 458
Non-interest income	3	1 831	8 542
(Charge) credit for bad and doubtful debts	5	3 255	5 189
Other expenses from ordinary activities	4(b)	(1 524)	(1 409)
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EXPENSE		13 099	27 780
Income tax expense relating to ordinary activities	6	-	-
NET PROFIT		13 099	27 780
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
(Decrease) Increase in asset revaluation reserve - Fair value adjustment	16	(997)	3 855
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		12 102	31 635

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

		2004	2003
	Note	\$'000	\$'000
ASSETS:			
Cash on hand and at bank		5 016	4 060
Loans, advances and receivables	8	16 717	35 365
Securities	9	598 804	765 362
Property, plant and equipment	10	11 000	11 000
Other assets	11	154 984	118 957
Total Assets		786 521	934 744
LIABILITIES:			
Interest bearing liabilities	12	655 864	757 653
Payables	14	5 768	4 776
Provisions	13	3 712	4 740
Total Liabilities		665 344	767 169
NET ASSETS		121 177	167 575
SHAREHOLDERS' EQUITY:			
Share capital	15	52 716	52 716
Reserves	16	9 286	8 917
Retained profits	17	59 175	105 942
TOTAL SHAREHOLDERS' EQUITY		121 177	167 575
Commitments	19		
Contingent Liabilities	20		

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		Note	\$'000
			\$'000
		50 806	72 472
Interest paid		(43 132)	(55 541)
Other income received		344	12 546
Recovery of bad debts written off in previous years		3 094	5 051
Payments to trade creditors, other creditors and employees		(1 171)	(1 222)
Net Cash Flows provided by Operating Activities	22(b)	9 941	33 306
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net receipts (advances) from/to loans, advances and receivables		18 641	42 230
Net (payments) receipts for property, plant and equipment		-	(531)
Net (payments) receipts from trading securities		133 236	441 347
Net Cash Flows provided by Investing Activities		151 877	483 046
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid		(58 500)	(230 000)
Net receipts from (repayments of) borrowings		(127 512)	(276 513)
Net receipts from (repayments of) deposits		25 150	(10 435)
Net Cash Flows used in Financing Activities		(160 862)	(516 948)
NET INCREASE (DECREASE) IN CASH HELD		956	(596)
CASH AT 1 JULY		4 060	4 656
CASH AT 30 JUNE	22(a)	5 016	4 060

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

(a) Basis of Preparation

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

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

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

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

(a) Basis of Preparation (continued)

With the exception of assets referred to in Notes 9(b) and 10 all the assets of the Corporation are marked-to-market and treated as current. Certain liabilities of the Corporation extend beyond 30 June 2004 and are detailed with their due dates in Note 12, Interest Bearing Liabilities.

(b) Asset Valuation Basis*Financial Assets*

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

Land and Buildings

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

(c) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the Statement of Financial Position.

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

(d) Bad and Doubtful Debts*Specific Provisions*

The charge against profits for provisions for doubtful debts reflects the net of new specific provisions less reversals of specific provisions no longer required. All known bad debts are written off against the provision in the period in which they are recognised. Bad debts, in respect of which no specific provisions have been established, are recognised in the Statement of Financial Performance.

Where full recovery is considered doubtful on loans, advances and receivables and liquid and trading securities, specific provisions for doubtful debts are made, income recognition is discontinued and amounts received are held as an offset to principal. The assessment of an appropriate level of provisioning requires a large element of subjective judgement relating to many factors, including the ability of a borrower to generate cash flow and the net fair value of security held by the Corporation where a borrower defaults. These judgements, as at balance date, have necessitated consideration of the current state of the Australian and International economies, specific markets and future asset values.

Where a loan, advance, receivable or security has been impaired and requires a specific provision, that provision is calculated as the amount required to reduce the carrying value of that loan, advance, receivable or security to the ultimate net fair value amount. The net fair value amount is determined as the recoverable amount of the assets measured on a current market value basis. In this context, the current market value means the price obtainable through an orderly sale less the costs expected to be incurred in obtaining the proceeds of such sale.

General Provisions

Invested securities and other financial assets constitute 98.6 percent of the assets of the Corporation.

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

Due to the nature of these assets, the credit risk attached to each asset can be individually measured and a specific provision raised where necessary. Therefore a general provision is not maintained.

(e) Derivative Financial Instruments

The Corporation is exposed to changes in interest rates and foreign exchange rates from its activities. Prior to the 30 June 1994, the Corporation conducted a trading Treasury. When the banking operations were vested to BankSA, the Corporation retained all the significant Treasury exposures. The Corporation no longer trades in derivatives, though some minor positions are maintained. The Corporation has financial instruments, including interest rate and currency swaps, forward rate agreements, futures and options, which arose as part of the former trading activities. It also has financial instruments to hedge non-trading assets, liabilities and commitments of the Corporation. Instruments entered into as part of old trading activities continue to be marked-to-market with gains and losses, whether realised or unrealised, being recognised immediately in the Statement of Financial Performance. Gains and losses on instruments that are designated as hedges and are effective as hedges are accounted for on the same basis as the underlying instrument. The face values of such instruments are not recorded as assets and liabilities in the Statement of Financial Position. Any amounts receivable or payable in relation to these instruments are recorded as other assets or other liabilities. Details of these financial instruments are disclosed in Note 21, Financial Instruments, to the financial statements.

(f) Leased Assets as Lessor

Operating Leases

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

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

(g) Foreign Currency

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

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

(h) Taxation

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

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

(i) Employee Entitlements

Employee entitlements as shown in Note 18 to the financial statements have been reported in accordance with AASB 1028 'Accounting for Employee Entitlements'. The value of commitments to employees is based on planned departure dates of staff and is calculated on the estimated cash entitlement at the time of the expected departure. Provisions required for employee entitlements are not discounted to present value, as the effect of discounting is not material.

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

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

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

Superannuation Funds

The Corporation contributes the prescribed Employer Contribution to the Triple S scheme administered by Super SA. Contributions are charged against income as they are made. Refer to Note 18, Employee Entitlements.

(j) Liquid and Trading Securities

Liquid and trading securities represent public and other debt instruments that are purchased with the intention of hedging the former trading portfolio, investing excess liquidity prior to the repayment to the South Australian Government, or as part of the liquidity management function of the Corporation. Such securities are recorded at market value. Gains and losses realised from the sale of these securities and unrealised gains and losses on revaluation are reflected in the Statement of Financial Performance.

(k) Change of Accounting Policy

The Corporation this year changed from marked-to-market accounting to cost accounting for one of its investments as it is now considered that this particular structured investment will be held until its maturity in 2008. The impact on the current year's results as a consequence of revaluing this asset to cost was a reduction of \$1.7 million in profit and a corresponding reduction in the book value of the asset (refer Note 3 and Note 9(b)).

(l) Rounding

Unless otherwise indicated, all amounts have been rounded to the nearest thousand dollars.

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

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

The assets and liabilities under the management of the Corporation will continue to reduce during the reporting periods ending 30 June 2005 and 30 June 2006.

The Corporation's management is assessing the significance of the adoption of these standards for the purpose of their implementation.

The Corporation is of the opinion that no significant changes to accounting policy will arise as a consequence of the downsizing of the Corporation's assets and liabilities and as a result of the adoption of IFRS.

2. Directions of the Treasurer

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

The Treasurer of South Australia has directed that \$58.5 million (\$230 million) be paid into the Consolidated Account from the Corporation's accumulated retained profits. The payment was made on 30 June 2004.

In accordance with the approval of the Treasurer dated 27 January 2004, pursuant to section 19(1) of the *State Bank of South Australia Act 1983* (as amended) and for the purposes of section 19(7) of the same Act and by another proclamation pursuant to section 3(2) of the *State Bank (Corporatisation) Act 1994*, SAAMC acquired the single issued share in the capital of Edisco Pty Ltd. By another proclamation under section 23 of the *State Bank (Corporatisation) Act 1994*, Edisco was dissolved and all its assets and liabilities were vested to SAAMC on 3 June 2004. The vesting related to residual liabilities in the activities of a joint venture arrangement with Hellenic Cadastre Consult (HCC) in Greece. (Refer Note 20).

3. Revenue from Ordinary Activities

Profit from Ordinary Activities before related income tax expense
has been determined after crediting as revenue

2004
\$'000

2003
\$'000

Interest Income:

South Australian Government Financing Authority
Other interest income

235
53 007

1 790
54 222

Total Interest Income

53 242

56 012

Non-interest Income:

Rental
Foreign exchange income
Mark-to-market (loss) gain
Decrement in value of security (Note 1(k))
Other sundry income

1 696
10
1 458
(1 727)
394

1 675
(220)
7 080
-
7

Total Non-Interest Income

1 831

8 542

4. (a) Interest Expense

Profit from Ordinary Activities before related income tax expense
has been determined after debiting as expense the following:

Interest expense

43 705

40 554

(b) Other Expenses from Ordinary Activities	2004	2003
	\$'000	\$'000
Profit from Ordinary Activities before related income tax expense has been determined after charging as expense the following:		
Fringe benefits tax	5	5
Salaries and wages	125	159
Superannuation and retiring allowances	19	22
Other staff expenses	8	38
Staff Costs	157	224
Occupancy Costs:		
Rates and taxes	50	45
Occupancy Costs	50	45
Amounts due or received for audit services by:		
Auditor-General of South Australia	69	45
Insurance	10	10
Management and service fees paid to SAFA	512	512
Legal fees	52	310
Other professional fees (European Banking Clearing)	139	152
Hellenic Cadastre Consult expenses from Edisco	468	-
Telephones	3	3
Travel	3	6
Other expenses	61	102
Administration and General Costs	1 317	1 140
Total Other Expenses	1 524	1 409

5. Bad and Doubtful Debts

Profit from Ordinary Activities before related income tax expense has been determined after charging as an expense (Note 1(d)):

Net (credit) for bad debts written off:		
Recoveries net of recovery costs	(3 094)	(5 051)
Net recoveries received	(3 094)	(5 051)
Charge for provision for doubtful debts:		
Specific provision for doubtful debts (Note 9)	(161)	(138)
(Credit) for provision for doubtful debts	(161)	(138)
(Credit) for Bad and Doubtful Debts	(3 255)	(5 189)

6. Income Tax

The amount provided in respect of income tax differs from the amount *prima facie* payable on operating profit:

Prima facie income tax expense calculated at 30 percent (30 percent) on profit	3 930	8 334
Decrease in income tax expense due to non-tax assessable items:		
Tax exempt income - SAAMC	3 930	8 334
Income tax expense (benefit) on profit adjusted for permanent differences:		
Income tax under (over) provided in prior year	-	-
Tax rate differential on overseas income	-	-
Future income tax benefit not brought to account	-	-
Total Income Tax Expense (Benefit)	-	-

7. Segmental Reporting *Geographic Segments*

Revenue:		
Australia	55 073	64 554
Total Revenue	55 073	64 554
Profit after Tax:		
Australia	13 099	27 780
Total Profit After Tax	13 099	27 780
Total Assets:		
Australia	786 521	934 744
Total Assets	786 521	934 744

Industry Segments

The Corporation has operated predominantly in the financial services industry during the course of the year comprising investing, recovery of outstanding debts and management of treasury risks.

		2004 \$'000	2003 \$'000	
8. Loans, Advances and Receivables		2004 \$'000	2003 \$'000	
South Australian Government Financing Authority		4 169	4 633	
Other term lending		12 548	30 732	
Total Loans, Advances and Receivables (Gross)		16 717	35 365	
Less: Specific provision for doubtful debts		-	-	
Total Loans, Advances and Receivables (Net)		16 717	35 365	
9. Securities				
(a) Unlisted Liquid and Trading Securities				
Interbank, corporate and other securities (Gross)		586 343	765 562	
Less: Specific provision for doubtful debts		(39)	(200)	
Total Unlisted (Net)		586 304	765 362	
Total Liquid and Trading Securities		586 304	765 362	
(b) Unlisted Securities at Cost				
Fixed coupon bonds		12 500	-	
Total Securities		598 804	765 362	
Specific Provision:				
Balance at 1 July		200	6 479	
Charged (credited) against profit (Notes 1d,5)		(161)	(138)	
Loss crystallized		-	(6 141)	
Specific Provision at 30 June		39	200	
10. Property, Plant and Equipment				
Land and building (investment property):				
At fair value		11 000	11 000	
Total Land and Building		11 000	11 000	
An independent valuation of the Corporation's freehold land and building was carried out as at 30 June 2003 by Tim Trnovsky AAPI, a Certified Practising Valuer from FPDSavills on the basis of open market values for existing use. This resulted in a valuation of land of \$2 050 000 and a valuation of building of \$8 950 000.				
Additions were made to the building during the year amounting to \$997 000. The Directors have determined to continue to record the land and building at \$11 000 000 consistent with the independent valuation undertaken as at 30 June 2003.				
The valuation was brought to account with the difference between the cost and market values recorded in the asset revaluation reserve.				
Reconciliation				
Opening written down value		2004 \$'000	2003 \$'000	
Additions		11 000	6 620	
Revaluation		997	525	
Revaluation adjustment		-	3 855	
Closing written down value		(997)	-	
		11 000	11 000	
11. Other Assets				
Receivables on swap or hedge transactions		154 984	118 957	
Total Other Assets		154 984	118 957	
12. Interest Bearing Liabilities				
Deposits		162 888	137 171	
Capital markets raisings		492 976	620 482	
Total Borrowings		655 864	757 653	
Capital market raisings represent private note placements by the Corporation. The major placements were:				
Original Face		2004 \$'000	2003 \$'000	
Currency	Value	Description		
JPY	20 billion	8.125% notes due 2005	267 142	250 460
JPY	15 billion	9.375% notes due 2005	200 356	187 844
Exchange Rates				
The Australian dollar values of the above note issues were determined using the following exchange rates:		2004	2003	
Australian Dollars (AUD)		1.00000	1.00000	
Japanese Yen (JPY)		74.86658	79.85314	

	2004	2003
	\$'000	\$'000
Mortgage guarantee insurance and workers compensation claims provision	3 763	4 704
Employee entitlements, including on-costs (Note 18)	39	36
Total Provisions	3 712	4 740
14. Payables		
Sundry creditors and accruals	5 768	4 776
Total Other Liabilities	5 768	4 776
15. Capital		
Subscribed by the South Australian Government:		
Balance at 1 July	52 716	52 716
Transfer from (to) reserves	-	-
Balance at 30 June	52 716	52 716
Total Subscribed Capital	52 716	52 716
16. Reserves		
Property:		
Balance at 1 July	5 062	3 700
Transferred from retained profits	1 366	1 362
Balance at 30 June	6 428	5 062
Asset revaluation reserve:		
Balance at 1 July	3 855	-
Net effect of initial adoption of AASB 1041 (Revaluation of non-current assets)	-	3 855
Adjustment to revaluation reserve	(997)	-
Balance at 30 June	2 858	3 855
Total Reserves	9 286	8 917
Property Reserve		
As detailed in Note 20 'Contingent Liabilities', the Corporation entered into a property put option in 1993-94 as part of the sale of the Australis property, now known as SA Water House. If the purchaser of the property exercises the put option in 2008, the Corporation will be required to purchase the property for \$39.5 million.		
Should this event occur, the Corporation would be required to fund the full acquisition cost of \$39.5 million. In the event that the property is subsequently sold, the Corporation may need to fund the difference between the acquisition cost of \$39.5 million and the net proceeds from the sale of the property.		
In recognition of these financial management considerations, the Directors have resolved to transfer a portion of retained profits to a Property Reserve as part of a strategic objective of building up a reserve that may be required to fund either the partial or full acquisition of the Australis property in 2008.		
Asset Revaluation Reserve		
At 30 June 2003, the Corporation revalued its sole investment property, being the land and office building at 30 Wakefield Street, Adelaide and booked a gain of \$3.855 million in the revaluation reserve. During 2004 additions were made to the building amounting to \$997 000. Refer to Note 10 regarding the movement in the valuation of the asset.		
17. Retained Profits		
Retained profits at 1 July	105 942	309 524
Net Profit attributable to the Corporation	13 099	27 780
Transfer to property reserve (refer Note 16)	(1 366)	(1 362)
Dividend paid (refer Note 2)	(58 500)	(230 000)
Retained Profits at 30 June	59 175	105 942
18. Employee Entitlements		
Aggregate employee entitlements, including on-costs:		
Current (refer Note 13)	39	36
19. Commitments		
Superannuation Commitments		
The Corporation contributes to an accumulation benefit employee fund, which is administered by Super SA. Employer contributions to the fund are made in accordance with the funds requirements.		

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

Operating Lease Commitments	2004	2003
	\$'000	\$'000
Concurrent leases payable or contracted for at balance date but not provided for in the financial statements:		
Not later than one year	3 663	5 089
Later than one year but not later than five years	13 781	23 887
Later than five years	-	-
	17 444	28 976

These commitments are offset by lease payments to be received, which are estimated to be \$17 500 000. The 2003 estimate for recoveries was \$28 959 000 as compared to commitments of \$28 976 000. However historical results and changes in the real estate market conditions necessitated a re-evaluation of both future commitments and offsets, which resulted in a reduction in both.

20. Contingent Liabilities

Claims against the Corporation

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

Treasurer's Indemnity

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

Hellenic Cadastre Consult (HCC)

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

Set Off and Extinguishment of Debt

The Corporation entered into a transaction in 1990 maturing in 2005 for offsetting financial assets and liabilities with face values of \$542 million. These assets and liabilities were not recognised in the financial statements because the Corporation had a legally recognised right to set off the asset and liability and intended to realise the asset and settle the liability simultaneously.

During the year an agreement was reached between the Corporation and the other parties to this arrangement relating to the early termination on 24 December 2003.

Put Option

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

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

The risk that the value of the building in 2008 will be less than \$39.5 million is considered low on the basis of an assessment of the property by FPDSavills on 30 June 2003.

21. Financial Instruments

	2004	2003
	\$'000	\$'000
Foreign Exchange, interest rate and other market related transactions (Notional Principal)	1 828 315	2 629 441

These are transactions in which SAAMC and other parties agreed to exchange a stream of cash flows based on notional principal amounts totalling \$1 828 315 000 (\$2 629 441 000) where one stream is calculated with reference to a rate or index (eg floating interest rate) and the other stream is calculated based on a different rate or index (eg fixed rate).

Derivatives are mainly used to hedge risk. They allow the entity to manage various degrees and types of risk, the most significant being market, credit and liquidity risk.

Market Risk

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

Mark-to-Market

The Corporation currently has a portfolio of underlying assets where mark-to-market accounting is used.

This portfolio was a trading portfolio in the Corporation prior to 30 June 1994.

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

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

	2004 \$'000	2003 \$'000
Interest rate swaps and forward rate agreements	1 309 192	1 631 102
Cross-currency swaps	519 123	998 339
	1 828 315	2 629 441

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

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

Credit Risk

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

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

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

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

The Corporation has a number of credit exposures to several counter parties, including government and semi-government instrumentalities.

Interest Rate Risk Management

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

	2004 \$'000	2003 \$'000
Interest rate swaps	1 309 192	1 631 102

Interest Rate Risk Exposures

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

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

Interest Rate Risk Exposures (continued)

	Note	Floating Interest Rate \$'000	2004			Non-Interest Bearing \$'000	Total \$'000
			One year or Less \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash		5 016	-	-	-	-	5 016
Loans, advances and receivables	8	15 575	1 142	-	-	-	16 717
Securities	9	598 804	-	-	-	-	598 804
Other financial assets:							
Net swap receivables	11	-	-	-	-	154 984	154 984
		619 395	1 142	-	-	154 984	775 521
Weighted average interest rate percent			5.65	5.60			
Financial Liabilities:							
Borrowings:							
Deposits	12	162 888	-	-	-	-	162 888
Capital markets raisings	12	492 976	-	-	-	-	492 976
Other financial liabilities	14	-	-	-	-	9 441	9 441
		655 864	-	-	-	9 441	665 305
Weighted average interest rate percent				4.41			
2003							
		Floating Interest Rate \$'000	One year or Less \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000	Non-Interest Bearing \$'000	Total \$'000
Financial Assets:							
Cash		4 060	-	-	-	-	4 060
Loans, advances and receivables	8	33 013	2 352	-	-	-	35 365
Securities	9	765 362	-	-	-	-	765 362
Other financial assets:							
Net swap receivables	11	-	-	-	-	118 957	118 957
		802 435	2 352	-	-	118 957	923 744
Weighted average interest rate percent			5.38	5.39			
Financial Liabilities:							
Borrowings:							
Deposits	12	137 171	-	-	-	-	137 171
Capital markets raisings	12	620 482	-	-	-	-	620 482
Other financial liabilities	14	-	-	-	-	9 480	9 480
		757 563	-	-	-	9 480	767 133
Weighted average interest rate percent				4.84			

Foreign Exchange Risk Management

The Corporation enters into cross-currency swaps and forward exchange contracts to hedge foreign currency borrowings, principally Japanese Yen, as the following table indicates. These amounts are converted at the balance date exchange rates.

	2004 \$'000	2003 \$'000
Cross-currency swaps	519 123	998 339

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

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

Japanese Yen (YEN)	467 498	563 534
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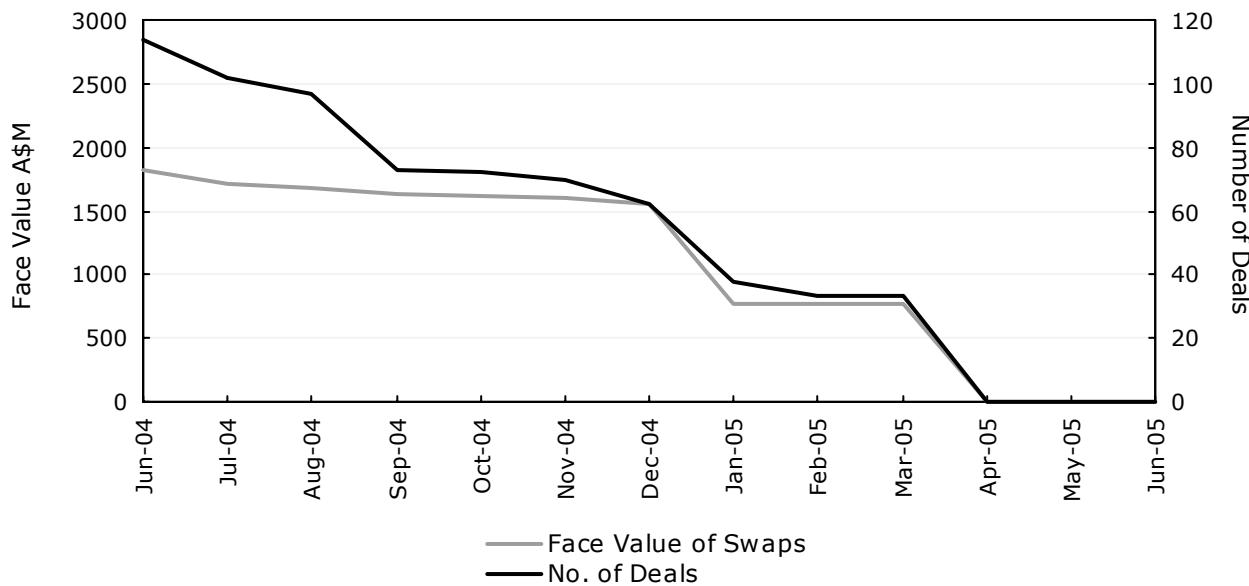
Liquidity Risk

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

In order to counter such risk, the Corporation has concentrated its derivative activities in highly liquid markets. Approximately 72 percent (62 percent) of notional principal outstanding as at 30 June 2004 was represented by forward foreign exchange contracts, interest rate swaps and exchange traded futures and options. The remainder of the portfolio is mainly cross-currency swaps, which are hedging foreign currency borrowings.

Maturity Profile of Swaps

Interest rate and cross-currency swaps are responsible for 100 percent (100 percent) of the off-balance sheet exposures. The remaining exposures are short term. The following graph summarises the run off of swaps by number and by value.



Net Fair Value of Financial Instruments

The Corporation records cross-currency swaps, interest rate swaps and other derivatives at a net fair value (mark-to-market) in the financial statements. Net fair value is defined as the amount at which the instrument could be exchanged in a market transaction between willing parties. For those derivatives where market prices are unavailable, the cash flows have been discounted using the mid rate of the appropriate yield curve to arrive at a net fair value, as at 30 June 2004.

22. Notes to the Statements of Cash Flows

(a) Reconciliation of Cash

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

Cash on hand and at bank	5 016	4 060
	5 016	4 060

2004
\$'000

2003
\$'000

(b) Reconciliation of Net Cash flows from Operating Activities to Profit after Income Tax

Net profit	13 099	27 780
Add (Less): Non-cash items:		
Bad debts charge (credit)	(161)	(138)
Non-cash effect of mark-to market adjustments	-	-
Net Cash provided by Operating Activities before change in Assets and Liabilities	12 938	27 642
Changes in assets and liabilities		
(Increase) Decrease in other sundry debtors	-	-
(Decrease) Increase in net interest accrued	(1 863)	1 473
(Decrease) Increase in sundry creditors and accruals	(1 140)	4 161
Increase in employee entitlements	6	30
Net Cash Flows provided by Operating Activities	9 941	33 306

23. Directors' Remuneration

The number of directors on the Corporation's board whose income (including superannuation but excluding other employee entitlements) from the Corporation falls within the following bands:

\$80 000 - \$89 999

2004
Number of
Directors

2003
Number of
Directors

1

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

Total income paid or payable, or otherwise made available to the Director from the Corporation.

2004
\$'000

2003
\$'000

84

		2004	2003
	Number of Executive Officers	Number of Executive Officers	
24. Executives' Remuneration		1	1
The number of Executive Officers of the Corporation whose income (including superannuation, but excluding accrued long service leave and annual leave) from the Corporation or related entities falls within the following bands:			
\$80 000 - \$89 999			
25. Related Party Disclosures			
Directors			
The names of each person holding the position of Director of South Australian Asset Management Corporation (SAAMC) during the financial year ended 30 June 2004 are as follows:			
Mr Joseph J Ullianich	Ms Kathryn A Moore		
Mr Brett G Rowse	Mr Andrew G Anastasiades		
Mr Terence C Evans			
Directors' Transactions			
No transactions took place between the directors of SAAMC and related entities and their related parties, including director related entities.			
South Australian Government Financing Authority (SAFA)			
Related party transactions with SAFA are disclosed in Note 3, Revenue from Ordinary Activities and Note 8, Loans, Advances and Receivables. In addition, the Corporation and SAFA participate in the same financial markets and enter into transactions on market terms and conditions.			
26. Events Subsequent to Balance Date			
There has not arisen in the interval between the end of the financial year and the date of this report any items, transactions or events of a material and unusual nature likely in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation, in subsequent financial years.			

SOUTH AUSTRALIAN GOVERNMENT CAPTIVE INSURANCE CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

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

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

Functions

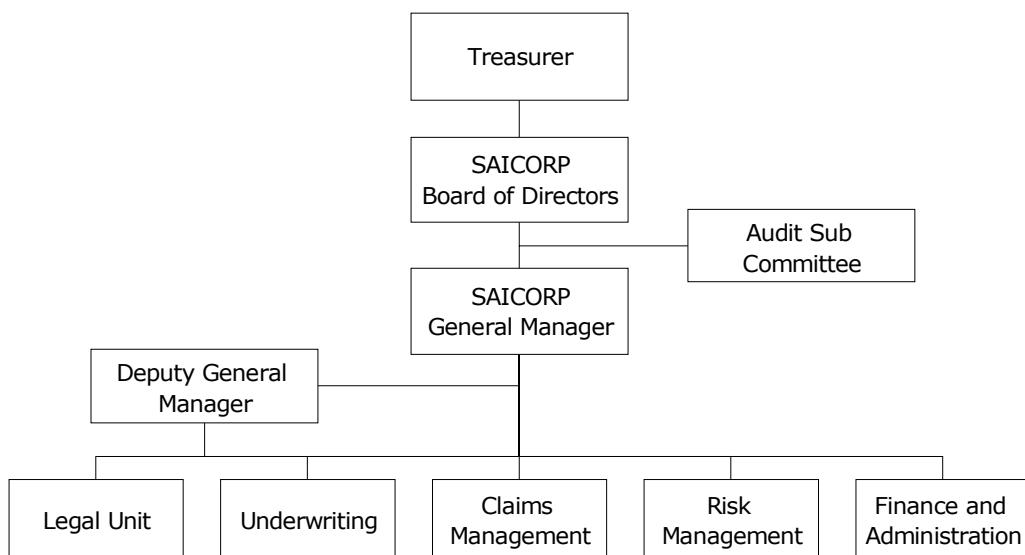
The main functions of SAICORP are:

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

The Corporation is subject to the control and direction of the Treasurer, as its Minister. Administratively, SAICORP is a separate branch within the Department of Treasury and Finance (DTF), and the SAICORP Board has entered into an arrangement with DTF to cover the use of staff, assets and accommodation to provide the services required by the Board.

Structure

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



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

South Australian Government Insurance and Risk Management Fund

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

The SAGIRM Fund has two sections:

Section 1 — records transactions associated with the operation of SAICORP since its inception. Costs such as premiums for reinsurance; insurable losses and claims arising since 1 July 1994; and administration expenses are met from the premium contributions from agencies and other income derived from activities, for example, investment earnings.

Section 2 — records the payment of losses and claims arising before 1 July 1994 and the cost of activities which fall outside the insurance covers provided under Section 1. This section is administered by SAICORP and is funded by appropriation from the Consolidated Account to cover the cost of payments made. As a result Section 2 has a substantial unfunded liability (\$45 million) as at balance date.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 13(3) of the Schedule to the *Public Corporations Act 1993* provides that the Auditor-General may, at any time, and must in respect of each financial year, audit the accounts and financial statements of SAICORP.

Assessment of Controls

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

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

Scope of Audit

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

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

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

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

Audit formed the opinion that the controls exercised by SAICORP in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to Corporate Governance Arrangements and Investment Strategy, as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of SAICORP have been conducted properly and in accordance with law.

Audit Communications to Management

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

Corporate Governance Arrangements

Last year Audit noted that certain governance arrangements and practices at SAICORP vary from other corporations and subsidiaries subject to audit by the Auditor-General. For example, the role of the SAICORP Board was not documented in either a charter or statement of terms of reference. Audit also noted the absence of a regular program of the Board reviewing progress against business plans, budgets and other performance targets, as would be consistent with its legislative requirements.

It was Audit's view that the development of a board charter could assist the SAICORP Board in further clarifying its roles and responsibilities and ensuring that it meets its statutory responsibilities through regular monitoring of compliance with such a charter.

Audit follow up during 2003-04 revealed a draft SAICORP Board charter had been prepared as part of a revised corporate governance policy but had not been submitted to the Board and the Treasurer for endorsement.

SAICORP Response

In response, SAICORP advised that the SAICORP Board Corporate Governance Policy was presented to the Board for review at its August 2004 meeting.

Investment Strategy

Audit noted that during 2003-04 SAICORP requested the South Australian Government Financing Authority (SAFA) to review SAICORP's investment asset allocation approach and provide other information relevant to investment management. In its report dated October 2003, SAFA recommended changes to the SAICORP investment strategy, including restructuring its investment asset allocation.

Audit noted that the SAICORP Board had not sought the Treasurer's approval of the revised SAICORP investment strategy (as required by section 13 of the Public Corporations (Treasurer) Regulations 1994) prior to implementation.

SAICORP Response

In response, SAICORP advised that on 2 September 2004 the Treasurer approved a submission by SAICORP to allow the investment of SAICORP monies in accordance with the revised investment strategy, with the approval to have retrospective effect to 31 May 2004.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS (SECTION 1)**Highlights of Financial Statements**

	2004 \$'million	2003 \$'million	Percentage Change
UNDERWRITING RESULT			
Premium revenue	34.4	30.8	12
Outwards reinsurance expense	(11.9)	(9.7)	23
Net claims incurred	(20.8)	(16.9)	23
Net underwriting expenses	(0.3)	-	
Underwriting Profit	1.4	4.2	(67)
INVESTMENT RESULT			
Interest and distributions	5.1	3.1	65
Investment market value movements	12.4	(3.5)	
Profit on Investment Activities	17.5	(0.4)	
General and administration expense	(0.7)	(0.8)	(13)
Operating Profit Before Notional Income Tax	18.2	3.0	
Income tax expense	(5.5)	(0.9)	
Operating Profit After Notional Income Tax	12.7	2.1	
ASSETS			
Current assets	78.3	81.7	(4)
Non-current assets	104.4	75.4	38
Total Assets	182.7	157.1	16
LIABILITIES			
Current liabilities	23.9	19.6	22
Non-current liabilities	95.7	87.1	10
Total Liabilities	119.6	106.7	12
EQUITY	63.1	50.4	25

Statement of Financial Performance**Net Premium Revenue**

Premiums charged to agencies are SAICORP's major source of revenue for the activities associated with the operation of the Government's insurance and risk management arrangements.

Net premium revenue is premium revenue less the cost of the outwards reinsurance program (catastrophe reinsurance program). A structural analysis of operating revenues for the five years to 2004 is presented in the following chart, which shows that the rise in premiums is being negated by the increase in premium costs of the reinsurance program reflecting difficult conditions experienced by the global insurance industry.

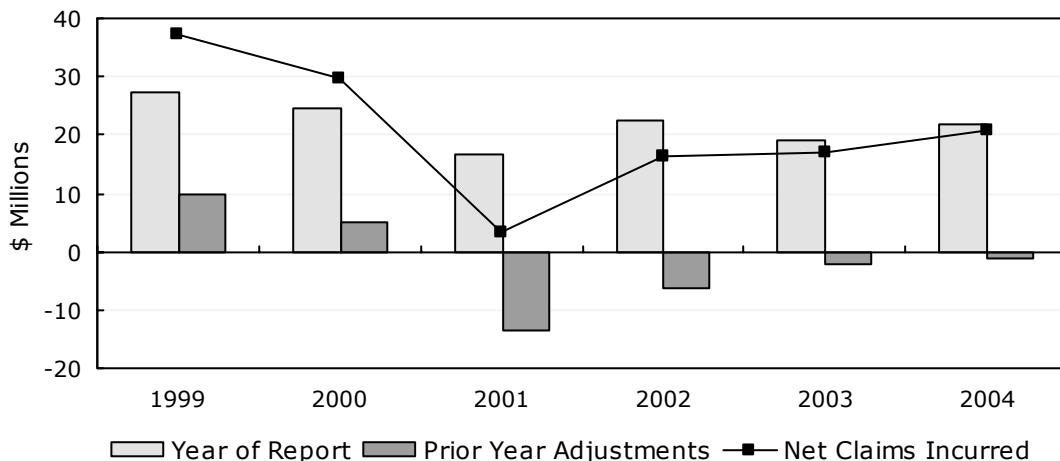


* Premium Revenue and Net Premium Revenue amounts prior to 2003 include stamp duty revenue, which for 2003 and 2004 is reported as Underwriting Expenses.

Net Claims Incurred

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

The net claims incurred is made up of a combination of an estimate of claim costs relating to risks borne in the year of report, and an adjustment relating to the reassessment of claim costs for risks borne in previous years. The following chart shows that net claims incurred have been generally stable over the past three years.

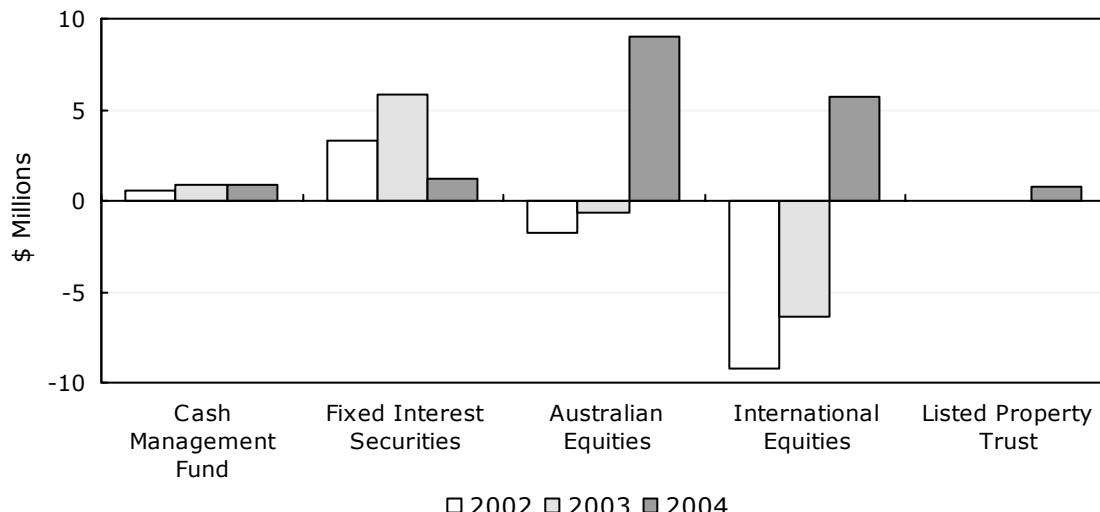


Investment Revenue/Expenses

The performance on investments by SAICORP's external fund managers (including SAFA for fixed interest) over the past financial year is as follows:

Investment Class	Balance at 30 June 2004 (\$'000)	2004	
		Investment Performance (Percent p.a.)	
Cash Management Fund	11 639		5.4
Fixed Interest Securities	47 984		1.9
Inflation Linked Bond	8 302		3.6
Australian Equities	56 516		21.5
International Equities	39 560		19.6
Listed Property Trust	8 375		20.0

As a consequence of the above investment results, SAICORP turned around investment expenses in 2001-02 and 2002-03 to report investment revenue of \$17.5 million in 2003-04 of which unrealised market value movements contributed \$12.4 million. The impact that returns on individual investment classes have had on investment expenses over the previous three years are as follows:



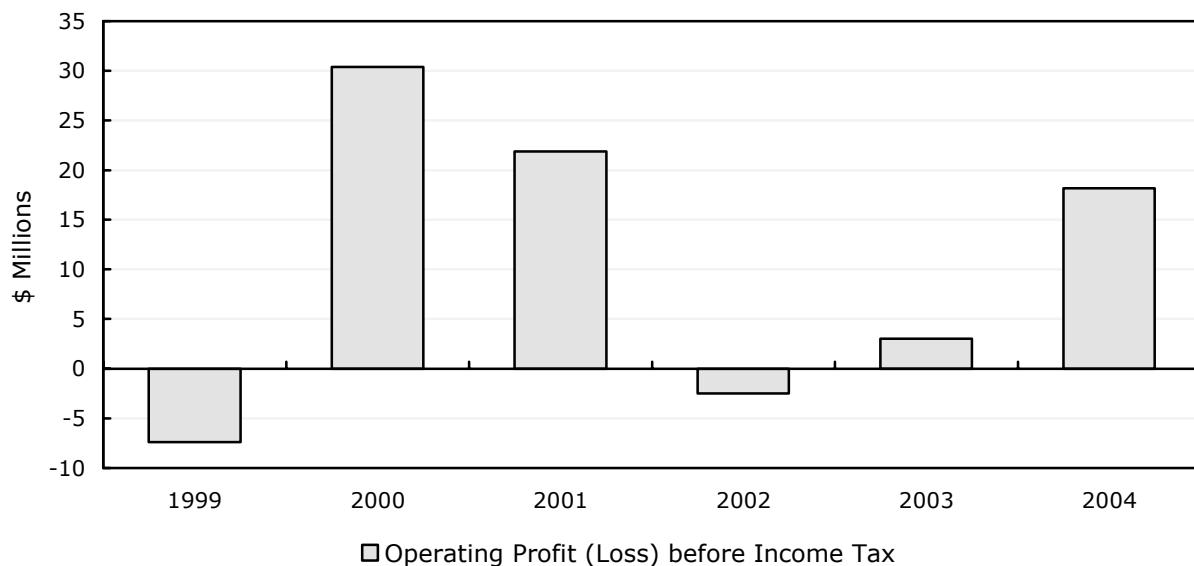
The chart shows that investment revenues were heavily influenced by the performance of Australian and international equity markets.

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

Operating Profit Before Income Tax

SAICORP's operating profit before income tax was \$18.2 million, an increase of \$15.2 million over the previous year. This increase is due to increased profits from investments (primarily the result of investment market value movements) offset by a reduced underwriting profit.

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



Segment Reporting

Note 3 to the financial statements describes the types of general insurance underwritten by SAICORP. The note also reports the underwriting result by the major lines of insurance business.

Statement of Financial Position

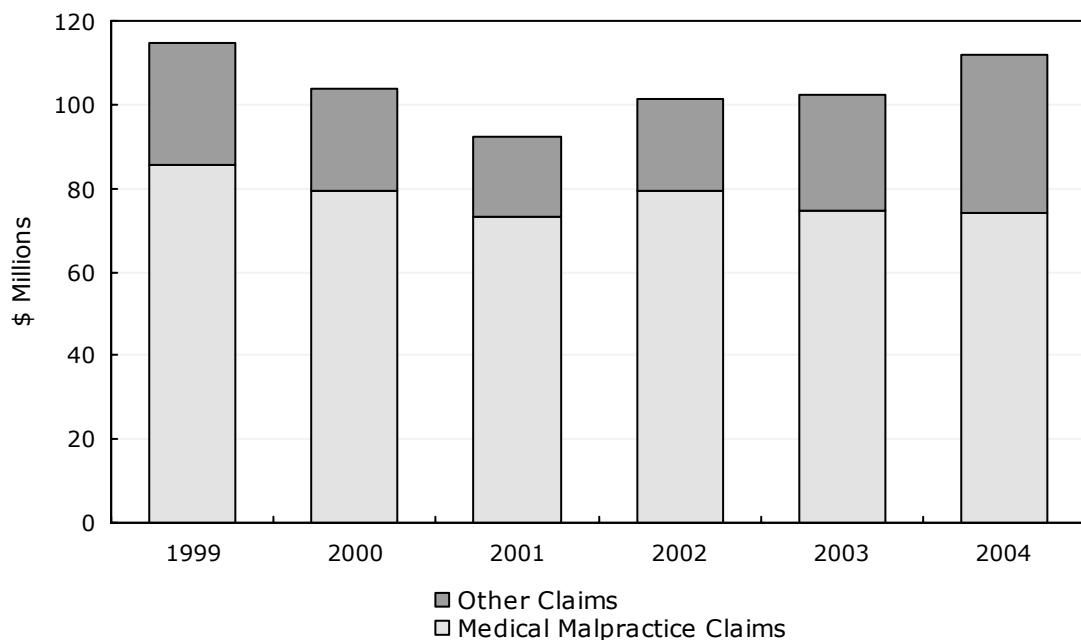
Outstanding Claims

The Corporation's liabilities as recorded in the Statement of Financial Position are dominated by the provision for outstanding claims. Independent actuaries are used to calculate the outstanding claims liability in accordance with Accounting Standards, as it is an inherently subjective number. The recommendations of the actuary were accepted by the Corporation's Board.

The outstanding claims liability of \$112 million as at 30 June 2004 was made up as follows:

	2004	2003
	\$'000	\$'000
Reported claims by case estimation	54 702	48 447
IBNR claims (including IBNER claims)	31 854	28 572
Adjustment for present value allowing for inflation and discounting	1 527	4 254
Provision for administration expenses	4 365	3 799
Prudential margin	19 610	17 282
	112 058	102 354

A structural analysis of outstanding claim liabilities for medical malpractice and other claims for the current year and the five preceding years is shown in the following chart. The increase in outstanding claims in 2004 is due to the net effect of changes in the assumed inflation rate (decrease of 0.25 percent), and the assumed discount rates (increase of 1.0 percent for medical malpractice claims, 0.9 percent for short tail classes and 1.1 percent for long tail classes) used for calculating the value of the liabilities. Medical malpractice claims continue to dominate the claims liabilities.



Investments

During 2003-04, at the request of the SAICORP Board, SAFA reviewed SAICORP's investment strategy. As a result of this review SAFA recommended the addition of two investment classes (Inflation Linked Bond and Listed Property Trust) and hedging of part of SAICORP's international equities investment class. Implementation of the new strategy commenced in May 2004. Refer to Note 18(b) of the financial statements.

Investments increased by \$26 million to \$172 million (\$146 million). This increase is due mainly to the purchase of additional investments and appreciation in value of SAICORP's Australian and international equity investments.

Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	11.3	4.9	3.6	9.5
Investing	(9.2)	(7.0)	-	(9.0)
Change in Cash	2.1	(2.1)	3.6	0.5
Cash at 30 June	4.6	2.5	4.6	1.0

This analysis shows that SAICORP has made consistent net cash flows on its operations over the periods reviewed. Cash also forms part of the investment portfolio. At 30 June 2004 the balance of the Cash Management Fund was \$11.6 million. This indicates that sufficient cash reserves are available to be accessed should large claim payments need to be made.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS (SECTION 2)**Highlights of Financial Statements**

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Total Revenue	9.4	6.9	36
Total Expenses (benefit)	6.3	(7.9)	
Net Result	3.1	14.8	(79)
ASSETS			
Current assets	9.7	9.3	4
Non-current assets	2.3	2.4	(4)
Total Assets	12.0	11.7	3
LIABILITIES			
Current liabilities	20.9	26.6	(21)
Non-current liabilities	36.4	33.5	9
Total Liabilities	57.3	60.1	(5)
EQUITY (DEFICIENCY)	(45.3)	(48.4)	(6)

Statement of Financial Position**Change in Net Assets**

A downward revision to the outstanding claims liability of \$3.1 million has provided for an improved financial position in the Section 2 financial statements. This reduction was due to revisions to past claims expenses, as discussed below in 'Outstanding Claims'.

The Cash balance of Section 2 financial statements has decreased by \$1.4 million to \$7.7 million as claim/compensation payments for the year exceeded the recurrent appropriation amount.

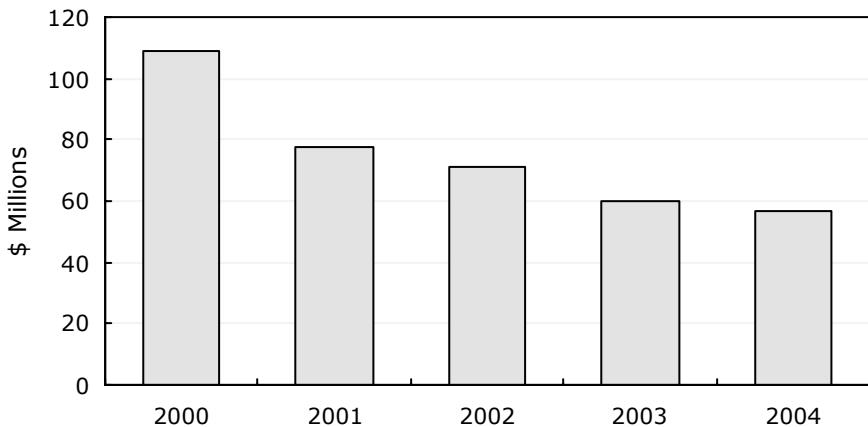
Outstanding Claims

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

The outstanding claim liability of \$57 million is made up as follows:

	2004 \$'000	2003 \$'000
Reported claims by case estimation	44 038	43 884
IBNR claims (including IBNER claims)	-	-
Adjustment for present value allowing for inflation and discounting	748	3 400
Provision for administration expenses	2 112	2 235
Prudential margin	10 063	10 547
	56 961	60 066

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



The majority of Section 2 claims relate to incidents which occurred before 1 July 1994. While some new Section 2 claims may be reported each year, thereby adding to the amount of the outstanding claims liability, these are likely to be outweighed by the settlement of existing claims, generally resulting in an overall decrease each year in the outstanding claims liability.

Claims expense of \$4.3 million shown in the Statement of Financial Performance is mainly a result of this decrease (\$3.1 million) in the liability and claim disbursements (\$7.5 million) made throughout the year.

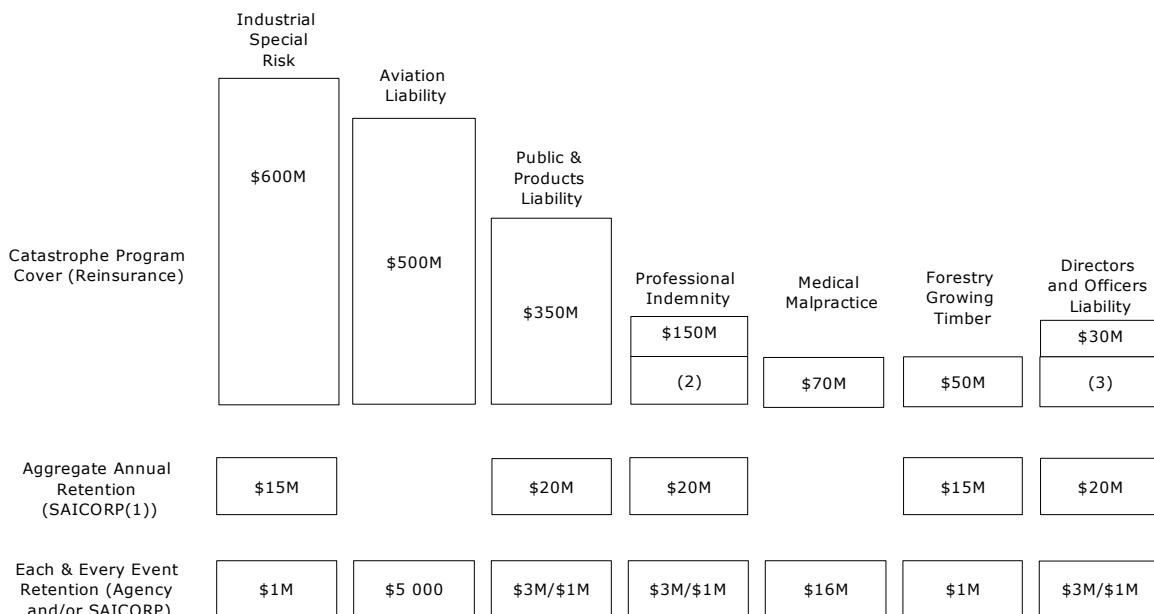
FURTHER COMMENTARY ON OPERATIONS

Catastrophe Reinsurance Program

The State Government is fundamentally a self insurer. However, to protect the State's finances against a very large loss or claim or a series of large losses or claims, a catastrophe reinsurance program is placed in the international insurance market through SAICORP (in a year). The premium expense relating to the 2003-04 financial year was \$11.9 million (\$9.7 million).

While the level of reinsurance cover that SAICORP has effected under these arrangements has not been changed, the cost has increased. This is a reflection of the state of the global insurance market as insurers reassess their risk profiles and their willingness to accept risk.

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



(1) Except Forestry Growing Timber, where the retention is held by Forestry SA.

(2) A significant proportion of this program has been retained by SAICORP due to limited capacity for this class of insurance.

(3) Fifty percent of this program has been retained by SAICORP due to limited capacity for this class of insurance.

Risk Management Activity Across the Public Sector

Throughout the year, SAICORP provided a range of insurance and risk management services to government agencies. These initiatives have been undertaken to assist in raising risk management awareness, including coordinating meetings of officers associated with risk management activities and organising seminars to promote better risk management practice.

The audit for 2003-04 observed that clinical risk management within public hospitals has remained an issue that requires further focus and evaluation in the future as a result of the impact that this area has on SAICORP's medical malpractice claim liabilities.

**SOUTH AUSTRALIAN GOVERNMENT
CAPTIVE INSURANCE CORPORATION — SECTION 1**

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

	Note	2004	2003
		\$'000	\$'000
Premium revenue	5	34 426	30 814
Outwards reinsurance expense	6	(11 938)	(9 688)
Net Premium Revenue		22 488	21 126
Claims expense	7	(20 736)	(17 187)
Reinsurance and other recoveries	8	(150)	300
Doubtful debts		93	23
Net Claims Incurred	9	(20 793)	(16 864)
Brokerage and lead reinsurance fee revenue	10	624	678
Underwriting expenses	11	(897)	(702)
Underwriting Result		1 422	4 238
Investment revenue	12	17 524	(365)
General and administration expense	13	(752)	(818)
OPERATING PROFIT BEFORE NOTIONAL INCOME TAX		18 194	3 055
Income tax expense	14	(5 459)	(917)
OPERATING PROFIT AFTER NOTIONAL INCOME TAX		12 735	2 138
TOTAL CHANGES IN EQUITY EXCLUDING THOSE RESULTING FROM TRANSACTION WITH THE STATE GOVERNMENT AS OWNER		12 735	2 138

Statement of Financial Position
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	15	4 645	2 501
Receivables	16	158	331
Reinsurance and other recoveries receivable	17	284	327
Investments	18	67 925	71 392
Other	19	5 273	7 143
Total Current Assets		78 285	81 694
NON-CURRENT ASSETS:			
Reinsurance and other recoveries receivable	17	31	622
Investments	18	104 451	74 816
Total Non-Current Assets		104 482	75 438
Total Assets		182 767	157 132
CURRENT LIABILITIES:			
Payables	20	427	30
Unearned premium		1 516	4 033
Outstanding claims	21	16 359	15 200
Tax liability	22	5 459	171
Other	23	186	157
Total Current Liabilities		23 947	19 591
NON-CURRENT LIABILITIES:			
Outstanding claims	21	95 699	87 155
Total Non-Current Liabilities		95 699	87 155
Total Liabilities		119 646	106 746
NET ASSETS		63 121	50 386
EQUITY:			
Retained surplus	24	63 121	50 386
TOTAL EQUITY		63 121	50 386
Contingent Liabilities	31		

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:			
Premiums		\$'000	\$'000
Stamp Duty from agencies		31 999	31 588
Commercial insurance placements		3 709	3 312
Claim recoveries		3 620	2 870
Brokerage and lead reinsurer fee revenue		652	357
Interest received		659	622
Other underwriting and general administration receipts		449	409
GST received on sales		18	-
GST input tax credits		3 586	3 431
		1 101	1 404
		45 793	43 993
Total Inflows from Operating Activities			
CASH OUTFLOWS:			
Outwards reinsurance payments		(12 429)	(9 779)
Commercial insurance placements		(3 796)	(2 873)
Claims paid		(7 477)	(11 766)
Prepaid maintenance payment to Fleet SA		(1 130)	(4 180)
Other underwriting and general administration expenses paid		(1 080)	(2 354)
Income tax equivalents paid to the Consolidated Account		(171)	-
Stamp Duty paid to RevenueSA		(3 716)	(3 290)
GST paid on purchases		(1 101)	(1 404)
GST payments to ATO		(3 549)	(3 438)
		(34 449)	(39 084)
Total Outflows from Operating Activities			
Net Cash Inflows from Operating Activities	32(b)	11 344	4 909
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Net payments for investments		(9 200)	(7 000)
Total Outflows from Investing Activities		(9 200)	(7 000)
Net Cash Outflows from Investing Activities		(9 200)	(7 000)
NET INCREASE (DECREASE) IN CASH HELD		2 144	(2 091)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		2 501	4 592
CASH AT THE END OF THE FINANCIAL YEAR	32(a)	4 645	2 501

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Objectives and Funding

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

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

SAICORP's objectives are to:

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

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

The fund is an interest bearing Special Deposit Account.

The principal source of funds for Section 1 consists of monies received from agencies for insurance cover provided in relation to the current financial year.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

This financial report is a general purpose financial report which, in accordance with section 13 of the Schedule to the *Public Corporations Act 1993*, has been prepared in accordance with:

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

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

2.2 Reporting Entity

Given the different funding and governance arrangements of Section 1 and Section 2 of the SAGIRM Fund, the principles of Australian Accounting Standard AASB 1024 'Consolidated Accounts' cannot be applied. Therefore two separate financial reports are prepared to discharge SAICORP's legislative disclosure obligations.

2.3 Comparative Figures

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

2.4 Rounding

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

2.5 Taxation

Effective 1 July 1995, pursuant to Treasurer's Instruction 22 'Tax and Tax Equivalents Applicable to Government Businesses', a tax equivalent regime applies to the normal commercial activities of SAICORP, which requires the Corporation to apply the Accounting Profits method for the calculation of income tax equivalent. Future income tax benefits relating to tax losses are not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

SAICORP is also liable for Goods and Services Tax.

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

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

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

2.6 Revenues and Expenses

Revenues and Expenses are recognised in the Statement of Financial Performance when the flow or consumption or loss of economic benefit has occurred and can be reliably measured.

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

Premium Revenue

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

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

SAICORP has not accepted any inward reinsurance premiums.

Investment Revenue

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

Outwards Reinsurance

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

An amount of \$11.938 million (\$9.688 million) was expensed for cover provided under the Government's catastrophe reinsurance program. This program has been effected to safeguard the State finances against a very large loss or claim, or a series of large losses or claims in any year under the Government's insurance and risk management arrangements.

Claims

Claims Expense is comprised of claim payments, deductible receipts, prepaid maintenance payments to Fleet SA and movements in underlying claim estimates.

Acquisition Costs

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

Stamp Duties

Amounts collected for Stamp Duties are excluded from premiums and on-paid to Revenue SA monthly. A liability for these payments is recognised on business written to the reporting date.

2.7 Current and Non-Current Items

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

2.8 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.9 Receivables

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

Interest debtors arise as a result of interest accrued as at the reporting date on the balance of Section 1 of the SAGIRM Fund. Interest is received quarterly and paid in June, September, December and March.

2.10 Claim Recoveries Receivable

Recoveries receivable on paid and reported claims not yet paid are recognised as revenue. Recoveries receivable by third parties on claims paid and/or claims reported but not yet paid are brought to account where they can be reliably measured. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are recognised as assets.

Recoveries receivable are measured as the present values of the expected future recovery receipts. An inflation rate (normal and superimposed) of 6.5 percent per annum (6.25 percent per annum) has been assumed. In the calculation of present values, discount rates of 6.0 percent per annum for medical malpractice, 5.4 percent per annum for short tail classes and 5.6 percent per annum for long tail classes (5.0 percent per annum for medical malpractice and 4.5 percent per annum for all other classes) have been assumed.

2.11 Investments

In accordance with Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' investments in fixed interest, inflation linked bonds, equity funds and listed property trust are measured at market value, as advised by the fund managers.

2.12 Payables

Payables include creditors, accrued expenses and Stamp Duties payable.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of Section 1 of the SAGIRM Fund.

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

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

2.13 Outstanding Claims

Liabilities for outstanding claims are recognised in respect of occurred incidents. The liabilities include claims incurred but not paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the anticipated costs of settling those claims. In addition, SAICORP has recognised a prudential margin of 10 percent of its outstanding claims liabilities for short tail business, 25 percent for medical malpractice and 20 percent for all other classes (same percentages applied in 2003).

The claims liabilities are measured as the present values of the expected future claims payments. An inflation rate (normal and superimposed) of 6.5 percent per annum (6.25 percent per annum) has been assumed. In the calculation of present values, discount rates of 6.0 percent per annum for medical malpractice, 5.4 percent per annum for short tail classes and 5.6 percent per annum for long tail classes (5.0 percent per annum for medical malpractice and 4.5 percent per annum for all other classes) have been assumed.

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

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

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

2.14 Relationship with the Department of Treasury and Finance

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

The Board reimburses Treasury for any payments made by Treasury on behalf of the Board relating to the provision of the services to the Board, including payments for the salaries and on costs of all employees of the SAICORP Branch of the Department. These payments also include Auditor-General's fees (see Note 27 for more details). These are apportioned between Section 1 and Section 2 of the SAGIRM Fund. The amount expended in 2004 for Section 1 was \$1.466 million (\$1.637 million).

3. Segment Reporting

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

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

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

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

	Industrial Special Risks & Business Interruption	Public & Products Liability	Medical Malpractice		
	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2003 \$'000
Premium revenue	7 619	6 378	5 703	4 862	12 119
Outwards reinsurance expense	(5 904)	(4 923)	(1 565)	(887)	(2 226)
Net premium revenue	1 715	1 455	4 138	3 975	9 893
Claims expense	(2 097)	(3 493)	(6 014)	(5 098)	(2 402)
Reinsurance and other recoveries	2	481	27	13	(228)
Provision for doubtful debts	-	-	-	-	93
Net claims incurred	(2 095)	(3 012)	(5 987)	(5 085)	(2 537)
Brokerage and lead reinsurer fee revenue	111	126	329	335	-
Underwriting expenses	-	-	-	-	-
Underwriting Result	(269)	(1 431)	(1 520)	(775)	7 356
					6 024
Outstanding claims	6 010	4 603	18 852	15 594	74 161
					74 385
	Professional Indemnity and Directors and Officers Liability	Other		Total	
	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2003 \$'000
Premium revenue	1 755	1 531	7 230	6 656	34 426
Outwards reinsurance expense	-	-	(2 243)	(1 822)	(11 938)
Net premium revenue	1 755	1 531	4 987	4 834	22 488
Claims expense	(5 881)	(1 265)	(4 342)	(4 422)	(20 736)
Reinsurance and other recoveries	-	5	49	231	(150)
Provision for doubtful debts	-	-	-	-	93
Net claims incurred	(5 881)	(1 260)	(4 293)	(4 191)	(20 793)
Brokerage and lead reinsurer fee revenue	1	-	183	208	624
Underwriting expenses	-	-	(897)	(702)	(897)
	(4 125)	271	(20)	149	1 422
Outstanding claims	10 053	4 911	2 982	2 862	112 058
					102 354

4.

Adoption of Australian Equivalents to International Financial Reporting Standards

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

4.1 Managing the Process

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

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

4.1 **Managing the Process (continued)**

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

4.2 **Expected Differences in Accounting Policies**

Changes in Accounting Policy

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

Financial Reporting of General Insurance Activities

AASB 1023 'Financial Reporting for General Insurance Activities' governs much of the financial reporting of Section 1 of the SAGIRM Fund. In particular, the measurement and reporting of claim liabilities and claim recoveries. This standard has been renamed AASB 1023 'Insurance Contracts' and revised to incorporate the limited improvements to accounting for insurance contracts required by AASB 4 'Insurance Contracts' (the Australian equivalent to IFRS 4 'Insurance Contracts').

The following requirements of AASB 1023 'Insurance Contracts' have been introduced to ensure compliance with IFRS:

- definition of an insurance contract
- embedded derivatives
- deposit components
- liability adequacy test
- impairment of reinsurance assets
- presentation of acquired insurance contracts
- disclosure - explanation of recognised amounts
- disclosure - amount, timing and uncertainty of cash flows.

The revised AASB 1023 'Insurance Contracts' is applicable to annual reporting periods beginning on or after 1 January 2005.

The requirements of the revised AASB 1023 'Insurance Contracts' are currently being evaluated to identify potential issues that may need to be addressed.

5. Premium Revenue

Premium revenue from entities within the SA Government
Premium revenue from entities external to the SA Government

	2004	2003
	\$'000	\$'000
	32 902	29 908
	1 524	906
Total Premium Revenue	34 426	30 814

6. Outwards Reinsurance Expense

Outwards Reinsurance Expense paid/payable to entities external to the
SA Government

11 938	9 688
11 938	9 688

7. Claims Expense

Claim payments (less deductibles collected)
Fleet expenses
Other
Claim movements

7 477	11 766
3 492	3 650
64	568
9 703	1 203
20 736	17 187

Liability:

Medical malpractice
Other liability
Property
Other

2 402	2 909
12 306	6 468
5 713	7 290
315	520
20 736	17 187

Claims expense paid/payable to entities within the SA Government
Claims expense paid/payable to entities external to the SA Government

7 722	9 343
13 014	7 844
20 736	17 187

8. Reinsurance and Other Recoveries

	2004	2003
	\$'000	\$'000
Reinsurance and other recoveries received	652	357
Other	(168)	678
Movement in reinsurance and other recoveries asset	(634)	(735)
Total Reinsurance and Other Recoveries	(150)	300
Reinsurance and other recoveries from entities within the SA Government	5	120
Reinsurance and other recoveries from entities external to the SA Government	(155)	180
Total Reinsurance and Other Recoveries	(150)	300

9. Net Claims Incurred

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

	In respect of Current Year \$'000	In respect of Prior Years \$'000	2004 Total \$'000
Gross claims incurred and related expenses undiscounted	29 168	159	29 327
Reinsurance and other recoveries undiscounted	(4)	2 580	2 576
Net Claims Incurred - Undiscounted	29 164	2 739	31 903
Discount and discount movement - Gross claims incurred	(7 160)	(1 431)	(8 591)
Discount and discount movement - Reinsurance and other recoveries	-	(2 519)	(2 519)
Net Discount Movement	(7 160)	(3 950)	(11 110)
Net Claims Incurred	22 004	(1 211)	20 793
Gross claims incurred and related expenses undiscounted	25 334	(25 711)	(377)
Reinsurance and other recoveries undiscounted	-	(603)	(603)
Net Claims Incurred - Undiscounted	25 334	(26 314)	(980)
Discount and discount movement - Gross claims incurred	(6 285)	23 848	17 563
Discount and discount movement - Reinsurance and other recoveries	-	281	281
Net Discount Movement	(6 285)	24 129	17 844
Net Claims Incurred	19 049	(2 185)	16 864

10. Brokerage and Lead Reinsurer Fee Revenue

Brokerage and lead reinsurer fee revenue from entities within the SA Government:

	2004	2003
	\$'000	\$'000
Lead reinsurance fee revenue	-	125
Total Brokerage and Lead Reinsurer Fee Revenue from entities within the SA Government	-	125
Brokerage and lead reinsurer fee revenue from entities external to the SA Government:		
Catastrophe Programme	265	302
Direct insurance placements	359	251
Total Brokerage and Lead Reinsurer Fee Revenue from entities external to the SA Government	624	553
Total Brokerage and Lead Reinsurer Fee Revenue	624	678

11. Underwriting Expenses

Underwriting expenses paid/payable to entities within the SA Government:

Management expenses	73	59
Acquisition costs	252	247
Stamp Duty revenue	(3 547)	(3 198)
Stamp Duty expense	3 710	3 293
Direct insurance placement revenue	(3 357)	(2 565)
Direct insurance placement expense	-	-
Total Underwriting Expenses paid/payable to entities within the SA Government	(2 869)	(2 164)

11. Underwriting Expenses (continued)

Underwriting Expenses paid/payable to entities external to the

SA Government:

	2004 \$'000	2003 \$'000
Management expenses	345	396
Acquisition costs	-	-
Stamp Duty revenue	(163)	(95)
Stamp Duty expense	-	-
Fire Services Levy expense	9	-
Direct Insurance Placement revenue	(158)	(134)
Direct Insurance Placement expense	3 733	2 699
Total Underwriting Expenses paid/payable to entities external to the SA Government	3 766	2 866
Total Underwriting Expenses	897	702

12. Investment Revenue

	Interest \$'000	Distributions \$'000	Unrealised Gains (Losses) \$'000	2004 Total \$'000
Deposits with the Treasurer	460	-	-	460
Cash Management Fund	473	-	-	473
Australian Fixed Interest	-	-	1 158	1 158
Inflation Linked Bond	202	-	(199)	3
Australian Equities	-	2 017	7 019	9 036
Overseas Equities	-	1 293	5 025	6 318
Listed Property Trust	-	649	(573)	76
Total Investment Revenue	1 135	3 959	12 430	17 524

	Interest \$'000	Distributions \$'000	Unrealised Gains (Losses) \$'000	2003 Total \$'000
Deposits with the Treasurer	397	-	-	397
Cash Management Fund	446	-	-	446
Australian Fixed Interest	-	-	5 834	5 834
Inflation Linked Bond	-	-	-	-
Australian Equities	-	1 858	(2 527)	(669)
Overseas Equities	-	400	(6 773)	(6 373)
Listed Property Trust	-	-	-	-
Total Investment Revenue	843	2 258	(3 466)	(365)

13. General and Administration ExpenseGeneral and administration expenses paid/payable within the
SA Government:

	2004 \$'000	2003 \$'000
Sundry administration expenses	616	615
Staff development revenue	(15)	-
Staff development expense	8	-
Total General Administration Expense paid/payable within the SA Government	609	615

General and administration expenses paid/payable external to the
SA Government:

Investment management fees	142	202
Software	1	1
Total General and Administration Expense paid/payable external to the SA Government	143	203
Total General and Administration Expense	752	818

14. Income Tax Expense

Operating profit before notional income tax

Income Tax Expense (calculated at 30 percent)

18 194	3 055
5 459	917

15. Cash

Deposits with the Treasurer

Total Cash	4 645	2 501
	4 645	2 501

16.	Receivables		2004	2003
	Premium debtors:		\$'000	\$'000
	Agency agreement premiums		-	158
	Commercial insurance placement premiums		135	113
	Deductibles receivable		3	51
			138	322
	Accrued interest revenue		20	9
	Total Receivables		158	331

17. Reinsurance and Other Recoveries Receivable

Total discounted reinsurance and other recoveries receivable before provision for doubtful debts:

Expected future recoveries (inflated/undiscounted)	961	7 984
Discount to present value	(176)	(2 695)
Total Discounted Reinsurance and Other Recoveries before provision for Doubtful Debts	785	5 289

Current:

Reinsurance and other recoveries receivable	357	327
Provision for doubtful debts	(73)	-
Total Current Reinsurance and Other Recoveries after Provision for Doubtful Debts	284	327

Non-Current:

Reinsurance and other recoveries receivable	428	4 962
Provision for doubtful debts	(397)	(4 340)
Total Non-Current Reinsurance and Other Recoveries after Provision for Doubtful Debts	31	622
Total Reinsurance and Other Recoveries after Provision for Doubtful Debts	315	949

Current Reinsurance and Other Recoveries from entities external to SA Government

284 327

Non-Current Reinsurance and Other Recoveries from entities external to SA Government

31 622

Total Receivables from Non-SA Government entities

315 949

Total Reinsurance and Other Recoveries Receivable

315 949

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

18. Investments**(a) Current:**

	2004	2003
	\$'000	\$'000
Cash Management Fund	11 639	7 966
Australian Fixed Interest	47 984	63 426
Inflation Linked Bond	8 302	-
Total Current Investments	67 925	71 392

Non-Current:

Australian Equities	56 516	41 575
Overseas Equities - Unhedged	30 026	33 241
Overseas Equities - Hedged	9 534	-
Listed Property Trust	8 375	-
Total Non-Current Investments	104 451	74 816
Total Investments	172 376	146 208

(b) Investment Strategy

SAICORP implemented an investment strategy for Section 1 of the SAGIRM Fund in 1999-2000 comprising cash, Australian fixed interest, Australian equities, and overseas equities. During the financial year ended 30 June 2004 the Board of Directors commissioned the South Australian Government Financing Authority (SAFA) to undertake a review of SAICORP's existing investment strategy and to consider its continued appropriateness. As a result of this review, SAFA recommended the addition of two asset classes and hedging of part of SAICORP's overseas equities asset class. SAICORP's benchmark investment portfolio as at 30 June 2004 was as set out in the following table. The amounts of each investment as at 30 June 2004 are set out in part (a) of this Note.

(b) **Investment Strategy (continued)**

Asset Class	Benchmark +/- 5 percent	Defensive/Growth
Cash	5	
Australian Fixed Interest (Composite Bond Index)	25	35
Inflation Linked Bond	5	
 Australian Equities	 32.5	
Overseas Equities	22.5	65
Listed Property Trust	10	
	100	100

The cash and fixed interest investments are managed by SAFA, while external fund managers are used to manage the Australian and overseas equity investments, the inflation linked bond and the listed property trust investments.

19. Other Assets		
Prepayments:		
Fleet insurance	1 900	4 262
Catastrophe Reinsurance Program	3 133	2 641
Service Provider (Insurance and Reinsurance Broking Services)	240	240
Total Other Assets	5 273	7 143
 20. Payables		
Creditors and accruals	409	16
Stamp Duty payable	18	14
Total Payables	427	30
 Payables to entities within the SA Government:		
Creditors and accruals	89	-
Stamp Duty payable	18	14
Total Payables to entities within the SA Government	107	14
 Payables to entities external to the SA Government:		
Creditors and accruals	320	16
Total Payables to entities external to the SA Government	320	16
Total Payables	427	30
 21. Outstanding Claims		
(a) Outstanding Claims		
Expected future claims payments (inflated/undiscounted)	168 362	150 068
Discount to present value	(56 304)	(47 713)
Total Outstanding Claims	112 058	102 355
 Current:		
Liability:		
Medical malpractice	160	3 170
Other liability	10 482	7 696
Property	5 717	4 334
Other	-	-
Total Current Outstanding Claims	16 359	15 200
 Non-Current:		
Liability:		
Medical malpractice	74 001	71 214
Other liability	19 141	13 164
Property	2 425	2 673
Other	132	104
Total Non-Current Outstanding Claims	95 699	87 155
Total Outstanding Claims	112 058	102 355
 Outstanding claims payable to entities within the SA Government	8 048	6 942
Outstanding claims payable to entities external to the SA Government	104 010	95 413
Total Outstanding Claims	112 058	102 355

		2004 Percent	2003 Percent
(b) Average inflation (normal and superimposed) rates and discount rates used in the measurement of outstanding claims			
For the succeeding year:			
Inflation rate (which includes superimposed inflation)	6.5	6.25	
Discount rate - Medical malpractice	6.0	5.0	
Discount rate - Short tail classes	5.4	4.5	
Discount rate - Long tail classes	5.6	4.5	
For subsequent years:			
Inflation rate (which includes superimposed inflation)	6.5	6.25	
Discount rate - Medical malpractice	6.0	5.0	
Discount rate - Short tail classes	5.4	4.5	
Discount rate - Long tail classes	5.6	4.5	
(c) Weighted average expected term to settlement of outstanding claims from the balance date		2004 Years	2003 Years
Medical malpractice		9.5	9.5
Liability (other than medical malpractice)		2.5	2.5
Property		1.5	1.5
Other		2.5	2.5
(d) Table of Classes			
Short Tail Classes	Medium Tail Classes	Long Tail Classes	
Aviation Property	Aviation Liability	Medical Malpractice	
Buildings and Contents	Consequential Loss		
General Property	Fidelity Guarantee		
Machinery Breakdown	General Liability		
Marine Property	Marine Property		
Standing Timber	Volunteers		
Motor Vehicle Liability	Other		
Motor Vehicle Property	Personal Accident		
	Professional Indemnity		
22. Tax Liability		2004 \$'000	2003 \$'000
Balance at the beginning of the financial year		171	-
Income tax paid		(171)	-
Realisation of future income tax benefit		-	(746)
Current year's income tax expense		5 459	917
Balance at the End of the Financial Year		5 459	171
23. Other Liabilities			
Lead reinsurer liability		110	118
Unearned brokerage revenue		76	39
Total Current Other Liabilities		186	157
24. Retained Surplus			
Balance at the beginning of the financial year		50 386	48 248
Operating profit after notional income tax		12 735	2 138
Balance at the End of the Financial Year		63 121	50 386
25. Financial Instruments			
(a) Terms, Conditions and Accounting Policies			
Outlined below are the terms and conditions of financial assets and liabilities held as at 30 June 2004.			
<i>(i) Financial Assets</i>			
Cash is available at call and is recorded at cost.			
Receivables are raised for goods and services provided for which payment has not been received.			
Receivables are normally invoiced for settlement within 30 days.			
Deposits held with SAFA are able to be withdrawn upon request.			
In accordance with Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' SAICORP's investments in fixed interest, inflation linked bonds, equity funds and the listed property trust are measured at market value, as advised by the fund managers.			
<i>(ii) Financial Liabilities</i>			
Creditors are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days.			

(b) Interest Rate Risk

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

					2004			
						Weighted Average Interest Rate Percent		
					Fixed Interest Maturing in 1 year or less	Non- Interest Bearing	Total	
					\$'000	\$'000	\$'000	
Financial Assets:								
Cash		4 645			-	-	4 645	4.91
Receivables		-				158	158	
Investments:								
Cash Management Fund		11 639			-	-	11 639	5.37
Australian Fixed Interest		-			-	47 984	47 984	
Inflation Linked Bond		-			8 302	-	8 302	2.44
Australian Equities		-			-	56 516	56 516	
Overseas Equities		-			-	39 560	39 560	
Listed Property Trust		-			-	8 375	8 375	
Total Financial Assets		16 284			8 302	152 593	177 179	
Financial Liabilities:								
Payables		-			-	(427)	(427)	
Total Financial Liabilities					-	(427)	(427)	
Net Financial Assets		16 284			8 302	152 166	176 752	

					2003			
						Weighted Average Interest Rate Percent		
					Fixed Interest Maturing in 1 year or less	Non- Interest Bearing	Total	
					\$'000	\$'000	\$'000	
Financial Assets:								
Cash		2 501			-	-	2 501	4.53
Receivables		-			-	331	331	
Investments:								
Cash Management Fund		7 966			-	-	7 966	5.04
Australian Fixed Interest		-			-	63 426	63 426	
Inflation Linked Bond		-			-	-	-	
Australian Equities		-			-	41 575	41 575	
Overseas Equities		-			-	33 241	33 241	
Listed Property Trust		-			-	-	-	
Total Financial Assets		10 467			-	138 573	149 040	
Financial Liabilities:								
Payables		-			-	(30)	(30)	
Total Financial Liabilities					-	(30)	(30)	
Net Financial Assets		10 467			-	138 543	149 010	

(c) Credit Risk Exposures

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

On-Balance-Sheet Financial Instruments

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

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

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

Off-Balance-Sheet Financial Instruments

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

(d) Currency Risk

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

(d) Currency Risk (continued)	2004	2003
	\$'000	\$'000
Canada	1 009	865
France	1 610	1 333
Germany	1 167	871
Japan	4 098	2 633
Netherlands	831	711
Switzerland	1 214	1 120
United Kingdom	4 265	3 806
United States	22 280	19 339
Other	3 086	2 563
	39 560	33 241

(e) Net Fair Values

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

26. Motor Vehicle Insurance

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

As part of this arrangement, the vehicles are insured with the Corporation, and for this cover, in the year ended 30 June 2004, the CBA paid to the Corporation an annual premium of \$1.243 million, including \$0.113 million GST, (\$4.598 million, including \$0.418 million GST), of which \$0.972 million was unearned as at 30 June 2004 (\$3.596 million)

To meet the costs of the fleet insurance risks, the Corporation paid to Fleet SA the premium received from the CBA. Pursuant to this arrangement, for the period ended 30 June 2004, the Corporation and Fleet SA recorded expenses of \$3.492 million (\$3.650 million) and \$1.900 million (\$4.262 million) has been recognised as a prepayment.

The reduction in premium and prepayment amounts from 2003 to 2004 reflect the repurchase of part of the fleet by the Government from the CBA. The remainder of the fleet will be repurchased during the 2004-05 year.

27. Auditor's Remuneration

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

2004	2003
\$'000	\$'000
37	36

Other Services

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

28. External Consultants

Number of consultants and the dollar amount of consultancies paid/payable that fell within the following bands:

Below \$10 000
Between \$10 000 - \$50 000

2004	2003
Number of Consultancies	Number of Consultancies
\$'000	\$'000
2	-
1	1
3	1
10	-
10	10
20	10

29. Directors' Remuneration**(a) Directors' Remuneration**

Number of Directors of the Corporation and the dollar amount of remuneration paid/payable to Directors that fell within the following bands:

Below \$10 000

2004	2003
Number of Directors	Number of Directors
\$'000	\$'000
4	5
20	23
4	5
20	23

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

(b) Superannuation and Retirement Benefits

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

30. Related Parties**(a) Directors**

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

Mr B G Rowse (Chairman)	Ms R J Batt
Mr L R Foster (Deputy Chairman)	Mr L C Holmes
Ms C J Marjoribanks	

(b) Directors' Transactions with the Corporation

During the year SAICORP engaged PricewaterhouseCoopers, Adelaide, as an extension to a whole-of-government arrangement, to assist with the preparation of Corporate Governance documents. One of SAICORP's directors, Christa Marjoribanks is an employee of PricewaterhouseCoopers, Sydney. Ms Marjoribanks was not involved in the process of selecting the abovementioned consulting firm. The contract was awarded on terms no more favourable than those which it is reasonable to expect SAICORP would have adopted if dealing with the firm at arm's length in the normal course of business. The value of the contract to the Corporation was \$2 385.

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

31. Contingent Liabilities

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

A 'stop loss' agreement is an arrangement whereby an agency meets a pre-determined annual level of expenditure for claims and SAICORP would meet all other costs of claims in excess of that limit arising from events covered by the agency's agreement with SAICORP. At balance date, SAICORP has an ongoing 'stop loss' arrangement with one agency.

32. Cash Flow Reconciliation**(a) Reconciliation of Cash - Cash at the End of the Financial Year**

	2004 \$'000	2003 \$'000
Statement of Cash Flows	4 645	2 501
Statement of Financial Position	4 645	2 501

(b) Reconciliation**Net Cash Inflows from Operating Activities to Operating Profit after Notional Income Tax**

Net Cash Inflows from Operating activities	11 344	4 909
Add: Non-cash items:		
Interest from Investments reinvested	675	446
Distributions from Investments reinvested	3 959	2 259
Management fees deducted against Investment balance	(96)	(98)
Unrealised gain (loss) on investments	12 430	(3 466)
Changes in assets and liabilities:		
(Decrease) Increase in receivables	(173)	(621)
(Decrease) Increase in reinsurance and other recoveries receivable	(634)	(735)
(Decrease) Increase in other assets	(1 870)	1 302
(Increase) Decrease in payables	(397)	129
(Increase) Decrease in unearned premium	2 517	77
(Increase) Decrease in outstanding claims	(9 703)	(1 203)
(Increase) Decrease in income tax payable	(5 288)	(917)
(Increase) Decrease in other liabilities	(29)	56
Operating Profit after Notional Income Tax	12 735	2 138

33. Events After Balance Day

There were no events occurring after balance day.

**SOUTH AUSTRALIAN GOVERNMENT
INSURANCE AND RISK MANAGEMENT FUND — SECTION 2**

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

	Note	2004	2003
		\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Claims expense	4	4 262	(8 133)
Compensation expense	5	1 874	-
Administration expense	6	202	188
Total Expenses (Benefit) from Ordinary Activities		6 338	(7 945)
REVENUES FROM ORDINARY ACTIVITIES:			
Claims recoveries	7	(31)	(588)
Compensation recovery	8	1 800	-
Interest	9	636	422
Total Revenues from Ordinary Activities		2 405	(166)
NET (COST) BENEFIT OF SERVICES FROM ORDINARY ACTIVITIES		(3 933)	7 779
REVENUES FROM SA GOVERNMENT:			
Revenues from SA Government	10	7 000	7 000
Total revenues from Government		7 000	7 000
NET RESULT FROM ORDINARY ACTIVITIES		3 067	14 779
TOTAL CHANGES IN EQUITY EXCLUDING THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		3 067	14 779

Statement of Financial Position
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	11	7 661	9 056
Receivables	12	36	64
Recoveries receivable	13	202	204
Compensation recovery	8	1 800	-
Total Current Assets		9 699	9 324
NON-CURRENT ASSETS:			
Recoveries receivable	13	2 335	2 374
Total Non-Current Assets		2 335	2 374
Total Assets		12 034	11 698
CURRENT LIABILITIES:			
Payables	14	19	-
Outstanding claims	15	20 572	26 615
Outstanding compensation payments	16	355	-
Total Current Liabilities		20 946	26 615
NON-CURRENT LIABILITIES:			
Outstanding claims	15	36 389	33 451
Total Non-Current Liabilities		36 389	33 451
Total Liabilities		57 335	60 066
NET ASSETS		(45 301)	(48 368)
EQUITY:			
Accumulated deficit	17	(45 301)	(48 368)
TOTAL EQUITY		(45 301)	(48 368)
Contingent Liabilities	20		

Statement of Cash Flows
for the year ended 30 June 2004

	Note	2004 Inflows (Outflows)	2003 Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Claims paid		(7 498)	(3 392)
Compensation payments		(1 519)	-
Administration costs paid		(202)	(188)
GST payments on purchases		(120)	(134)
GST remitted to ATO		(1)	-
Total Outflows from Operating Activities		(9 340)	(3 714)
CASH INFLOWS:			
Receipts from SA Government		7 000	7 000
Interest received		633	404
Deductibles collected		180	195
Claim recoveries received		11	203
GST input tax credits		120	134
GST received on receivables		1	-
Total Inflows from Operating Activities		7 945	7 936
Net Cash (Outflows) Inflows from Operating Activities	21(b)	(1 395)	4 222
NET INCREASE (DECREASE) IN CASH HELD		(1 395)	4 222
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		9 056	4 834
CASH AT THE END OF THE FINANCIAL YEAR	21(a)	7 661	9 056

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Objectives and Funding

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

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

SAICORP's objectives are to:

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

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

SAICORP is responsible for the administration of Section 2 of the SAGIRM Fund and is funded by appropriations from the Consolidated Account of the South Australian Government.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

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

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

2.2 Reporting Entity

Given the different funding and governance arrangements of Section 1 and Section 2, of the SAGIRM Funds, the principles of Australian Accounting Standard AASB 1024 'Consolidated Accounts' cannot be applied. Therefore two separate financial reports are prepared to discharge SAICORP's disclosure obligations.

2.3 Comparative Figures

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

2.4 Rounding

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

2.5 Taxation

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

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

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

- the amount of GST incurred by Section 2 of the SAGIRM Fund that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- receivables and payables are stated with the amounts of GST included.

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

2.6 Revenues and Expenses

Revenues and Expenses are recognised in the Statement of Financial Performance when the flow or consumption or loss of economic benefit has occurred and can be reliably measured.

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

2.7 Revenues from SA Government

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

2.8 Current and Non-Current Items

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

2.9 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank, also referred to as Special Deposit Account (SDA), used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.10 Receivables

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

Interest debtors arise as a result of interest accrued as at the reporting date on the Special Deposit Account. Interest is received quarterly and paid in June, September, December and March.

2.11 *Claim Recoveries Receivable*

Recoveries receivable on paid and reported claims not yet paid are recognised as revenue. Recoveries receivable by third parties on claims paid and/or claims reported but not yet paid are brought to account where they can be reliably measured. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are recognised as assets.

Recoveries receivable are measured as the present values of the expected future recovery receipts. An inflation rate (normal and superimposed) of 6.5 percent per annum (6.25 percent per annum) has been assumed. In the calculation of present values, discount rates of 6.0 percent per annum for medical malpractice, 5.4 percent per annum for short tail classes and 5.6 percent per annum for long tail classes (5.0 percent per annum for medical malpractice and 4.5 percent per annum for all other classes) have been assumed.

2.12 *Payables*

Payables include creditors and accrued expenses.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of Section 2 of the SAGIRM Fund.

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

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

2.13 *Outstanding Claims*

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

The prudential margin for the financial year ending 30 June 2004 has been assumed to be 10 percent of its outstanding claims liabilities for short tail business, 25 percent for medical malpractice and 20 percent for all other classes (same percentages applied in 2003). Indirect claim settlement costs are those claim settlement costs that cannot be directly allocated to a specific claim and have been estimated at 5 percent (5 percent) of the outstanding claims liabilities.

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

2.14 *Relationship with the Department of Treasury and Finance*

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

The Board reimburses Treasury for any payments made by Treasury on behalf of the Board relating to the provision of the services to the Board, including payments for the salaries and on costs of all employees of the SAICORP Branch of the Department. These are apportioned between Section 1 and Section 2 of the SAGIRM Fund. The amount expended in 2004 for Section 2 was \$432 000 (\$178 000).

3. Adoption of Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. SAICORP will adopt these standards for the first time in the financial statements for Section 2 of the SAGIRM Fund for the year ended 30 June 2006.

3.1 *Managing the Process*

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

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

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

3.2 Expected Differences in Accounting Policies

Changes in Accounting Policy

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

Financial Reporting of General Insurance Activities

AASB 1023 'Financial Reporting for General Insurance Activities' governs much of the financial reporting of Section 2 of the SAGIRM Fund. In particular, the measurement and reporting of claim liabilities and claim recoveries. This standard has been renamed AASB 1023 'Insurance Contracts' and revised to incorporate the limited improvements to accounting for insurance contracts required by AASB 4 'Insurance Contracts' (the Australian equivalent to IFRS 4 Insurance Contracts).

The following requirements in AASB 1023 'Insurance Contracts' have been introduced to ensure compliance with IFRSs:

- definition of an insurance contract
- embedded derivatives
- deposit components
- liability adequacy test
- impairment of reinsurance assets
- presentation of acquired insurance contracts
- disclosure - explanation of recognised amounts
- disclosure - amount, timing and uncertainty of cash flows.

The revised AASB 1023 'Insurance Contracts' is applicable to annual reporting periods beginning on or after 1 January 2005.

The requirements of the revised AASB 1023 'Insurance Contracts' are currently being evaluated to identify potential issues that may need to be addressed.

4. Claims Expense

	2004 \$'000	2003 \$'000
Claim payments	7 498	3 392
Deductibles	(180)	(195)
Claim movements	(3 105)	(11 299)
Other	49	(31)
Total Claims Expense	4 262	(8 133)
Liability - Medical malpractice	5 734	(5 814)
Liability - Other	(1 655)	(2 732)
Property	183	413
Total Claims Expense	4 262	(8 133)
Claims expense paid/payable to entities within the SA Government	1 620	1 627
Claims expense paid/payable to entities external to the SA Government	2 642	(9 760)
Total Claims Expense	4 262	(8 133)

5. Compensation Expense

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

	2004 \$'000	2003 \$'000
Compensation expense paid to entities external to the SA Government	1 874	-
Total Compensation Expense paid/payable to entities external to the SA Government	1 874	-

6. Administration Expense

Administration Expenses paid/payable to entities within the SA Government:

Service Level Agreement	181	178
Total Administration Expenses paid/payable to entities within the SA Government	181	178

		2004 \$'000	2003 \$'000
6.	Administration Expense (continued)		
	Administration Expenses paid/payable to entities external to the SA Government:		
	Software maintenance	11	-
	Actuarial consultants	10	10
	Total Administration Expenses paid/payable to entities external to the SA Government	21	10
	Total Administration Expense	202	188
7.	Claim Recoveries		
	Claim recoveries reported in the Statement of Financial Performance are comprised of the recovery receipts as well as the movements in underlying assets. A dissection of these elements follows:		
	Claim recovery receipts	11	203
	Claim recovery movements	(42)	(995)
	Miscellaneous	-	204
	Total Claim Recoveries	(31)	(588)
	Claim recoveries from entities within the SA Government	-	-
	Claim recoveries from entities external to the SA Government	(31)	(588)
	Total Claim Recoveries	(31)	(588)
8.	Compensation Recovery		
	The Minister for Infrastructure has negotiated a settlement with Baulderstone Hornibrook to recover an amount of \$1.8 million from the company. The recovery is expected to occur in the 2004-05 financial year.		
	Compensation recovery from entities external to the SA Government	1 800	-
	Total Compensation Recovery	1 800	-
9.	Interest		
	Interest from entities within the SA Government	636	422
	Total Interest	636	422
10.	Revenues from SA Government		
	Appropriations from Consolidated Account pursuant to the <i>Appropriations Act</i>	7 000	7 000
	Total Revenues from SA Government	7 000	7 000
11.	Cash		
	Funds in Section 2 of the SAGIRM Fund are deposited with the Treasurer and currently earn an interest rate determined by reference to the SAFA overnight borrowing rate (less a 0.5 percent banking fee). Section 2 of the SAGIRM Fund held no other investments as at 30 June 2004.		
	Deposits with the Treasurer	7 661	9 056
	Total Cash	7 661	9 056
12.	Receivables		
	Accrued interest revenue	36	34
	Cost recovery debtors	-	30
	Total Receivables	36	64
13.	Recoveries Receivable		
	Expected future recoveries (undiscounted)	5 136	5 025
	Discount to present value	(2 599)	(2 447)
	Recoveries Receivable	2 537	2 578
	Current recoveries receivable from entities external to SA Government	202	204
	Non-current recoveries Receivable from entities external to SA Government	2 335	2 374
	Total Recoveries Receivable	2 537	2 578
14.	Payables		
	Trade creditors payable to entities within the SA Government	19	-
	Total Payables	19	-

			2004	2003
			\$'000	\$'000
15. Outstanding Claims			71 150	85 516
(a) Outstanding Claims		Expected future claims payable (undiscounted)	(14 189)	(25 450)
		Present value adjustment		
		Total Outstanding Claims	56 961	60 066
		Current:		
		Liability - Medical Malpractice	14 158	13 978
		Liability - Other	5 851	12 092
		Property	563	545
		Total Current Outstanding Claims	20 572	26 615
		Non-Current:		
		Liability - Medical Malpractice	31 460	(5 107)
		Liability - Other	4 905	33 364
		Property	24	5 194
		Total Non-Current Outstanding Claims	36 389	33 451
		Total Outstanding Claims	56 961	60 066
		Government/Non-Government Outstanding Claims:		
		Claims payable within the SA Government	588	588
		Claims payable external to the SA Government	56 373	59 478
		Total Outstanding Claims	56 961	60 066
(b) Average Inflation (Normal and Superimposed) Rates and Discount Rates Used in the Measurement of Outstanding Claims				
For the succeeding year:			Percent	Percent
		Inflation rate (which includes superimposed inflation)	6.5	6.25
		Discount rate - Medical malpractice	6.0	5.0
		Discount rate - Short tail classes	5.6	4.5
		Discount rate - Long tail classes	5.4	4.5
For subsequent years:				
		Inflation rate (which includes superimposed inflation)	6.5	6.25
		Discount rate - Medical malpractice	6.0	5.0
		Discount rate - Short tail classes	5.6	4.5
		Discount rate - Long tail classes	5.4	4.5
(c) Weighted Average Expected Term to Settlement of Outstanding Claims from the Balance Date			2004	2003
Medical malpractice			Years	Years
Liability (other than medical malpractice)			9.5	9.5
Property			2.5	2.5
Other			1.5	1.5
			2.5	2.5
(d) Table of Classes				
<i>Short Tail Classes</i>		<i>Medium Tail Classes</i>		<i>Long Tail Classes</i>
Aviation Property		Aviation Liability		Medical Malpractice
Buildings and Contents		Consequential Loss		
General Property		Fidelity Guarantee		
Machinery Breakdown		General Liability		
Marine Property		Marine Liability		
Standing Timber		Volunteers		
Motor Vehicle Liability		Other		
Motor Vehicle Property		Personal Accident		
		Professional Indemnity		
16. Outstanding Compensation Payments			2004	2003
Expected future compensation payments/payables to entities external to			\$'000	\$'000
SA Government			355	-
Total Outstanding Compensation Payments			355	-
17. Accumulated Deficit			2004	2003
Balance at the beginning of the financial year			\$'000	\$'000
Net result from ordinary activities			(48 368)	(63 147)
			3 067	14 779
Balance at the End of the Financial Year			(45 301)	(48 368)

18. Financial Instruments

(a) Terms, Conditions and Accounting Policies

Outlined below are the terms and conditions of financial assets and liabilities held by Section 2 of the SAGIRM Fund as at 30 June 2004.

(i) Financial Assets

Cash is available at call and is recorded at cost.

Receivables are raised for goods and services provided for which payment has not been received. Receivables are normally settled within 30 days.

(ii) Financial Liabilities

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

(b) Interest Rate Risk

Section 2 of the SAGIRM Fund's exposure to interest rate risk, and the effective weighted average interest rates on classes of financial assets and financial liabilities at balance date are set out below:

	Floating Interest Rate	Non-Bearing Interest	Total Carrying Amount	Weighted Average Interest Rate
Financial Assets:				
Cash	\$'000	\$'000	\$'000	
Receivables	7 661	-	7 661	4.91
Total Financial Assets	-	238	238	
Financial Liabilities:				
Payables	-	(19)	(19)	
Total Financial Liabilities	-	(19)	(19)	
Net Financial Assets	7 661	257	7 918	
	Floating Interest Rate	Non-Bearing Interest	Total Carrying Amount	Weighted Average Interest Rate
Financial Assets:				
Cash	\$'000	\$'000	\$'000	
Receivables	9 056	-	9 056	4.53
Total Financial Assets	-	268	268	
Financial Liabilities:				
Payables	-	-	-	
Total Financial Liabilities	-	-	-	
Net Financial Assets	9 056	268	9 324	

(c) Net Fair Values

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

19. Consultants

Number of Consultants and the dollar amount of Consultancies paid/payable that fell within the following bands:

Below \$10 000

2004 Number of Consultancies	2003 Number of Consultancies	2004 \$'000	2003 \$'000
2	1	10	10
2	1	10	10

20. Contingent Liabilities

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

By the *Motor Accident Commission (Transfer of Residual Assets and Liabilities) Proclamation 2003 under Section 20 of the SGIC (Sale) Act 1995* the assets and liabilities of residual State Government Insurance Commission policies were transferred to SAICORP on 30 June 2003. These were general policies of insurance issued by SCIG that were not previously transferred on the sale of the general insurance business formerly conducted by SGIC. Specific details of these policies are not available and hence no liability has been recognised in relation to them. Liabilities will be brought to account if and when valid claims are made by the policy owners.

		2004 \$'000	2003 \$'000
21. Cash Flow Reconciliation			
(a) Reconciliation of Cash - Cash at Year end as per			
Statement of Cash Flows		7 661	9 056
Statement of Financial Position		7 661	9 056
(b) Reconciliation of Net Cash Inflows (Outflows) from			
Operating Activities to Net (Cost) Benefit of Services from			
Ordinary Activities			
Net cash Inflows (Outflows) from operating activities		(1 395)	4 222
Less: Revenues from SA Government		(7 000)	(7 000)
Changes in Assets and Liabilities:			
Increase (Decrease) in receivables		(28)	251
Increase (Decrease) in recoveries receivable		(41)	(995)
Increase (Decrease) in compensation recovery		1 800	-
(Increase) Decrease payables		(19)	2
(Increase) Decrease in outstanding claims		3 105	11 299
(Increase) Decrease in outstanding compensation payments		(355)	-
Net (Cost) Benefit of Services from Ordinary Activities		(3 933)	7 779

22. Events After Balance Date

There were no known events occurring after balance date.

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

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

Functions

The functions of the SAFA are as follows:

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

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

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

SAFA Advisory Board

The Act (as amended in 1995) provides that SAFA is constituted of the Under Treasurer (effectively assuming the role of the previous SAFA Board) and establishes the South Australian Government Financing Advisory Board.

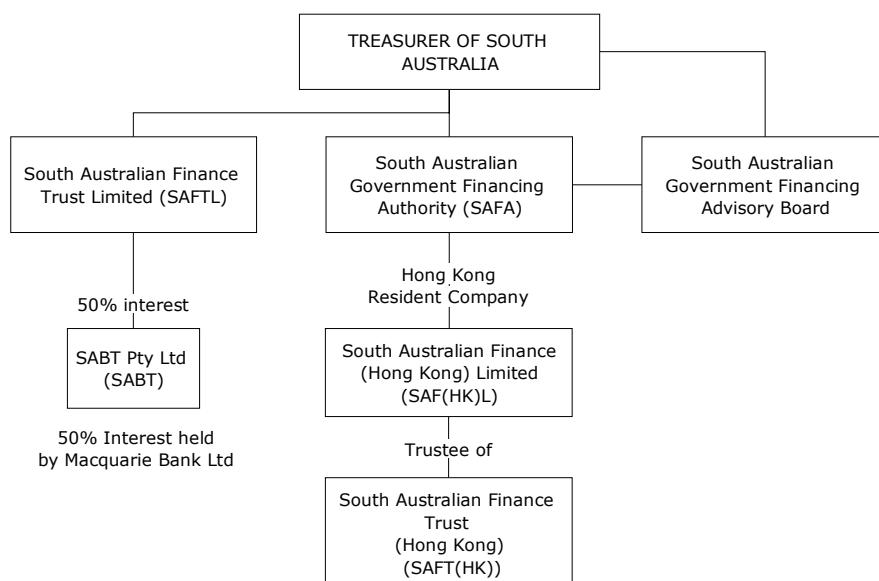
The Advisory Board comprises up to six members one of whom is the Under Treasurer, who is also Presiding Member.

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

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

Structure

The following diagram reflects the relationship between the Treasurer of South Australia, SAFA and SAFA's controlled entities as at 30 June 2004.



Changes to Functions and Structure

During the financial year there have been no notable changes to SAFA's organisational structure. Previous reports have discussed planned changes resulting from the reduction in subsidiary operations. The current status of these changes is as follows:

- SAFTL is now an inactive company, expected to be wound up by 2004-05 following the wind up of SABT Pty Ltd and SAFA's controlled Hong Kong entities.
- SABT Pty Ltd has been dormant since November 1999, and is expected to be wound up in 2004-05.
- All transactions in the Hong Kong entities matured by 30 June 2004, and it is expected that these companies will be wound up in 2004-05.

The above entities do not have a material impact on SAFA's financial position or performance. As a result, they were not consolidated with SAFA's results for 2003-04.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 25(2) of the *Government Financing Authority Act 1982* provides for the Auditor-General to audit the accounts of the South Australian Government Financing Authority for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- Treasury function, including the management of:
 - cash and investments
 - borrowings
 - derivative transactions
- Risk reporting and monitoring including:
 - interest rate risk management
 - credit risk management
 - liquidity and funding risk management
 - foreign exchange risk management
- Common Public Sector Interest Rate (CPSIR) calculation
- Financial accounting and settlement functions
- Areas of the information technology environment, including:
 - information resource strategy and planning
 - business continuity planning
 - relationship with outsourced vendors
 - information security
- SAFA investment products and services

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

- monthly findings of the compliance unit's review of operations;
- half yearly review for the period ending 31 December 2003.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. The response to the management letter was considered to be satisfactory. The principal matter raised with SAFA is contained herein.

Funding of Zero Coupon Bond Repayments

In my previous report Audit commented on the potential impact of the SAFA issued zero coupon bond on the public finances of the State and the CPSIR rate in future years and recommended that SAFA advise the Government of the matter, together with a strategy for dealing with the matter to enable its impact to be factored into the 2003-04 budget process.

In responding to this matter SAFA advised that on 3 July 2003 the Treasurer approved SAFA's proposal regarding the establishment of a sinking fund structure to minimise the future impacts of the zero coupon bond and also to transfer \$23 million from previous CPSIR overcharges to the sinking fund.

The submission to the Treasurer also proposed that the sinking fund structure would be reviewed on an annual basis to ensure that the objective of smoothing out the interest cost on the zero coupon bond is achieved.

During 2003-04 SAFA undertook an informal review to ensure the structure continued to smooth out the interest cost on the zero coupon bond.

Consistent with Audit recommendations, SAFA has advised that future annual reviews will be formalised, be independently reviewed by SAFA's Compliance Unit and review outcomes will be reported to the SAFA Advisory Board.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
Interest revenue	605.2	986.6	(39)
Interest expense	581.5	959.5	(39)
Net Interest Revenue	23.7	27.1	(13)
Other revenue	11.2	5.6	100
Other expenses	5.9	6.5	(9)
Profit from ordinary activities before tax expense	29.0	26.2	11
Tax expense	6.8	7.7	(12)
Profit from ordinary activities after tax expense	22.2	18.5	20

	2004 \$'million	2003 \$'million	Percentage Change
ASSETS			
Cash, short term assets and investments	2 605	2 840	(8)
Loans to SA Government entities	5 365	5 644	(5)
Other assets	159	558	(72)
Total Assets	8 129	9 042	(10)
LIABILITIES			
Deposits and short term borrowings	3 349	3 752	(11)
Long term borrowings	4 445	4 529	(2)
Other liabilities	140	569	(75)
Total Liabilities	7 934	8 850	(10)
EQUITY	195	192	2

Statement of Financial Performance

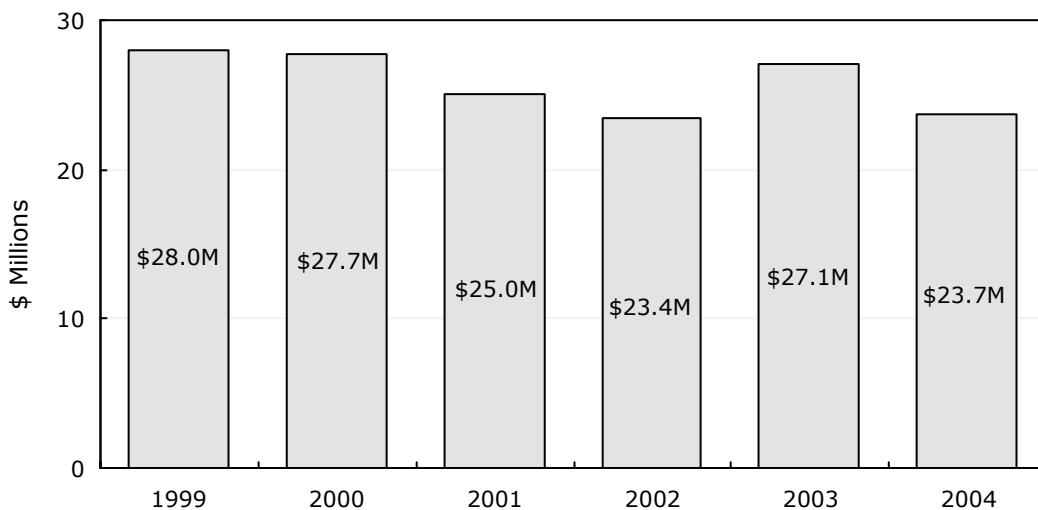
Net Interest Revenue

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

Net interest revenue was \$23.7 million, down \$3.4 million from the previous year.

Interest revenue has decreased by \$381.4 million or 39 percent primarily as a result of a net unrealised loss of \$217.1 million arising from movements in market yields. This has been associated with a corresponding decrease in interest expenses of \$378 million due primarily to unrealised gains of \$222.1 million during the year. Net unrealised gains were \$5 million in 2003-04 (\$2.8 million). Refer to Note 16 of the Financial Statements.

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

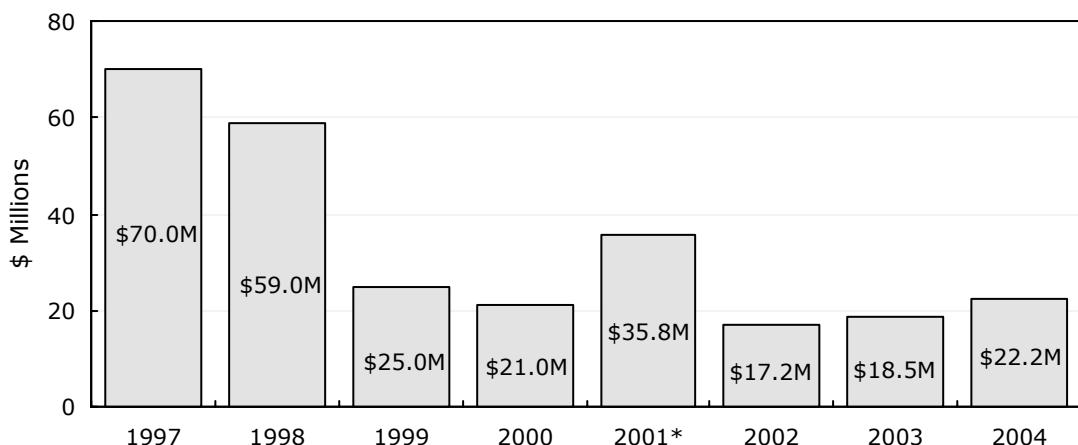


The slight decrease in net interest revenue in 2004 resulted from lower levels of gross interest revenues and expense, with the net interest margin remaining constant from 2002.

Operating Surplus

SAFA's operations in 2003-04 included an operating surplus before income tax of \$29 million (\$26.2 million). This represents a small increase from 2002-03 but a decrease of \$15.7 million from 2000-01 results, attributable mainly to dividends received from subsidiary operations in 2000-01.

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



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

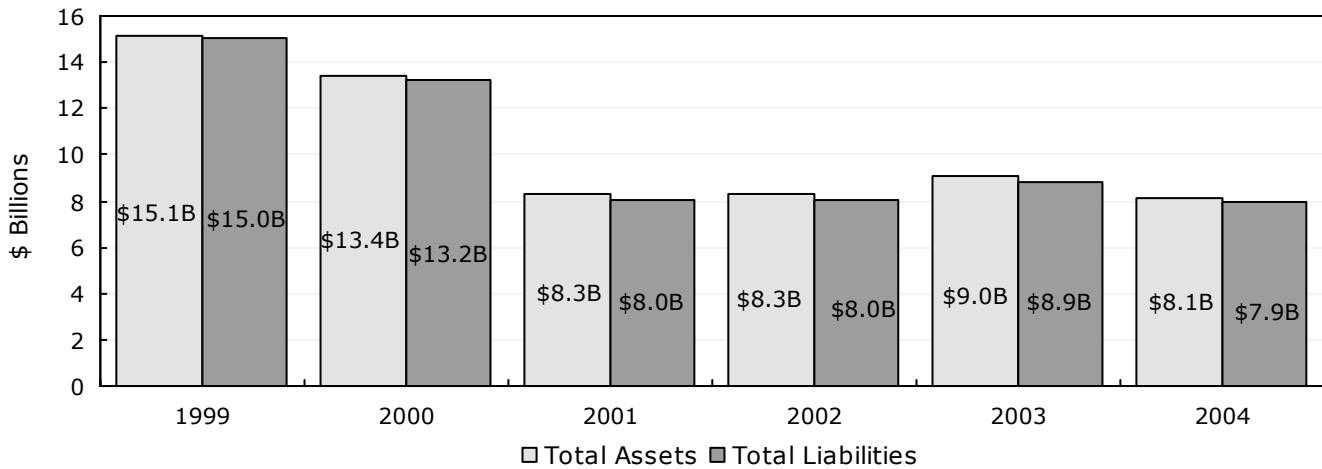
Another significant impact on the operating surplus is the level of retained surpluses, which are effectively invested by SAFA. During 2003-04 a distribution of \$19 million (\$86.8 million) was made to the Treasurer. All other things being equal, the budgeted distribution for 2004-05 will reduce the 2004-05 retained surplus by an amount of \$44 million.

The operating surplus is anticipated to decline in future years as the Government has budgeted for further significant distributions from SAFA (refer commentary below), and also from the finalisation of Commonwealth debt redemption assistance in 2005-06.

Statement of Financial Position

Assets and Liabilities

A structural analysis of assets and liabilities for the six years to 2004 is shown in the following chart. The chart shows that since the retirement of debt following asset sales, the level of assets and liabilities has remained relatively unchanged.



* Balances prior to 2003 do not reflect SAFA's current accounting policy with respect to repurchase agreements. Refer Note 1(a).

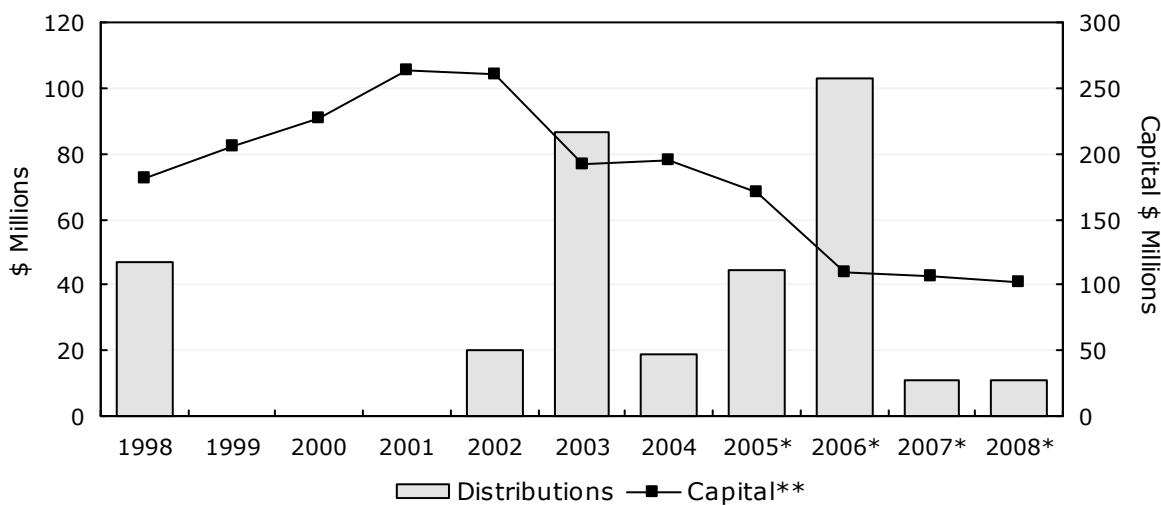
Capital and Distributions

SAFA has experienced a significant decrease in capital since 2000-01 reflecting a policy decision that excess capital be repaid to the State's Consolidated Account. At 30 June 2004, SAFA's capital reserves were represented solely by its Retained Surplus, which stood at \$195 million (\$192 million).

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

A distribution of \$19 million was made to the Treasurer from SAFA this financial year, and the 2004-05 State Budget includes anticipated returns of capital of approximately \$169 million over the next four years.

The following chart sets out the level of capital and distributions to Government since the 1997-98 financial year, including future amounts reflected in the 2004-05 Budget Papers.



* Estimated amount.

** Future Capital levels have been calculated based on implied surpluses and distributions outlined in the 2004-05 Budget Papers.

As indicated previously, given that a significant component of SAFA's operating surplus is derived from the return on retained earnings/ capital, such a reduction would be expected to reduce the profitability of SAFA in the future, all things being equal. On current estimates, however, SAFA will not reduce to the capital figure of \$75 million over the period of the estimates.

Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	96	26	50	174
Investing	(389)	(677)	157	3920
Financing	228	717	(293)	(4 370)
Change in Cash	(65)	66	(86)	(276)
Cash at 30 June	69	134	68	154

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

FURTHER COMMENTARY ON OPERATIONS

The Common Public Sector Interest Rate (CPSIR)

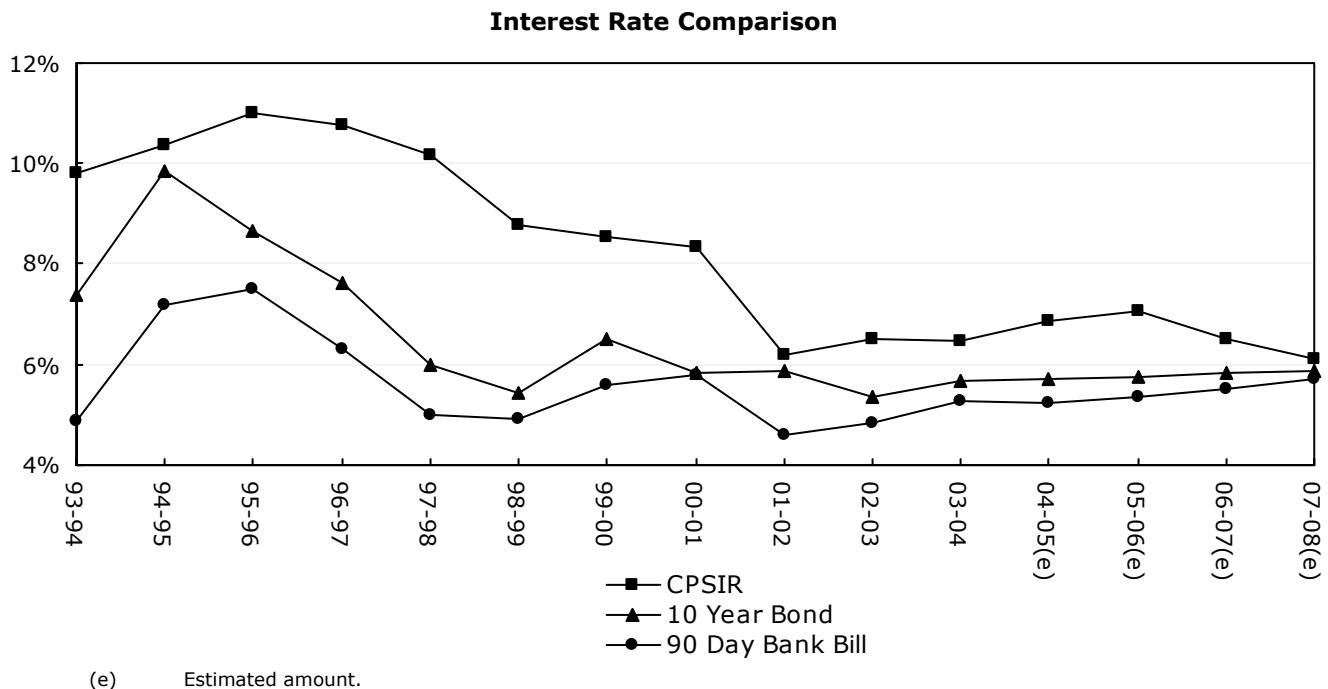
A major proportion of funding provided by SAFA is to the Treasurer at a common interest rate referred to as the Common Public Sector Interest Rate (CPSIR). The CPSIR is the quarterly charge out rate reflecting SAFA's average costs of borrowings sourced from domestic and international financial markets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

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

The average annual CPSIR for 2003-04 was approximately 6.5 percent (6.5 percent).

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

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



Business Risk Management

Operational Risk Management

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

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

Market Risk

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

The main task of the managed portfolio (representing \$942 million at 30 June 2004) is to minimise interest rate risk within the portfolio with respect to the policy benchmark approved by the Treasurer. The management of this portfolio involves the use of measurements including:

- *Value at Risk (VaR)* — VaR is a single number estimate of how much an entity could lose due to the price volatility of the assets and liabilities it holds or is contracted to hold.

- *Duration/Modified Duration* — Duration is a weighted average measure of the present value of a series of cash flows. Modified duration is a measure of the sensitivity of a portfolio of interest bearing securities to changes in interest rates.
- *Basis Point Sensitivity (PVO1)* — PVO1 is the change in market value through a change in interest rates by one basis point.

The passive portfolio (\$2.1 billion at 30 June 2004) contains transactions such as indexed liabilities and loans, Commonwealth housing loans, 2015 zero coupon bonds and rolling loans and deposits. These deals are not included in the managed portfolio due to the nature of the transactions and inability to manage these to the Treasurer's benchmarks.

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

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

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

These portfolios (holding assets of \$4.4 billion at 30 June 2004) are used for the purpose of monitoring and managing investment and hedging services provided by SAFA to public sector agencies. Any profits or losses from the other principal portfolios are recorded in SAFA's statement of financial performance.

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

	Note	2004 \$'million	2003 \$'million
Interest revenue	16	605.2	986.6
Less: Interest expense	16	581.5	959.5
Net Interest Revenue		23.7	27.1
Dividends	17	6.4	0.5
Other non-interest revenue	18	4.8	5.1
Less: Non-Interest expense	19	5.9	6.5
OPERATING SURPLUS BEFORE INCOME TAX		29.0	26.2
Income Tax (TER) attributable to operating surplus		6.8	7.7
NET PROFIT AFTER INCOME TAX		22.2	18.5
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		22.2	18.5

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

	Note	2004 \$'million	2003 \$'million
ASSETS:			
Cash and short-term assets	2	1 351	980
Investments	3	1 254	1 860
Loans to the South Australian Government	4	3 149	3 643
Loans to semi-government authorities	5	1 390	1 261
Loans to public sector financial institutions	6	826	740
Capital investments	27	-	-
Derivatives - Receivable	7	23	410
Other assets	8	136	148
TOTAL ASSETS		8 129	9 042
LIABILITIES:			
Deposits and short-term borrowings	9	3 349	3 752
Bonds, notes and debentures	10	3 838	3 821
Obligations to Commonwealth Government	11	607	708
Derivatives - Payable	12	-	435
Other liabilities	13	140	134
Total Liabilities		7 934	8 850
CAPITAL AND RESERVES:			
Retained surplus	14	195	192
Total Capital and Reserves		195	192
TOTAL CAPITAL, RESERVES AND LIABILITIES		8 129	9 042
Contingent Assets	15		
Contingent Liabilities	15		

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'million	\$'million
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received on loans to clients		355	373
Interest received on investments		271	136
Dividend received		6	1
Other income		(2)	(13)
GST received		-	-
Interest paid on borrowings		(501)	(431)
Administration fees paid		(6)	(5)
GST paid		(1)	(1)
Net Interest received (paid) on derivatives		(19)	(26)
TER income tax paid		(7)	(8)
Net Cash provided by Operating Activities	20(b)	96	26
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds from payments for loans to clients		(120)	(119)
Purchase of investments		(27 522)	(19 971)
Proceeds from investments		27 253	19 413
Net Cash used in Investing Activities		(389)	(677)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of obligations to Commonwealth Government		(46)	(13)
Repayment of borrowings		343	817
Net proceeds from payments for derivatives		(50)	-
Distribution of SAFA surplus		(19)	(87)
Net Cash provided by Financing Activities		228	717
NET (DECREASE) INCREASE IN CASH HELD		(65)	66
CASH AT 1 JULY		134	68
EFFECT OF EXCHANGE RATE CHANGES		-	-
CASH AT 30 JUNE	20(a)	69	134

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(a) Principal Accounting Policies

In the Financial Report, the South Australian Government Financing Authority, is referred to as 'SAFA'. The registered address of SAFA is Level 5, State Administration Centre, 200 Victoria Square East, Adelaide, South Australia, 5000.

The Financial Report for SAFA does not include SAFA consolidated with its controlled entities. The inclusion of these entities would not have a material impact on the figures presented. Note 26 includes details of the entities.

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

During 2003-04, SAFA changed its accounting policy with respect to repurchase agreements. Previously securities sold under an agreement to repurchase were retained within the investment category. To improve transparency, it was considered that SAFA should reflect its gross asset and liability position. SAFA now retains the security sold as an investment and records the obligation to repurchase as a liability.

(a) Principal Accounting Policies (continued)

This change in accounting policy has had no net effect on the Statement of Financial Performance but does increase the assets (Investments) and liabilities (Deposits and Short Term Borrowings) in the Statement of Financial Position.

Changes in 2003 comparative balances are as follows:

	2003 Restated \$'million	2003 Published \$'million
<i>Statement of Financial Performance</i>		
Interest revenue	987	953
Interest expense	960	926
Net Interest Revenue	27	27

Statement of Financial Position

Assets:		
Investments	1 860	1 126
Liabilities:		
Deposits and short term borrowings	3 752	3 018

(b) Statutory Guarantee

Under section 15 of the *Government Financing Authority Act 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

(c) Market Value Accounting

SAFA manages its financial assets and liabilities on a market value basis, as it believes that it provides a better basis for making decisions and evaluating performance. Financial assets and liabilities (including derivatives) are recorded at net fair value in the Statement of Financial Position. The net fair value is equal to the market value less accrued interest. All financial instruments are revalued to reflect market movements with gains and losses, whether realised or unrealised, being recognised immediately in the Statement of Financial Performance (Note 16, Interest Revenue and Expense). Financial instruments are revalued daily either at their quoted market price or their cash flows are discounted against the relevant yield curve.

(d) Foreign Currency Translation

Foreign currency assets and liabilities are brought into the Financial Report at the exchange rate applying at 30 June 2004. Revenue and expense items are translated at the exchange rate current at the date at which those items were recognised in the Financial Report. Revaluation of foreign currency assets and liabilities are recognised as unrealised gains or losses and are brought to account in the Statement of Financial Performance.

Forward foreign exchange contracts are translated at the exchange rate applying at 30 June 2004. Resulting exchange differences are recognised in the Statement of Financial Performance.

(e) Interest Recognition

Interest income and expense is accrued in accordance with the terms and conditions of the underlying financial instrument and premiums and discounts are amortised over the life of the associated borrowings. Net realised gains/losses and unrealised gains/losses are included in interest revenue and expense in the Statement of Financial Performance, but are separately identified in Note 16.

(f) Non-Interest Revenue Recognition

Fee income in respect of services provided is recognised in the period in which the service is provided.

Income from the Commonwealth Government is provided under the terms and conditions of the *Financial Agreement Act 1994* as compensation for refinancing of previous borrowings undertaken by the Commonwealth Government. The revenue is recognised on an accrual basis in the period to which it relates.

(g) Common Public Sector Interest Rate Loan (CPSIR)

The CPSIR loan to the Treasurer is funded through a range of assets and liabilities within the Treasurer's Portfolio (see Note 21). Any gains or losses, whether realised or unrealised, on the assets and liabilities in the Treasurer's Portfolio that fund the CPSIR loan are equally offset by a loss or gain on the CPSIR loan to the Treasurer of South Australia.

(h) Employee Benefits

SAFA does not employ any direct staff, but is provided with staff resources by the Department of Treasury and Finance (Treasury) through a Service Level Agreement (SLA). The responsibility to provide for employer contributions to superannuation benefits rests with Treasury and for this reason SAFA is not required to establish a provision. Long service leave liabilities are met by Treasury as they fall due.

(i) Tax Equivalent Disclosure

SAFA and its controlled entities came under a Tax Equivalent Regime (TER) as from 1 July 1995 and are taxed at 30 percent using the Accounting Profits Tax Model. SAFA receives a credit against its TER liability for any income tax paid directly or by its controlled entities in Australia or in other jurisdictions.

South Australian Finance Trust Limited (SAFTL), which previously came under the Commonwealth income tax jurisdiction, commenced under the TER as from 1 July 1995 and is assessed under a Substantive Tax Model which adopts as its basis the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*.

(j) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and service tax (GST), except: where the GST is not recoverable, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables.

(k) Cash and Short Term Assets

Primarily, Short Term Money Market Deposits and Negotiable Discount Securities, are held for liquidity and investment purposes. Cash and Short Term Assets are recorded at net fair value with interest income accrued in accordance with the terms of the transaction.

(l) Investments

Investments are assets originating outside the South Australian public sector, which are purchased as part of liquidity and interest rate risk management and may be sold prior to maturity in response to various factors including changes in interest rates and funding requirements of the South Australian public sector. Investments are recorded at net fair value. SAFA does not hold investments for trading purposes.

(m) Loans and Advances

Loans and advances are recognised at net fair value after assessing required provisions for impairment. The Treasurer of South Australia guarantees all loans and advances to South Australian public sector entities. The loan portfolio is reviewed regularly and an impairment of a loan would be recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the relevant agreement. There are no impaired loans as at 30 June 2004.

(n) Repurchase Agreements

Securities sold under an agreement to repurchase remain as an investment whilst the obligation to repurchase is recorded as a liability in Deposits and Short Term Borrowings (see Note 9). This represents a change in accounting policy where previously the securities sold were reflected as a reduction in investments.

(o) Bonds, Note and Debentures and Other Borrowings

Funds are raised through various instruments including bonds, notes and debentures. These instruments are recorded at net fair value and the effective historic yield of the transaction is recognised as interest expense in the Statement of Financial Performance on an accrual basis. Any movements in net fair value due to revaluation are recorded as Interest Revenue and Expense in the Statement of Financial Performance. All borrowings are raised on an unsecured basis.

(p) Derivative Instruments

SAFA utilises derivative instruments in fund raising, debt management and client activities. They are used to convert funding costs, facilitate diversification of funding sources, reconfigure interest rate risk profiles and manage foreign currency exposures. The net fair value of derivative instruments is recognised in the Statement of Financial Position with any movements in net fair value reflected in Interest Revenue and Expense in the Statement of Financial Performance. Interest receipts and interest payments are accrued on a gross basis in other assets and other liabilities respectively in the Statement of Financial Position and classified as Interest Revenue and Interest Expense in the Statement of Financial Performance.

(q) Other Assets and Liabilities

Other assets, including debtors and accruals, and other liabilities, including creditors, expense accruals and provisions, are all stated at cost.

(r) Maturity of Assets and Liabilities

The maturity classification of the assets and liabilities is determined by the length of time from the date of the Financial Report, 30 June 2004, to the contractual repayment date of the individual assets and liabilities. The amounts shown represent the face value of the financial assets and liabilities as at 30 June 2004 (see Note 22).

(s) Average Balances

The average balances presented in Note 16 refer to average month end balances and reflect the market value of the assets and liabilities. The average rate equals interest divided by the average balance of interest bearing assets and liabilities.

(t) Comparatives

The comparative amounts for the previous year have been reclassified to facilitate comparison with changes in presentation in the current year.

(u) Rounding

Unless otherwise indicated, all amounts have been rounded to the nearest million Australian dollars.

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

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

A project team has been established to ascertain the potential impact of the AIFRS and the preliminary review is complete. Overall it is not expected that SAFA will have any major changes to Accounting Policy upon AIFRS adoption. SAFA will continue to market value account its assets and liabilities. The two standards that could have most impact on SAFA are International Accounting Standard IAS 39 and IAS 12.

IAS 39 'Financial Instruments Recognition and Measurement'

It is expected that SAFA will elect to market value account all its assets and liabilities (as it currently does). So it is unlikely that IAS 39 will have a significant impact upon SAFA. It is possible that there may need to be some changes to SAFA's treasury system, but these are considered minor.

IAS 12 'Income Taxes'

The Australian equivalent to IAS 12 proposes a comprehensive method/balance sheet approach to account for income tax. It is anticipated that a Treasurer's Instruction or Accounting Policy Statement will continue to mandate the profit and loss approach. Therefore it is not anticipated that there will be a change in income tax accounting policy for SAFA.

2. Cash and Short-Term Assets

Cash at bank
Short-term money market deposits
Negotiable discount securities

	2004	2003
	\$'million	\$'million
3.2	3.8	
65.7	130.4	
1 282.0	845.4	
1 350.9	979.6	

3. Investments

Semi-government securities
Commonwealth Government guaranteed securities
Local government securities
Indexed securities
Bank and corporate securities

368.3	656.8
107.7	204.2
26.4	30.2
62.4	82.2
689.3	886.5
1 254.1	1 859.9

4. Loans to the South Australian Government

Loans to SA Government at CPSIR
Loans to SA Government at market

3 063.5	3 544.7
85.3	98.5
3 148.8	3 643.2

The Common Public Sector Interest Rate (CPSIR) is the charging mechanism through which the Government allocates the net interest cost paid on debt owing to the external financial market within the South Australian public sector. The CPSIR is the rate charged on the majority of the South Australian Government's debt with SAFA. The CPSIR is set by the Treasurer on a quarterly basis and interest is payable by public sector entities to the Treasurer and by the Treasurer to SAFA. CPSIR is set so as to recover the net interest expense of the assets and liabilities funding the CPSIR loan plus a margin.

Realised gains and losses resulting from debt management activities on behalf of the Treasurer in the Treasurer's Portfolio (see Note 21) are passed on to the Treasurer as an adjustment to the CPSIR loan balance. The net fair value of the CPSIR loan is considered to be the net fair value of the net Australian dollar assets and liabilities funding the CPSIR loan.

5. Loans to Semi-Government Authorities

Forestry SA
Fleet SA
West Beach Trust
Minister for Primary Industries
Minister for Transport
Land Management Corporation
South Australian Water Corporation

	2004	2003
	\$'million	\$'million
1.8	2.0	
102.8	-	
0.4	-	
7.5	10.6	
4.1	5.1	
79.2	92.7	
1 194.3	1 150.2	
1 390.1	1 260.6	

	2004 \$'million	2003 \$'million
6. Loans to Public Sector Financial Institutions		
Local Government Finance Authority	13.4	19.9
HomeStart Finance	691.2	593.4
South Australian Community Housing Authority	121.4	126.8
	826.0	740.1
7. Derivatives - Receivable		
Currency swaps	-	382.2
Foreign exchange swaps	-	18.9
Forward rate agreements	-	-
Interest rate swaps	22.9	8.8
	22.9	409.9
8. Other Assets		
Accrued interest	135.7	146.4
Sundry debtors	0.2	1.9
	135.9	148.3
9. Deposits and Short-term Borrowings		
Deposits	150.2	113.7
Repurchase agreements	451.1	733.8
Deposits from the Treasurer of South Australia	1 489.0	1 489.8
Deposits from semi-government authorities	422.1	523.9
Commercial paper	836.9	876.0
European commercial paper	-	15.0
	3 349.3	3 752.2
10. Bonds, Notes and Debentures		
Inscribed stock	3 111.9	2 594.6
Inflation linked bonds and annuities	339.8	375.3
Eurobonds	-	231.5
Samurai bonds	-	204.1
Medium term notes	385.8	415.6
	3 837.5	3 821.1
11. Obligations to Commonwealth Government		
Obligations to Commonwealth Government	606.9	707.8
12. Derivatives - Payable		
Currency swaps	-	415.7
Foreign exchange swaps	-	18.8
	-	434.5
13. Other Liabilities		
Accrued interest	117.3	110.5
Sundry creditors	22.5	23.6
	139.8	134.1
14. Retained Surplus		
Balance at 1 July	192.2	260.5
Add: Transfer from Statement of Financial Performance	22.2	18.5
Less: Distribution as determined by the Treasurer of South Australia	19.0	86.8
Balance at 30 June	195.4	192.2

The Treasurer of South Australia determined that there would be a distribution of \$19 million from SAFA for 2003-04.

15. Contingent Assets and Liabilities

Contingent Assets

Under Section 15 of the *Government Financing Authority Act 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

Contingent Liabilities

General

SAFA has provided an indemnity to SAFTL for the aggregate borrowing costs and expenses properly incurred in the normal course of business, where it is shown that income of SAFTL is insufficient. Since October 2003, SAFTL has been dormant and it is intended to wind up SAFTL in 2004-05. Management does not consider that the indemnity will be invoked.

Other indemnities provided by SAFA have been primarily provided to third parties involved, either directly or indirectly, in financing arrangements with SAFA, other statutory authorities and financial institutions of the State, and relate to financial advantages which are expected to be available to those parties or to preserve existing financial advantages. No indemnities have been given for income tax aspects of any financing arrangement undertaken since July 1988.

Guarantees

SAFA has guaranteed the South Australian Housing Trust's performance under certain letters of credit. These guarantees totalled \$1.1 million as at 30 June 2004.

Unused Loan Facilities

As of 30 June 2004, SAFA had extended loan facilities that were unutilised totalling \$278 million.

16. Interest Revenue and Expense

	2004					
	Interest \$'million	Net Unrealised Gains (\$Losses) \$'million	Net Realised Gains (\$Losses) \$'million	Total \$'million	Average Balance \$'million	Average Rate Percent
Revenue:						
Cash and short-term assets	66.2	-	-	66.2	1 322	5.01
Investments	73.8	(49.7)	6.8	30.9	1 434	5.15
Loans to SA Government	222.5	(120.3)	(11.1)	91.1	3 540	6.29
Loans to semi-government authorities	77.7	(34.1)	0.6	44.2	1 304	5.96
Loans to public sector financial institutions	41.6	(5.6)	(0.1)	35.9	767	5.43
Derivatives - Receivable	337.3	(7.4)	7.0	336.9	216	N/A
	819.1	(217.1)	3.2	605.2	8 583	5.76
Expense:						
Deposits and short-term borrowings	(178.2)	15.8	(4.0)	(166.4)	(3 760)	4.74
Bonds, notes and debentures	(235.0)	151.9	(2.5)	(85.6)	(3 746)	6.27
Obligations to Commonwealth Government	(35.1)	54.4	-	19.3	(649)	5.41
Derivatives - Payable	(348.8)	-	-	(348.8)	(226)	N/A
	(797.1)	222.1	(6.5)	(581.5)	(8 381)	5.50
NET	22.0	5.0	(3.3)	23.7		
	2003					
	Interest \$'million	Net Unrealised Gains (\$Losses) \$'million	Net Realised Gains (\$Losses) \$'million	Total \$'million	Average Balance \$'million	Average Rate Percent
Revenue:						
Cash and short-term assets	59.9	0.1	-	60.0	1 244	4.82
Investments	95.3	41.7	9.1	146.1	1 653	5.76
Loans to SA Government	253.7	71.1	14.8	339.6	4 018	6.31
Loans to semi-government authorities	75.1	28.1	5.4	108.6	1 212	6.20
Loans to public sector financial institutions	39.3	5.1	-	44.4	757	5.19
Derivatives - Receivable	306.2	2.2	(20.5)	287.9	677	N/A
	829.5	148.3	8.8	986.6	9 561	5.89
Expense:						
Deposits and short-term borrowings	(175.1)	(1.5)	(4.1)	(180.7)	(3 847)	4.55
Bonds, notes and debentures	(275.2)	(66.7)	(6.1)	(348.0)	(4 082)	6.74
Obligations to Commonwealth Government	(36.7)	(77.3)	-	(114.0)	(691)	5.31
Derivatives - Payable	(316.8)	-	-	(316.8)	(687)	N/A
	(803.8)	(145.5)	(10.2)	(959.5)	(9 307)	5.65
NET	25.7	2.8	(1.4)	27.1		

The average balance has been calculated on a monthly basis and reflects the market value of the assets and liabilities. The average interest rate equals interest revenue/expense divided by the average balance of interest bearing assets and liabilities. (It excludes the realised and unrealised gains (losses)).

Interest includes a net amount of \$60 million (\$84 million) relating to amortisation during the financial year of discounts and premiums.

17. Dividends

Dividends from South Australian Finance Ltd (UK)
 Dividends from South Australian Finance Trust (HK)
 Dividends from South Australian Finance Trust Ltd

	2004 \$'million	2003 \$'million
	-	0.5
	6.3	-
	0.1	-
	6.4	0.5

18. Other Non-Interest Revenues

Debt redemption assistance from Commonwealth Government
 Fees
 Foreign currency translation movement⁽ⁱ⁾
 Other

3.9	3.9
1.0	1.1
(0.1)	-
-	0.1
4.8	5.1

(i) Reflects the translation of foreign currency retained surpluses.

19. Non-Interest Expense

Service Level Agreement with Treasury
 Program and debt management fees
 Other

4.9	5.5
0.8	0.6
0.2	0.4
5.9	6.5

The Service Level Agreement is between SAFA and Treasury. Treasury provides services to SAFA in order to enable SAFA to undertake its business activities in a manner so that SAFA may achieve its key outcomes. Treasury provides SAFA with appropriately trained and skilled staff together with necessary infrastructure support including internal audit. The majority of the fee relates to staffing, accommodation, internal audit and network systems.

Program and debt management fees include the costs of raising funds in the financial markets, futures brokerage, registry and credit rating fees.

20. Cash Flow Information**(a) Reconciliation of Cash**

Includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts

	2004 \$'million	2003 \$'million
	69	134

(b) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus after Income Tax

Operating surplus after income tax
 Non-cash flows in operating surplus
 Net unrealised (gain) loss on market revaluations
 Amortisations
 Changes in assets and liabilities
 Accrued interest income (Increase) Decrease
 Accrued interest expense Increase (Decrease)
 Debtors (Increase) Decrease
 Creditors Increase (Decrease)
 FX movement

22	18
(5)	(3)
60	84
11	34
7	(106)
2	(1)
(1)	-
-	-
96	26

Net Cash provided by Operating Activities**(c) Non-Cash Financing and Investing Activities**

During 2003-04, \$11.3 million was adjusted against the Treasurer's debt for book gains arising from debt management activity.

21. Additional Financial Instrument Disclosures

SAFA's core functions are fundraising, asset and liability management and the provision of financial risk management and advisory services to its public sector clients. SAFA aims to undertake its functions in a manner that protects the interest of its owner and clients.

To assist in the management of SAFA's operations and its associated risks, SAFA's business activities have been separated into portfolios. SAFA's portfolio structure consists of a number of Principal Portfolios and two portfolios comprising the Treasurer's Portfolio. Any profit and loss resulting from the operations of Principal Portfolios is for SAFA's account whilst net interest expenses and market revaluations in the Treasurer's Portfolio are for the account of the Treasurer. The Treasurer's Portfolio comprises assets and liabilities that together comprise the CPSIR loan to the Treasurer. Effectively, the CPSIR loan mirrors the other assets and liabilities in that portfolio.

The Principal Portfolios are managed on very tight risk limits with little exposure to SAFA. The Treasurer's Portfolio is managed within duration limits and value at risk limits with all the risk being borne by the Treasurer.

Interest Rate Risk

SAFA uses interest rate futures contracts, interest rate swaps, interest rate options and forward rate agreements to manage interest rate risk. The use of interest rate derivatives enables the management of the volatility of the portfolio of debt and assets without requiring transactions in physical securities.

(i) Interest Rate Futures Contracts

A futures contract is an obligation to buy or sell an underlying commodity or financial instrument of a standardised amount and quantity at a specified future date with the price being set by an open auction system at the time when the contract is made.

The futures contracts principally transacted by SAFA are 90-day bank bill futures contracts and 3 year and 10 year bond futures contracts traded on the Sydney Futures Exchange.

SAFA utilises futures contracts to manage interest rate exposures on a specific transaction or portfolio of transactions.

As at 30 June 2004, open interest rate futures positions represented a total notional principal of \$1 177.8 million.

The mark-to-market movement in futures contracts is taken to the Statement of Financial Performance, except where it was undertaken as part of the Treasurer's Portfolios, and is passed onto the Treasurer as an adjustment to his debt level.

(ii) Interest Rate Swaps

An interest rate swap is a financial contract between two parties agreeing to exchange interest obligations over a fixed term on fixed dates. Interest amounts are calculated on a notional principal.

SAFA utilises interest rate swaps to manage interest rate exposures on a specific transaction or portfolio of transactions.

Contracts principally involve the payment or receipt of interest payments on a quarterly or semi-annual basis. As at 30 June 2004, the notional value of interest rate swaps totalled \$6 414.4 million.

(iii) Swaptions/Interest Rate Options

An interest rate option is a contract between two parties where one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to receive a payment equal to the amount by which an interest rate differs to a specific strike rate. As at 30 June 2004, there were no outstanding exchange traded interest rate option contracts, but SAFA held the right to sell various floating rate notes totalling USD \$25 million.

(iv) Forward Rate Agreements (FRAs)

A forward rate agreement is a contractual agreement between two parties to lock in a preset interest rate on an agreed notional principal for a given period of time commencing at a specific future date.

SAFA utilises forward rate agreements to manage interest rate exposures on a specific transaction or portfolio of transactions. The notional value of forward rate agreements as at 30 June 2004 is \$180 million.

The settled amount for FRAs is recognised immediately in the Statement of Financial Performance, except where, if it was undertaken as part of the Treasurer's Portfolios, and is passed onto the Treasurer as an adjustment to his debt level.

(v) Forward Starting Derivatives

As part of its debt management activities, SAFA may enter into forward starting derivatives to hedge identified future exposures and as part of its service to Public Sector Clients. As at 30 June 2004, SAFA had entered into forward starting interest rate swaps totalling \$183 million in notional face value. These forward starting swaps were related to hedging future client transactions or as part of managing the Treasurer's Portfolios.

(vi) Interest Rate Risk Exposures

SAFA's exposure to interest rate risk, repricing maturities and effective interest rates on financial instruments as at 30 June 2004 consolidated into Australian dollars is detailed below. The market value of the assets and liabilities have been used as have the respective historic yield.

(vi) Interest Rate Risk Exposures (continued)

	Weighted Average Effective Interest Rate Percent	At Call \$'million	Repricing Period as at 30 June 2004				2004 Total \$'million
			0 to 3 months \$'million	3 to 12 months \$'million	1 to 5 years \$'million	Over 5 years \$'million	
Assets:							
Cash and short-term assets	5.47	70	1 264	13	-	-	1 347
Investments	5.75	-	453	21	443	350	1 267
Loans to SA Government	6.80	-	3 082	2	22	63	3 169
Loans to semi-government authorities	5.94	56	451	150	533	211	1 401
Loans to public sector financial institutions	5.65	22	692	1	50	64	829
Currency Swaps - Receivable	-	-	-	-	-	-	-
Total Assets		148	5 942	187	1 048	688	8 013
Liabilities:							
Deposits and short-term borrowings	5.49	2 383	873	21	64	-	3 341
Bonds, notes and debentures	6.78	-	21	45	2 514	1 317	3 897
Obligations to Commonwealth Government	4.69	-	-	-	30	578	608
Currency Swaps - Payable	-	-	-	-	-	-	-
Total Liabilities		2 383	894	66	2 608	1 895	7 846
NET		(2 235)	5 048	121	(1 560)	(1 207)	167
Off-Balance Sheet:							
Interest rate swaps	0.59	-	(1 558)	86	1 280	240	48
Weighted Average Effective Interest Rate Percent							
Repricing Period as at 30 June 2003							
Assets:							
Cash and short-term assets	4.76	134	795	46	-	-	975
Investments	5.65	-	653	92	570	566	1 881
Loans to SA Government	6.07	-	3 564	1	31	68	3 664
Loans to semi-government authorities	5.96	55	222	135	444	417	1 273
Loans to public sector financial institutions	5.14	17	603	1	38	85	744
Currency Swaps - Receivable	5.37	-	75	338	-	-	413
Total Assets		206	5 912	613	1 083	1 136	8 950
Liabilities:							
Deposits and short-term borrowings	4.88	2 540	1 104	20	72	-	3 736
Bonds, notes and debentures	6.95	-	167	353	2 154	1 210	3 884
Obligations to Commonwealth Government	4.71	-	15	19	31	645	710
Currency Swaps - Payable	5.33	-	305	136	-	-	441
Total Liabilities		2 540	1 591	528	2 257	1 855	8 771
NET		(2 334)	4 321	85	(1 174)	(719)	179
Off-Balance Sheet:							
Interest rate swaps	0.68	-	(723)	(53)	962	(155)	31

Foreign Exchange Risk

SAFA has a policy of avoiding foreign currency risk and has limits in place to protect against movements in foreign currency exchange rates.

(i) *Currency Swaps*

A cross currency swap is a financial contract between two parties agreeing to exchange interest obligations in two different currencies over a fixed term on fixed dates. Interest amounts are calculated on currency principals which are usually exchanged at the start of the transaction.

SAFA utilises cross currency swaps to eliminate foreign currency exposures associated with foreign currency borrowings.

(ii) *Foreign Exchange and Forward Exchange Contracts*

A foreign exchange contract is an agreement between two parties to buy and sell one currency against another currency either on a spot basis or on a specified future date. A foreign exchange swap is an agreement to enter into both a spot foreign exchange transaction and a forward foreign exchange transaction.

(ii) *Foreign Exchange and Forward Exchange Contracts (continued)*

SAFA utilises foreign exchange contracts (spot and forward) to manage foreign exchange risk associated with foreign currency borrowings and to manage exposures arising from the Foreign Exchange Hedging Service provided to South Australian public sector agencies and to hedge profits from overseas subsidiaries.

SAFA has entered into forward foreign exchange contracts to hedge exposures arising from the Foreign Exchange Hedging Service provided to Public Sector Clients. These transactions totalled \$74.2 million in face value as at 30 June 2004.

(iii) *Currency Exposures*

The following table summarises the Economic Entity's exposure to exchange risk. The value to be received under the currency contracts is designed to hedge the exposure to the net foreign currency liabilities.

	USD A\$'million	GBP A\$'million	EUR A\$'million
Less than one year:			
Net foreign currency assets	0.4	1.7	0.1
Net Derivatives	-	-	-
NET	0.4	1.7	0.1
Greater than one year:			
Net foreign currency assets	-	(0.9)	-
Net Derivatives	-	-	-
NET	-	(0.9)	-
TOTAL NET	0.4	0.8	0.1

Credit Risk

Credit risk is the risk of financial loss and associated costs, resulting from the failure of a counterparty to meet its financial obligations as and when they fall due.

SAFA incurs credit risk through undertaking its core functions of fundraising, debt management and liquidity management.

SAFA's dealings in physical securities and other financial contracts, including derivatives, are transacted only with counterparties possessing strong to extremely strong safety characteristics regarding timely payment of principal and interest.

To minimise the potential for credit loss, SAFA complies with stringent credit guidelines. The guidelines are designed to promote diversification of credit risk amongst counterparties while limiting exposure only to highly rated institutions worldwide. The credit guidelines do not apply to loans to South Australian governmental entities.

No credit losses were incurred by SAFA over the reporting period.

SAFA measures credit risk for physical securities at face value and the credit risk of derivative transactions using a mark-to-market methodology that includes an additional factor to cover potential future adverse market movements.

An analysis of credit risk exposure by country, counterparty class, asset class and credit rating as at 30 June 2004 is detailed below.

NR represents loans within the South Australian Government which are not classified under a particular rating.

Asset Class	2004									Total \$'million
	AAA \$'million	AA+ \$'million	AA \$'million	AA- \$'million	A+ \$'million	A \$'million	A- \$'million	NR \$'million		
Loans/Investments	953	1	207	703	243	490	-	5 663	8 260	
Currency Swaps	-	-	-	-	-	-	-	-	-	-
Interest rate swaps	-	8	17	147	5	10	-	36	223	
FX Contracts	-	-	-	-	-	-	-	4	4	
Total	953	9	224	850	248	500	-	5 703	8 487	

Asset Class	2003									Total \$'million
	AAA \$'million	AA+ \$'million	AA \$'million	AA- \$'million	A+ \$'million	A \$'million	A- \$'million	NR \$'million		
Loans/Investments	1 367	2	164	522	325	298	50	5 539	8 267	
Currency Swaps	3	-	1	-	6	-	-	19	29	
Interest rate swaps	-	5	56	112	3	6	-	44	226	
FX Contracts	-	-	-	-	2	-	-	3	5	
Total	1 370	7	221	634	336	304	50	5 605	8 527	

Credit Risk (continued)

Counterparty Class	Asset Class	SAFA 2004				
		Australia (AAA)* \$'million	Canada (AAA) \$'million	Germany (AAA) \$'million	Netherlands (AAA) \$'million	Singapore (AAA) \$'million
South Australian Government:	Loans/Investments	5 628	-	-	-	-
	Currency swaps	-	-	-	-	-
	Interest rate swaps	36	-	-	-	-
	FX Contracts	4	-	-	-	-
	Sub Total	5 668	-	-	-	-
Commonwealth/State Government:	Loans/Investments	490	-	-	-	-
	Sub Total	490	-	-	-	-
Banks:	Loans/Investments	1 339	40	10	50	158
	Currency swaps	-	-	-	-	-
	Interest rate swaps	106	-	12	26	-
	FX Contracts	-	-	-	-	-
	Sub Total	1 445	40	22	76	158
Corporate/Other:	Loans/Investments	137	-	-	-	-
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	-	-	-	-
	Sub Total	137	-	-	-	-
	Total by Country	7 740	40	22	76	158
Total by Asset Class:	Loans/Investments	7 594	40	10	50	158
	Currency swaps	-	-	-	-	-
	Interest rate swaps	142	-	12	26	-
	FX Contracts	4	-	-	-	-
	Total by Country	7 740	40	22	76	158
Counterparty Class	Asset Class	Supranational (AAA) \$'million	Switzerland (AAA) \$'million	United Kingdom (AAA) \$'million	United States (AAA) \$'million	Total \$'million
South Australian Government:	Loans/Investments	-	-	-	-	5 628
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	-	-	-	36
	FX Contracts	-	-	-	-	4
	Sub Total	-	-	-	-	5 668
Commonwealth/State Government:	Loans/Investments	-	-	-	-	490
	Sub Total	-	-	-	-	490
Banks:	Loans/Investments	-	103	167	84	1 951
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	6	25	5	180
	FX Contracts	-	-	-	-	-
	Sub Total	-	109	192	89	2 131
Corporate/Other:	Loans/Investments	53	1	-	-	191
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	7	-	-	7
	Sub Total	53	8	-	-	198
	Total by Country	53	117	192	89	8 487
Total by Asset Class:	Loans/Investments	53	104	167	84	8 260
	Currency swaps	-	-	-	-	-
	Interest rate swaps	-	13	25	5	223
	FX Contracts	-	-	-	-	4
	Total by Country	53	117	192	89	8 487

Credit Risk (continued)**Counterparty**

Class	Asset Class	SAFA 2003						
		Australia (AAA)* \$'million	Canada (AAA) \$'million	France (AAA) \$'million	Germany (AAA) \$'million	Luxembourg (AAA) \$'million	Netherlands (AAA) \$'million	Singapore (AAA) \$'million
South Australian Government:	Loans/Investments	5 503	-	-	-	-	-	-
	Currency swaps	19	-	-	-	-	-	-
	Interest rate swaps	44	-	-	-	-	-	-
	FX Contracts	3	-	-	-	-	-	-
	Sub Total	5 569	-	-	-	-	-	-
Commonwealth/ State Government:	Loans/Investments	842	-	-	-	-	-	-
	Sub Total	842	-	-	-	-	-	-
Banks:	Loans/Investments	1 292	50	12	20	-	94	94
	Currency swaps	2	-	-	-	-	-	-
	Interest rate swaps	89	-	-	8	-	14	-
	FX Contracts	-	2	-	-	-	-	-
	Sub Total	1 383	52	12	28	-	108	94
Corporate/Other:	Loans/Investments	186	-	-	-	-	-	-
	Currency swaps	-	-	-	-	-	-	-
	Interest rate swaps	-	-	-	-	-	-	-
	Sub Total	186	-	-	-	-	-	-
	Total by Country	7 980	52	12	28	-	108	94
Total by Asset Class:								
	Loans/Investments	7 823	50	12	20	-	94	94
	Currency swaps	21	-	-	-	-	-	-
	Interest rate swaps	133	-	-	8	-	14	-
	FX Contracts	3	2	-	-	-	-	-
	Total by Country	7 980	52	12	28	-	108	94

Counterparty**Class**

Asset Class	Supranational (AAA) \$'million	Switzerland (AAA) \$'million	United Kingdom (AAA) \$'million	United States (AAA) \$'million	Total \$'million	
South Australian Government:						
Loans/Investments	-	-	-	-	5 503	
Currency swaps	-	-	-	-	19	
Interest rate swaps	-	-	-	-	44	
FX Contracts	-	-	-	-	3	
Sub Total	-	-	-	-	5 569	
Commonwealth/ State Government:	Loans/Investments	-	-	-	842	
	Sub Total	-	-	-	842	
Banks:	Loans/Investments	-	119	10	2	1 693
	Currency swaps	-	6	-	-	8
	Interest rate swaps	-	8	59	4	182
	FX Contracts	-	-	-	-	2
	Sub Total	-	133	69	6	1 885
Corporate/Other:	Loans/Investments	43	-	-	-	229
	Currency swaps	-	-	2	-	2
	Interest rate swaps	-	-	-	-	-
	Sub Total	43	-	2	-	231
	Total by Country	43	133	71	6	8 527
Total by Asset Class:						
	Loans/Investments	43	119	10	2	8 267
	Currency swaps	-	6	2	-	29
	Interest rate swaps	-	8	59	4	226
	FX Contracts	-	-	-	-	5
	Total by Country	43	133	71	6	8 527

SAFA's credit guidelines also permit SAFA to undertake credit exposure transactions with counterparties from New Zealand, Norway, France and Luxembourg. As at 30 June 2004, SAFA did not have any credit exposure to these countries.

* Standard and Poor's long-term foreign currency credit rating.

Liquidity Risk

In order to manage liquidity risk, SAFA has in place liquidity management guidelines which require SAFA to hold a base level of liquidity comprising of highly marketable financial assets. Liquid assets include cash, promissory notes, Commonwealth notes, floating rate notes and negotiable discount securities. The level of financial asset holdings by SAFA on any given day must be sufficient to cover the higher of a base liquidity buffer of \$250 million or the sum of debt maturities over the next 30 days. Adherence to these guidelines enables SAFA to be in a position to meet the forecasted cash demands and any unanticipated funding requirements of the South Australian public sector.

SAFA has chosen an approach to minimise medium-term refinancing risks, which involves diversification of physical borrowings across the maturity spectrum, diversification of funding sources and the holding of liquid assets to assist in the management of refinancing and liquidity risk.

These strategies result in SAFA facing manageable funding demands from financial markets in any given period. This approach assists the maintenance of an orderly market place for SAFA's securities when refinancing maturing debt obligations.

22.	Maturity Analysis of Financial Instruments	Maturity period as at 30 June 2004					2004 Total
		At call \$'million	0 to 3 Months \$'million	3 to 12 Months \$'million	1 to 5 Years \$'million	Over 5 Years \$'million	
	Assets:						
	Cash and short term assets	123.9	1 214.0	13.0	-	-	1 350.9
	Investments	-	44.9	330.3	500.6	349.1	1 224.9
	Loans to SA Government	-	0.5	4.3	30.0	3 012.5	3 047.3
	Loans to semi-government authorities	56.3	324.6	137.8	657.7	203.0	1 379.4
	Loans to public sector financial institutions	16.3	81.8	7.0	487.5	231.1	823.7
	Currency Swaps - Receivable	-	-	-	-	-	-
	Total	196.5	1 665.8	492.4	1 675.8	3 795.7	7 826.2
	Liabilities:						
	Deposits and short term borrowings	2 249.0	824.0	179.0	73.9	-	3 325.9
	Bonds, notes and debentures	-	24.4	57.2	2 470.6	1 327.7	3 879.9
	Obligations to Commonwealth Government	-	-	13.8	90.8	628.1	732.7
	Currency Swaps - Payable	-	-	-	-	-	-
	Total	2 249.0	848.4	250.0	2 635.3	1 955.8	7 938.5
	NET	(2 052.5)	817.4	242.4	(959.5)	1 839.9	(112.3)
Maturity period as at 30 June 2003							
		At call \$'million	0 to 3 Months \$'million	3 to 12 Months \$'million	1 to 5 Years \$'million	Over 5 Years \$'million	2003 Total
	Assets:						
	Cash and short term assets	166.7	778.3	34.5	-	-	979.5
	Investments	-	242.6	112.6	884.4	524.7	1 764.3
	Loans to SA Government	-	1.1	2.9	34.6	3 384.0	3 422.6
	Loans to semi-government authorities	72.5	192.6	91.4	437.9	420.6	1 215.0
	Loans to public sector financial institutions	17.0	169.0	7.6	459.5	79.0	732.1
	Currency Swaps - Receivable	-	56.5	341.2	-	-	397.7
	Total	256.2	1 440.1	590.2	1 816.4	4 408.3	8 511.2
	Liabilities:						
	Deposits and short term borrowings	2 584.5	1 032.0	20.5	82.2	-	3 719.2
	Bonds, notes and debentures	-	162.3	351.4	2 029.6	1 204.5	3 747.8
	Obligations to Commonwealth Government	-	15.1	31.4	88.0	644.5	779.0
	Currency Swaps - Payable	-	60.7	374.5	-	-	435.2
	Total	2 584.5	1 270.1	777.8	2 199.8	1 849.0	8 681.2
	NET	(2 328.3)	170.0	(187.6)	(383.4)	2 559.3	(170.0)

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

23.	Fiduciary Activities	SAFA				
		2004	2003	\$'million	\$'million	
	Remuneration paid to external audit	102	101			

24.	Auditor's Remuneration	SAFA				
		2004	2003	\$'million	\$'million	
	Remuneration paid to external audit	102	101			

25. Remuneration of SAFA Advisory Board Members

Remuneration:
\$20 001 - \$30 000

SAFA	
2004	2003
Number of Members	Number of Members
4	4
4	4

The Advisory Board as at 30 June 2004 comprised 6 members: Mr J Wright (Presiding Member), Mr B Brownjohn, Mr M Doyle, Mr C Long, Ms Y Sneddon and Ms A Howe. The fees paid to Advisory Board Members are set by Executive Council in accordance with approved procedures. Those members who are permanently employed under the *Public Sector Management Act 1995*, or on similar terms, are not entitled to fees. During 2003-04 only four members were entitled to receive the approved fee. The total remuneration paid was \$105 706 (\$107 270).

26. Controlled Entities

SAFA controls certain entities either through ownership or management control. SAFA's controlled entities are:

	Place of Incorporation	Ownership Percent	Investment By SAFA \$
South Australian Finance Trust Limited ⁽¹⁾	Aust	0	0
South Australian Finance (Hong Kong) Limited ⁽²⁾	HK	100	1 HKD
South Australian Finance Trust (Hong Kong) ⁽²⁾	HK	100	0
SABT Pty Limited ⁽³⁾	Aust	0	1

(1) SAFTL is now dormant and it is expected to be wound up in 2004-05 following the wind up of SABT Pty Limited and SAFA's controlled Hong Kong companies.
 (2) As at 30 June 2004, the HK subsidiaries had retained earnings of AUD \$0.8 million. All transactions in the subsidiaries have matured. A final distribution is expected when the companies are wound up in 2004-05.
 (3) There has been no activity in SABT Pty Ltd since November 1999 and it is expected that it will be wound up in 2004-05.

Below are the Statement of Financial Position and Statement of Financial Performance for the consolidated Hong Kong subsidiaries and SAFTL for 2003-04.

Statement of Financial Position

Cash and short term assets

Due for SAFT (HK)

Total Assets

Due to SAF(HK)L

Other liabilities

Total Liabilities

Retained Earnings

SAFT (HK) \$'000	SAF(HK)L \$'000	SAFTL \$'000
380	433	-
-	267	-
380	700	-
267	-	-
23	20	-
290	20	-
90	680	-

Statement of Financial Performance

Interest revenue

2 349

2

-

Interest expense

(2 294)

-

-

Net interest revenue

55

2

-

Other revenue

-

-

-

Other expense

(50)

(30)

-

Operating surplus (loss) before income tax

5

(28)

-

Income tax (TER) attributable to operating surplus

-

-

-

Net Profit (Loss) after Income Tax

5

(28)

-

27. Related Party Transactions

South Australian Finance (Hong Kong) Limited (SAF(HK)L) and South Australian Finance Trust (Hong Kong), (SAFT)

Two currency swap transactions that SAFA had entered into with SAF(HK)L matured during 2003-04. These swaps enables SAF(HK)L to match its interest rate and currency risk exposure on certain fixed debentures. The currency swaps were at market rates. SAFA recorded a net interest expense of \$1 million during 2003-04 with respect to these transactions. SAFT made a distribution to SAFA for USD \$3.2 million on 25 June 2004.

South Australian Finance Trust Limited (SAFTL)

During 2003-04, SAFTL made a final dividend distribution to SAFA of \$76 000.

28. Segment Information

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

SOUTH AUSTRALIAN MOTOR SPORT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Motor Sport Board was established pursuant to the *South Australian Motor Sport Act 1984*.

Functions

The functions of the South Australian Motor Sport Board are:

- entering into agreements on behalf of the State under which motor sport events, whether promoted by the Board or by some other person approved by the Minister, are held in the State;
- undertaking on behalf of the State the promotion of motor sport events;
- establishing a temporary motor racing circuit and conducting and managing motor racing events promoted by the Board;
- providing advisory, consultancy, management or other services on the conduct of sporting, entertainment or other special events or projects, whether within or outside the State;
- undertaking such other functions as the Minister may from time to time approve.

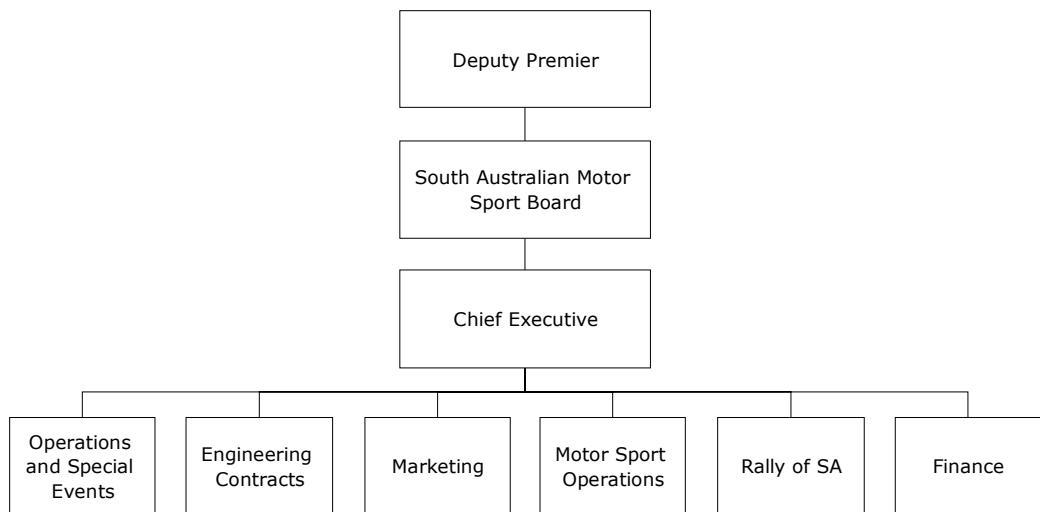
The Board comprises no more than nine members (nine members as at 30 June 2004) appointed by the Governor and is subject to the general control and direction of the Deputy Premier.

The Board secured the right to stage a motor sport event for a fixed period of five years, which commenced in 1999. The option to extend the contract for a further five years was exercised during 2001 and now concludes in 2008. Pursuant to a Naming Rights Sponsorship Agreement, the event is known as the 'Clipsal 500 Adelaide'.

In addition, pursuant to a permit issued by the Confederation of Australian Motor Sport, the Board stages the 'Coopers Pale Ale Rally of South Australia'.

Structure

The structure of the South Australian Motor Sport Board is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and Subsection 18(3) of the *South Australian Motor Sport Act 1984* provide for the Auditor-General to audit the accounts of the South Australian Motor Sport Board for each financial year.

Assessment of Controls

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

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

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

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

- payroll
- accounts payable
- revenue
- non-current assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The following is an extract from the 2003-04 Independent Audit Report, which details the qualification to the Board's financial report.

Qualification

Amortisation of State Government Grant - Capital

As detailed in Note 2.2 to the financial report, the South Australian Motor Sport Board has determined that capital grants received in 1998-99 and 1999-2000 should be amortised over the initial fixed five year race staging period while subsequent capital grants received and the loan forgiven in 2001-02 should be amortised over a period of five years. The grants and loans have been recognised as a Deferred State Government Grant - Capital liability.

The Board has based its determination on the application of International Accounting Standard IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

As a result, of the total of \$8.28 million received by way of capital grants and \$2.25 million by way of forgiven loan funds, only \$7.92 million has been recognised as revenue with the remaining \$2.61 million being recognised as a liability.

Account Policy Statement APS 11 'Contributions' requires that grants be recognised as revenues when received. Also, Accounting Standard AASB 1004 'Revenue' requires the gross amount of a liability forgiven by a credit provider be recognised by the borrower as revenue.

The financial effect of the Board not complying with APS 11 'Contributions' and AASB 1004 'Revenue' is to understate Revenues from Ordinary Activities and the Operating Surplus by \$634 000 and Total Equity by \$2 614 000.

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Motor Sport Board as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the South Australian Motor Sport Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters relating to the non-compliance with financial reporting requirements, are sufficient to provide reasonable assurance that the financial transactions of the South Australian Motor Sport Board have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. Responses to the management letter, except for the matters relating to non-compliance with financial reporting requirements, were considered to be satisfactory. Major matters raised with the Board and the related responses are considered herein.

Non Compliance with Financial Reporting Requirements

The Board's financial statements for the previous year (and prior years) have been qualified on the basis that the Board has not complied with the requirements of Accounting Policy Statements and Australian Accounting Standards with respect to the accounting treatment of monies received by way of capital grant and loan forgiveness.

Proposed Provision for Bad Weather

Audit review for 2003-04 revealed that the Board elected to recognise a bad weather provision to provide for future losses attributable to bad weather. Audit review of the proposed accounting treatment found that it does not comply with Accounting Standards (AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets').

Audit is of the opinion that sound financial reporting practices includes the adoption of financial reporting practices and accounting treatments which are consistent with Accounting Standards and other mandatory reporting requirements. Audit formally communicated to the Board that the recognition of a provision for Bad Weather did not comply with Accounting Standards. Audit recommended that the Board review its position regarding the adoption of accounting treatment practices which are inconsistent with Accounting Standard requirements.

The Board subsequently resolved to revise its accounting treatment with respect to the recognition of the provision for Bad Weather. Specifically, the Board elected to create a reserve totalling \$515 000 for Bad Weather at future events. Refer to Note 2.3 and 12 for further details. As indicated in Note 2.3 the Board intends to build this reserve up to \$1 million in future years.

Treasurer's Instructions

The Treasurer's Instructions provides that Chief Executives of each public authority are responsible for preparation of financial statements which comply with generally accepted accounting principles (which is defined to include Accounting Standards) and Accounting Policy Statements.

Other Matters

Other aspects of the Board's business operations where Audit noted opportunities for improvement included:

- finalisation of organisational wide risk assessment and management practices; and
- establishing guidance for the extension of existing contacts.

These matters were raised with the Board and a satisfactory response, including action proposed, was received.

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

	2004 \$'000	2003 \$'000	Percentage Change
OPERATING REVENUE			
Hospitality and sponsorship	6 801	5 910	15
Ticket sales	5 247	4 495	17
Amortisation of capital grants	946	1 845	(49)
State Government grants	2 006	1 645	22
Catering and merchandise	1 832	1 549	18
Other	643	347	85
Total Operating Revenue	17 475	15 791	11
OPERATING EXPENDITURE			
Circuit construction	7 097	6 111	16
Event staging and contracts	2 807	2 350	19
Marketing, advertising and media	1 526	1 214	26
Depreciation and amortisation	957	1 746	(45)
Other	4 404	4 289	3
Total Operating Expenses	16 791	15 710	7
Surplus	684	81	N/A
Net Cash Flows	842	(167)	N/A
ASSETS			
Current assets	2 342	1 103	112
Non-current assets	3 902	3 359	16
Total Assets	6 244	4 462	40
LIABILITIES			
Current liabilities	3 205	2 480	29
Non-current liabilities	1 729	1 356	28
Total Liabilities	4 934	3 836	29
EQUITY	1 310	626	109

Statement of Financial Performance**Operating Revenues**

The Statement of Financial Performance of the Board for the period ended 30 June 2004 records an Operating Surplus of \$684 000 (\$81 000).

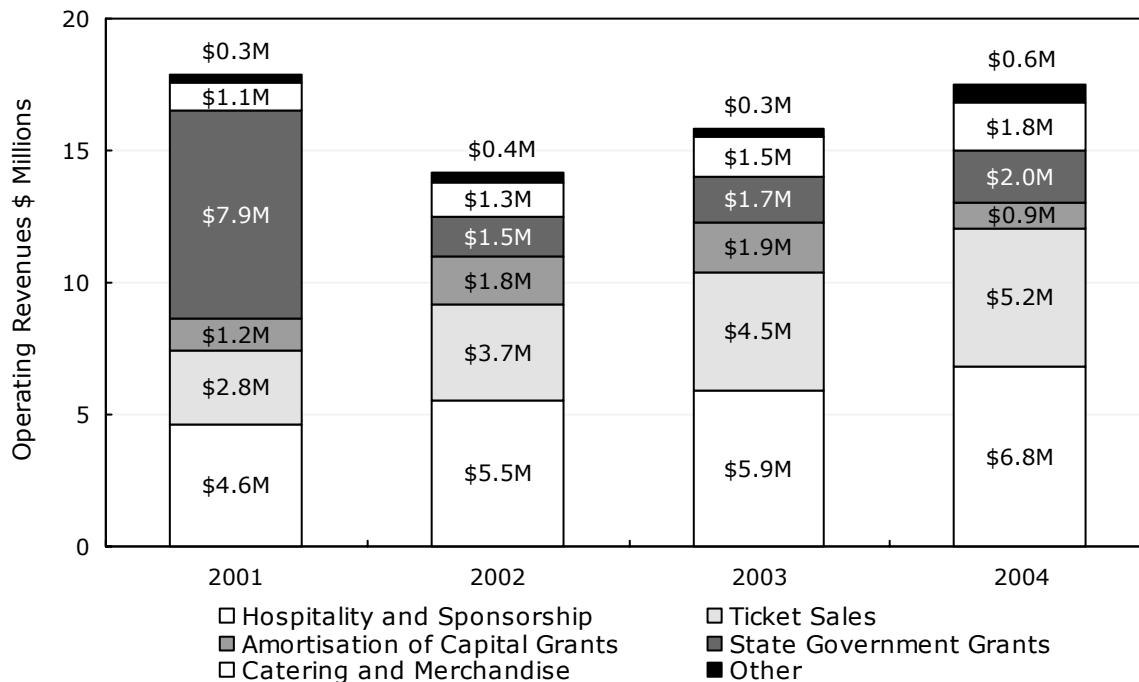
As explained in Notes 2.1 and 2.2 to the Financial Statements, the Board has applied an International Accounting Standard rather than the mandatory Accounting Policy Statement of the Treasurer and an applicable Australian Accounting Standard, in relation to the financial accounting and reporting treatment of \$8.28 million recorded by way of capital grants since 1998-99 and \$2.25 million by way of forgiven loan funds in 2001-02.

The Board's decision not to apply Accounting Policy Statement APS 11 'Contributions' and Accounting Standard AASB 1004 'Revenue', but to apply the International Accounting Standard, has resulted in an understatement of Revenues from Ordinary Activities and the Operating Surplus by \$634 000 and Total Equity by \$2 164 000. Consequently the Independent Audit Report for 2003-04 has been qualified in respect of these matters (refer to commentary provided under the heading 'Audit Opinions - Audit of Financial Statements'). The financial statements of the Board for prior years were qualified on the same basis.

Total revenue from operations increased by \$1.7 million (11 percent) to \$17.5 million. Revenue from all sources, excluding State Government Grants and Amortisation of Capital Grants increased, by 18 percent from \$12.3 million to \$14.5 million. Notably, revenue from ticket sales increased by \$752 000 due primarily to increased attendance for the Clipsal 500. Similarly, hospitality and sponsorship income increase by \$891 000 due primarily to greater activity associated with the 2004 event.

Revenues from the State Government (State Government Grants and Amortisation of Capital Grants) decreased by 15 percent from \$3.5 million to \$3 million. The decrease is due predominately to a decrease of \$899 000 in Amortisation of Capital Grant revenue which has been amortised in accordance with Board policy.

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

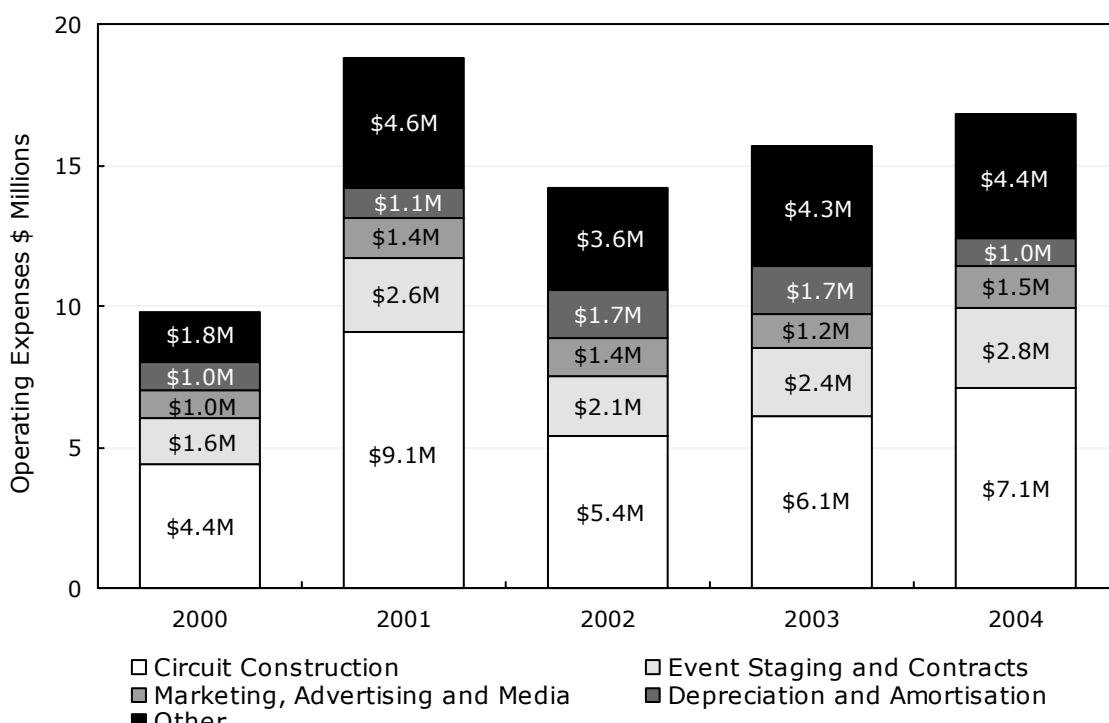


The chart illustrates that, excluding Amortisation of Capital Grants, revenues from operations have increased each year since 2001. The high level of State Government Grants in 2001 reflect support for capital and operating requirements associated with staging 'The Race of 1000 years'.

Operating Expenses

Total expenses from operations increased by \$1.1 million (7 percent) to \$16.8 million. Notably, Circuit Construction expenses increased by \$986 000 (16 percent) to \$7.1 million due primarily to changes made to the circuit and facilities for the 2004 Clipsal 500 event.

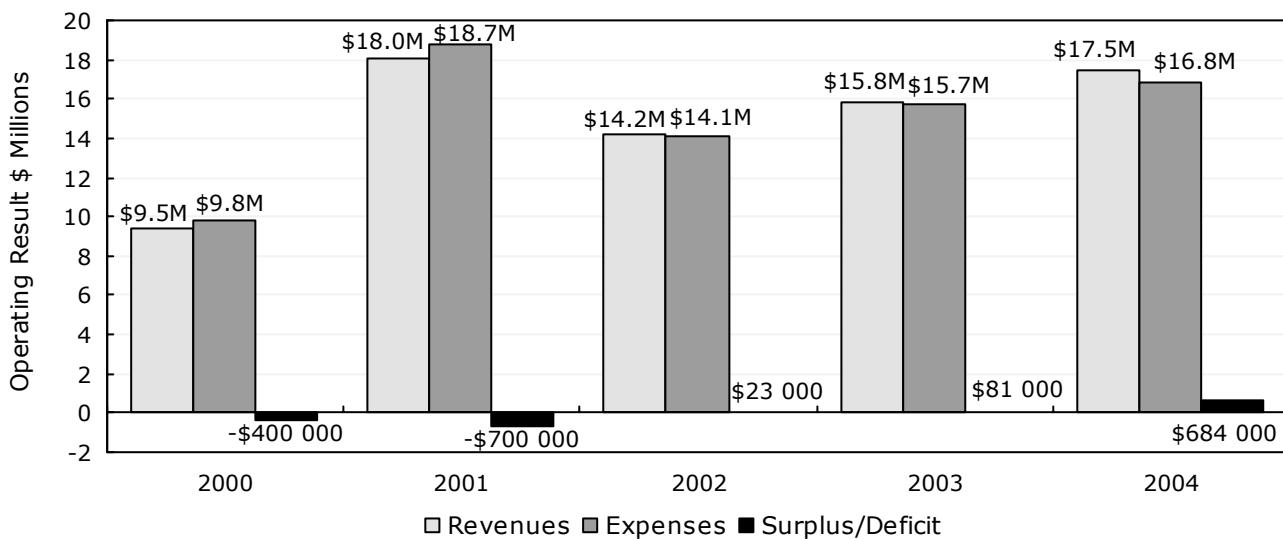
For the five years to 2004, a structural analysis of the main operating expense items for the Board is shown in the following chart.



The chart demonstrates steady growth for most expense categories over the past five years with the exception of 2001. Expenses for 2001 were increased by costs associated with conducting 'The Race of 1000 years'. It is noted that Depreciation and Amortisation expenses decreased by \$789 000 in 2004 due mainly to a significant write-off of management fees in 2003.

Operating Result

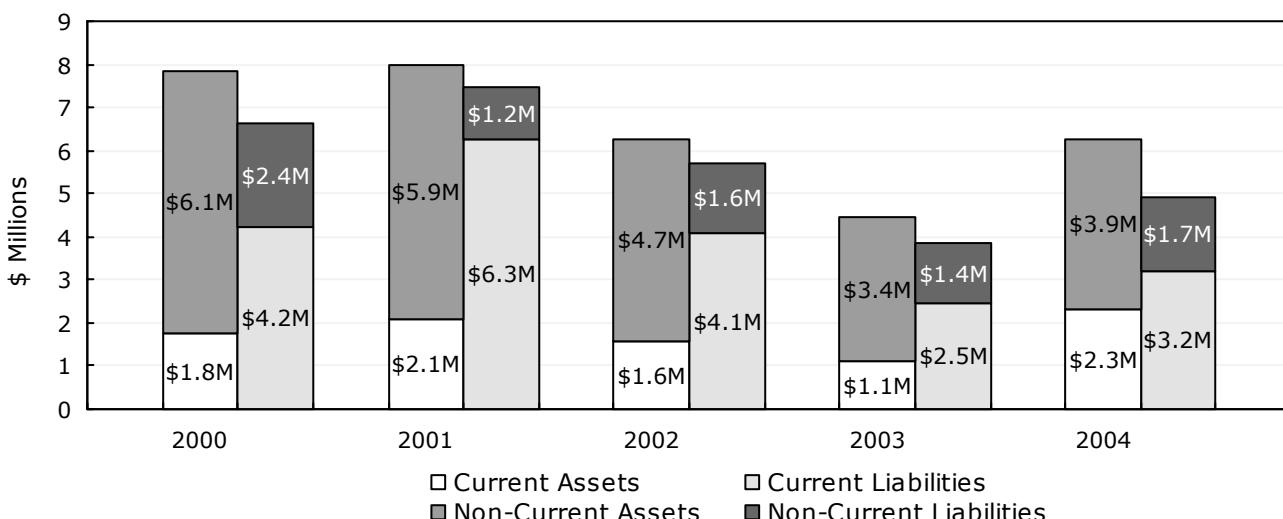
For the five years to 2004 the following chart shows the operating revenues, operating expenses and surplus/deficits. After recording deficits in 2000 and 2001, the Board achieved surpluses for the following three years.



The impact of the accounting policies adopted by the Board, which do not comply with financial reporting requirements on the reported surplus, is reflected in the qualified independent audit report. Note 2.2 discusses the impact of these accounting policies.

Statement of Financial Position

The structural analysis of the Board's Statement of Financial Position shows a gradual decrease in both assets and liabilities for the first four years followed by an increase in 2004.



As previously mentioned under the heading 'Audit Communication to Management' in 2004 the Board established a reserve for Bad Weather which was created by transferring an amount \$515 000 from Accumulated Surplus to the reserve.

Statement of Cash Flows

The analysis of cash flows highlights that in 2004 the operations of the Board generated a positive cash flow. In contrast, for the preceding two years the Board recorded cash deficits. The Board is reliant upon support from the South Australian Government for its ongoing operations.

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

	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
Net Cash Flows				
Operations	695	(200)	(193)	480
Investing	147	33	(3)	156
Financing	-	-	-	-
Change in Cash	842	(167)	(196)	636
Cash at 30 June	1 027	185	352	548

Statement of Financial Performance
for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Ticket sales		5 247	4 495
Hospitality and sponsorship		6 801	5 910
State Government grants	1	2 006	1 645
Catering and merchandise		1 832	1 549
Entry fees		210	135
Interest		202	102
Amortisation of capital grants	1, 2.1, 2.2, 11	946	1 845
Asset hire		29	14
Profit on sale of fixed assets		67	-
Other		135	96
Total Revenues		17 475	15 791
EXPENSES FROM ORDINARY ACTIVITIES:			
Circuit construction		7 097	6 111
Hospitality, sponsorship and ticketing costs		1 085	982
Catering and merchandise costs		927	826
Event staging and contracts		2 807	2 350
Non motor sport entertainment		413	410
Security and ground staff		664	705
Salaries, wages and related payments	3	770	676
Administration		535	434
Provision for doubtful debts		10	255
Marketing, advertising and media		1 526	1 214
Depreciation and amortisation		957	1 746
Loss on disposal of fixed assets	2.5	-	1
Total Expenses		16 791	15 710
OPERATING SURPLUS (DEFICIT)			
TOTAL CHANGES IN EQUITY OTHER THAN THOSE			
RESULTING FROM TRANSACTIONS WITH THE STATE			
GOVERNMENT AS OWNER		684	81

Statement of Financial Position
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	14.1	1 027	185
Receivables	5	1 294	880
Other	6	21	38
Total Current Assets		2 342	1 103
NON-CURRENT ASSETS:			
Concrete safety barriers, racing infrastructure, plant and equipment	7	3 902	3 359
Establishment costs	8	-	-
Total Non-Current Assets		3 902	3 359
Total Assets		6 244	4 462
CURRENT LIABILITIES:			
Payables	9	2 190	1 793
Employee entitlements and related provisions	10	69	57
Deferred State Government grant - Capital	11	946	630
Total Current Liabilities		3 205	2 480
NON-CURRENT LIABILITIES:			
Employee entitlements and related provisions	10	61	6
Deferred State Government grant - Capital	11	1 668	1 350
Total Non-Current Liabilities		1 729	1 356
Total Liabilities and Deferred State Government Grant		4 934	3 836
NET ASSETS		1 310	626
EQUITY:			
Reserves	2.3, 12.1	515	-
Accumulated surplus	12.2	795	626
TOTAL EQUITY		1 310	626
Contingent Liabilities	13		

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and sponsors		\$'000	\$'000
		13 847	12179
Goods and Services Tax receipts		1 569	1279
Payments to suppliers and employees		(15 360)	(14 126)
Goods and Services Tax payments		(2 396)	(1 666)
Refunds of Goods and Services Tax		827	387
Interest received		202	102
State Government contributions		2 006	1 645
Net Cash provided by (used in) Operating Activities	14.2	695	(200)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for racing infrastructure, plant and equipment		(1 500)	(400)
Payments for establishment costs		-	(21)
Proceeds on disposal of assets		67	4
State Government contributions		1 580	450
Net Cash provided by Investing Activities		147	33
NET INCREASE (DECREASE) IN CASH HELD		842	(167)
CASH AT 1 JULY		185	352
CASH AT 30 JUNE	14.1	1 027	185

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Organisational Structure, Objectives and Funding

The South Australian Motor Sport Board was established pursuant to the *South Australian Motor Sport Act 1984*.

The principal objectives of the Board are to:

- enter into agreements on behalf of the State under which motor sport events, whether promoted by the Board or by some person approved by the Minister, are held in the State;
- undertake on behalf of the State the promotion of motor sport events;
- establish a temporary motor racing circuit and conduct and manage motor racing events promoted by the Board;
- provide advisory consultancy, management or other services on the conduct of sporting, entertainment or other special events or projects, whether within or outside the State.

The Board has the right to stage a motor sport event for a period of 10 years concluding in 2008. Pursuant thereto the event is known as the 'Clipsal 500 Adelaide'.

Pursuant to a permit issued by the Confederation of Australian Motor Sport, the Board stages the Coopers Pale Ale Rally of South Australia.

The Board received funding from the State Government of \$2 006 000 for operating activities and \$1 580 000 for capital in the year (refer Note 2.15). The State Government received signage and other promotional benefits from the event under the 'Sensational Adelaide' logo.

2. Statement of Significant Accounting Policies

2.1 Basis of Accounting

The Financial Statements have been prepared as a general purpose financial report in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), except as described below in relation to the entity's financial accounting and reporting treatment of the Capital Grant funds provided by the State Government and the financial accounting and reporting treatment of the loan forgiven in November 2001.

The Financial Statements have also been prepared in accordance with the historical cost convention and do not take into account changing money values except where it is specifically stated.

2.2 Amortisation of State Government Grant - Capital

The State Government has since 1999 provided a total of \$8.280 million for race staging capital. In addition, in November 2001 Cabinet forgave the \$2.250 million loan granted in June 2001.

In accordance with International Accounting Standard IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', grants received in 1998-99 and 1999-2000 are being amortised over the initial fixed five year period of the race staging contract whilst the grants subsequently received and the forgiven loan are being amortised over a period of five years. The grants and loan have been recognised as a deferred State Government Capital Grant liability.

The Treasurer's Accounting Policy Statement APS 11 'Contributions' requires that all non-reciprocal transfers be brought to account as revenue in the period in which they are received. The Board believes that application of this policy would incorrectly report the trading result. If APS 11 had been applied, the result for the reporting period would have been as follows:

	2004		2003	
	Board		Board	
	APS 11	Policy	APS 11	Policy
	\$'000	\$'000	\$'000	\$'000
Revenue - State Government Grant - Capital	1 580	496	450	1 395
Revenue - Forgiven loan	-	450	-	450
Operating Surplus (Deficit)	1 318	684	(1 314)	81
Assets	6 244	6 244	4 462	4 462
Liabilities	2 320	4 934	1 856	3 836
Equity	3 924	1 310	2 606	626

Therefore the application of APS 11 would result in an operating surplus for the year of \$1 318 000. The application of IAS 20 results in an operating surplus of \$684 000 which the Board believes to be a true reflection of the result for the year.

2.3 Reserve for Bad Weather

The Directors believe that rain over the period of the event will have a significant impact on the financial position of the organisation. The Board have considered that it is prudent and commercially sound to create a Reserve for Bad Weather at future events. This Reserve has been created by a transfer from Accumulated Surplus. The Board intends to build up this reserve to an amount of \$1 million. This reserve will be utilised at events adversely affected by rain.

2.4 Revenue Recognition

Except as described in Note 2.2 above, revenues from Ordinary Activities are recorded in the Statement of Financial Performance at the time they are earned or at the time control passes to the Board. Interest revenues are recognised as they accrue.

2.5 Non-Current Assets

The Board does not own any land or permanent buildings.

All non-current assets controlled by the Board are reported in the Statement of Financial Position. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Board. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

In accordance with Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets', specific assets or classes of assets which have an individual or total value greater than \$1 million at the time of acquisition are required to be revalued every three years. In June 2004 the concrete safety barriers and debris fencing were valued based on fair value. The difference between the valuation and the carrying amount of the assets was not considered to be material and therefore no adjustment has been made in the Statement of Financial Position.

2.6 Depreciation and Amortisation

Depreciation is calculated on a straight line basis to write off the assets over their useful economic lives.

Racing Infrastructure, Plant and Equipment, useful lives range from 1-10 years. Management fees considered to have economic benefits extending beyond a financial year are capitalised and written off over two years. Amounts previously capitalised totalling \$200 000 have been fully depreciated. These amounts have been written off as at 30 June 2004 (2003: \$1 240 000).

Concrete safety barriers' useful life is determined by reference to their likely rate of deterioration, namely 20 years. This is supported by the independent valuation of Concrete Barriers and Debris Fencing obtained by the Board as reported in Note 2.5.

Establishment costs are amortised over periods in a manner which reflects the consumption of their future economic benefits. Amounts previously capitalised totalling \$379 000 have been fully depreciated.

2.7 Recoverable Amounts of Non-Current Assets

All non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to recoverable amount.

2.8 Principles of Consolidation

There were no controlled entities during the reporting period.

2.9 Income Tax

The entity is exempt from income tax.

2.10 Leased Assets

The entity has no finance leases.

2.11 Employee Entitlements

Salaries, Wages and Annual Leave

Liabilities for unpaid salaries, wages and annual leave at the reporting date are based on current pay rates and employees' services to that date. Liabilities for employment on-costs such as superannuation contributions and payroll tax are calculated in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Long Service Leave

Provision has been made for employee entitlements to long service leave at 30 June 2004. The provision has been calculated at nominal amounts based on current pay rates using a benchmark of seven years service as a shorthand estimation of long service leave liability in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No liability for sick leave was recognised in the financial report as sick leave taken by employees is considered to be taken from the current year's accrual.

2.12 Cash on Hand and on Deposit

For purposes of the Statement of Cash Flows, cash includes cash deposits, which are used in the cash management function on a day to day basis. Interest revenues are recognised as they accrue. The average interest rate for the reporting period was 5.0 percent (4.1 percent).

2.13 Financial Instruments

The Board's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2004, are as follows:

Financial Assets

Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.

Cash comprises cash on hand and at bank and deposits at call. Cash is recorded at nominal amounts. Interest on cash is credited to revenue as it accrues.

Receivables are recognised at the nominal amounts due less provision for bad or doubtful debts (maximum credit risk). Included in trade debtors is an amount of \$255 000 owing by Panoz Motorsport Australia recovery of which is subject to legal action. The Board has made a full provision against this debt.

Credit terms, other than those specified in contractual agreements, are net 14 days.

Financial Liabilities

Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. With the exception of employee on-costs, payables are normally settled within 30 days. It is policy to effect early payment where a discount can be achieved.

Borrowings are recognised at their principal amounts. Interest is expensed as it accrues.

Interest Rate Risk

The Board's only exposure to interest rate risk relates to cash. The average interest rate in relation to cash is 5.0 percent. All other Financial Assets and Financial Liabilities of the Board have no exposure to interest rate risk.

Credit Risk

The Board does not have any significant credit risk exposure to any single debtor.

The carrying amount of financial assets recorded in the Financial Statements, net of provisions for doubtful debts, represent the Board's maximum exposure to credit risk.

Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the Financial Statements represent their respective net fair values.

2.14 Goods and Services Tax

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

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

The net GST receivable from the taxation authority is included as part of receivables in the Statement of Financial Position.

2.15 Economic Dependency

The ongoing activities of the Board in promoting and staging motor sport events within South Australia are dependent on the ongoing financial support from the South Australian Government.

2.16 International Financial Reporting Standards

The adoption of Australian equivalents to International Financial Reporting Standards in 2005 is not expected to have material impact on the accounting policies of the Board. The impact in relation to the treatment of the receipt of Government Grants cannot, as yet, be determined. Other potential impacts are not perceived to be material and relate mainly to the treatment of revaluation decrements and increments within a class of asset.

The Board is managing the transition through consultancy with the Department of Treasury and Finance, training seminars and the Board's own internal review.

3. Salaries, Wages and Related Payments

Salaries, wages and related payments comprise:

	2004	2003
	\$'000	\$'000
Salaries, wages, annual and sick leave	641	601
Long service leave	54	6
Superannuation (Note 4)	59	57
Other employee on-costs	16	12
Total	770	676
Total number of full time equivalent employees at reporting date was	9.0	7.0

4. Superannuation

The superannuation costs included in the Financial Statements relate to the Commonwealth Government's Superannuation guarantee legislation. The payments of \$59 000 (\$57 000) have been made to an externally managed funds.

5. Receivables

Current:

	2004	2003
	\$'000	\$'000
Trade debtors	397	610
Amount owing by BASS for funds held in trust (refer Note 9)	1 161	406
Allowance for doubtful debts	(265)	(255)
Non-trade amounts:		
Unrelated parties	1	119
1 294		880

6. Other Assets

Current:

Prepayments	21	38
	21	38

7.	Concrete Barriers, Racing Infrastructure, Plant and Equipment	2004	2003
	Concrete Safety Barriers:	\$'000	\$'000
	Gross carrying amount:		
	Balance at 1 July	1 458	1 465
	Disposals	-	(7)
	Balance at 30 June	1 458	1 458
	Accumulated Depreciation:		
	Balance at 1 July	(571)	(505)
	Depreciation expense	(72)	(72)
	Disposals	-	6
	Balance at 30 June	(643)	(571)
	Net Carrying Amount	815	887
	Other Racing Infrastructure, Plant and Equipment:		
	Gross carrying amount:		
	Balance at 1 July	7 738	8 581
	Additions	1 500	400
	Disposals and write off of irrecoverable amounts	(297)	(1 243)
	Balance at 30 June	8 941	7 738
	Accumulated Depreciation:		
	Balance at 1 July	(5 266)	(4 893)
	Depreciation expense	(885)	(1 613)
	Disposals and write off of irrecoverable amounts	297	1 240
	Balance at 30 June	(5 854)	(5 266)
	Net Carrying Amount	3 087	2 472
	Total Concrete Barriers, Racing Infrastructure, Plant and and Equipment	3 902	3 359
8.	Establishment Costs		
	Gross carrying amount:		
	Balance at 1 July	379	358
	Additions	-	21
	Write-off of irrecoverable amounts	(379)	-
	Balance at 30 June	-	379
	Accumulated amortisation		
	Balance at 1 July	(379)	(318)
	Amortisation expense	-	(61)
	Write-off of irrecoverable amounts	379	-
	Balance at 30 June	-	(379)
	Net Carrying Amount	-	-
9.	Payables		
	Current:		
	Trade creditors	253	754
	Other creditors and accruals	872	430
	Funds held in trust ⁽ⁱ⁾	1 065	609
		2 190	1 793
	(i) Advance ticket sales for Year 2005 event.		
10.	Employee Benefits and Related On-Cost Liabilities	2004	2003
	Annual leave:		
	Included in other creditors - Current (Note 9)	10	9
	Provision for employee benefits - Current	66	53
		76	62
	Long service leave:		
	Included in other creditors - Current (Note 9)	9	-
	Provision for employee benefits - Current	3	4
	Provision for employee benefits - Non-Current	61	6
		73	10
	Aggregate Employee Benefit and Related On-Cost Liabilities	149	72
11.	Deferred State Government Grant - Capital	2004	2003
	Deferred State Government Grant - Capital	\$'000	\$'000
	Less: Accumulated amortisation	10 530	8 950
		7 916	6 970
		2 614	1 980
	Reconciled to:		
	Current	946	630
	Non-current	1 668	1 350
		2 614	1 980

12.	Reserves and Accumulated Surplus		Note	2004 \$'000	2003 \$'000
	12.1 Reserve for Bad Weather				
	Balance at 1 July			-	-
	Transfer from Accumulated Surplus	2.3		515	-
	Reserve for Bad Weather at 30 June			515	-

The basis for the creation of this Reserve is contained in Note 2.3.

12.2	Accumulated Surplus at 1 July			2004 \$'000	2003 \$'000
	Operating surplus			626	545
	Less: Transfer to Reserve for Bad Weather	2.3, 12.1		684	81
	Accumulated Surplus at 30 June			(515)	-
	Total Reserves and Accumulated Surplus			795	626
				1 310	626

13. Contingent Liabilities

Contingent obligations are items in the nature of liabilities, which at the reporting date, are not recognised in the Statement of Financial Position because they have been assessed as being dependent on certain events taking place before a present obligation for the Board to make payments in respect of them will arise.

The Board is currently contesting a claim concerning the staging of 'The Race of 1000 Years'. It is not possible to estimate the amounts payable, if any, with respect to this claim.

14. Notes to the Statement of Cash Flows

14.1 Reconciliation of Cash

		2004 \$'000	2003 \$'000
Cash on hand		2	1
Cash at bank		1 025	184

14.2 Reconciliation of Net Cash provided by (used in) Operating Activities to Operating Surplus

Operating surplus		684	81
Adjustments for non-cash income and expense items:			
Depreciation and amortisation		957	1 746
Amortisation of State Government grant - Capital		(946)	(1 845)
Profit on disposal of assets		(67)	-
Transfers to (from) provisions:			
Employee entitlements		67	5
Doubtful debts		10	255
Changes in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables		(424)	4
Prepayments		17	(23)
Increase (Decrease) in liabilities:			
Payables		397	(423)
Net Cash provided by (used in) Operating Activities		695	(200)

15. Financing Arrangements

The State Government pledges financial support for the entity.

16. Employee Remuneration

The number of officers who received or were due to receive total remuneration of \$100 000 or more:

\$100 000 - \$110 000
\$180 000 - \$190 000

2004 Number of Employees	2003 Number of Employees
1	1
1	1

The total remuneration (including superannuation and motor vehicles) paid amounted to \$291 000 (\$297 000).

17. Auditors' Remuneration

Amounts due and receivable by the Auditor-General's Department for the audit of the Board for the reporting period total \$19 000 (\$18 000).

18. Related Parties

18.1 Directors

The *South Australian Motor Sport Act 1984* requires two members to be nominated by the Corporation of the City of Adelaide, and one member to be nominated by the Confederation of Australian Motor Sport. The following persons held the position of director during the reporting period:

R Cook - Chairman	C Magasdi (Appointed 24 July 2003)
G Boulton - Deputy Chairman	T Schenken
M Brock	C Smerdon
A Ford	J Turbil
R Hayward (Appointed 24 July 2003)	

18.2 Directors' Loans

There are no loans to directors.

18.3 Other Director Transactions

Directors of the economic entity and directors of its related parties, or their director related entities, conduct transactions with entities within the economic entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arms length in similar circumstances. These transactions include the following and have been quantified below where transactions are considered likely to be of interest to the users of these financial statements:

T Schenken	CAMS Ltd	\$113 181	License fees, permit fees and insurance
T Schenken	CAMS Ltd	\$2 500	Sponsorship of CAMS award
C Smerdon	Vectra Corporation	\$26 500	Hospitality Revenue
R Hayward, C Magasdi	Adelaide City Council	\$54 995	Sponsorship Revenue and signage
R Hayward, C Magasdi	Adelaide City Council	\$50 243	Circuit construction and sponsor costs

All corporate facilities purchased by directors or by related entities are at arms-length rates.

19. Remuneration of Directors of the Board

The number of directors who received, or were due to receive, remuneration (including superannuation) were:

\$1 - \$10 000
\$10 001 - \$20 000

	2004	2003
Number of Directors		Number of Directors
2		6
7		5

The total remuneration of the Directors was \$99 000 (\$95 000).

20. Consultants

There were no consultants engaged where individual amounts exceeded \$10 000.

SOUTH AUSTRALIAN SUPERANNUATION BOARD

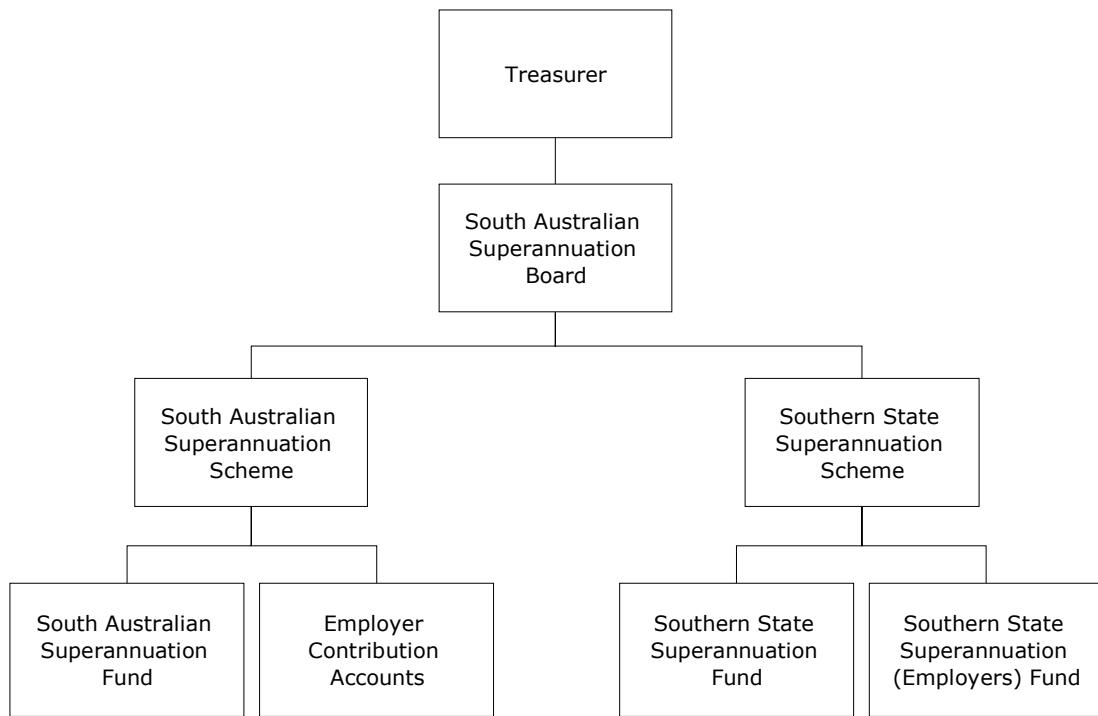
FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Superannuation Board (the Board) is a body corporate established pursuant to subsection 6(2) of the *Superannuation Act 1988* (the Act).

Structure and Functions

The Board is responsible for the administration of two separate superannuation schemes. The functions and responsibilities for each scheme, established by separate Acts of Parliament, are as follows.



South Australian Superannuation Scheme

The *Superannuation Act 1988* (the Act) provides for the establishment of an employer sponsored voluntary superannuation scheme to provide superannuation benefits for persons employed by the Government of South Australia and other prescribed persons, and makes provisions for families of such persons. The Act does not apply to Members of Parliament, the judiciary or police officers who are provided for under separate legislation.

Pursuant to subsection 7(1) of the Act, the Board is responsible to the Minister for all aspects of the administration of the Act except the management and investment of the South Australian Superannuation Fund (the Fund).

The South Australian Superannuation Scheme has the following components:

- Old Scheme Division — For the provision of pension based benefits;
- New Scheme Division — For the provision of lump sum benefits.

In addition, Employer Contribution Accounts have been established to record the employer contributions towards their share of the emerging liability for benefit payments of the Scheme.

SA Superannuation Board

The Superannuation Funds Management Corporation of South Australia, operating under the business name of Funds SA, a body corporate, has statutory responsibility for the investment and management of the Fund. This Fund comprises the contributions of employees and income derived from investment of those funds, less the Fund portion of benefits payable and administration expenses. Funds SA also invests and manages the employer contributions on behalf of the Board.

Both the Old Scheme and the New Scheme Divisions were closed to new membership in May 1986 and June 1994, respectively. Consequently, the South Australian Superannuation Scheme is now a 'closed' scheme, having been replaced by the Southern State Superannuation Scheme effective 1 July 1995 (refer hereunder for further details).

Southern State Superannuation Scheme

The *Southern State Superannuation Act 1994* (Triple S Act) originally established the Southern State Superannuation Scheme (Triple S Scheme) to provide an employer sponsored contributory superannuation scheme for persons employed in the public sector. The Triple S Scheme replaced the South Australian Superannuation Scheme as the Government sponsored scheme available to public sector employees. Police Officers who commenced employment from 1 July 1995 also became members of the Triple S Scheme.

The Triple S Scheme is both a contributory and non-contributory superannuation scheme as it provides employer benefits for public sector employees who are not actively contributing to an employer sponsored superannuation scheme, in order to satisfy the minimum level required under the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*.

The Triple S Act charges the Board with responsibility for the maintenance of:

- accounts in the name of all members of the Triple S Scheme;
- proper accounts in respect of each financial year relating to the receipt of member contributions and payments to members.

The Southern State Superannuation Fund (Triple S Fund) is established pursuant to the Triple S Act. The Triple S Fund comprises the contributions of employees and rollovers from other superannuation funds or schemes to the Triple S Scheme and income derived from investments of those funds, less the Fund portion of benefits paid. Funds SA is responsible for the investment and management of the Triple S Fund.

The Triple S Act also establishes the Southern State Superannuation (Employers) Fund, which comprises employer contributions and rollovers from other superannuation funds or schemes to the Triple S Scheme and income derived from investment of those funds less the Fund portion of benefits paid, administration expenses and insurance premiums. The Southern State Superannuation (Employers) Fund is also managed and invested by Funds SA.

Service Provision Arrangements

The Board utilises the services of the Department of Treasury and Finance - Superannuation Office (Super SA) in carrying out its functions. The Superannuation Office maintains individual member records, processes contributions and determines and processes benefit payments. The Board has a service level contract with the Department of Treasury and Finance for the provision of superannuation administration services. The contract includes performance standards for services, management reporting requirements and internal control requirements.

For further information on the investment and management of superannuation monies reference should be made to comments under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report.

Audit Committee

The Board established an Audit Committee which comprises three members and operates within the framework of a Terms of Reference. The Audit Committee's primary function is to assist the Board in exercising due care, diligence and skill in discharging its oversight and monitoring responsibility. Audit representatives attended Audit Committee meetings throughout the year.

SOUTH AUSTRALIAN SUPERANNUATION SCHEME

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the South Australian Superannuation Scheme for each financial year. In addition subsection 20AB(2) of the *Superannuation Act 1988* provides for the Auditor-General to audit, for each financial year, the accounts kept by the Board of receipts and payments relating to the payment of benefits under the Act.

Assessment of Controls

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

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

Scope of Audit

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

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

- receipting and banking of employer and employee contributions
- processing of contributions data
- maintenance of member accounts
- benefit payments
- liability for accrued benefits
- risk management and corporate governance.

The audit did not include a review of the investment and management of the Scheme assets undertaken by the Superannuation Funds Management Corporation of South Australia (Funds SA); these areas were reviewed in the course of the audit of Funds SA.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

The audit of the Scheme indicated that the internal controls over its operations were satisfactory. No significant issues of concern were raised as a result of the audit.

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

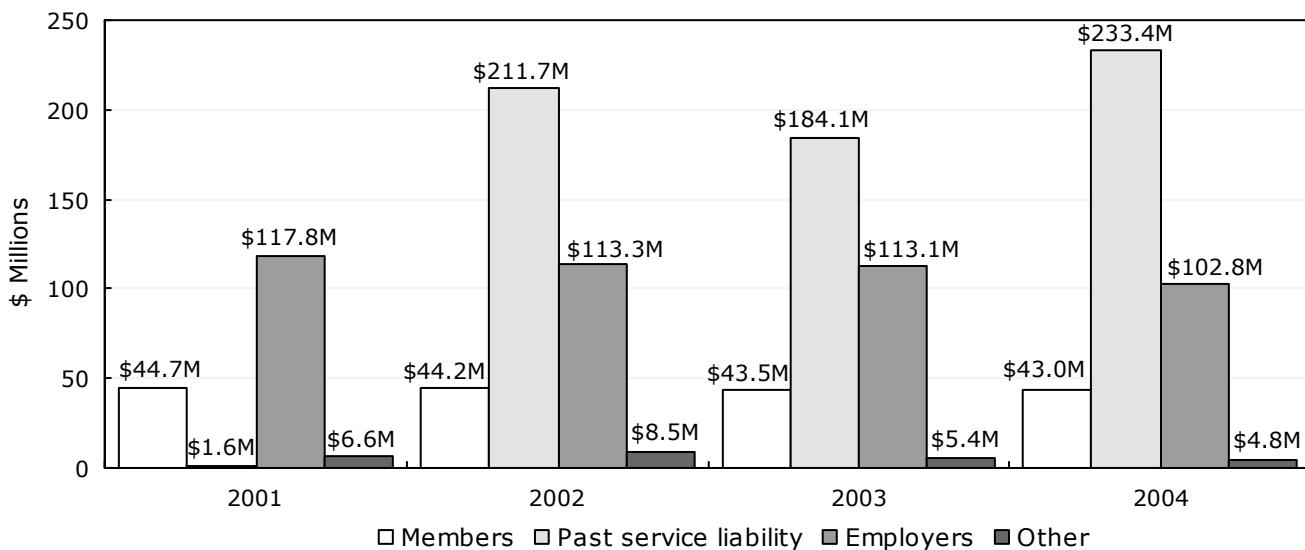
	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Contribution Revenue	384.0	346.0	11
Net Investment Revenue	466.7	(10.3)	
Other	65.1	67.8	(4)
Total Operating Revenue	915.8	403.5	127
OPERATING EXPENDITURE			
Benefits expense	1 122.9	658.2	71
Transfers to other Schemes	-	50.0	
Other expenses	4.0	4.2	(5)
Total Expenses	1 126.9	712.4	52
Operating result	(211.1)	(308.9)	32
Net Cash Flows from Operations	(32.1)	(6.2)	
ASSETS			
Investments	3 154.5	2 693.2	17
Other assets	9.8	14.1	(31)
Total Assets	3 164.3	2 707.3	17
LIABILITIES			
Liability for Accrued benefits	7 791.1	7 127.3	9
Current liabilities	13.0	7.8	67
Non-current liabilities	13.2	14.2	(7)
Total Liabilities	7 817.3	7 149.3	9
EXCESS OF LIABILITIES OVER NET ASSETS	(4 653.0)	(4 442.0)	(5)

Operating Statement**Revenues**

Investment activity for the year resulted in a return of \$466.7 million compared to a negative return of \$10.3 million in the previous year. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

Contribution revenue increased by \$38.0 million to \$384.0 million, due mainly to an increase of \$49.4 million in contributions for past service liability. During the year the Government transferred \$232.2 million into the 'South Australian Superannuation Scheme Contribution Account' for past service liability funding. Refer to Note 1(d) of the Financial Statements.

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

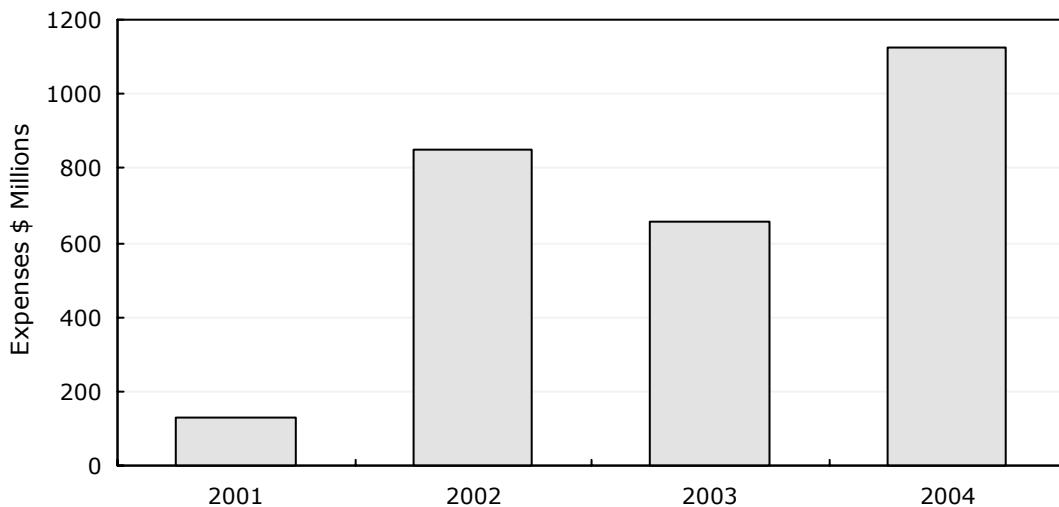


The chart shows that over the last four years employer and member contributions have decreased. This is expected as the new and old schemes are closed schemes and therefore, there are no new contributors. Past service liability payments represent funding from the Government (since 1994) to meet accrued superannuation liabilities. It is expected that the liabilities will be fully funded by 30 June 2034.

Expenses

The schemes dominant expenditure item is benefits expense with other items of expenditure being insignificant. Benefits expense increased by \$464.7 million (70.6 percent) to \$1.1 billion for the year.

For the four years to 2004 a structural analysis of the benefits expense item for the Scheme is shown in the following chart.



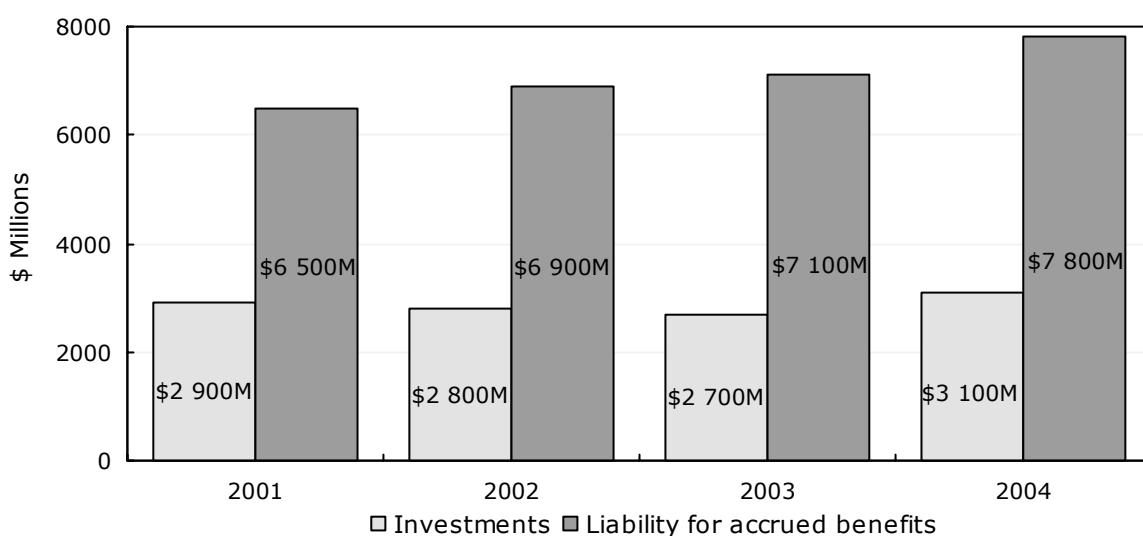
Benefits expense fluctuates due to changing assumptions in the calculation of the estimated liability for accrued benefits. An actuarial review is undertaken every three years but the assumptions from this review are used to calculate the accrued liability in years between reviews. In 2001 revised economic assumptions for real earnings rates and real salary growth resulted in a decrease in the liability. In 2002 the actuarial review was tabled which resulted in revised assumptions for pensioner mortality rates and other factors resulting in the increase in 2002.

In 2004 the discount rate used to discount the expected future benefit payments to present values was reduced, in line with Funds SA's target rate of return for the 'defined benefit' product. This resulted in a greater increase in Liability for Accrued Benefits in 2003-04, and thus greater increase in Benefits Expense. Refer to Note 7 'Liability for Accrued Benefits to the Financial Statements' for further explanation.

Statement of Financial Position

The estimated liability for accrued benefits increased by \$663.8 million to \$7.8 billion (\$7.1 billion) for which net assets of \$3.1 billion (\$2.7 billion) were available to pay benefits. The major reason for the increase was discount rate changes as mentioned above. This has resulted in an excess of liabilities over net assets of \$4.7 billion (\$4.4 billion). Although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits are required to be paid out of the Consolidated Account, or a Special Deposit Account established for that purpose, pursuant to the *Superannuation Act 1988*.

For the four years to 2004 a structural analysis of investments and liability for accrued benefits is shown in the following chart.



The downward trend in investments over 2001 to 2003 reflects the negative returns from investments over these years along with an increase in benefits paid. In 2004 asset values increased in line with increased investment revenue.

Statement of Cash Flows

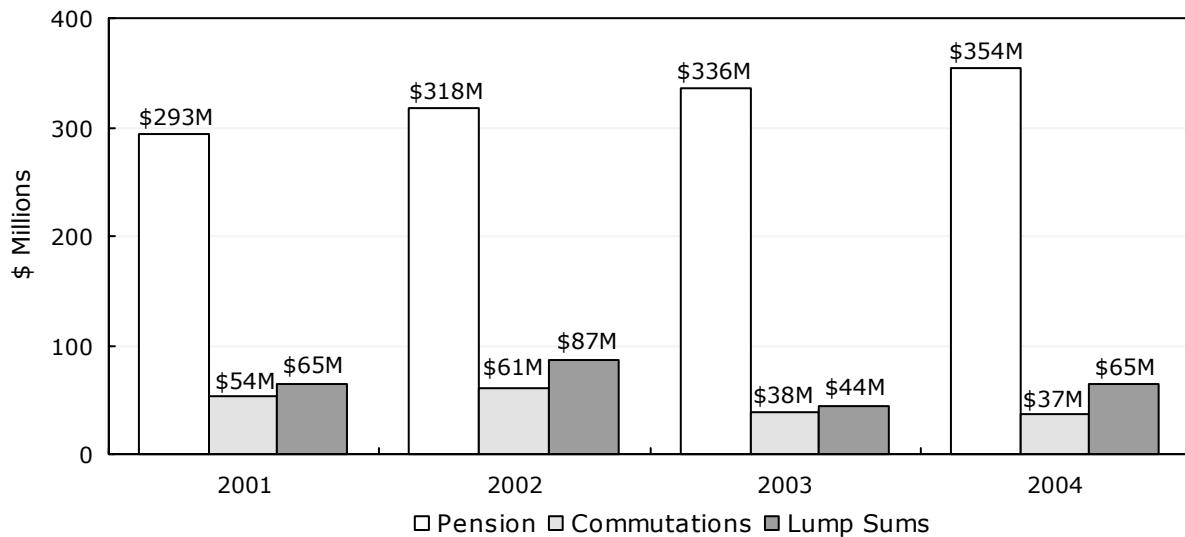
The following table summarises the net cash flows for the four years to 2004.

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	(32.1)	(6.2)	(28.1)	(166.1)
Investing	24.8	10.2	23.6	66.3
Change in Cash	(7.3)	4	(4.5)	(99.8)
Cash at 30 June	3.3	10.6	6.6	11.1

In 2003-04 contributions decreased and benefit payments increased in line with the nature of the closed schemes. As a result net cash decreased in 2003-04.

In 2003-04 total benefits paid amounted to \$459 million (\$421 million), which included \$354 million (\$336 million) paid as pensions. Details of Benefits paid/payable are disclosed in Note 6 of the Financial Statements.

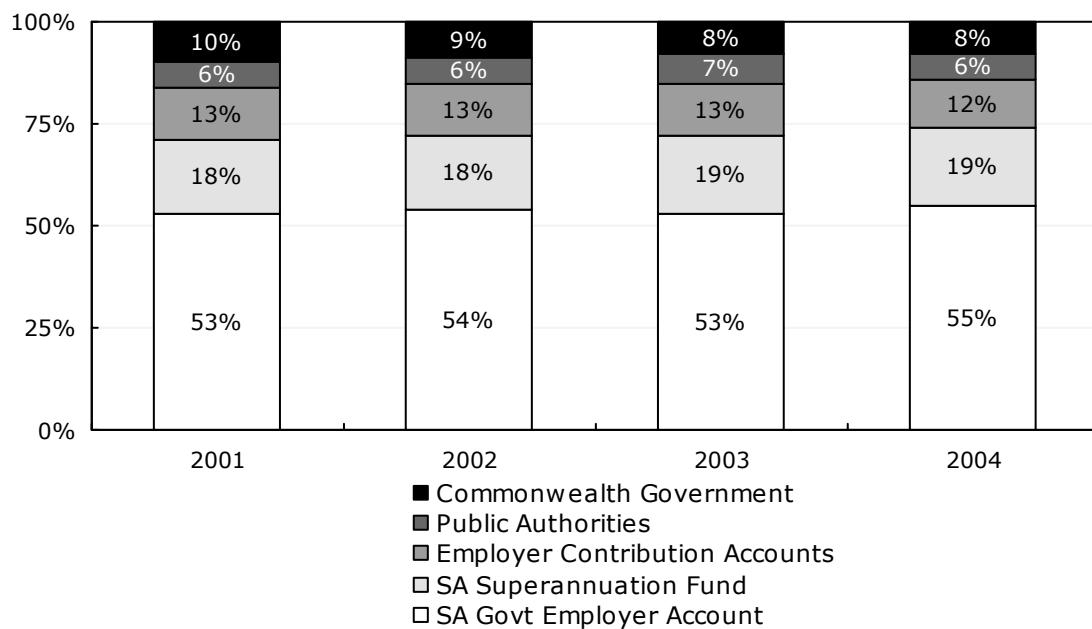
The following chart analyses benefits paid for the four years to 2004 and shows an increasing amount of pensions paid as more people reach retirement age.



FURTHER COMMENTARY ON OPERATIONS

Funding of Benefit Payments

Benefit payments are funded from a number of sources. Benefits paid by funding source for the last four years are depicted in the following chart.



The funding sources have remained relatively consistent over the last four years.

The Fund portion of a benefit is fully funded. Member contributions are deposited with Funds SA and on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer's arrangement with the Board they may either make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge; they may contribute fortnightly to Employer Contribution Accounts managed by Funds SA, in this way funding their accruing liability; or they may make cash contributions to the Treasurer, who in turn forwards these monies to Funds SA.

In addition, the Commonwealth Government meets an agreed portion of benefits payable where the employer portion relates to former State Government employees.

Note 1(d) to the Financial Statements provides details of the various funding arrangements.

As previously mentioned, although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits are required to be paid out of the Consolidated Account, or a Special Deposit Account established for that purpose, pursuant to the *Superannuation Act 1988*.

Pensioners

The number of pensioners, and pensions paid for the past four years, was:

	2004	2003	2002	2001
Pensioners	14 713	14 629	14 672	14 280
Pensions paid (\$'million)	354	336	318	293

Contributions by Members

The number of contributors, and contributions received from members for the past three years, was:

	2004			2003	2002
	Old	New	Total		
	Scheme	Scheme	Total		
Contributors (excludes preserved members)	5 159	7 426	12 585	13 382	14 378
Contributions received (\$'000)	18 363	24 938	43 301	43 830	44 617

**Operating Statement
for the year ended 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
INVESTMENT REVENUE:			
Net investment revenue	2(a)	466 747	(10 253)
		466 747	(10 253)
CONTRIBUTION REVENUE:			
Contribution for past service liability	1(d)	233 433	184 057
Contributions by employers	1(d)	102 765	113 058
Transfers from other schemes	22	4 779	5 392
Contributions by members		43 301	43 830
Refunds of overpaid contributions		(274)	(324)
		384 004	346 013
OTHER REVENUE	18	65 091	67 735
TRANSFERS TO OTHER SCHEMES	1(d)	-	(50 000)
ADMINISTRATION EXPENSE	4	(3 922)	(4 059)
ACTUARIAL VALUATION EXPENSE		(17)	(10)
GST EXPENSE	19	(100)	(102)
BENEFITS EXPENSE	7	(1 122 859)	(658 183)
OPERATING RESULT FOR THE PERIOD		(211 056)	(308 859)

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

		2004	2003
	Note	\$'000	\$'000
INVESTMENTS:			
Inflation linked securities		363 940	335 894
Property		264 956	260 154
Australian equities		1 065 636	900 785
International equities		1 212 629	997 848
Australian fixed interest		89 481	68 316
International fixed interest		90 349	74 379
Cash		67 474	55 812
		3 154 465	2 693 188
FIXED ASSETS		63	31
OTHER ASSETS:			
Cash and deposits at Treasury	11	3 271	10 623
Cash and deposits at Treasury - Funds SA		264	205
Contributions receivable	3	576	1 030
Interest, dividends and rent due - Funds SA		93	78
Other income receivable	16	5 272	1 888
Sundry debtors	17	266	283
		9 742	14 107
Total Assets		3 164 270	2 707 326
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		834	875
Benefits payable	20	5 180	1 948
Sundry creditors and provisions	12	4 219	4 926
Provisions for PAYG tax payable	13	2 727	15
		12 960	7 764
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		13 165	14 161
Total Liabilities		26 125	21 925
NET ASSETS AVAILABLE TO PAY BENEFITS	5, 16	3 138 145	2 685 401
<i>Less: LIABILITY FOR ACCRUED BENEFITS</i>	7	7 791 100	7 127 300
EXCESS OF LIABILITIES OVER NET ASSETS		(4 652 955)	(4 441 899)

Statement of Cash Flows
for the year ended 30 June 2004

	2004	2003
	Inflows	Inflows
	(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000
		\$'000
Contributions received:		
Contributions for past service liability		212 433
Contributions by employers		103 113
Transfers from other schemes		1 749
Rollovers from other schemes		3 029
Contributions by members		43 407
Refund of overpaid contributions		(274)
		363 457
		350 166
Other income:		
Reimbursement from other sources:		
Commonwealth Government and Public Authorities		60 903
Temporary disability reimbursements		475
		61 378
Interest		318
		61 696
Benefits paid:		
Pensions		(354 083)
Commutation of pension benefits		(36 619)
Lump sums		(65 125)
Provision for PAYG tax payable		2 712
		(453 115)
GST expense		(122)
Administration expense		(3 990)
Actuarial valuation expense		(17)
Payments to/Receipts from debtors		1
Payments to/Receipts from creditors		(54)
Net Cash used in Operating Activities	10	(32 144)
		(6 199)
CASH FLOWS FROM INVESTING ACTIVITIES	2(a)	
Receipts from Superannuation Funds Management Corporation		289 650
Payments to Superannuation Funds Management Corporation		(264 858)
Net Cash provided by Investing Activities		24 792
NET (DECREASE) INCREASE IN CASH HELD		(7 352)
CASH AT 1 JULY		10 623
CASH AT 30 JUNE	11	3 271
		10 623

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Financial Statements

(a) South Australian Superannuation Scheme

The South Australian Superannuation Scheme (the Scheme) is a voluntary superannuation scheme which exists pursuant to the *Superannuation Act 1988* (the Act). It previously existed in different forms under various other legislation. The Act provides for superannuation benefits for persons employed by the Government of South Australia and other prescribed persons and makes provisions for the families of such persons. It is not available to Members of Parliament, the judiciary or to police officers who are each provided for under separate legislation.

Contributors to the Scheme may be either old scheme contributors, who are entitled to a pension based benefit, or new scheme contributors who are entitled to a lump sum based benefit. The old scheme contributors segment of the Scheme was closed to new members in May 1986. The new scheme contributors segment of the scheme was closed to new members in May 1994.

Contributors make contributions from after tax salary based on a percentage of their salary, with the standard contribution rate being between 5 and 6 percent. Contributors may elect to vary their contribution rate in accordance with section 23 of the Act. A contribution account is maintained for each contributor. If a member ceases to contribute they will be automatically covered by the Southern State Superannuation Scheme, to meet the minimum requirements of the Commonwealth legislation.

Since October 1989, the Act has required that contributions be paid to the Treasurer, who in turn deposits those contributions into the South Australian Superannuation Fund (the Fund) which is managed and invested by the Superannuation Funds Management Corporation of South Australia.

The Act requires the Fund to be treated as being made up of two divisions, being the Old Scheme Division and the New Scheme Division. Each division consists of the contributions and the accretions arising from the investment of those contributions in respect of relevant old or new scheme contributors. Consistent with the accounts of the Fund the accounts of the Scheme are also maintained in respect of each division.

(b) South Australian Superannuation Board

The Act charges the South Australian Superannuation Board (the Board), a body corporate, with responsibility for all aspects of the administration of the Act except for the management and investment of the Fund. The Act also provides the Board with the necessary powers to administer the Scheme. The Board, with the approval of the Treasurer, has contracted with the Under Treasurer to provide the administrative services.

Under the terms of the Act, the Board is required to determine rates of return to be credited to each division of the Fund, with those rates being credited to each contribution account at the end of the financial year. In determining the rate to be applied, the Act requires that the Board have regard to the net rate of return achieved by the Superannuation Funds Management Corporation of South Australia for each division of the Fund.

(c) Superannuation Funds Management Corporation of South Australia

Superannuation Funds Management Corporation of South Australia (Funds SA) is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Act). Funds SA is responsible for the investment and management of the public sector superannuation funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Fund and the SA Superannuation Scheme Contribution Account, reference should be made to the financial statements of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA.

(d) Funding Arrangements

Under section 20B of the Act, any payment made to a contributor must be made out of the Consolidated Account, (which is then appropriated to the necessary extent) or a Special Deposit Account established for that purpose. The Treasurer may subsequently reimburse the Consolidated Account or Special Deposit Account from the Fund the proportion of any such payment charged against the contributor's contribution account. The prescribed proportion of that payment or benefit payments to be charged to the old scheme contributor's accounts is set out in the Regulations of the Act. During the year ended 30 June 2004 payments were made from a Special Deposit Account.

The Treasurer may also seek reimbursement of the employer portion of any such payments from certain employer bodies under agreements made between the Treasurer and/or the Board and those employer bodies. The employer portion of benefits is met from the 'South Australian Superannuation Scheme Contribution Account' (the Account) established by the Treasurer to record employer superannuation contributions. The employer portion of payments may be in relation to State Government Departments, Statutory Authorities and former State Government employees now employed by the Commonwealth Government. From 1 July 2004 employer contributions for these agencies will increase to 21.5 percent (20 percent) in respect of old scheme contributors and 13 percent (12 percent) in respect of new scheme contributors.

(d) Funding Arrangements (continued)

Funding for the employer portion of payments met from the Account is from monies deposited under arrangements with respective employers. Monies deposited in the Account are invested and managed by Funds SA but do not form part of the Fund. The Treasurer seeks reimbursement from the Account balances as benefits are paid. The arrangement with employers are:

(i) State Government Departments

State Government Departments pay fortnightly employer contributions to the Treasurer for their emerging superannuation liabilities which are deposited by the Treasurer into the Account.

Since 30 June 1994 the Government has commenced a process of funding its accrued past service superannuation liabilities. During the year ended 30 June 2004 the Government transferred a total of \$222.2 million (\$133 million) into the Account. The Government will continue to pay contributions to the Account to meet the accrued past service liability so that the liability will be fully funded by 30 June 2034.

Where a payment relates to a temporary disability benefit, the Treasurer seeks reimbursement from the Account in the first instance and simultaneously seeks reimbursement of the Account directly from the Government Department as the benefit is paid.

(ii) Statutory Authorities

Where the employer proportion of a payment relates to Statutory Authorities, three different funding arrangements exist. These arrangements are made by the Board, which has entered into agreements with individual authorities pursuant to section 5 of the Act. The terms agreed in any such arrangements must be approved by the Minister. The three arrangements are:

• State Government Liability for Statutory Authorities

These authorities have made arrangements with the Board to fund their emerging superannuation liabilities by making regular payments, based on actuarial assessment, to the Treasurer. These monies are deposited in the Account. In addition, the Government has commenced a process of funding the past service superannuation liability for these authorities as outlined in Note 1(d)(i).

• Employer Contribution Accounts

Certain public sector employers have made arrangements with the Board to fund their superannuation liabilities by making regular payments to the Treasurer based on an actuarial assessment. The Treasurer deposits these monies in the Account into what are referred to as Employer Contribution Accounts. The Treasurer seeks reimbursement from the Employer Contribution Account balances as benefits are paid.

During the year ended 30 June 1995 the South Australian Housing Trust commenced a 30 year program of funding its accrued superannuation liabilities. An amount of \$1.224 million (\$1.057 million – in the 2003 year) was received during 2004 representing accrued past service superannuation liabilities.

On 2 September 2002 Cabinet approved the dissolution of Ports Corp and the repeal of the *SA Ports Corporation Act 1994*. An amount of \$10 million was received during 2004 to be applied to the State's unfunded superannuation liabilities.

• Public Authorities Accounts (Universities)

Some public authorities make provision in their own accounts for their future superannuation liabilities and no balances are maintained in the Account. The Treasurer seeks reimbursement from the Account in the first instance and simultaneously seeks reimbursement directly from these authorities as benefits are paid.

(iii) Commonwealth Government

The Commonwealth Government meets an agreed portion of benefits payable where the employer proportion of a payment relates to former State Government (railways) employees. The Commonwealth contribution is made pursuant to the Rail Transfer Agreement between the Commonwealth and State Governments. No balances are maintained in the Account for this purpose and the Treasurer seeks reimbursement directly from the Commonwealth Government as benefits are paid.

The liability for future benefits is funded to the extent of benefits to be reimbursed from the Fund, the Account, and the Public Authorities Accounts referred to in Note 1(d)(ii) above. The liability for future benefits is only partially funded in respect of benefits to be reimbursed from State Government Departments and the State Government liability for Statutory Authorities. The net assets figure shown in these statements represents the amount available to meet these future benefits.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

This financial report is a general purpose financial report and has been prepared on an accruals basis in accordance with Statements of Accounting Concepts, applicable Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instruction 19 'Financial Reporting' and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*, except as provided below.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25) where relevant. The Directors of Funds SA believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

As investments are revalued to their respective net market values at balance date, depreciation and amortisation are not provided for in this financial report.

Funds SA utilises the consolidation method of accounting. Assets and liabilities of Funds SA's controlled entities have been consolidated into the financial report at their net market values. The effects of transactions between entities in the economic entity are eliminated in full. Financial information in respect of the parent entity separate to that of the economic entity has not been provided as the application of market value reporting concepts results in the parent entity's financial report fully reflecting the economic activities of controlled entities. It is believed that disclosure of the parent entity's results separate to those of the economic entity would not provide information which would add value to users of the financial report.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*

These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at 30 June 2004 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*

The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*

The value of Funds SA's directly held property has been determined by the Directors of Funds SA.

- *Listed Property Trusts*

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Unlisted Property Vehicles*

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this portfolio have been valued in accordance with the exit valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises two sub-sectors:

- *Listed Australian Equities*

The listed Australian equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the exit valuations supplied by the managers.

- *Private Equity*
The private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited valuation guidelines.

(iv) *International Equities*
The International Equities portfolio comprises two sub-sectors:

- *Listed International Equities*
The listed international equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles (other than private equity) have been valued in accordance with the exit valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.
- *Private Equity*
The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with National Venture Capital Association (NVCA) guidelines.

(v) *Australian Fixed Interest*
The Australian Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) *International Fixed Interest*
The International Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vii) *Cash*
Deposits at call have been valued on the basis of principal plus accrued interest. Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers.

(viii) *Fixed Assets*
Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors of Funds SA are of the opinion that this provides a reasonable estimate of net market value.

(ix) *Other Assets and Liabilities*
These items have been assessed and the Directors of Funds SA are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) **Taxation**
All of the public sector superannuation funds under the management of Funds SA are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act 1936*. Consequently, no income tax expense has been brought to account in these financial statements.

(d) **Accounting for Leases**
Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) **International Financial Reporting Standards**
Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for periods commencing on or after 1 January 2005.

The South Australian Superannuation Scheme currently prepares its financial report in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25). The Australian Accounting Standards Board (AASB) has indicated that AAS 25 is not included within the scope of the 2005 AIFRS Convergence project and will continue to apply. Therefore it is expected that the introduction of AIFRS will have minimal impact on South Australian Superannuation Scheme reporting.

3. Contributions Receivable

	2004	2003
	\$'000	\$'000
Contributions by members	74	180
Contributions by employers	502	850
	576	1 030

Contributions receivable have decreased in the 2003-04 year as Super SA has been actively following up agencies/statutory authorities to ensure the timely remittance of contributions. In the 2003-04 year, outstanding leave without pay debtors have been included in employer contributions receivable as they are more accurately classified as outstanding contributions. The 2002-03 figures have also been updated to reflect this change to allow for comparison.

4. Administration

Costs of administering the Scheme comprise those costs incurred by Funds SA in administering the investment activities of the Fund and the Account, and those costs incurred by the Board in administering the Scheme.

Administration costs incurred by the Board in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The cost is recovered in two components:

- Subsection 17(7) of the Act requires that the Fund meet a prescribed portion of these costs, currently 30 percent.
- 70 percent of costs were deducted from the employer contributions received during the year.

The administration cost met by the Scheme is as follows:

	2004		Total	
	Old Scheme Division \$'000	New Scheme Division \$'000		
Administration cost charged to the Fund (30 percent)	647	530	1 177	1 217
Administration cost deducted from employer contributions	1 510	1 235	2 745	2 839
Administration cost deducted from employer contributions - SA Water	-	-	-	3
Total Administration Cost as per Operating Statement	2 157	1 765	3 922	4 059
Administration cost reimbursed by Public Authorities	62	-	62	62

The Commonwealth has agreed to meet its share of the agreed overall costs of providing superannuation to their employees. In keeping with the administrative arrangements that apply to all other entities and authorities whose employees are members of the State Scheme, the universities are also being charged for their share of administrative costs.

5. Net Assets available to Pay Benefits

Net assets available to pay benefits consist of the combined balances of the South Australia Superannuation Fund and the South Australian Superannuation Scheme Contribution Account. Movements in the balances of these accounts are detailed below:

(a) South Australian Superannuation Fund (Employees)

Funds held at 1 July	
Add: Contributions	
Transfers from other schemes	
Refunds of overpaid contributions	
Investment income ⁽ⁱ⁾	
Other income - Bank account interest	
 Less: Net benefits paid ⁽ⁱⁱ⁾	
GST Expense	
Administration expenses	
 Funds held at 30 June	

	2004		Total	
	Old Scheme Division \$'000	New Scheme Division \$'000		
1 063 257	348 165	1 411 422	1 453 765	
18 363	24 938	43 301	43 830	
280	2 839	3 119	4 704	
(267)	(7)	(274)	(324)	
185 719	63 717	249 436	(10 790)	
52	43	95	100	
 204 147	91 530	295 677	37 520	
(69 582)	(17 008)	(86 590)	78 646	
(37)	-	(37)	-	
(647)	(529)	(1 176)	1 217	
 (70 266)	(17 537)	(87 803)	79 863	
 1 197 138	422 158	1 619 296	1 411 422	

(i) Shown net of direct investment expenses.
(ii) Refer to Note 6.

(b) SA Superannuation Scheme Contribution Account (Employer)			2004 \$'000	2003 \$'000
Funds held at 1 July			1 273 979	1 302 895
Add: Employer contributions:				
State Government Department			76 502	85 137
Transfers from other schemes ⁽ⁱ⁾			1 660	688
Statutory Authorities ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾			26 263	27 921
Contribution for past service liability ⁽ⁱⁱ⁾			233 433	134 057
			337 858	247 803
Investment income ^(iv)			217 311	537
Other income - Commonwealth and public Authorities			64 391	66 977
Other income - Temporary disability			382	426
Other income - Bank account interest			222	232
			620 164	315 975
Less: Benefits paid: ^(v)				
Old Scheme contributors			330 802	313 983
New Scheme contributors			41 667	27 954
Actuarial valuation expenses			17	10
GST expense			63	102
Administration expenses			2 745	2 842
			375 294	344 891
Funds held at 30 June			1 518 849	1 273 979
Total Net Assets			3 138 145	2 685 401

(i) Refer to Note 22.
 (ii) Refer to Note 1(d).
 (iii) Refer to Note 21.
 (iv) Shown net of direct investment expenses.
 (v) Refer to Note 6.

6. Benefits Paid/Payable

The SA Superannuation Scheme Contribution Account recovers monies from the relevant agencies for the total benefits paid on account of Public Authorities, Commonwealth Government and various agencies for Temporary Disability Pensions.

	2004			2003		
	Old Scheme Division	New Scheme Division	Total \$'000	Old Scheme Division	New Scheme Division	Total \$'000
Pensions:						
Funded from:						
SA Superannuation Fund	60 565	108	60 673	56 960	106	57 066
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	34 604	472	35 076	33 518	461	33 979
Public authorities	24 003	2	24 005	23 259	11	23 270
Commonwealth Government	35 474	-	35 474	35 555	-	35 555
SA Government employer account	198 671	184	198 855	185 962	215	186 177
Gross Scheme Costs	353 317	766	354 083	335 254	793	336 047

Commutations:

Funded from:	6 560	-	6 560	6 980	-	6 980
SA Superannuation Fund	6 560	-	6 560	6 980	-	6 980
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	3 789	-	3 789	6 752	-	6 752
Public authorities	822	-	822	2 752	-	2 752
Commonwealth Government	3 384	-	3 384	2 464	-	2 464
SA Government employer account	22 064	-	22 064	19 515	-	19 515
Gross Scheme Costs	36 619	-	36 619	38 463	-	38 463

Lump Sums:

Funded from:	2 036	16 213	18 249	564	13 348	13 912
SA Superannuation Fund	2 036	16 213	18 249	564	13 348	13 912
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	1 609	14 350	15 959	739	10 535	11 274
Public authorities	51	491	542	-	436	436
SA Government employer account	4 789	25 802	30 591	1 833	15 132	16 965
Gross Scheme Costs	8 485	56 856	65 341	3 136	39 451	42 587

6. Benefits Paid/Payable (continued)

	Old Scheme Division	New Scheme Division	Total	Old Scheme Division	New Scheme Division	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Retrenchments:						
Funded from:						
SA Superannuation Fund	6	33	39	-	266	266
SA Superannuation Scheme						
Contribution Account:						
Employer contribution accounts	-	95	95	-	244	244
Public authorities	183	-	183	614	370	984
Commonwealth Government	27	-	27	-	-	-
SA Government employer account	36	-	36	87	-	87
Gross Scheme Costs	252	128	380	701	880	1 581
Targeted Separation Packages:						
Funded from:						
SA Superannuation Fund	415	654	1 069	376	46	422
SA Superannuation Scheme						
Contribution Account:						
Employer contribution accounts	-	115	115	423	-	423
SA Government employer account	1 296	156	1 452	510	550	1 060
Gross Scheme Costs	1 711	925	2 636	1 309	596	1 905
Total Benefits Paid/Payables	400 384	58 675	459 059	378 863	41 720	420 583

7. Liability for Accrued Benefits

The accrued liabilities of the Superannuation Scheme as determined by the State Superannuation Office of the Department of Treasury and Finance are shown below.

For the old scheme contributors and the employer funded defined benefit component in respect of new scheme contributors, the accrued liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2004 based on membership data as at 30 June 2003.

For the employee funded, defined contribution component for new scheme contributors, the accrued liability is the balance of the employees' contribution accounts as at 30 June 2004.

The expected future benefit payments have been determined using the 2001 triennial review assumptions relating to mortality, disability, withdrawal, preservation and retirement. The review salary promotion scale and economic assumptions have also been used, while general salary increases of 1.5 percent per annum above the Adelaide Consumer Price Index (CPI) have been allowed for. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate of 4.5 percent per annum above the CPI. The discount rate above CPI has been reduced from the 5.0 percent per annum used to calculate liabilities as at 30 June 2003.

	Old Scheme Division	New Scheme Division	Total	Old Scheme Division	New Scheme Division	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Changes in the liability for accrued benefits:						
Liability for accrued benefits at 1 July						
Add: Benefits expense ⁽ⁱ⁾	6 118 000	1 009 300	7 127 300	5 927 600	962 100	6 889 700
Less: Benefits paid ⁽ⁱⁱ⁾	917 284	205 575	1 122 859	569 263	88 920	658 183
Liability for Accrued Benefits at 30 June	400 384	58 675	459 059	378 863	41 720	420 583
Represented by:						
SA Superannuation Fund	1 236 700	422 200	1 658 900	1 129 500	348 200	1 477 700
SA Superannuation Scheme						
Contribution Account:						
Employer contribution accounts	800 500	249 900	1 050 400	813 800	240 200	1 054 000
SA Government employer account	3 959 700	473 600	4 433 300	3 565 200	410 700	3 975 900
Public authorities	258 500	10 500	269 000	235 300	10 200	245 500
Commonwealth Government	379 500	-	379 500	374 200	-	374 200
Total	6 634 900	1 156 200	7 791 100	6 118 000	1 009 300	7 127 300

(i) This figure represents the change in Liability for Accrued Benefits plus Benefits Paid for the year.
(ii) Refer to Note 6.

Although the total liability for accrued benefits shown above is \$7.8 billion, the SA Government is only responsible for funding a portion of the liability, which comprises the SA Government Employer Account and a portion of the Employer Contribution Accounts. For further details refer to Note 1(d).

7. Liability for Accrued Benefits (continued)

Pursuant to the Act, actuarial reviews of the Scheme must be conducted on a three yearly basis to address the cost of the Scheme to the Government and the proportion of future benefits that can be met from the Fund. The last review was carried out as at 30 June 2001 by Mr Laurie Brett, Fellow of the Institute of Actuaries of Australia. His report, dated 28 June 2002, to the Minister was tabled in Parliament on 18 July 2002. These reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

8. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any factor other than resignation from the Scheme) and include benefits which contributors would be entitled to receive on termination of their Scheme membership.

When contributors resign they have two options in the old Scheme Division (Pension Scheme) and three options in the new Scheme Division (Lump Sum Scheme). Firstly, they can elect to take a cash refund of their own contributions, accumulated with interest, with employer superannuation Guarantee entitlement preserved in the Scheme. Secondly, they can elect to take a fully vested, preserved benefit which will be based on their full accrued entitlement at the date of resignation and will be increased during preservation in line with increases in investment earnings and the CPI. Alternatively, Lump Sum members can transfer their benefit to another scheme where the employer benefit is equal to twice the member balance (at standard rates) plus a productivity component.

The vested benefits shown below assume that all resignation benefits will be taken in the form of preserved or transferred benefits. The value of vested benefits has been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

As for accrued benefits, vested benefits have been calculated as at 30 June 2004 based on membership data as at 30 June 2003.

	2004			2003		
	Old Scheme Division \$'000	New Scheme Division \$'000	Total \$'000	Old Scheme Division \$'000	New Scheme Division \$'000	Total \$'000
SA Superannuation Fund	1 194 700	424 200	1 618 900	1 097 800	348 200	1 446 000
SA Superannuation Scheme Employer Account:						
Employer contribution accounts	758 000	263 800	1 021 800	767 400	266 200	1 033 600
SA Government employer account	3 789 100	509 300	4 298 400	3 398 100	468 400	3 866 500
Public authorities	256 500	10 800	267 300	233 100	10 600	243 700
Commonwealth Government	379 500	-	379 500	374 200	-	347 200
Total	6 377 800	1 208 100	7 585 900	5 870 600	1 093 400	6 964 000

9. Summary of Investment Holdings

The interests of the Fund and the South Australian Superannuation Scheme Contribution Account in the unitised investment portfolio of Funds SA are as follows:

	2004			
	Fund-Old Scheme Division \$'000	Fund-New Scheme Division \$'000	Scheme Contribution Accounts \$'000	2004
Inflation linked securities	138 293	49 227	176 420	363 940
Property	100 680	35 838	128 438	264 956
Australian equities	404 928	144 140	516 568	1 065 636
International equities	460 783	164 023	587 823	1 212 629
Australian fixed interest	34 002	12 103	43 376	89 481
International fixed interest	34 331	12 221	43 797	90 349
Cash	25 639	9 127	32 708	67 474
Total	1 198 656	426 679	1 529 130	3 154 465
				2 693 188

10. Reconciliation of Net Cash used in Operating Activities to Operating Result

	2004 \$'000	2003 \$'000
Operating result	(211 056)	(308 859)
Increase in liability for accrued benefits	663 800	237 600
Transfer to other schemes	-	50 000
Contribution for past service liability	(21 000)	-
Net Investment Revenue	(466 747)	10 253
Increase in other income receivable	(3 384)	(1 483)
Decrease in contributions receivable	454	320
Increase in PAYG tax payable	2 712	8
Increase in benefits payable	3 232	1 706
Net movement in other debtors	4	4 563
Net Movement in other creditors	(159)	(307)
Net Cash used in Operating Activities	(32 144)	(6 199)

11. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2004 \$'000	2003 \$'000
Cash and deposits at Treasury	<u>3 271</u>	10 623

12. Summary of Sundry Creditors and Provisions

Commonwealth reimbursement (ex ANR employees)
Pension payments
Other creditors
Funds SA sundry creditors

-	104
<u>(33)</u>	(2)
<u>8</u>	30
<u>4 244</u>	4 794
<u>4 219</u>	4 926

13. Provision for Tax Payable

The provision for tax payable represents taxation due on benefit payments made in June 2004 which had not been remitted to the Commissioner of Taxation as at 30 June 2004. This amount was forwarded to the Commissioner of Taxation early in the 2004-05 financial year.

This amount is higher than the previous financial year due to a pension run late in the 2004 financial year for which tax was not due to be paid to the ATO until early July 2004.

14. Guaranteed Benefits

Contributors' benefit entitlements are specified by the *Superannuation Act 1988*.

15. Reconciliation of Net Assets available to Pay Benefits

Opening net assets available to pay benefits
Add: Benefits expense
Less: Benefits paid
Add: Operating result for the period

2004 \$'000	2003 \$'000
<u>2 685 401</u>	2 756 660
<u>1 122 859</u>	658 183
<u>459 059</u>	420 583
<u>(211 056)</u>	(308 859)
<u>3 138 145</u>	2 685 401

Closing Value of Net Assets available to Pay Benefits**16. Summary of Other Income Receivable**

Other income receivable:

Commonwealth (ex STA employees)⁽ⁱ⁾
Public Authorities⁽ⁱⁱ⁾

-	25
<u>5 272</u>	1 863
<u>5 272</u>	1 888

(i) For the 2004 year, an estimated invoice was sent to the Commonwealth for the month of June 2004. As the estimated invoice equalled the actual benefit payments there is no underpaid amount to be recovered.

(ii) For the 2004 year invoices for the month of June were sent to the Public Authorities. As at 30 June 2004, monies outstanding were raised as accruals and are expected to be received in July of the 2004-05 year.

17. Summary of Sundry Debtors

Temporary disability debtors
Refund of overpaid pension benefits
Refund from Tax Office for GST (refer to Note 19)
Bank fees (reimbursement receivable)
Funds SA accrual
University administration fees receivable⁽ⁱ⁾
Other

2004 \$'000	2003 \$'000
<u>77</u>	170
<u>-</u>	17
<u>48</u>	26
<u>25</u>	10
<u>42</u>	55
<u>68</u>	-
<u>6</u>	5
<u>266</u>	283

(i) The Commonwealth has agreed to meet its share of the agreed overall costs of providing superannuation to their employees. In keeping with the administrative arrangements that apply to all other entities and authorities whose employees are members of the State Scheme, the universities are also being charged for their share of administrative costs. These amounts were outstanding as at 30 June 2004.

18. Other Revenue

Bank account interest
Commonwealth and public authorities debtors⁽ⁱ⁾
Temporary disability debtors

2004 \$'000	2003 \$'000
<u>318</u>	332
<u>64 391</u>	66 977
<u>382</u>	426
<u>65 091</u>	67 735

(i) The receipts from Commonwealth and public authorities have reduced during the 2004 financial year due to a reduction in the number of Commonwealth Pensioners.

19. Net GST Paid

This figure represents the GST paid on administration fees less any credits received from the Australian Taxation Office, as the Scheme is entitled to a 75 percent refund on all GST paid. A refund is due from the Tax Office for May and June 2004. A credit for \$47 669 has been disclosed as a debtor in the financial statements (Note 17).

20. Benefits Payable

	2004	2003
	\$'000	\$'000
Benefits payable by South Australian Superannuation Fund	1 359	585
Benefits payable by South Australian Superannuation Scheme Contribution Account	3 821	1 363
	5 180	1 948

Benefits payable relate to members who have terminated employment prior to 30 June but have been paid after 30 June.

21. Higher Education Superannuation Costs

An amount of \$7.516 million was paid to the Commonwealth Government which related to the South Australian share of the 2003-04 higher education superannuation costs under the Commonwealth – State agreement. This provides that the employer component of the superannuation benefits payable to former employees of a South Australian University who were members of one of the main State Schemes, be shared.

22. Transfer from Other Schemes

During the 2003-04 financial year, transfers from other schemes included \$1.7 million received from the Julia Farr Centre Staff Provident Plan.

23. Bank Fees

On 31 December 2002 the Reserve Bank Government banking contract expired and was replaced by a contract with Westpac. This new contract included the charging of bank fees to individual State Government agencies. As part of the agreement with agencies to adopt Westpac as the government banker Corporate Services agreed to reimburse bank fees on an annual basis.

SOUTHERN STATE SUPERANNUATION SCHEME

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 8 of the *Southern State Superannuation Act 1994* provides for the Auditor-General to audit the accounts of the Southern State Superannuation Scheme for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- receipting and banking of employer and employee contributions
- processing of contributions data to the system
- completeness and accuracy of interest amounts credited to member accounts
- maintenance of member accounts
- benefit payments
- liability for accrued benefits.

The audit did not include a review of the investment and management of the Scheme assets undertaken by the Superannuation Funds Management Corporation of South Australia (Funds SA); these areas were reviewed in the course of the audit of Funds SA.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

The audit of the Scheme indicated that internal controls over its operations were satisfactory. No significant issues of concern were raised as a result of the audit.

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

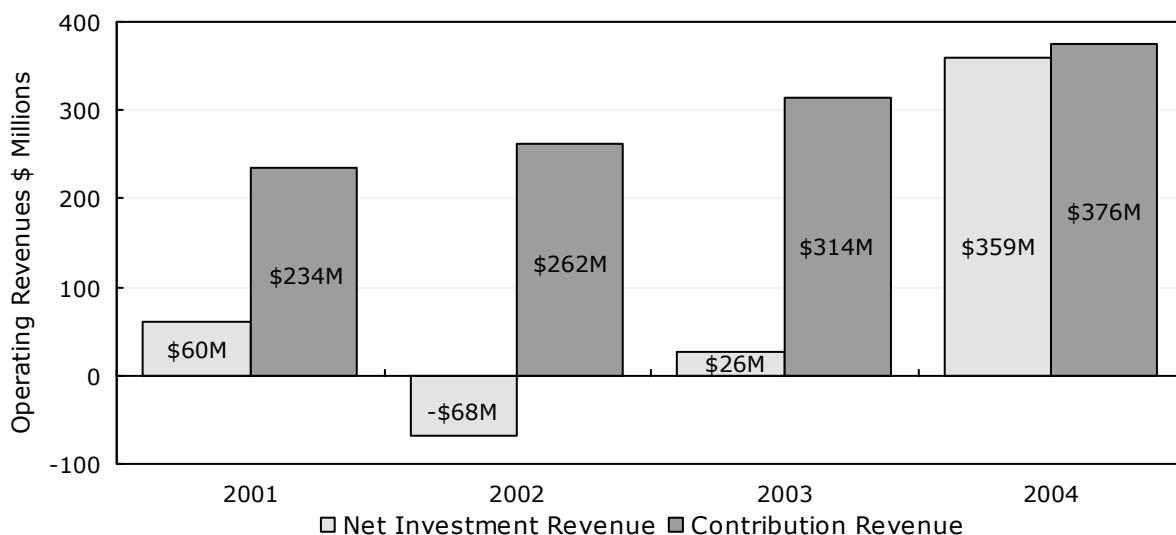
	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Net investment revenue	359.2	25.9	
Contribution revenue	375.6	313.7	19.7
Other revenue	0.3	0.2	50.0
Total Operating Revenue	735.1	339.8	116.3
OPERATING EXPENDITURE			
Other expenses	5.3	5.3	-
Total Operating Expenses	5.3	5.3	-
Benefits Accrued as a Result of Operations	729.8	334.5	118.2
Net Cash Flows from Operations	288.0	234.7	22.7
ASSETS			
Investments	2 742.8	2 090.0	31.2
Other assets	3.8	9.5	(60.0)
Total Assets	2 746.6	2 099.5	30.8
LIABILITIES			
Current liabilities	6.2	5.8	6.9
Non-current liabilities	10.1	9.8	3.1
Total Liabilities	16.3	15.6	4.5
NET ASSETS AVAILABLE TO PAY BENEFITS	2 730.3	2 083.9	31.0

Operating Statement**Operating Revenues**

Total operating revenue increased by \$395.3 million (116.3 percent). Included in this amount were increases of:

- \$333.0 million in Net Investment Revenue;
- \$61.9 million in Contribution Revenue.

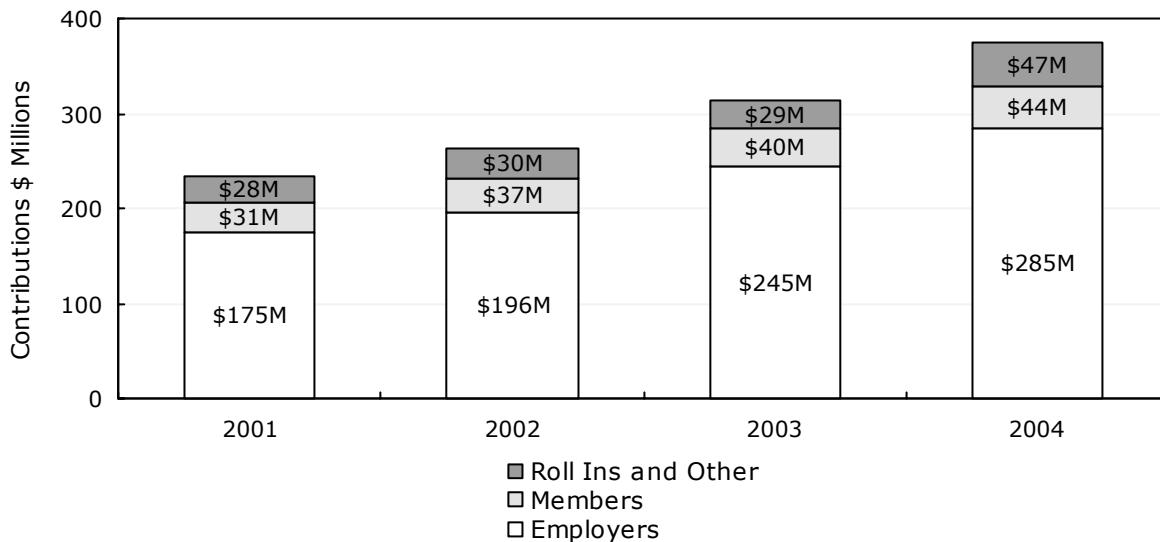
A structural analysis of operating revenues of the Scheme for the four years to 2004 is presented in the following chart.



The chart indicates that revenue from contributions has risen rapidly over the last four years due to an increase in both the value of contributions and number of contributors to the Scheme while net investment revenue has generally fluctuated. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

Contribution Revenue

Members of the Southern State Superannuation Scheme can elect to make contributions to the Scheme. Employers are required to make contributions for all members of the scheme, regardless of whether the members make contributions. An analysis of amounts contributed by members and employers for the four years to 2004 is presented in the following chart.



The chart indicates that the value of contributions by employers has increased over the period by \$109.6 million (62.6 percent). This is predominantly a result of increased number of members in the scheme along with salary increases. Contributions by members has increased over the same period by \$13.4 million (43.8 percent) due mainly to increases in the numbers of members contributing.

Included in other contribution revenue for 2004 were transfers from other schemes totalling \$13.5 million.

The number and proportion of contributory to non-contributory members for the last three years is depicted in the following table. The increase in contributory members as a proportion of total active members is predominantly due to the inclusion of salary sacrificing members in the contributory figures for the first time in 2004.

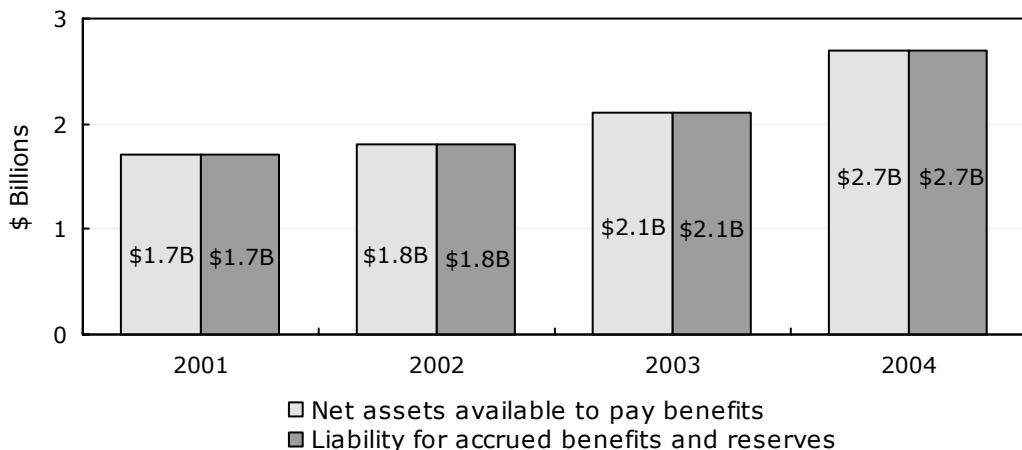
	2004 Numbers	2003 Numbers	2002 Numbers
Contributory	22 102	17 801	16 873
Non-contributory	64 702	66 396	68 123
	2004 Percent	2003 Percent	2002 Percent
Contributory	25.5	21.1	19.9
Non-contributory	74.5	78.9	80.1

Benefits Accrued as a Result of Operations

Benefits accrued as a result of operations increased by \$395.2 million (118.1 percent), due mainly to increases in Net Investment Revenue and Contribution Revenue (refer to the Operating Revenues section).

Statement of Financial Position

For the four years to 2004 a structural analysis of Net assets available to pay benefits and Liability for Accrued Benefits and Reserves is shown in the following chart.



The chart indicates a steady growth in investments and liability for accrued benefits over the previous four years. This is indicative of the accumulative nature of the Scheme where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. The asset/liability position at 30 June 2004 means that the Scheme is fully funded.

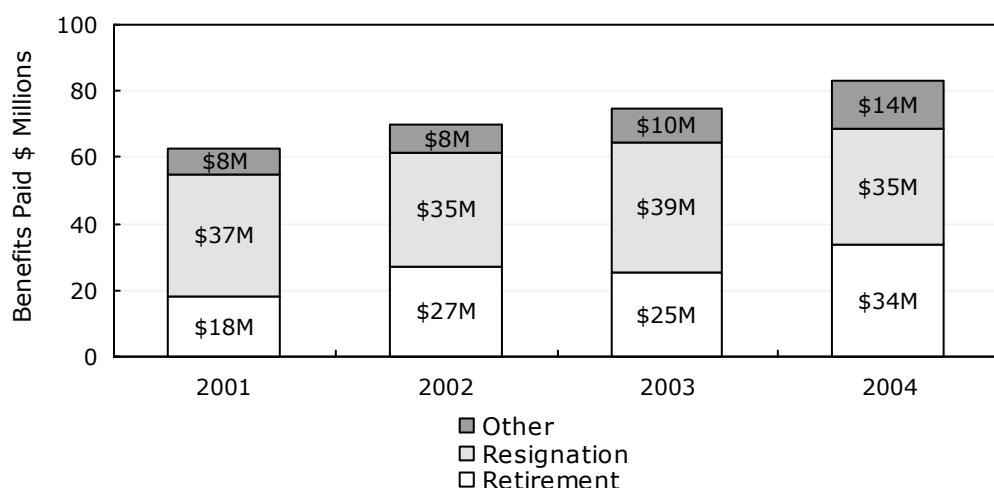
Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	288	234.7	187.6	165.2
Investing	(293.4)	(236.1)	(187.5)	(165.0)
Change in Cash	(5.4)	(1.4)	0.1	1.2
Cash at 30 June	1.7	7.1	8.5	8.4

The analysis of cash flows shows that the Southern State Superannuation Scheme maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to Funds SA for investment.

Total benefits paid amounted to \$83.0 million (\$74.6 million). The following chart analyses benefits paid for the four years to 30 June 2004 and shows an increasing trend in benefits paid. This is expected in an open scheme which was established nine years ago.



**Operating Statement
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
INVESTMENT REVENUE:			
Net investment revenue	2(a)	359 145	25 906
		359 145	25 906
CONTRIBUTION REVENUE:			
Contributions by members	1(a)	44 009	40 440
Contributions by employers	1(a)	284 768	244 690
Rollovers from other schemes		33 331	28 566
Transfers from other schemes	21	13 526	-
Refund of overpaid contributions		(10)	(20)
		375 624	313 676
INTEREST REVENUE		307	278
INSURANCE ADMINISTRATION	18	-	(256)
ADMINISTRATION EXPENSE	5	(5 199)	(4 958)
GST EXPENSE	14	(130)	(124)
BENEFITS ACCRUED AS A RESULT OF OPERATIONS	8	729 747	334 522

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

	Note	2004	2003
		\$'000	\$'000
INVESTMENTS:			
Inflation linked securities		303 391	251 100
Property		201 387	179 557
Australian equities		820 459	617 501
International equities		924 961	674 565
Australian fixed interest		208 673	151 691
International fixed interest		209 523	156 473
Cash	2(b)	74 406	59 131
		2 742 800	2 090 018
FIXED ASSETS		69	32
OTHER ASSETS:			
Cash and deposits at Treasury	11	1 648	7 132
Cash and deposits at Treasury - Funds SA		291	217
Contributions receivable	3	1 586	1 955
Interest, dividends and rent due - Funds SA		73	55
Sundry debtors	15	109	100
		3 707	9 459
Total Assets		2 746 576	2 099 509
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		695	654
Benefits payable	16	1 891	1 631
Sundry creditors and provisions	17	3 549	3 492
Provision for PAYG tax payable	12	54	1
		6 189	5 778
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		10 059	9 831
Total Liabilities		16 248	15 609
NET ASSETS AVAILABLE TO PAY BENEFITS	4, 8	2 730 328	2 083 900
REPRESENTED BY:			
LIABILITY FOR ACCRUED BENEFITS:	8		
Allocated to members' accounts	19	2 654 814	2 021 589
Not Allocated to members' accounts	20	5 193	3 681
		2 660 007	2 025 270
RESERVES			
Administration and investment reserve	7	2 811	1 622
Death, invalidity and income protection insurance reserve	6	67 510	57 008
		70 321	58 630
		2 730 328	2 083 900

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Contributions received:			
Contributions by members		Note	\$'000
Refund of overpaid contributions			44 059
Contributions by employers			(10)
Transfers from other schemes	21		285 125
Rollovers from other schemes			13 526
			33 357
			376 057
			314 292
			307
Bank interest received			278
Benefits paid:			
Retirement			(33 901)
Resignation			(34 876)
Retrenchment			(102)
Invalidity - Balance of account			(5 247)
Invalidity - Future service benefit	6		(3 715)
Death - Balance of account			(2 224)
Death - Future service benefit	6		(2 319)
Payments to Unclaimed Monies			(29)
Base Pension			(646)
Provision for PAYG tax payable	12		53
			(83 006)
Insurance Administration	18		(74 566)
Administration expense	5		-
GST expense	14		(252)
Bank Fees			(4 958)
Net Cash provided by Operating Activities	10		(164)
			(97)
			(4)
			(3)
			287 991
			234 694
CASH FLOWS FROM INVESTING ACTIVITIES:		2(a)	
Payments to Funds SA			(293 475)
Net Cash used in Investing Activities			(293 475)
NET DECREASE IN CASH HELD			(5 484)
CASH AT 1 JULY			(1 406)
CASH AT 30 JUNE	11		7 132
			8 538
			1 648
			7 132

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Financial Statements

(a) Southern State Superannuation Scheme

The Southern State Superannuation Scheme (the Scheme) is both a contributory and non-contributory superannuation scheme established pursuant to the *Southern State Superannuation Act 1994* (the Act). The Scheme, commonly referred to as the Triple S Scheme, commenced from 1 July 1995 for contributory members only. Effective 1 July 1998, the *Southern State Superannuation (Merger of Schemes) Amendment Act 1998* merged the schemes established under the *Southern State Superannuation Act 1994* and the *Superannuation (Benefit Scheme) Act 1992*. At that time, all members of the State Superannuation Benefit Scheme were effectively transferred into the Southern State Superannuation Scheme and the State Superannuation Benefit Scheme ceased to exist.

(a) Southern State Superannuation Scheme (continued)

Members can elect to make contributions to the Southern State Superannuation Scheme based on a percentage of their salary ranging from 1 percent to 10 percent, under section 25 of the Act. A member of the police force must contribute at a rate of at least 4.5 percent of salary. A separate contribution account is maintained for each member. Member contributions are deposited by the Treasurer into the Southern State Superannuation Fund (the Employee Fund) which is managed and invested by Funds SA.

An employer is required to pay contributions to the Treasurer under section 26 of the Act. The employer contributes 9 percent of salary where the member has elected to contribute less than 4.5 percent of salary. Where the member has elected to contribute 4.5 percent or more of salary, the employer must contribute at a rate of 10 percent. A separate employer contribution account is maintained for each member. Employer contributions are deposited by the Treasurer into the Southern State Superannuation (Employers) Fund (the Employers Fund) which is managed and invested by Funds SA.

Benefits, represented by the balances of member accounts, are available for employees who retire, resign, are retrenched or die and for those who terminate their employment because of invalidity. The balance of individual member entitlements is provided on annual statements forwarded to each member.

(b) South Australian Superannuation Board

The purpose of this statement is to discharge the responsibilities of the South Australian Superannuation Board (the Board) under section 13 of the Act to keep accounts of receipts and payments.

The Act charges the Board with responsibility for all aspects of the administration of the Act except for the management and investment of the Employee Fund and the Employers Fund. The Act also provides the Board with the necessary powers to administer the Scheme.

The Board determines a rate of return to be credited to member accounts pursuant to section 7A of the Act. In determining the rate the Board considers the net rate of return achieved by the investment of the Employee Fund.

Pursuant to sections 7A and 11, where a member or members have nominated a class of investments, or combination of classes of investments, the Board determines a rate of return on the investments of their class, or combination of classes.

The Board is required under sections 7A and 27, respectively, to credit interest earnings to member accounts and employer contribution accounts based on the earnings of the Employee Fund and the Employers Fund. Since the introduction of investment choice, the amount of interest credited is determined by the change in unit price.

(c) Superannuation Funds Management Corporation of South Australia

Superannuation Funds Management Corporation of South Australia (Funds SA) is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* ('the Act'). Funds SA is responsible for the investment and management of the public sector superannuation funds pursuant to strategies formulated by Funds SA.

The Treasurer had directed that the Southern State Superannuation (Employers) Fund also be managed and invested by Funds SA.

For further information on investment activities, reference should be made to the financial statements of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA.

(d) Funding Arrangements

The Act requires that member contributions and rollovers from other schemes be paid to the Treasurer, who in turn deposits these amounts into the Southern State Superannuation Fund (the Employee Fund).

The Act requires that employer payments be made to the Treasurer, who in turn deposits these amounts into the Southern State Superannuation (Employers) Fund (the Employers Fund).

Under section 12 of the Act, any payment to a member must be made out of the Consolidated Account (which is appropriated to the necessary extent) or from a Special Deposit Account established for that purpose. During the year ended 30 June 2004 payments were made from a Special Deposit Account.

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

This financial report is a general purpose financial report and has been prepared on an accruals basis in accordance with Statements of Accounting Concepts, applicable Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instruction 19 'Financial Reporting' and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*, except as provided below.

(a) Basis of Accounting (continued)

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25) where relevant. The Directors of Funds SA believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

As investments are revalued to their respective net market values at balance date, depreciation and amortisation are not provided for in this financial report.

Funds SA utilises the consolidation method of accounting. Assets and liabilities of Funds SA's controlled entities have been consolidated into the financial report at their net market values. The effects of transactions between entities in the economic entity are eliminated in full. Financial information in respect of the parent entity separate to that of the economic entity has not been provided as the application of market value reporting concepts results in the parent entity's financial report fully reflecting the economic activities of controlled entities. It is believed that disclosure of the parent entity's results separate to those of the economic entity would not provide information which would add value to users of the financial report.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*
These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at 30 June 2004 was performed by an independent valuer, Macquarie Bank Limited.
- *Externally Managed*
The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly held Property*
The value of Funds SA's directly held property has been determined by the Directors of Funds SA.
- *Listed Property Trusts*
The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.
- *Unlisted Property Vehicles*
The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this portfolio have been valued in accordance with the exit valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises two sub-sectors:

- *Listed Australian Equities*
The listed Australian equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the exit valuations supplied by the managers.
- *Private Equity*
The private equity portfolio comprises holdings in a number of externally managed specialist funds. The funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited valuation guidelines.

(iv) *International Equities*

The International Equities portfolio comprises two sub-sectors:

- *Listed International Equities*

The listed international equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles (other than private equity) have been valued in accordance with the exit valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.

- *Private Equity*

The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with National Venture Capital Association guidelines.

(v) *Australian Fixed Interest*

The Australian Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) *International Fixed Interest*

The International Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vii) *Cash*

Deposits at call have been valued on the basis of principal plus accrued interest. Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers.

(viii) *Fixed Assets*

Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors of Funds SA are of the opinion that this provides a reasonable estimate of net market value.

(ix) *Other Assets and Liabilities*

These items have been assessed and the Directors of Funds SA are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) **Taxation**

All of the public sector superannuation funds under the management of Funds SA are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act, 1936*. Consequently, no income tax expense has been brought to account in this financial report.

(d) **Accounting for Leases**

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) **Operation of Investment Portfolio**

Funds SA operates a pooled investment portfolio utilising a number of sector funds, each of which holds assets of a different category. The sector funds are:

- Australian Equities;
- International Equities;
- Property;
- Australian Fixed Interest;
- International Fixed Interest;
- Inflation Linked Securities; and
- Cash.

Funds SA also operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds.

(e) Operation of Investment Portfolio (continued)

From 1 July 1999, Funds SA implemented a range of investment strategies (or 'products') to cater for the introduction of member investment choice offered to members of the Southern State Superannuation Scheme. During the financial year Funds SA managed five separate investment products distinguished by differing strategic asset allocations. The products are:

- Growth (renamed 'High Growth' from 1 July 2004);
- Balanced;
- Conservative;
- Cash; and
- Defined Benefit (renamed 'Growth' from 1 July 2004).

During the financial year the first four products were available to members of the Southern State Superannuation Scheme whereas the fifth product, Defined Benefit, applied to the remainder of the public sector superannuation funds managed by Funds SA. Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment products.

Each public sector superannuation fund holds units in a product, which in turn holds units in each of the sector funds according to the target strategic asset allocation for the investment product. Units are issued and redeemed periodically as transactions occur at unit prices calculated having regard to the net market value of underlying investments.

The interest which each public sector superannuation fund holds in the unitised investment portfolio is disclosed in each fund's Statement of Net Assets Under Management in Note 24 of the Financial Statements of Funds SA. Each fund's allocation of total net investment income is disclosed in Note 5(b) of Funds SA's Financial Statements and in each fund's Statement of Changes in Net Assets Under Management in Note 24 of the Financial Statements of Funds SA.

(f) International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for periods commencing on or after 1 January 2005.

The Southern State Superannuation Scheme currently prepares its financial report in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25). The Australian Accounting Standards Board (AASB) has indicated that AAS 25 is not included within the scope of the 2005 AIFRS Convergence project and will continue to apply. Therefore it is expected that the introduction of AIFRS will have minimal impact on Southern State Superannuation Scheme reporting.

3. Contributions Receivable

	2004	2003
	\$'000	\$'000
Contributions from members	164	211
Contributions from employers	1 422	1 744
	1 586	1 955

Contributions receivable are contributions relating to the 2003-04 financial year received by the Scheme after 30 June 2004.

4. Net Assets Available to Pay Benefits**(a) Southern State Superannuation (Employees) Fund**

Funds held at 1 July

Add: Contributions by members
Rollovers from other schemes
Transfers from other schemes
Investment income ⁽ⁱ⁾
Bank Interest

Less: Benefits paid and payable
Refund of overpaid contributions

Funds Held at 30 June

	2004	2003
	\$'000	\$'000
	257 747	193 059
<i>Add:</i>		
Contributions by members	44 009	40 440
Rollovers from other schemes	33 331	28 566
Transfers from other schemes	13 526	-
Investment income ⁽ⁱ⁾	48 432	4 511
Bank Interest	31	28
	139 329	73 545
<i>Less:</i>		
Benefits paid and payable	13 198	8 837
Refund of overpaid contributions	10	20
	13 208	8 857
Funds Held at 30 June	383 868	257 747

4.	Net Assets Available to Pay Benefits (continued)		2004	2003
	(b) Southern State Superannuation (Employers) Fund		\$'000	\$'000
	Funds held at 1 July		1 826 153	1 625 594
	Add: Employer contributions		284 768	244 690
	Investment income ⁽ⁱ⁾		310 713	21 395
	Bank Interest		276	250
			595 757	266 335
	Less: Benefits paid and payable		70 121	60 438
	Administration costs		5 199	4 958
	GST expense		130	124
	Insurance administration		-	256
			75 450	65 776
	Funds Held at 30 June		2 346 460	1 826 153
	Total Net Assets		2 730 328	2 083 900

(i) Shown net of direct investment expense.

5. Administration

Section 27 of the Act provides for an administrative charge to be debited each year to members' employer contribution accounts and section 9 of the Act requires the amount to be paid from the Southern State Superannuation (Employers) Fund. The purpose of this charge is to provide for existing and future costs of administering the Scheme. The amount of the charge is determined by the Board. As at 30 June 2004 the charge is \$50 per member for an active member or \$40 per member for non-active members. The charge for a member with an aggregate balance of \$1 000 or less, is the lesser of the charges applicable to active/non-active members, or the amount of interest credited to the member's Employer Account with a minimum of \$10. This charge will be included on member annual statements. As at 30 June 2004 the amount charged to members' employer contribution accounts was \$6.2 million (\$5.5 million).

Administration costs incurred by the Board in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Board monthly. The charge for the year ended 30 June 2004, based on actual costs of administering the Scheme, amounted to \$5.2 million (\$4.9 million) plus GST.

6. Death, Invalidity and Income Protection Insurance Reserve

The Scheme provides an insurance benefit, with a few exceptions, in the event of death or invalidity before age 60. An Income Protection Insurance benefit, subject to eligibility criteria, is also available in the event of a member becoming temporarily disabled before age 55.

A new insurance arrangement was introduced on 1 July 2002, based on units of benefit cover. The Standard Insurance benefit of one unit of cover costs \$1 per week and is compulsory for most members of the scheme except some casual employees who opt out of insurance and those who are special category members in terms of Section 14 (4)-(6) of the Act. Police Officers are required to have at least 5 units of Standard Insurance cover. The value of a unit under Standard Insurance for members up to age 34 years is \$50 000. The value of a unit declines from age 35. Additional units can be purchased (subject to medical evidence) to provide permanent employees with cover up to \$500 000 and casual employees up to \$250 000. The cost for each one unit of Standard Insurance is \$1 per week. For those members who want the value of a unit of insurance to be fixed, irrespective of age, there is also a table of Fixed Insurance with costs increasing with age.

As required by Section 13A of the *Southern State Superannuation Act*, the Treasurer received a report on the costs and liabilities of the insurance arrangements in existence as at 30 June 2001. The actuary has estimated a surplus of \$36.5 million in the Insurance Fund as at 30 June 2001. A review of this reserve is due as at 30 June 2004.

In the event of invalidity, the Basic and Additional units of insurance are paid to the member. In the event of death, the Basic and Additional units of insurance are paid to the member's spouse, otherwise to the member's estate.

To be eligible for the Income Protection Insurance benefit, a member must be contributing from post-tax salary or have an employer contribution that is greater than the minimum Superannuation Guarantee for at least a year.

Total insurance benefits of \$6.9 million (\$4.5 million) were paid to members as a result of death or invalidity during the year ended 30 June 2004.

6. Death, Invalidity and Income Protection Insurance Reserve (continued)

	Note	2004 \$'000	2003 \$'000
Opening balance of the Death, Invalidity and Income Protection Insurance Reserve		57 008	53 377
Add: Investment earnings on insurance reserve		9 238	615
Contributions		8 144	7 762
		17 382	8 377
Less: Benefit Payments:			
Invalidity basic		3 805	1 596
Invalidity additional		10	47
Death basic		2 419	2 321
Death additional		-	107
Disability Pensions		646	419
Less: Administration Costs	18	-	256
		6 880	4 746
Net Transfer Value to Death, Invalidity and Income Protection Insurance Reserve		10 502	3 631
Closing Balance of Reserve		67 510	57 008

7. Administration and Investment Reserve

The Reserve amounts represent assets of the fund which are not yet allocated to member accounts and to which members are presently not entitled. The following table reflects the total movements of the Reserves for the year ended 30 June 2004.

	Administration Cost Reserve ⁽ⁱ⁾ \$'000	Investment Reserve ⁽ⁱⁱ⁾ \$'000	Total 2004 \$'000	Total 2003 \$'000
Balance as at 1 July	1 353	269	1 622	1 587
Transfers to reserves	1 139	50	1 189	446
Transfers out of reserves	-	-	-	(411)
Balance as at 30 June	2 492	319	2 811	1 622

- (i) Section 27 of the Act requires an administrative charge to be deducted from the members employer accounts. These monies are credited to the Administration Cost Reserve. At the end of the financial year the actual cost incurred in administering the scheme is debited to the Administration Cost Reserve. Further information is included in Note 5 to the financial statements. The amount of \$1.1 million, which is a transfer to reserves, is based on the actual administration recovery of \$6.2 million plus an interest component of \$286 000 on the opening balance over the costs to administer the scheme of \$5.2 million.
- (ii) Prior to the merger of the Southern State Superannuation Scheme and the State Superannuation Benefit Scheme (refer Note 1(a)) the interest that was credited to member accounts was the average of the 10 year bond rates declared by the South Australian Government Financing Authority on the first day of each month. This differed from the amount earned by Funds SA and the balance of the investment earnings was credited to the investment reserve. Transfers from the Investment reserve represent adjustments processed to member accounts to correct data integrity issues. The majority of the increase in the value of the investment reserve is due to interest income on the opening balance with a small amount relating to the resolution of outstanding data integrity issues during the 2004 year.

8. Liability for Accrued Benefits

The liability for accrued benefits is the obligation to pay benefits to members and beneficiaries, calculated as the balance of member accounts plus the value of reserves and amounts not allocated to member accounts.

	2004 \$'000	2003 \$'000
Liability for accrued benefits at 1 July	2 083 900	1 818 653
Add: Increase in accrued benefits	729 747	334 522
Less: Benefits paid and payable	83 319	69 275
Liability for Accrued Benefits at 30 June	2 730 328	2 083 900

9. Vested Benefits

Vested Benefits are benefits which are not conditional upon continued membership of the Scheme, or any other factor other than resignation from the Scheme. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date.

	2004 \$'000	2003 \$'000
Vested benefits	2 654 814	2 021 589

	Reconciliation of Net Cash provided by Operating Activities to Benefits Accrued from Operations	2004	2003
		\$'000	\$'000
	Benefits accrued as a result of operations	729 747	334 522
	Benefits paid and payable	(83 319)	(69 275)
	Decrease in contributions receivable	369	551
	Decrease in rollovers payable to other schemes	-	(1)
	Decrease in rollovers receivable from other schemes	27	64
	Net Investment Revenue	(359 145)	(25 906)
	Increase in Board creditors	40	3
	(Increase) Decrease in Board debtors	(41)	28
	Increase (Decrease) in PAYG Tax Payable	53	(9)
	Increase (Decrease) in benefits payable	260	(5 283)
	Net Cash provided by Operating Activities	287 991	234 694
11.	Reconciliation of Cash		
	For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:		
		2004	2003
		\$'000	\$'000
	Cash and deposits at Treasury	1 648	7 132
12.	Provision for Tax Payable		
	The provision for tax payable represents tax due on benefit payments made in June 2004 which had not been remitted to the Commissioner of Taxation as at 30 June 2004. This amount was forwarded to the Commissioner of Taxation in July 2004.		
13.	Guaranteed Benefits		
	Benefit entitlements are specified by the Southern State Superannuation Act 1994.		
14.	Net GST Paid		
	This figure represents the GST paid on administration fees less any credits received from the Australian Taxation Office as the Scheme is entitled to a 75 percent refund on all GST paid. A refund is due from the Tax Office for May and June 2004.		
15.	Summary of Sundry Debtors		
	Refund from Taxation Office for GST (refer to Note 14)	65	31
	Funds SA sundry debtors	34	39
	Other	10	30
		109	100
16.	Benefits Payable		
	Benefits payable by Southern State Superannuation (Employees) Fund	142	489
	Benefits payable by Southern State Superannuation (Employers) Fund	1 749	1 142
		1 891	1 631
	Benefits payable relate to members who have terminated employment prior to 30 June 2004 but have not been paid until after 30 June 2004.		
17.	Summary of Sundry Creditors and Provisions		
	Contribution refunds payable to agencies	37	-
	Other	6	3
	Funds SA sundry creditors	3 506	3 489
		3 549	3 492
18.	Insurance Administration		
	The remaining costs of \$256 000 involved in finalising the new insurance arrangements were deducted from the reserve in the 2002-03 year.		
19.	Allocated to Members' Accounts		
	This amount indicates the value of funds which have been formally allocated to member accounts. The formal allocation of earnings to members' accounts has been determined for the 2004 year. This has resulted in an immaterial difference and will be carried forward to the next financial year as an unallocated value. The unallocated amount is described in Note 20 (below).		

20. Not Allocated to Members' Accounts

This note indicates that there is approximately \$5.2 million unallocated to members' accounts which is immaterial in a \$2.7 billion Scheme. All accumulation schemes carry some type of unallocated amount. This unallocated amount arises because the Financial Statements of the scheme are prepared on an accruals basis while monies are allocated to members on a cash basis. Between the time of preparing the benefit accruals figure for the Financial Statements and the finalisation of the annual review additional member liabilities are determined.

21. Transfers from Other Schemes

During the 2003-04 financial year, transfers of \$13.3 million and \$0.2 million were received from the South Australian Health Commission VMO Fund and Julia Farr Centre Staff Provident Plan respectively.

SUPERANNUATION FUNDS MANAGEMENT CORPORATION OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Superannuation Funds Management Corporation of South Australia (operating under the business name Funds SA) is a statutory authority established pursuant to the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Act).

Functions

The functions of Funds SA, as detailed in section 5 of the Act are:

- to invest and manage the public sector superannuation funds pursuant to strategies formulated by Funds SA;
- such other functions as are assigned to Funds SA by this Act or any other Act.

Restrictions on Operations

Although the Minister may not issue directives to the Corporation, section 21 of the Act requires the Corporation to have regard to Government policy, at the Minister's request, when preparing a performance plan or performing its functions under this or any other Act.

Section 7 of the Act further provides that the objective of Funds SA in performing its functions is to achieve the highest return possible on investment of the public sector superannuation funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level;
- the need for liquidity in the funds;
- such other matters as are prescribed by regulation.

Funds SA has, by virtue of the Act, broad powers over the investment of public sector superannuation funds. Funds SA, however, cannot borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations or by the Minister. In addition, the Regulations under the Act impose restrictions on the investment of public sector superannuation funds as follows:

- Funds SA must not invest the public sector superannuation funds in property outside Australia or in real property outside the State, unless the Minister has authorised the investment specifically or by reference to the class of investment to which it belongs.
- Funds SA must not enter into derivative transactions (eg futures contracts, forward contracts, swaps etc), unless the contract or dealing has been authorised by the Minister specifically or by reference to the class of contracts or dealings to which it belongs.

Management of Superannuation Funds and Schemes

The various public sector superannuation funds, as defined under the Act, and managed and invested by Funds SA, are identified in Note 1 to the financial report.

Funds SA is not responsible for the administration of any of the public sector superannuation funds. The South Australian Superannuation Board is responsible for all aspects of the administration (ie contributions and benefits) of the South Australian Superannuation Fund, Southern State Superannuation Fund and the associated Employer Contribution Accounts.

The Police Superannuation Board is responsible for all aspects of the administration of the Police Superannuation Fund and the associated Employer Contribution Account.

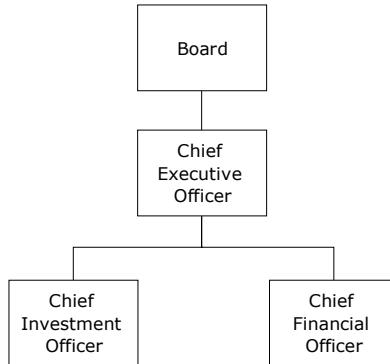
The South Australian Parliamentary Superannuation Board is responsible for the collection of contributions from members of the Parliamentary Superannuation Scheme and for payments of superannuation benefits to members and members' families.

The Department of Treasury and Finance is responsible for the administration of the Governors' Pension Scheme and the Judges' Pensions Scheme.

Additional information relevant to the characteristics and the administration of the superannuation schemes is available in the financial reports of the various schemes included elsewhere in Part B of this Report.

Structure

The structure of the Superannuation Funds Management Corporation of South Australia is illustrated in the following organisation chart.



Funds SA operates with a small staff comprising investment officers and accounting and administrative support staff. This structure is complemented by extensive use of external funds management firms. Fund managers are utilised for all investment types, and there is a single custodian (who is responsible for the integrity and holding of the assets) for the majority of those fund managers. Each fund manager is appointed pursuant to an agreement which dictates the scope for investment, fees and reporting requirements. The custodian, JP Morgan ChaseBank, is also appointed pursuant to a similar agreement.

Funds SA also has a number of controlled entities (fully owned). Refer Note 19 to the financial report for details.

Audit Committee

The Act specifically requires Funds SA to establish an Audit Committee. As at 30 June 2004, the Committee comprised three Board members operating within the framework of an Audit Committee Charter. Pursuant to that charter, the Committee is responsible for assessing the quality of both internal and external financial reporting; assessing the effectiveness of Funds SA's internal control structure; and maintaining an effective and efficient liaison with both internal and external audit. Audit representatives attended Audit Committee meetings throughout the year.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and section 28 of the *Superannuation Funds Management Corporation of South Australia Act 1995* provides for the Auditor-General to audit the accounts of the Superannuation Funds Management Corporation of South Australia for each financial year.

Assessment of Controls

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

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

Scope of Audit

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

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

- investment policy and strategy
- investments (purchases and sales, valuation and income)

- custodial and fund management
- management reporting and monitoring
- administration expenses.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

No significant issues were raised as a result of the audit. A management letter conveying the scope and results of the audit will be forwarded to the Chairman shortly.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
NET FUNDS MADE AVAILABLE FOR INVESTMENT	289.0	216.2	34
INCOME EARNED FROM INVESTMENT ACTIVITIES			
Inflation linked funds	16.6	75.3	(78)
Property	65.2	50.8	28
Australian equities	404.6	5.8	
International equities	425.8	(175.8)	
Other	28.0	58.0	(52)
Total Income Earned from Investment Activities	940.2	14.1	
ADMINISTRATION EXPENSES	2.8	2.8	-
Change in Net Assets	1 226.4	227.5	
Net Cash Flows from Operations	144.0	83.3	73
Net Cash Flows from Investing Activities	(403.2)	(369.7)	9
Net Cash Flows from Financing Activities	289.0	216.2	34
ASSETS			
Investments	6 634.4	5 409.9	23
Other assets	1.0	0.8	25
Total Assets	6 635.4	5 410.7	23
LIABILITIES			
Current liabilities	10.5	11.1	(6)
Non-current liabilities	26.3	27.3	(4)
Total Liabilities	36.8	38.4	(4)
EQUITY	6 598.6	5 372.3	23

Statement of Changes in Net Assets

Net Funds made available for Investment

Net funds made available for investment consists of the net of receipts and payments, from and to the public sector superannuation funds. Net funds made available for investment increased by \$72.8 million to \$289.0 million. Details of receipts and payments for the various funds are provided in Note 4 to the financial report.

An amount of \$232.2 million (\$183 million) was made available by the Treasurer for the accruing employers' superannuation liabilities for the South Australian Superannuation Scheme.

Income from Investments

Net income from investment activities resulted in a return of \$937.4 million compared to a negative return of \$11.3 million in the previous year. This result predominantly reflects the recording of assets at net market values where unrealised gains or losses are brought to account.

The strong investment returns of 2004 are attributable to the strong performance of global (including Australian) equity markets. After experiencing poor returns for the three previous years, global equity markets rallied in 2004 producing a positive return. Of particular note were the returns in a number of niche segments including emerging markets and small capitalisation stocks.

Australian equity markets also experienced strong returns for the year. However, the strong equity markets saw a reduced impact on returns by the debt sector assets (Inflation Linked and Fixed Interest) relative to previous years. Note 5 to the financial statements reports full details of income earned from investment activities for each of the investment classes comprising the Fund.

It is relevant to observe the later comments, particularly on stock market risks, included under 'Asset Allocation and Risk'.

A structural analysis of net income earned by the Corporation for the four years to 2004 is presented in the following table.

Net Income Earned From Investment Activities

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Inflation Linked Funds	16.6	75.3	50.4	43.9
Property	65.2	50.8	53.4	45.2
Australian Equities	404.6	5.8	(28.3)	177.6
International Equities	425.8	(175.8)	(372.3)	(131.7)
Australian Fixed Interest	7.7	22.0	15.7	34.6
International Fixed Interest	12.1	30.0	20.0	(0.9)
Cash and other	8.2	6.0	4.9	9.4
	940.2	14.1	(256.2)	178.1

The above table reflects that the Corporation's investment strategy is weighted towards equity holdings. Refer chart and discussions under Statement of Net Assets. The volatile nature of equities will cause returns from these investments to fluctuate due to the effect of prevailing economic conditions.

Investment Expenses

Investment expenses are deducted from income to determine Net Income Earned from Investments in the Statement of Changes in Net Assets. In 2004 these expenses amounted to \$30.0 million of which \$25.3 million (84.3 percent) were fund management fees. These fees equate to 0.4 percent of funds under management.

Fund Manager fees over the last four years were:

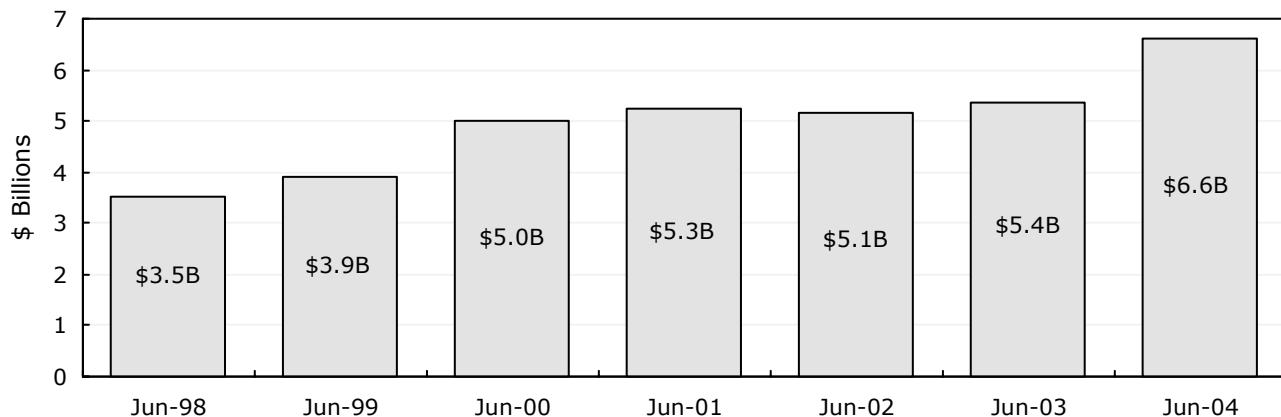
Year	\$'million
2001	17.3
2002	16.3
2003	21.9
2004	25.3

Although fund manager fees have generally increased over the past four years, when compared to average funds under management, they remain under 0.5 percent.

Statement of Net Assets

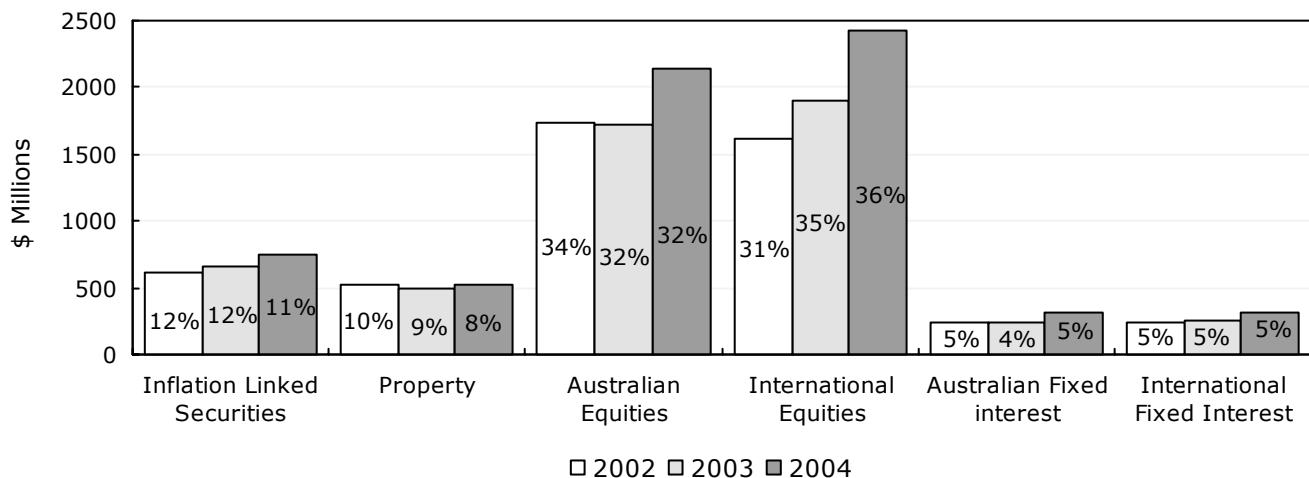
As the Corporation's main function is to invest and manage the public sector superannuation funds, assets predominantly consist of investments. Total liabilities as a percentage of total assets are 0.6 percent.

As a result of the decision by the Government to move to full funding of the public sector superannuation liability, the introduction of new superannuation products and as a result of investment earnings, Funds SA continues to experience growth in total funds under management (net assets) as illustrated in the following chart.



Investment Classes

Funds SA is an investment organisation with broad powers and \$6.6 billion of funds under management. These funds are represented by seven investment classes. The value of each asset class (excluding cash) and the holding of each asset class as a percentage of total funds under management at 30 June for the last three financial years is illustrated in the following chart.



As previously noted the above chart reflects the Corporation's investment strategy's weighting towards equity holdings.

Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	144.0	83.3	78.9	(74.7)
Investing	(403.2)	(369.7)	(54.2)	(61.7)
Financing	289.0	216.2	145.1	85.6
Change in Cash	29.9	(70.2)	169.8	(50.8)
Cash at 30 June	158.4	128.5	198.7	28.9

Net cash flows from Investing Activities reflects the level of redemptions and purchases of investments. During 2004 the purchase of investments decreased by \$883.1 million to \$658.3 million while sales from investments decreased by \$916.7 million to \$255.1 million. This reflects fund manager transitions and strategic asset allocation rebalancing of the Australian and International equities portfolios during 2003.

For details relating to Financing Activities, which reflect receipts and payments from and to the various superannuation schemes, refer to Note 4 of the financial statements.

FURTHER COMMENTARY ON OPERATIONS

Asset Allocation and Risk

The decision as to how the funds will be invested is established through an investment policy. Underpinning the investment policy and decision making process is an understanding of the risks facing Funds SA. It should be noted that in the investment market at large there exist a range of financial risks which may impact on Funds SA's operations. These include:

- Share Market Risk — The impact on earnings of movements in share prices of investments. This is particularly relevant for Funds SA's holdings of Australian equities and International equities.
- Interest Rate Risk — The sensitivity of earnings to future movements in interest rates. This is particularly relevant to Funds SA's holdings of inflation-linked and fixed-interest securities.
- Concentration Risk — The risk of an over-exposure in the weighting ascribed to an individual investment or asset class.
- Currency Exposure — The impact that movements in currencies have on the value of, and earnings on, overseas investments. This is particularly relevant for Funds SA's holdings of International equities and International fixed interest.

In managing some of these risks Funds SA utilises derivative instruments. Refer to Note 22(b) of the financial report for further details.

Investment Returns

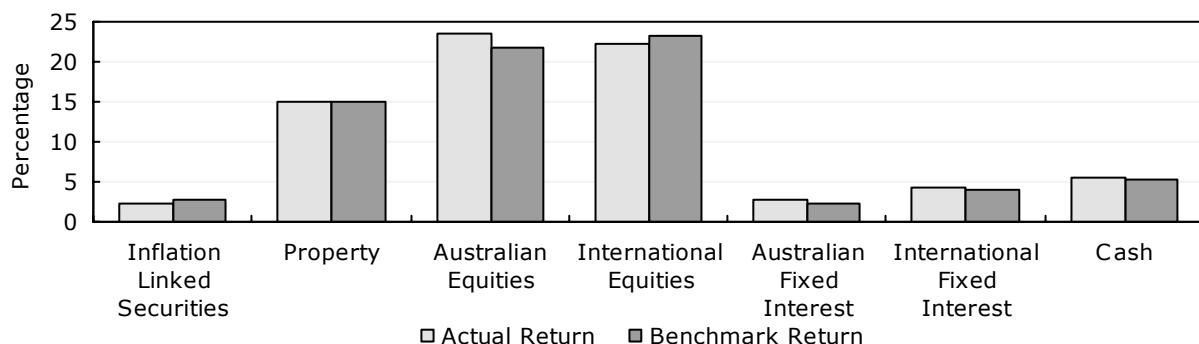
As mentioned earlier, Funds SA values its investments at net market value, in accordance with the requirements of Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans'. Any increases or decreases in the market value are brought to account through the Statement of Changes in Net Assets. As such, the value of the investments under management has a direct impact upon the level of income earned by Funds SA in any one year. Funds SA has established performance benchmarks for each asset class as follows:

Asset Class	Performance Benchmark
Australian equities	Standard and Poor's/ASX 300 Accumulation Index
International equities	Tailored benchmark incorporating specific sub sectors and hedge
Property	Tailored benchmark comprising Mercer Australian Unlisted Property Index and Standard and Poor's/ASX Property 300 Accumulation Index
Inflation linked	UBS Warburg Australian Inflation Linked Bond Index
Fixed Interest	(Australia) UBS Warburg Australian Composite Bond Index and (International) Lehman Global Aggregate 300 AUD Index Hedged
Cash	UBS Warburg Australian Bank Bill Index

Funds SA's objective is to exceed the relevant benchmark in each asset class.

Return Performance by Asset Class

The return performance of each of the seven distinct asset classes (after fees), against their relevant benchmark, for the 2003-04 financial year, is depicted in the following chart:



Return Performance by Product

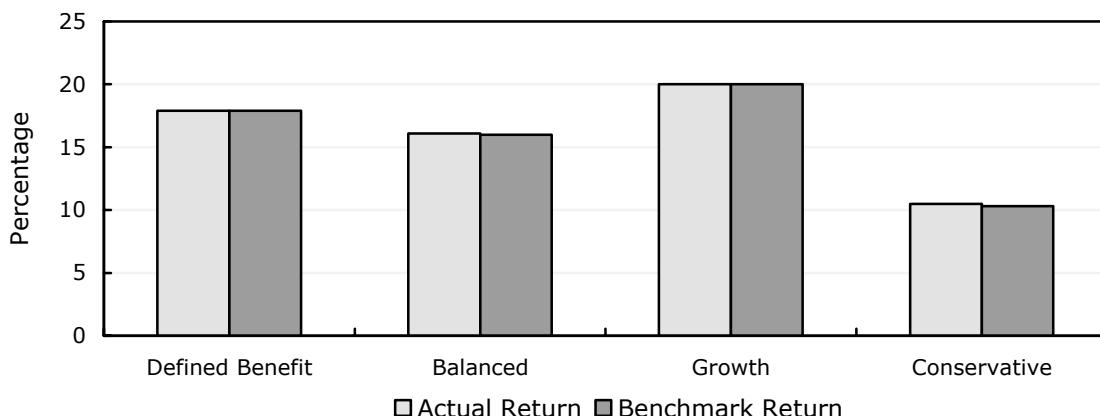
Members of the Triple S Scheme are provided with investment choices to enable them to tailor the investment strategy more directly towards their individual risk/return preferences and financial circumstances.

Four investment products (ie strategies) have been designed for Triple S Scheme member investment choice (balanced, growth, conservative and cash) and also one for the defined benefit schemes (Refer Note 3 to the Financial Statements).

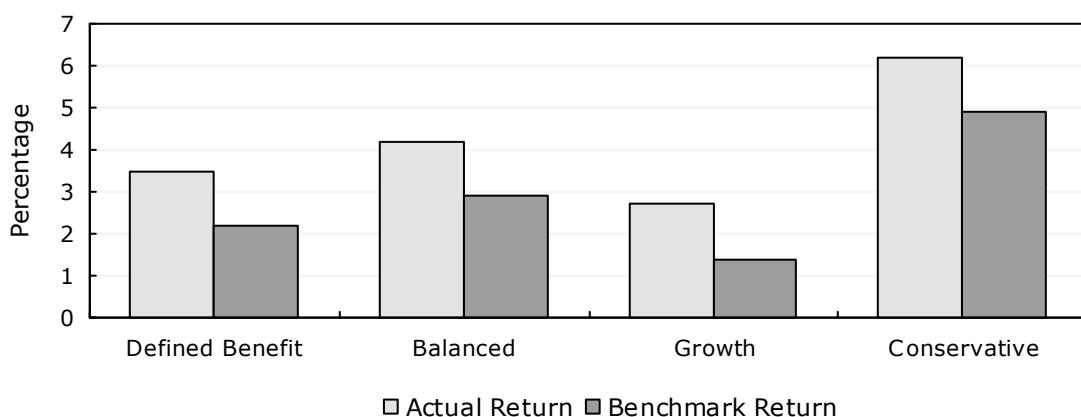
The return performance of each of the distinct products (excluding 'cash'), against their relevant benchmark, for the 2003-04 financial year, the last three years and the last five years is depicted in the following charts.

These charts show all products have produced positive returns for the one, three and five year rolling period ending 30 June 2004.

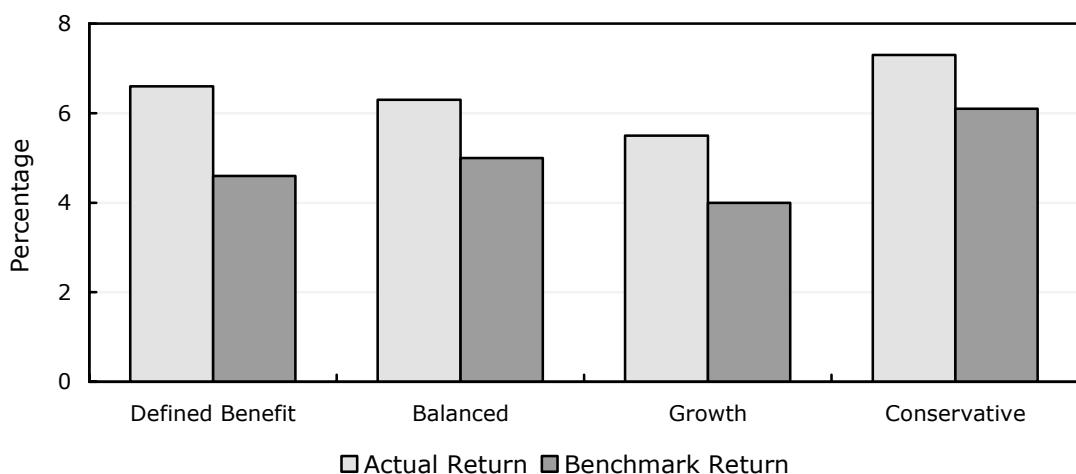
2003-04 Financial Year (Returns Percent)



Three Years ending 30 June 2004 (Returns Percent per annum)



Five Years ending 30 June 2004 (Returns Percent per annum)



**Statement of Changes in Net Assets
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
NET ASSETS AS AT 1 JULY		5 372 247	5 144 724
NET FUNDS MADE AVAILABLE FOR INVESTMENT	4	289 009	216 260
INCOME EARNED AND EXPENDITURE INCURRED AS A RESULT OF INVESTMENT ACTIVITIES			
Net income earned from:			
Inflation linked securities	5(a)	16 591	75 267
Property	5(a)	65 195	50 811
Australian equities	5(a)	404 621	5 797
International equities	5(a)	425 836	(175 802)
Australian fixed interest	5(a)	7 725	21 954
International fixed interest	5(a)	12 046	30 032
Cash	5(a)	8 185	6 045
		940 199	14 104
Less: Administration expenses	6	2 780	2 841
Net Income from Investment Activities	5(b)	937 419	11 263
NET ASSETS AS AT 30 JUNE		6 598 675	5 372 247

**Statement of Net Assets
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
BALANCE OF ACCOUNTS OPERATED IN RESPECT OF:			
South Australian Superannuation Scheme	24(a)	3 136 682	2 673 727
Police Superannuation Scheme	24(b)	493 882	399 517
Southern State Superannuation Scheme	24(c)	2 729 008	2 076 388
Parliamentary Superannuation Scheme	24(d)	125 523	122 019
Judges' Pensions Scheme	24(e)	113 139	100 139
Governors' Pension Scheme	24(f)	441	457
BALANCE OF ACCOUNTS		6 598 675	5 372 247
INVESTMENTS:			
Inflation linked securities	7	752 378	665 150
Property	8	528 258	500 243
Australian equities	9	2 135 114	1 727 885
International equities	10	2 420 958	1 904 595
Australian fixed interest	11	319 065	235 902
International fixed interest	12	320 985	248 160
Cash	13	157 647	127 930
		6 634 405	5 409 865
FIXED ASSETS	14	146	70
OTHER ASSETS:			
Cash at bank		617	470
Interest, dividends and rent due		188	151
Sundry debtors		86	107
		891	728
Total Assets		6 635 442	5 410 663
Less:			
CURRENT LIABILITIES:			
Rent and interest paid in advance		1 725	1 732
Sundry creditors		8 602	8 898
Provisions	15(a)	140	499
		10 467	11 129
NON-CURRENT LIABILITIES	15(b)	26 300	27 287
Total Liabilities		36 767	38 416
NET ASSETS		6 598 675	5 372 247
Commitments and Contingent Liabilities	16		

Statement of Cash Flows
for the year ended 30 June 2004

	2004	2003
	Inflows	Inflows
	(Outflows)	(Outflows)
	Note	\$'000
		\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Inflation linked securities	25 800	24 514
Property	2 823	5 430
Australian equities	12 808	3 514
International equities	98 458	46 962
Australian fixed interest	(419)	(417)
International fixed interest	(871)	(759)
Cash	8 174	6 722
Administration	(2 734)	(2 710)
Net Cash provided by Operating Activities	21(b)	144 039
		83 256
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments:		
Inflation linked securities	(110 000)	-
Property	(2 581)	(84 000)
Australian equities	(25 175)	(669 930)
International equities	(258 442)	(787 438)
Australian fixed interest	(75 000)	-
International fixed interest	(186 933)	-
Fixed assets	(128)	(44)
		(658 259)
		(1 541 412)
Sale of investments:		
Inflation linked securities	13 534	5 035
Property	35 645	148 465
Australian equities	10 156	683 166
International equities	68 639	285 068
Australian fixed interest	-	25 000
International fixed interest	127 090	25 000
Fixed assets	-	25
		255 064
		1 171 759
Net Cash used in Investing Activities		(403 195)
		(369 653)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receipts	621 009	523 330
Payments	(332 000)	(307 070)
Net Cash provided by Financing Activities	4	289 009
NET INCREASE (DECREASE) IN CASH HELD		216 260
CASH AS AT 1 JULY		29 853
CASH AS AT 30 JUNE	21(a)	128 543
		198 680
		158 396
		128 543

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

1. Format of the Financial Report

Superannuation Funds Management Corporation of South Australia (Funds SA) is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Act). Funds SA is responsible for the investment and management of the public sector superannuation funds pursuant to strategies formulated by Funds SA. The public sector superannuation funds (the funds) are defined under the Act as:

- the South Australian Superannuation Fund;
- the Police Superannuation Fund;
- the Southern State Superannuation Fund;
- the employer contributions made pursuant to section 5 of the *Superannuation Act, 1988* where the arrangement requires contributions to be invested and managed by Funds SA;
- funds determined by the Minister to be public sector superannuation funds.

As at 30 June 2004, Funds SA managed the following public sector superannuation funds:

- South Australian Superannuation Scheme:
 - South Australian Superannuation Fund (Old Scheme Division)
 - South Australian Superannuation Fund (New Scheme Division)
 - South Australian Superannuation Scheme - Employer Contribution Accounts;
- Police Superannuation Scheme:
 - Police Superannuation Fund (Old Scheme Division)
 - Police Superannuation Fund (New Scheme Division)
 - Police Superannuation Scheme - Employer Contribution Account;
- Southern State Superannuation Scheme:
 - Southern State Superannuation Fund
 - Southern State Superannuation (Employers) Fund;
- Parliamentary Superannuation Scheme;
- Judges' Pensions Scheme;
- Governors' Pension Scheme.

The purpose of the financial report is to discharge Funds SA's reporting obligations in respect of its financial affairs under Section 26(1) of the Act, and in respect of each of the funds, as required by Section 26(2) of the Act. Funds SA's investment activities are reported on in the Statement of Changes in Net Assets, Statement of Net Assets and Statement of Cash Flows.

Statements of Changes in Net Assets Under Management and Statements of Net Assets Under Management in respect of each public sector superannuation fund are reported upon in Note 24 to this financial report as required by Section 26(2) of the Act.

Funds SA is not responsible for the administration of the superannuation schemes associated with the public sector superannuation funds. All scheme administration activities are undertaken by the Superannuation Boards established by scheme legislation, or by the Department of Treasury and Finance. Consequently, the financial report of Funds SA reports only on the investment activities of the public sector superannuation funds under management. For information on the nature and overall operations of the various superannuation schemes, reference should be made to annual reports and financial reports prepared by the responsible Superannuation Boards and/or the Department of Treasury and Finance.

2. Statement of Significant Accounting Policies

(a) Basis of Accounting

This financial report is a general purpose financial report and has been prepared on an accruals basis in accordance with Statements of Accounting Concepts, applicable Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instruction 19 'Financial Reporting' and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act, 1987*, except as provided below.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25) where relevant. Directors believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

(a) Basis of Accounting (continued)

As investments are revalued to their respective net market values at balance date, depreciation and amortisation are not provided for in this financial report.

Funds SA utilises the consolidation method of accounting. Assets and liabilities of Funds SA's controlled entities have been consolidated into the financial report at their net market values. The effects of transactions between entities in the economic entity are eliminated in full. Financial information in respect of the parent entity separate to that of the economic entity has not been provided as the application of market value reporting concepts results in the parent entity's financial report fully reflecting the economic activities of controlled entities. It is believed that disclosure of the parent entity's results separate to those of the economic entity would not provide information which would add value to users of the financial report.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*

These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at 30 June 2004 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*

The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*

The value of Funds SA's directly held property has been determined by directors.

- *Listed Property Trusts*

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Unlisted Property Vehicles*

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this portfolio have been valued in accordance with the exit valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises two sub-sectors:

- *Listed Australian Equities*

The listed Australian equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the exit valuations supplied by the managers.

- *Private Equity*

The private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited valuation guidelines.

(iv) International Equities

The International Equities portfolio comprises two sub-sectors:

- *Listed International Equities*

The listed international equities portfolio is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles (other than private equity) have been valued in accordance with the exit valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.

- (iv) *International Equities (continued)*
 - *Private Equity*
The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with National Venture Capital Association (NVCA) guidelines.
- (v) *Australian Fixed Interest*
The Australian Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.
- (vi) *International Fixed Interest*
The International Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.
- (vii) *Cash*
Deposits at call have been valued on the basis of principal plus accrued interest. Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers.
- (viii) *Fixed Assets*
Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. Directors are of the opinion that this provides a reasonable estimate of net market value.
- (ix) *Other Assets and Liabilities*
These items have been assessed and Directors are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) *Taxation*

All of the public sector superannuation funds under the management of Funds SA are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act 1936*. Consequently, no income tax expense has been brought to account in this financial report.

(d) *Accounting for Leases*

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straightline basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) *Employee benefits*

Liabilities for salaries, annual leave and long service leave have been recognised in respect of employees' services up to the balance date and are measured at amounts expected to be paid when the liabilities are settled. The liability for long service leave is calculated using a shorthand method of estimation in accordance with the provisions of Accounting Standard on Employee Benefits (AASB 1028). Long service leave liability is based upon recognition of entitlement after five years service. Sick leave entitlements are non-vesting and have therefore not been recognised as a liability.

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

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

Managing the Process

The Funds SA board of directors, through its Audit Committee, is responsible for ensuring that the annual financial report complies with Generally Accepted Accounting Principles (GAAP). During the 2003-04 financial year, the Audit Committee established a steering committee to assess the impact of the AIFRS on operations and financial reporting. The steering committee membership includes senior management from Funds SA as well as representation from the South Australian Auditor-General's Department. A detailed project plan was developed and approved by the Audit Committee in December 2003 to guide the activities of the steering committee and to develop a plan to manage the transition to the new standards. In May 2004, the Audit Committee approved the steering committee's assessment of the impact of AIFRS and the proposed approach to complying with those standards going forward.

Expected Differences in Accounting Policies

The following summarises the expected changes in significant accounting policies arising from the adopting of AIFRS:

- Recognition and Measurement of Financial Instruments – financial instruments are required to be recognised in the Statement of Financial Position and measured, with some exceptions, at fair value. Funds SA currently prepares its financial report in accordance with the principles of the Australian Accounting Standard on Financial Reporting by Superannuation Plans (AAS 25), which requires that all financial instruments are recognised and measured at net market value. The Australian Accounting Standards Board (AASB) has indicated that AAS 25 is not included within the scope of the 2005 AIFRS Convergence project and will continue to apply and take precedence over AIFRS should any inconsistency arise.
- Employee Benefits – employee benefits payable later than 12 months from the balance date will be measured on a discounted basis in accordance with AIFRS rather than at nominal amounts.

3. Operation of Investment Portfolio

Funds SA operates a pooled investment portfolio utilising a number of sector funds, each of which holds assets of a different category. The sector funds are:

- Australian Equities;
- International Equities;
- Property;
- Australian Fixed Interest;
- International Fixed Interest;
- Inflation Linked Securities;
- Cash.

Funds SA also operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds.

From 1 July 1999, Funds SA implemented a range of investment strategies (or 'products') to cater for the introduction of member investment choice offered to members of the Southern State Superannuation Scheme. During the financial year Funds SA managed five separate investment products distinguished by differing strategic asset allocations. The products are:

- Growth (renamed 'High Growth' from 1 July 2004);
- Balanced;
- Conservative;
- Cash;
- Defined Benefit (renamed 'Growth' from 1 July 2004).

During the financial year the first four products were available to members of the Southern State Superannuation Scheme whereas the fifth product, Defined Benefit, applied to the remainder of the public sector superannuation funds managed by Funds SA. Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment products.

Each public sector superannuation fund holds units in a product, which in turn holds units in each of the sector funds according to the target strategic asset allocation for the investment product. Units are issued and redeemed periodically as transactions occur at unit prices calculated having regard to the net market value of underlying investments.

The interest which each public sector superannuation fund holds in the unitised investment portfolio is disclosed in each fund's Statement of Net Assets Under Management in Note 24. Each fund's allocation of total net investment income is disclosed in Note 5(b) and in each fund's Statement of Changes in Net Assets Under Management in Note 24.

4. Net Funds Made Available for Investment

The receipts below represent the total of monies received by Funds SA from the public sector superannuation funds for investment, and payments represent the total of monies redeemed by the funds to meet scheme payments.

	2004	2003
	\$'000	\$'000
South Australian Superannuation Scheme:		
Receipts	285 859	226 305
Less: Payments	289 650	286 550
	<hr/> (3 791)	<hr/> (60 245)
Police Superannuation Scheme:		
Receipts	36 275	5 050
Less: Payments	13 650	12 150
	<hr/> 22 625	<hr/> (7 100)

4.	Net Funds Made Available for Investment (continued)		2004	2003
	Southern State Superannuation Scheme:		\$'000	\$'000
	Receipts		293 475	237 275
	Less: Payments		<u>-</u>	1 175
			293 475	236 100
	Parliamentary Superannuation Scheme:			
	Receipts		2 890	32 790
	Less: Payments		21 180	4 220
			(18 290)	28 570
	Judges' Pensions Scheme:			
	Receipts		2 510	21 910
	Less: Payments		7 430	2 860
			(4 920)	19 050
	Governors' Pension Scheme:			
	Receipts		<u>-</u>	<u>-</u>
	Less: Payments		90	115
			(90)	(115)
			289 009	216 260

5.	Investment Income	Rent, Interest and Dividends	Realised Gains (Losses) ⁽¹⁾	Unrealised Gains (Losses) ⁽²⁾	2004
	(a) Composition of Investment Income				Total
	<i>Assets Sector</i>				
	Inflation Linked Securities	43 566	(966)	(25 643)	16 591
	Property	31 142	512	38 476	65 195
	Australian Equities	90 314	48 493	276 032	404 621
	International Equities	30 659	61 310	346 714	425 836
	Australian Fixed Interest	13 366	(1 324)	(3 796)	7 725
	International Fixed Interest	8 528	6 824	(2 302)	(1 004)
	Cash	8 465	<u>-</u>	(132)	(148)
	Total	226 040	114 849	629 349	(30 039)
					940 199

	Rent, Interest and Dividends	Realised Gains (Losses) ⁽¹⁾	Unrealised Gains (Losses) ⁽²⁾	2003
				Total
	<i>Assets Sector</i>			
	Inflation Linked Securities	46 753	3 993	25 036
	Property	34 212	1 108	(515)
	Australian Equities	77 209	(81 513)	20 627
	International Equities	21 997	(52 928)	(5 136)
	Australian Fixed Interest	12 818	4 584	(8 569)
	International Fixed Interest	8 951	20 405	(11 891)
	Cash	6 279	<u>-</u>	(175 802)
	Total	208 219	(104 351)	(62 192)
				14 104

(1) Realised gains (losses) represents realised gains and losses over either cost for those investments which had been acquired and disposed of within the financial period, or over market values previously brought to account where the investments disposed of were held at the commencement of the period.

(2) Unrealised gains (losses) represents unrealised gains and losses, over either cost for those investments acquired during the period, or over market value at the commencement of the period for those investments acquired prior to the commencement of the period. With respect to international equities, the unrealised gains and losses of assets is offset by either the expense or income realised during the financial year due to the implementation of Funds SA's currency management strategy.

(b) Allocation of Net Investment Income

The allocation of net investment income to each public sector superannuation fund managed by Funds SA is as follows:

	2004 \$'000	2003 \$'000
South Australian Superannuation Scheme:		
South Australian Superannuation Fund:		
Old Scheme Division	185 718	(9 189)
New Scheme Division	63 717	(1 601)
Employer Contribution Accounts	217 311	537
Police Superannuation Scheme:		
Police Superannuation Fund:		
Old Scheme Division	38 689	(1 610)
New Scheme Division	2 042	(32)
Employer Contribution Accounts	31 009	(1 317)
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	48 432	4 511
Southern State Superannuation (Employers) Fund	310 713	21 395
Parliamentary Superannuation Scheme	21 794	(772)
Judges' Pensions Scheme	17 920	(653)
Governors' Pension Scheme	74	(6)
	937 419	11 263

Subscriptions and redemptions are regularly made from unitised sector funds in line with each fund's cash flow requirements. It is therefore not possible to determine accurately the separate contribution of realised and unrealised gains to each fund's share of net investment income.

6. Administration Expenses

(a) General

Administration expenses incurred by Funds SA totalling \$2 780 008 (\$2 840 900) have been charged against the sector funds under management. This cost is recorded in the Statement of Changes in Net Assets.

A summary of the major classes of administration expenses is provided in the table below.

	2004 \$'000	2003 \$'000
Directors' fees and related expenses	196	220
Staff salary and related expenses	1 632	1 661
Rental and accommodation expenses	143	141
Depreciation	52	77
Travel, training and development	177	141
External audit fees	91	84
Consultancy fees	20	102
Insurances	109	134
Other	360	281
	2 780	2 841

(b) Fees Paid to Consultants

Fees paid or payable to consultants for services not related to the management of specific investments amounted to \$19 758 (\$101 800), and are included as part of the administration expenses of Funds SA. Funds SA also makes payments for services provided in relation to the acquisition, ongoing management and disposal of investments. These payments are incurred in the normal course of business, and have been either capitalised or expensed within the sector funds to which they relate.

7. Inflation Linked Securities

The net market value of individual assets or portfolios that comprise the inflation linked securities sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Inflation Linked Securities held by sub-sector at the balance date comprise:

	2004 \$'000	2003 \$'000
Internally managed investments	397 680	430 951
Externally managed investments	354 698	234 199
	752 378	665 150

7. Inflation Linked Securities (continued)

As at 30 June 2004, the composition of each sub-sector is as follows:

Internally Managed Investments:

Omni Midland Pty Ltd - Loan
 Obtala Pty Ltd - Loan
 Kite Street, Orange, NSW - Lease
 SA Housing Trust Leaseholds, various locations, SA - Lease
 Sir Samuel Way Building, Victoria Square, Adelaide, SA - Lease
 Roma Mitchell Building, North Terrace, Adelaide, SA - Lease
 Shell Australia Service Station Leases, various locations⁽¹⁾ - Leases
 Blue Mountains Sewage Transfer Scheme, NSW⁽²⁾ - Licence Agreement

Externally Managed Investments:

Credit Suisse Asset Management (Australia) Limited

- (1) The leases provide for Funds SA to receive rental payments adjusted annually by the greater of inflation or an agreed percentage amount. The market valuation of these arrangements also incorporates the present value of the property residual, this being determined as the unimproved land value at lease expiry.
- (2) The market value of the Blue Mountains Sewage Transfer Scheme represents the present value of a stream of cash flows arising from a series of bonds, indexed to the Average Weekly Earnings, under a contract with the Sydney Water Board to transfer sewage from the Blue Mountains to the Winmalee Sewage Treatment Plant.

8. Property

The net market value of individual assets or portfolios that comprise the property sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy. Property interests held by sub-sector at balance date comprise:

	2004	2003
	\$'000	\$'000
Directly held properties	31 680	59 066
Externally managed listed property trusts	299 744	254 299
Externally managed unlisted property vehicles	196 834	186 878
	528 258	500 243

As at 30 June 2004, the composition of each sub-sector is as follows:

Directly Held Properties:

Australian Taxation Office, 200 Collins Street, Hobart, Tasmania⁽¹⁾

Net present value of lease residual, Department of Land Administration Offices, Midland, Western Australia⁽²⁾

Externally Managed Listed Property Trusts:

Macquarie Investment Management Limited
 SG Hiscock and Company Limited

Externally Managed Unlisted Property Vehicles:

AMP Life Limited
 Private Property Syndicate
 Lend Lease Real Estate Partners

- (1) The Australian Taxation Office, Hobart has been the subject of a redirection of the rental stream arising from a long term lease. The value of this property has been determined by the Directors having regard to the nature of the arrangements currently in force over the property, and anticipated market conditions at the expiration of these arrangements. The offsetting non-current liability is reported in Note 15(b).
- (2) The value of a future interest in the lease residual associated with the Department of Land Administration Offices, Midland, Western Australia, has been determined by Directors using the discounted cash flow method.

9. Australian Equities

The net market value of individual assets or portfolios that comprise the Australian equities sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Funds SA uses fund managers to manage its externally managed Australian equities portfolio. Each manager has been given a mandate to invest in discretely held portfolios of listed Australian equities, but for market timing purposes, they may also hold some cash from time to time. Assets under management are held by JP Morgan as custodian.

Private equity comprises investments in managed trust funds. Such investments may take the form of equity interests, loans, or a combination of both.

9. Australian Equities (continued)

The nature of mandates given to investment managers and the value of the individual portfolios as at balance date comprise:

	2004	2003
	\$'000	\$'000
Active Broad Market Mandate:		
Credit Suisse Asset Management (Australia) Ltd	410 419	354 805
Balanced Equity Management Pty Ltd	511 793	405 704
Barclays Global Investors Australia Limited	289 608	238 861
Barclays Global Investors Australia Limited - Long/Short	72 777	56 877
Perennial Value Management Limited	550 629	446 361
Active Small Capitalisation Mandate:		
Jenkins Investment Management Pty Ltd	118 375	85 205
SG Hiscock and Company Ltd	125 912	87 570
Private Equity Investments: ⁽¹⁾		
Listed Equities	-	1 673
Managed Funds	55 601	50 829
	2 135 114	1 727 885

(1) As at 30 June 2004, the composition of each private equity sub-sector is as follows:

Managed Funds:

Arrow Development Fund (Rothschild)
 Australian Mezzanine Investment #2 Trust
 Hambro-Grantham Development Trust
 Macquarie Investment #2 Trust
 AMP Business Development Fund #2
 Catalyst Fourth Management Buyout Fund
 Castle Harlan Australian Mezzanine Partners No.1A Trust
 Business Equity Fund
 Equity Partners #2
 Technology Venture Partners #3
 GS Private Equity Fund #2
 Advent IV Private Equity Fund #1
 CHAMP Ventures Investments Trust No. 5
 Quay Secondaries 1 Fund

10. International Equities

The net market value of individual assets or portfolios that comprise the international equities sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy. Funds SA uses external fund managers to manage its international equities portfolio. Each manager has been given a mandate to invest either in discretely held listed equities, pooled unit trusts or private equity investments, but for market timing purposes, may also hold some cash from time to time. The discretely held portfolios are held by JP Morgan as custodian. The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2004	2003
	\$'000	\$'000
All Countries mandate:		
Capital International Inc.	243 323	190 551
Europe Australasia Far East (EAFE) mandates:		
Capital International Inc.	326 896	249 932
The Boston Company Asset Management LLC	150 859	111 764
Delaware International Advisers Limited	193 350	154 456
Fidelity International Limited	166 931	118 248
North America mandates:		
Rainier Investment Management	108 669	117 448
Jacobs Levy Equity Management Inc.	408 632	360 959
Barclays Global Investors - US Alpha Tilts Fund	405 346	334 191
Barclays Global Investors - MSCI Canada Index Fund	44 875	28 554
Barclays Global Investors - Russell 2000 Alpha Tilts Fund	58 091	77 073
Turner Investment Partners Inc.	45 046	-
Sterling Johnston Capital Management LP	30 477	-
Lord Abbett & Co. LLC	35 433	-
Emerging markets mandates:		
Genesis Management Australia Ltd	92 954	48 360
GMO Australia Limited	97 023	36 694

10.	International Equities (continued)	2004	2003
	Private Equity mandates:	\$'000	\$'000
	Wilshire Private Markets Funds	25 597	17 210
	Brinson Partnership Trusts	17 241	11 973
	Adams Street Partnership Funds	6 078	3 011
	Pantheon Europe Funds	6 966	950
	Currency Hedge Overlay ⁽¹⁾	(42 829)	43 221
		2 420 958	1 904 595

(1) The value of the currency hedge overlay as at 30 June is represented by either the expense or income associated with closing out the forward rate agreements in place, at that date, as part of Funds SA's currency management strategy. The negative hedge overlay position, as at 30 June, reflects depreciation in the Australian dollar relative to cross-currencies during the June quarter.

11. **Australian Fixed Interest**

The net market value of individual assets or portfolios that comprise the Australian fixed interest sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Funds SA uses external fund managers to manage its Australian fixed interest portfolio. Each manager has been given a mandate to invest either in discretely held or pooled unit trust portfolios of fixed interest investments, but for market timing purposes, may also hold some cash from time to time. The discretely held portfolios are held by JP Morgan as custodian.

The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2004	2003
	\$'000	\$'000
Australian Broad Market:	159 601	115 267
Credit Suisse Asset Management (Australia) Ltd		
Australian Broad Market with tactical discretion:	159 464	120 635
UBS Brinson	319 065	235 902

12. **International Fixed Interest**

The net market value of individual assets or portfolios that comprise the international fixed interest sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Funds SA uses external fund managers to manage its international fixed interest portfolio. Each manager has been given a mandate to invest either in discretely held or pooled unit trust portfolios of global fixed interest investments, but for market timing purposes, may also hold some cash from time to time. The discretely held portfolios are held by JP Morgan as custodian.

The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2004	2003
	\$'000	\$'000
Active mandates:		
PIMCO Australia Pty Ltd	161 362	127 574
Bridgewater	159 623	-
Fischer Francis Trees and Watts, Inc	-	120 586
	320 985	248 160

13. **Cash**

The cash sector fund comprised the following investments as at the balance date:

Externally managed:	157 647	127 930
Macquarie Investment Management Ltd	157 647	127 930

14. **Fixed Assets**

Fixed assets comprise fixtures, fittings, plant and equipment. Movements in this account over the financial year are summarised below:

Fixed assets (At cost) at 1 July	759	741
Add: Purchases	128	44
	887	785
Less: Disposals (At cost)	-	26
Fixed assets (At cost) at 30 June	887	759
Less: Accumulated depreciation at 30 June	741	689
	146	70

15. Liabilities		2004 \$'000	2003 \$'000
(a) Current Provisions	Current provisions as at balance date comprise:		
	Provision for employee entitlements	140	123
	Lease incentive	-	18
	Other	-	358
		140	499
(b) Non-Current Liabilities	Non-Current liabilities as at balance date comprise:		
	Provision for employee entitlements	355	341
	Bank bill facility ⁽¹⁾	21 792	26 938
	Lease incentive	-	8
	Other	4 153	-
		26 300	27 287

(1) The future income stream arising from the long term lease to the Australian Taxation Office (ATO) of the whole of a Hobart office property has been redirected to a syndicate of international banks. The redirection was in the form of a concurrent lease of the property to the banks under which the banks received the right to the rental and fixed outgoings payments made by the ATO. The concurrent lease requires the banks to make rental payments to Funds SA equal in value to the payments receivable from the ATO. As part of the transaction, the banks provided a bank bill facility to Funds SA. Under a set-off agreement, the rental payments due to Funds SA under the concurrent lease are applied by the banks to service the bill facility. The amounts outstanding under the facility are predetermined and are capable of being fully serviced and repaid from the concurrent lease rentals.

16. Commitments and Contingent Liabilities

(a) Commitments

As at the balance date, Funds SA had commitments associated with future capital calls on private equity investments entered into before that date, other than transactions which have been provided for in the financial report as unsettled purchases of investments. The commitments are as follows, with no allowance having been made for the time value of money:

	2004 \$'000	2003 \$'000
Not later than one year	75 358	57 320
Later than one year but not later than five years	176 603	147 647
Later than five years	5 230	10 816
	257 191	215 783

(b) Contingent Liabilities

There were no contingent liabilities as at the balance date.

17. Employee Benefits

(a) Employees' Remuneration

Funds SA had 16 employees as at 30 June 2004.

Remuneration, including salary, bonuses, superannuation and other benefits, of Funds SA officers which exceeds the disclosure threshold required by Accounting Policy Statement No. 13 'Form and Content of General Purpose Financial Reports' is as follows:

Total Remuneration:	Number of Officers	2004	2003
\$100 001 - \$110 000	2	3	
\$110 001 - \$120 000	1	-	
\$130 001 - \$140 000	-		1
\$140 001 - \$150 000	1	-	
\$200 001 - \$210 000	1	-	
\$220 001 - \$230 000	-		1
\$260 001 - \$270 000	1	-	
\$270 001 - \$280 000	-		1

The aggregate remuneration of employees exceeding the disclosure threshold was \$937 656 (\$954 700).

(b) Employee Benefits

The administration expenses incurred by Funds SA include recognition of the liabilities associated with employee benefits of Funds SA officers resulting from service up to the balance date.

Superannuation liabilities recognised in the Statement of Net Assets represent employer contributions due but not yet paid as at the balance date. Funds SA Directors and officers are either members of the South Australian Superannuation Scheme, Southern State Superannuation Scheme or private superannuation funds.

(b) Employee Benefits (continued)

Funds SA makes periodic payments to these superannuation funds. These payments extinguish any future liability for superannuation for all employees and directors. In 2003-04, the periodic amounts paid, or due and payable, to the South Australian Superannuation Scheme and the Southern State Superannuation Scheme totalled \$112 933 (\$114 100). In 2003-04, the periodic amounts paid, or due and payable, to private superannuation funds totalled \$37 224 (\$41 100).

The employee benefits recognised as liabilities as at 30 June 2004 comprise:

	2004		2003
	Current	Non- Current	Total
	\$'000	\$'000	\$'000
Salaries and wages	56	-	56
Annual leave	72	-	72
Long service leave	10	355	365
Superannuation	2	-	2
	140	355	495
			464

18. Related Parties**(a) Directors**

The following are directors of the Corporation who have served during the course of the 2003-04 financial year, along with the period served.

Helen Nugent	Chairman	Throughout the year
Julie Brennan	Director	Throughout the year
Kevin Crawshaw	Director	Throughout the year
Leigh Hall	Director	Throughout the year
Jan McMahon	Director	Throughout the year
Anthony Sims	Director	Resigned 2 September 2003
Jim Wright	Director	Throughout the year

(b) Remuneration of Directors

Directors' remuneration includes fees, superannuation and other benefits. Directors' fees include fees paid with respect to directors' representation on both the Funds SA Board and the boards of associated controlled entities. Directors' fees for the 2003-04 year were set by the Governor of South Australia.

The aggregate remuneration of directors was \$189 292 (\$212 600).

	2004	2003
	Number of Directors	Number of Directors
\$0 - \$10 000	1	-
\$10 001 - \$20 000	-	2
\$20 001 - \$30 000	1	1
\$30 001 - \$40 000	3	3
\$60 001 - \$70 000	1	1

(c) Transactions with Directors and Director-related Entities

The Chairman of Funds SA, Dr Helen Nugent, is a non-executive director of the Macquarie Bank Group Limited. Macquarie Bank Group Limited (or its wholly-owned subsidiaries) has provided funds management and other services to Funds SA during 2003-04 on normal commercial terms and conditions. Dr Nugent has taken no part in any discussions, decisions or implementation of decisions relating to Funds SA's relationship with Macquarie Bank Group Limited (or its wholly-owned subsidiaries).

19. Controlled Entities

Funds SA's share holdings in controlled entities are as follows:

Name of Entity	Ownership Percent
Carwell Pty Ltd	100
Kantilla Pty Ltd	100
Narana Pty Ltd	100
Pipetch Pty Ltd	100
• SILT Trust	100

The net market values of these companies have been consolidated into this financial report.

The above entities were established to hold Funds SA's interests in a number of specific investments. As at 30 June 2004, Carwell Pty Ltd, Narana Pty Ltd and Kantilla Pty Ltd did not hold any investments and were dormant. Pipetch Pty Ltd is the trustee company of the SILT Trust, which holds Funds SA's inflation linked investment in the Shell Australia Service Station Leases. This investment is reported in Note 7.

20.	Remuneration of Auditors		2004	2003
	Amounts received, or due and receivable, by the auditors are:		\$'000	\$'000
	Auditor-General's Department:			
	Auditing of Funds SA and certain controlled entities		84	77
	Bird Cameron Partners (Sydney):			
	Auditing of Pipetch Pty Ltd and SILT Trust		7	7
			91	84

21. Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash is considered to include cash on hand, cash at bank and investments in money market instruments, where such investments are considered to be part of the day to day cash management function. Such investments include 11am at call deposits and other deposits of very short duration, and bank bills.

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

	2004	2003
	\$'000	\$'000
Cash	157 647	127 930
Add: Net depreciation of assets	132	143
Short-term money market investments utilised in day-to-day cash management activities	157 779	128 073
Cash at bank	617	470
Cash as at 30 June reported in the Statement of Cash Flows	158 396	128 543

(b) Reconciliation of Net Cash provided by Operating Activities to Investment Income

Investment income reported in the Statement of Changes in Net Assets	937 419	11 263
Net (appreciation) depreciation of investments	(516 335)	120 228
Interest capitalised on inflation linked securities	(6 634)	(12 117)
Income realised by external investment managers, but not remitted	(149 851)	(141 411)
(Excess)/Shortfall of realisations over market values previously taken	(114 849)	105 458
Depreciation of fixed assets and provisions	56	119
Decrease in investment related debtors	40	592
Decrease in investment related creditors	(5 807)	(876)
Net Cash provided by Operating Activities	144 039	83 256

For asset classes other than property, operating outgoings are normally minor and incidental in nature. Funds SA's directly held property is managed by an external agent who is responsible for the collection of rents and the payment of property outgoings. Funds SA receives payments from the managing agent representing the net cash income from the property. For these reasons, items comprising Net cash provided by operating activities in the Statement of Cash Flows are presented on a net cash flow basis.

(c) Credit Facilities

An international bank has made a bank bill facility available to Funds SA as a result of transactions associated with Funds SA's investment in a property in Hobart, Tasmania. The facility has been fully drawn down and does not provide any standby credit. Further reference to this facility may be found under Note 15(b).

22. Additional Disclosures With Respect To Financial Instruments

(a) Interest Rate Risk

Funds SA's investments are exposed to various risks from fluctuations in market interest rates, which can impact on both the net market values of and expected cash flows from those investments. Funds SA is not exposed to interest rate risk on any of its liabilities. The following table summarises interest rate risk exposure on investments.

	Effective Interest Rate Percent	3 Months or Less \$'million	Over 3 to 6 Months \$'million	Over 6 to 12 Months \$'million	Over 1 to 5 Years \$'million	More than 5 Years \$'million	Total \$'million
Australian Fixed Interest:							
Commonwealth bonds	5.71	-	-	-	8.1	15.6	23.7
Semi-Government bonds	5.79	-	-	7.3	34.9	30.1	72.3
Corporate bonds	4.82	-	2.3	2.9	142.9	86.9	235.0
Inflation Linked - Internal:							
Corporate loans	4.01	-	-	-	-	88.3	88.3
Land and buildings	4.45	-	-	-	22.4	125.5	147.9
Indexed licence agreement	3.14	-	-	-	-	161.5	161.5
Inflation Linked - External:							
Commonwealth bonds	3.25	-	-	-	14.5	256.9	271.4
Semi-Government bonds	3.22	-	-	-	0.1	38.4	38.5
Corporate bonds	3.93	-	-	-	-	5.1	5.1

(a) Interest Rate Risk (continued)

	Effective Interest Rate	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 1 to 5 Years	More than 5 Years	2004 Total \$'million
International Fixed Interest:	Percent	\$'million	\$'million	\$'million	\$'million	\$'million	
United States	4.40	0.9	0.6	2.1	1.5	61.4	66.5
United Kingdom	5.06	-	-	-	-	11.3	11.3
European Community	3.88	-	0.4	1.8	5.6	53.0	60.8
Canada	4.72	-	-	-	1.0	1.7	2.7
Switzerland	0.00	-	-	-	0.4	-	0.4
Japan	1.13	-	-	-	3.2	12.1	15.3
Discounted Securities:							
Bank bills (manager held)	5.45	206.7	21.6	-	-	-	228.3
US Bank bills (manager held)	1.18	26.8	1.6	-	-	-	28.4
Cash (floating interest)	2.32	77.3	-	-	-	-	77.3
Total		311.7	26.5	14.1	234.6	947.8	1 534.7

	Effective Interest Rate	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 1 to 5 Years	More than 5 Years	2003 Total \$'million
Australian Fixed Interest:	Percent	\$'million	\$'million	\$'million	\$'million	\$'million	
Commonwealth bonds	4.94	-	-	-	-	46.7	46.7
Semi-Government bonds	4.50	-	-	-	49.4	26.3	75.7
Corporate bonds	5.00	0.5	1.0	3.6	51.7	37.2	94.0
Inflation Linked - Internal:							
Corporate loans	3.49	-	-	-	-	94.9	94.9
Land and buildings	3.81	-	-	-	11.9	154.3	166.2
Indexed licence agreement	2.51	-	-	-	-	169.9	169.9
Inflation Linked - External:							
Commonwealth bonds	2.77	-	-	-	18.3	179.8	198.1
Semi-Government bonds	2.70	-	-	-	0.2	14.2	14.4
Corporate bonds	2.49	-	-	-	6.6	15.0	21.6
International Fixed Interest:							
United States	4.14	2.0	1.8	0.2	16.8	83.8	104.6
United Kingdom	4.13	-	-	0.5	0.5	5.6	6.6
European Community	3.66	-	1.6	-	33.3	57.9	92.8
Canada	4.23	-	-	-	-	2.7	2.7
Switzerland	6.00	-	-	-	0.3	-	0.3
Japan	0.64	-	-	-	-	12.1	12.1
Discounted Securities:							
Bank bills (manager held)	4.71	21.0	9.8	-	-	-	30.8
US Bank bills (manager held)	1.04	7.9	-	-	-	-	7.9
Cash (floating interest)	3.58	95.4	-	-	-	-	95.4
Total		126.8	14.2	4.3	189.0	900.4	1 234.7

(b) Use of Derivatives

In accordance with the Regulations under the Act, the Treasurer of South Australia has authorised Funds SA to utilise derivative contracts for the purpose of the investment of funds or the management of portfolio risk.

Funds SA's external managers are empowered, pursuant to their respective investment management agreements, to enter into derivative contracts as part of their investment role. Derivative contracts may be used, for example, to provide efficient entry to or exit from markets or as a cost efficient substitute for the actual acquisition of securities. However, managers cannot gear the portfolio; that is, sufficient cash or assets must be maintained in the portfolio to support the liability underlying each contract.

Funds SA has engaged a manager to manage a static currency hedge against a strategic proportion of the international equities portfolio. The hedge is achieved by purchasing forward rate agreements to the required Australian dollar value with currencies matching the underlying country weighting in the Morgan Stanley Capital International (MSCI) Index. The purpose of the hedge is to remove the impact of currency movements from the proportion of the international equities portfolio being hedged.

(b) Use of Derivatives (continued)

The following table summarises Funds SA's external managers' use of derivative instruments:

	2004		2003	
	Principal Amount \$'000	Net Market Value \$'000	Principal Amount \$'000	Net Market Value \$'000
Derivative Instrument:				
Futures - Australian fixed interest	29 320	291	(2 440)	478
Futures - International fixed interest	110 228	(153)	(15 958)	104
Futures - Share price index	(97 795)	12	16 146	(404)
Futures - Discount securities	(290 366)	72	(48 436)	(218)
Options - Australian exchange traded	13 744	11 186	11 541	11 413
Options - International exchange traded	(54 304)	(54 304)	-	(4 625)
Options - International over the counter	(217)	(217)	(143)	(143)
Currency forward rate agreements	780 194	(42 829)	663 806	43 221
	490 804	(85 942)	624 516	49 826

(c) Currency Risk

A number of Funds SA's external fund managers, particularly within the international equities sector fund, are permitted to invest in assets denominated in currencies other than the Australian dollar. The following table summarises the currency exposures associated with these assets and also the extent to which these exposures have either been hedged directly by Funds SA's external fund managers or hedged indirectly through Funds SA's overlaid currency hedging program (refer discussion under Note 23(b)).

	2004 \$'000	2003 \$'000
United States, Dollar	1 475 787	1 169 893
Europe, Euro	388 786	333 314
Japan, Yen	234 473	127 756
United Kingdom, Pound	227 909	165 598
Switzerland, Franc	64 987	46 800
Sweden, Krona	9 736	8 996
Hong Kong, Dollar	18 111	16 850
Canada, Dollar	70 014	51 254
Singapore, Dollar	14 002	13 553
Norway, Krone	7 216	6 589
Denmark, Kroner	4 933	1 712
New Zealand, Dollar	40 366	8 018
Mexico, Pesos	2 599	1 635
South Korea, Won	2 916	1 801
Brazil, Real	408	264
Taiwan, New Dollars	-	672
South Africa, Rand	7 486	-
Bangladesh, Taka	1 163	-
Mauritius, Rupee	229	-
Israel, New Shekel	609	-
Turkey, Lira	770	-
<i>Less: Amount effectively hedged</i>	2 572 500 (946 086)	1 954 705 (893 976)
	1 626 414	1 060 729

23. Events Occurring After Reporting Date

There were no events occurring after the reporting date which, in the opinion of directors, are required to be disclosed in either the Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows or in the Notes to and forming part of the Financial Report.

24. Financial Information of Funds Under Management

Statements of Net Assets Under Management and Statements of Changes in Net Assets in respect of each of the public sector superannuation funds under the investment management of Funds SA are reported upon below, as required by Section 26(2) of the Act. As indicated in Note 1, these statements report only upon the investment activities of the public sector superannuation funds under management, and not scheme administration activities. The Statements are numbered on the following pages as follows:

- (a) South Australian Superannuation Scheme
 - (i) South Australian Superannuation Fund – Old and New Scheme Divisions
 - (ii) South Australian Superannuation Scheme - Employer Contribution Accounts

24. Financial Information of Funds Under Management (continued)

- (b) Police Superannuation Scheme
 - (i) Police Superannuation Fund – Old and New Scheme Divisions
 - (ii) Police Superannuation Scheme - Employer Contribution Account
- (c) Southern State Superannuation Scheme
 - (i) Southern State Superannuation Fund
 - (ii) Southern State Superannuation (Employers) Fund
- (d) Parliamentary Superannuation Scheme
- (e) Judges' Pensions Scheme
- (f) Governors' Pension Scheme

(a) South Australian Superannuation Scheme**Statement of Changes in Net Assets Under Management for the year ended 30 June 2004**

	2004	2003
	\$'000	\$'000
Funds held at 1 July	2 673 727	2 744 225
Add: Receipts	285 859	226 305
Net investment earnings	466 746	(10 253)
Less: Payments	289 650	286 550
Funds held at 30 June	3 136 682	2 673 727

Statement of Net Assets under Management as at 30 June 2004

	2004	2003
	\$'000	\$'000
Inflation linked securities	363 941	335 894
Property	264 956	260 154
Australian equities	1 065 636	900 785
International equities	1 212 628	997 848
Australian fixed interest	89 481	68 315
International fixed interest	90 349	74 380
Cash	67 474	55 812
Other assets	461	368
<i>Less: Liabilities</i>	3 154 926	2 693 556
Net Assets	18 244	19 829
	3 136 682	2 673 727

(a) (i) South Australian Superannuation Fund**Statement of Changes in Net Assets Under Management for the year ended 30 June 2004**

	2004	2003	2004	2003
	Old	Old	New	New
	Scheme	Scheme	Scheme	Scheme
	Division	Division	Division	Division
	\$'000	\$'000	\$'000	\$'000
Funds held at 1 July	1 054 231	1 110 720	349 407	332 703
Add: Receipts	3 500	1 150	12 650	19 205
Net investment earnings	185 718	(9 189)	63 717	(1 601)
Less: Payments	51 550	48 450	1 500	900
Funds held at 30 June	1 191 899	1 054 231	424 274	349 407

(a) (i) South Australian Superannuation Fund (continued)

Statement of Net Assets under Management as at 30 June 2004

	2004 Old	2003 Old	2004 New	2003 New
	Scheme Division	Scheme Division	Scheme Division	Scheme Division
	\$'000	\$'000	\$'000	\$'000
Inflation linked securities	138 293	132 441	49 228	43 895
Property	100 680	102 577	35 838	33 997
Australian equities	404 928	355 173	144 140	117 716
International equities	460 783	393 444	164 023	130 401
Australian fixed interest	34 002	26 936	12 103	8 927
International fixed interest	34 331	29 328	12 221	9 720
Cash	25 639	22 006	9 127	7 294
Other assets	175	145	62	48
	1 198 831	1 062 050	426 742	351 998
Less: Liabilities	6 932	7 819	2 468	2 591
Net Assets	1 191 899	1 054 231	424 274	349 407

(a) (ii) South Australian Superannuation Scheme - Employer Contribution Accounts

Statement of Changes in Net Assets under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	1 270 089	1 300 802
Add: Receipts	269 709	205 950
Net investment earnings	217 311	537
Less: Payments	236 600	237 200
Funds held at 30 June	1 520 509	1 270 089

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	176 420	159 558
Property	128 438	123 580
Australian equities	516 568	427 896
International equities	587 822	474 003
Australian fixed interest	43 376	32 452
International fixed interest	43 797	35 332
Cash	32 708	26 512
Other assets	224	175
	1 529 353	1 279 508
Less: Liabilities	8 844	9 419
Net Assets	1 520 509	1 270 089

(b) Police Superannuation Scheme

Statement of Changes in Net Assets Under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	399 517	409 576
Add: Receipts	36 275	5 050
Net investment earnings	71 740	(2 959)
Less: Payments	13 650	12 150
Funds held at 30 June	493 882	399 517

(b) Police Superannuation Scheme (continued)

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	57 304	50 189
Property	41 717	38 873
Australian equities	167 789	134 599
International equities	190 933	149 102
Australian fixed interest	14 089	10 207
International fixed interest	14 225	11 114
Cash	10 624	8 339
Other assets	74	56
<i>Less: Liabilities</i>	496 755	402 479
Net Assets	2 873	2 962
	493 882	399 517

(b) (i) Police Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2004

	2004 Old Scheme Division \$'000	2003 Old Scheme Division \$'000	2004 New Scheme Division \$'000	2003 New Scheme Division \$'000
Funds held at 1 July	216 691	222 251	10 988	10 095
<i>Add: Receipts</i>	800	775	850	1 000
Net investment earnings	38 689	(1 610)	2 042	(32)
<i>Less: Payments</i>	3 400	4 725	150	75
Funds held at 30 June	252 780	216 691	13 730	10 988

Statement of Net Assets under Management as at 30 June 2004

	2004 Old Scheme Division \$'000	2003 Old Scheme Division \$'000	2004 New Scheme Division \$'000	2003 New Scheme Division \$'000
Inflation linked securities	29 330	27 222	1 593	1 380
Property	21 352	21 084	1 159	1 069
Australian equities	85 878	73 004	4 665	3 702
International equities	97 724	80 870	5 308	4 101
Australian fixed interest	7 211	5 537	392	280
International fixed interest	7 281	6 028	395	306
Cash	5 438	4 523	295	229
Other assets	37	30	3	2
<i>Less: Liabilities</i>	254 251	218 298	13 810	11 069
Net Assets	1 471	1 607	80	81
	252 780	216 691	13 730	10 988

(b) (ii) Police Superannuation Scheme - Employer Contribution Account

Statement of Changes in Net Assets under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	171 838	177 230
<i>Add: Receipts</i>	34 625	3 275
Net investment earnings	31 009	(1 317)
<i>Less: Payments</i>	10 100	7 350
Funds held at 30 June	227 372	171 838

(b) (ii) Police Superannuation Scheme - Employer Contribution Account (continued)

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	26 381	21 587
Property	19 206	16 720
Australian equities	77 246	57 893
International equities	87 901	64 131
Australian fixed interest	6 486	4 390
International fixed interest	6 549	4 780
Cash	4 891	3 587
Other assets	34	24
<i>Less: Liabilities</i>	228 694	173 112
Net Assets	1 322	1 274
	227 372	171 838

(c) Southern State Superannuation Scheme

Statement of Changes in Net Assets Under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	2 076 388	1 814 382
<i>Add: Receipts</i>	293 475	237 275
Net investment earnings	359 145	25 906
<i>Less: Payments</i>	-	1 175
Funds held at 30 June	2 729 008	2 076 388

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	303 391	251 100
Property	201 388	179 557
Australian equities	820 458	617 501
International equities	924 960	674 565
Australian fixed interest	208 673	151 691
International fixed interest	209 523	156 473
Cash	74 406	59 132
Other assets	468	343
<i>Less: Liabilities</i>	2 743 267	2 090 362
Net Assets	14 259	13 974
	2 729 008	2 076 388

(c) (i) Southern State Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	256 720	174 809
<i>Add: Receipts</i>	78 375	78 575
Net investment earnings	48 432	4 511
<i>Less: Payments</i>	-	1 175
Funds held at 30 June	383 527	256 720

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	40 476	29 405
Property	28 114	21 954
Australian equities	115 189	76 033
International equities	130 379	83 431
Australian fixed interest	28 376	17 940
International fixed interest	28 494	18 521
Cash	14 417	11 103
Other assets	85	59
<i>Less: Liabilities</i>	385 530	258 446
Net Assets	2 003	1 726
	383 527	256 720

(c) (ii) Southern State Superannuation (Employers) Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	1 819 668	1 639 573
Add: Receipts	215 100	158 700
Net investment earnings	310 713	21 395
Less: Payments	-	-
Funds held at 30 June	2 345 481	1 819 668

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	262 915	221 695
Property	173 274	157 603
Australian equities	705 269	541 468
International equities	794 581	591 134
Australian fixed interest	180 297	133 751
International fixed interest	181 029	137 952
Cash	59 989	48 029
Other assets	383	284
<i>Less: Liabilities</i>	2 357 737	1 831 916
Net Assets	12 256	12 248
	2 345 481	1 819 668

(d) *Parliamentary Superannuation Scheme***Statement of Changes in Net Assets under Management for the year ended 30 June 2004**

	2004 \$'000	2003 \$'000
Funds held at 1 July	122 019	94 221
Add: Receipts	2 890	32 790
Net investment earnings	21 794	(772)
Less: Payments	21 180	4 220
Funds held at 30 June	125 523	122 019

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	14 564	15 329
Property	10 603	11 872
Australian equities	42 644	41 109
International equities	48 527	45 538
Australian fixed interest	3 581	3 118
International fixed interest	3 616	3 394
Cash	2 700	2 547
Other assets	18	17
<i>Less: Liabilities</i>	126 253	122 924
Net Assets	730	905
	125 523	122 019

(e) *Judges' Pensions Scheme***Statement of Changes in Net Assets under Management for the year ended 30 June 2004**

	2004 \$'000	2003 \$'000
Funds held at 1 July	100 139	81 742
Add: Receipts	2 510	21 910
Net investment earnings	17 920	(653)
Less: Payments	7 430	2 860
Funds held at 30 June	113 139	100 139

(e) Judges' Pensions Scheme (continued)

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	13 127	12 581
Property	9 557	9 743
Australian equities	38 437	33 737
International equities	43 739	37 372
Australian fixed interest	3 228	2 559
International fixed interest	3 259	2 786
Cash	2 434	2 090
Other assets	16	14
<i>Less: Liabilities</i>	113 797	100 882
Net Assets	658	743
	113 139	100 139

(f) Governors' Pension Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Funds held at 1 July	457	578
<i>Add: Receipts</i>	-	-
Net investment earnings	74	(6)
<i>Less: Payments</i>	90	115
Funds held at 30 June	441	457

Statement of Net Assets under Management as at 30 June 2004

	2004 \$'000	2003 \$'000
Inflation linked securities	51	57
Property	37	44
Australian equities	150	154
International equities	171	170
Australian fixed interest	13	12
International fixed interest	13	13
Cash	9	10
Other assets	-	-
<i>Less: Liabilities</i>	444	460
Net Assets	3	3
	441	457

DEPARTMENT OF TREASURY AND FINANCE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department is an administrative unit established under the *Public Sector Management Act 1995*.

Functions

The Government, through the Treasurer and the Department of Treasury and Finance, undertakes a number of distinct roles including:

- setting economic and fiscal policy at the whole-of-government level;
- managing whole-of-government financial management processes;
- providing a whole range of direct whole-of-government services including asset and liability management, collection of taxes, and insurance and superannuation administration.

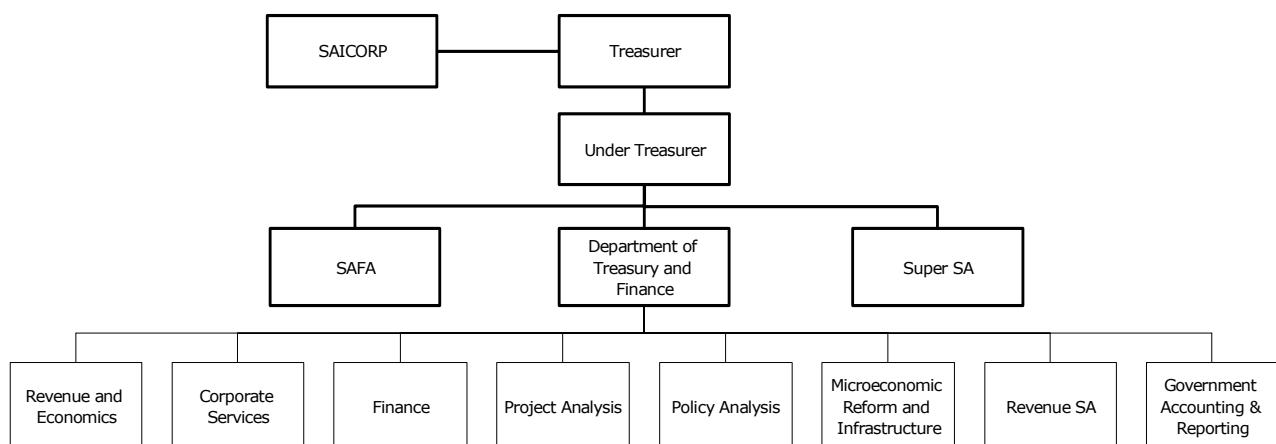
In turn the Department is a major service provider by:

- collecting tax revenue and implementing taxation legislation through RevenueSA;
- raising and managing the State's debt funding through the South Australian Government Financing Authority (SAFA);
- administering public sector superannuation through the State Superannuation Office (Super SA);
- managing and insuring Government risk through the South Australia Government Captive Insurance Corporation (SAICORP).

The Department administers but does not control certain funds on behalf of the Treasurer. These funds are not recorded in the Department's Statement of Financial Performance or Statement of Financial Position, as the Department does not have any discretion to deploy the resources for achievement of its own objectives. Further details are provided in the Statement of Administered Expenses and Revenues, Statement of Administered Assets and Liabilities and Administered Statement of Cash Flows appearing in the Department's financial statements.

Structure

The structure of the Department of Treasury and Finance is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

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

Assessment of Controls

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

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

Scope of Audit

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

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

Corporate Services

- Operating expenditure
- Payroll
- Fixed assets
- Revenue
- Accounting and financial management reporting
- Information technology.

RevenueSA

- Financial accounting and recording systems for tax collections
- Emergency Services Levy (ESL) collection system
- First Home Owners Grant applications and disbursements
- Compliance Services for all taxes
- Computer processing environments.

Insurance Services

Commentary in respect of these activities is included in the section of Part B of this Report covering the South Australian Government Captive Insurance Corporation (SAICORP).

Investing and Financing Services

Commentary in respect of these activities is included in the section of Part B of this Report covering the South Australian Government Financing Authorities (SAFA).

Superannuation Services

Commentary in respect of these activities is included in the section of Part B of this Report covering South Australian Superannuation Board.

Public Finances

In addition, Audit undertakes ongoing work with respect to various aspects of the public finances. These matters are primarily reported in Part A of this Report, and the Treasurer's Statements are an Appendix to Part B of this Report.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

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

Assessment of Controls

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

Audit Communications to Management

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

Corporate Services

The Corporate Services branch is responsible for overseeing the processing and management of transactions in relation to the Department's own operations as well as providing some services to other agencies. The audit of the branch indicated that in most cases there was a satisfactory control environment in place, although there were some areas where minor improvements could be made.

Corporate Services Response

In response, Corporate Services indicated that each of the matters had either been resolved, or that steps had been put in place to implement the Audit recommendations.

RevenueSA

RevenueSA is responsible for the collection of more than \$2 billion of taxation revenue on behalf of the Government. The audit of RevenueSA indicated that while existing systems of internal control were generally operating satisfactorily, a number of matters warranted further action by management, some of which have been recurrent/outstanding over a number of years. In particular, attention was drawn to the following area:

Debt Management

As in previous years, Audit raised matters in relation to RevenueSA's debt management function and in particular, the absence of management reporting relating to outstanding debts in all tax head areas. Audit considers this exposes RevenueSA to the risk that outstanding debts may not be identified and followed up.

Audit recognises that reporting from existing systems remains a major reason for this ongoing problem and noted that recommendations arising from past audit reviews and RevenueSA's review of debt management in December 2002 have been referred to the RISTEC (replacement information technology system for the collection of State taxation revenue) project team.

However, the RISTEC project is still in its infancy (at the time of the audit the project team were mapping existing processes before proceeding with specification of functional requirements for the new system) and may not be fully operational until late 2006.

Accordingly Audit recommended that action be taken in the interim to address debt management issues raised.

RevenueSA Response

In response, RevenueSA indicated that the existing systems are not easily upgradeable and that in most cases management had determined that the costs of developing 'work arounds' exceed the benefits provided, particularly in an environment of competing priorities and in implementing replacement systems via RISTEC.

Government Accounting and Reporting (GAR) Branch

Responsibilities for the GAR Branch include the Appropriation process, recording the activities of the Consolidated Account and the balances of the Treasurer's Deposit Accounts and Treasurer's Loans. The audit of the GAR Branch indicated that systems of internal control were generally operating satisfactorily, although there were a number of areas where improvements could be made.

In response, the Department indicated that each of the matters had either been resolved, or that action had been taken to implement Audit recommendations.

In addition to these matters the following observations were made in respect of the operation of the Accrual Appropriation Excess Funds Account:

Background

As part of the 1998-99 Budget, appropriations to agencies were determined for the first time on a net accrual basis. Key principles underlying accrual appropriation were that:

- accrual appropriations would be budget neutral; and
- no portfolios would be disadvantaged in a cash sense.

To ensure that accrual appropriations were budget neutral they were determined on the basis that excess funding would be deposited by portfolios into an interest bearing Special Deposit Account titled Accrual Appropriation Excess Funds.

The deposit account was established together with a range of sub accounts, one for each portfolio or agency.

Access to funds by agencies requires the approval of either Cabinet, as part of the Budget process, or the Treasurer.

For the purposes of financial reporting, the balances held in the sub accounts are deemed to be controlled by agencies and required to be included among the assets shown in their annual financial statements.

Formalised Policies and Procedures

Other than brief information in correspondence documents Audit found no formalised policies and procedures covering:

- agency requirements regarding depositing excess funding into the Special Deposit Account;
- agency requirements regarding access to excess funds;
- authorisation of disbursements from the Special Deposit Account.

Audit recommended policies and procedures be documented, submitted for endorsement by the Treasurer and communicated to agencies.

Fund Balances

To date there has been only limited use of funds by agencies which has resulted in balances in the sub-accounts increasing from \$75 million as at 30 June 1998 to \$270 million as at 30 June 2004.

Audit was advised that current Cash Alignment Policy arrangements announced in 2003-04 by the Department of Treasury and Finance to reduce surplus cash balances across Government agencies will not capture these fund balances.

Audit requested advice as to how the balances of this account currently fit in with the budget and cash management processes of Government.

Depositing Excess Accrual Appropriations

Audit was provided with annual summaries containing the amount of excess accrual appropriation funding required to be paid into the Special Deposit Account by agencies.

A preliminary comparison of these amounts with Special Deposit Account records for the period 1998-99 to 2002-03 revealed that agencies have not always paid excess funds into the Special Deposit Account. For 2003-04 only Courts Administration Authority, Department for Environment and Heritage and Planning SA had deposited excess accrual funds at the time of the audit.

Audit recommended a review be undertaken to determine whether agencies have deposited all required funds since the implementation of the accrual appropriation methodology.

Department's Response

The Department advised that it intends to review the current procedures and principles relating to accrual appropriations to agencies in 2004-05 to assess whether they remain consistent with the recently approved cash alignment policy. The outcome of that review may well obviate the need to review whether agencies have deposited all required funds since the implementation of the accrual appropriation methodology.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

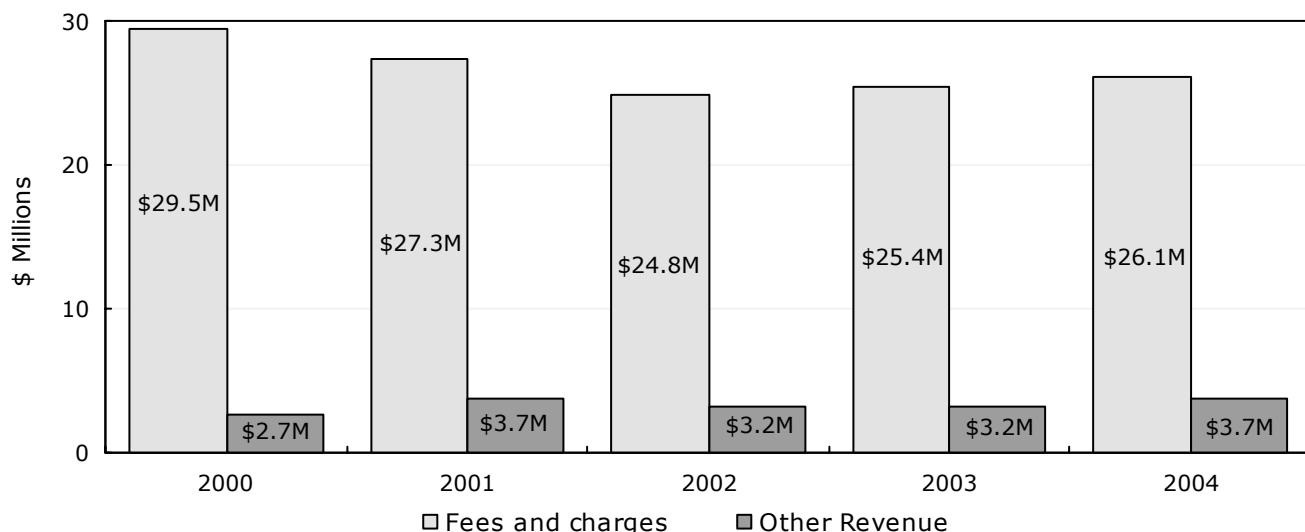
	2004 \$'million	2003 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Fees and charges	26.1	25.4	3
Other revenue	3.7	3.2	16
Total Operating Revenue	29.8	28.6	4
<i>OPERATING EXPENDITURE</i>			
Employee expenses	40.3	37.2	8
Other expenses	28.1	25.2	12
Total Operating Expenses	68.4	62.4	10
Net Cost of Services	38.6	33.8	14
Government appropriation	40.6	36.8	10
Net Result from Ordinary Activities	2.0	3.0	(33)
<i>ASSETS</i>			
Current assets	25.8	22.4	15
Non-current assets	8.6	8.3	4
Total Assets	34.4	30.7	12
<i>LIABILITIES</i>			
Current liabilities	5.3	4.6	15
Non-current liabilities	8.2	7.1	15
Total Liabilities	13.5	11.7	15
EQUITY	20.9	19.0	10

Statement of Financial Performance

Operating Revenues

Fees and charges are the main source of operating revenue for the Department, and represent the recovery of costs from other reporting entities (for example, South Australian Government Financing Authority and South Australian Government Captive Insurance Corporation). Fees and charges have remained relatively steady in 2004.

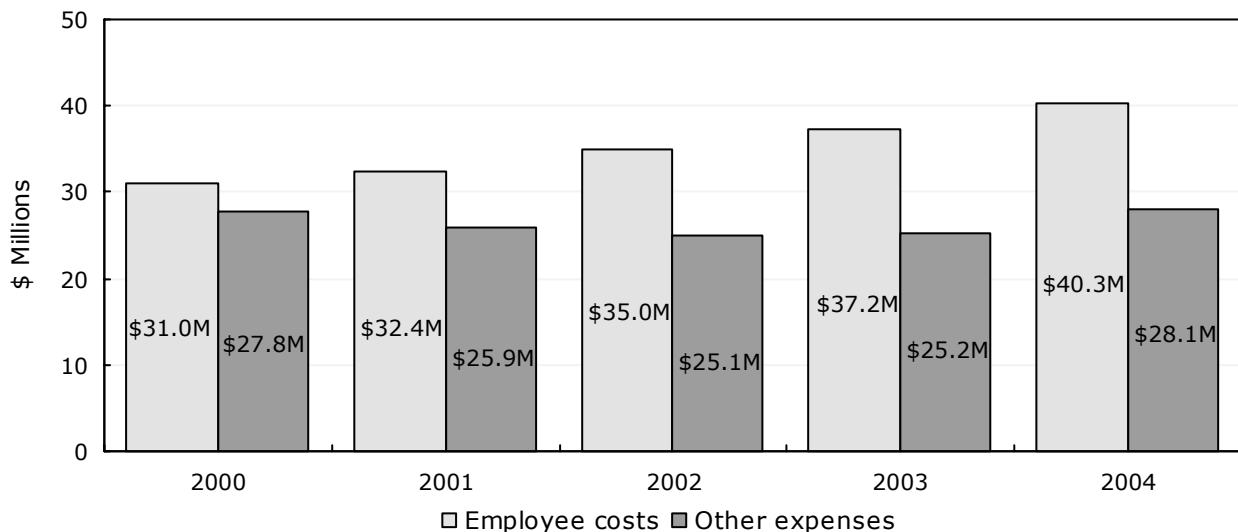
The following chart reflects the trend for the past five years.



Operating Expenses

Total expenses from ordinary activities increased by \$6 million (10 percent) to \$68.4 million (\$62.4 million) due to a \$3.1 million increase in employee expenses and \$2.9 increase in other expenses.

The trend in operating costs over the past five years is shown in the following chart.



The increase in employee costs in 2003-04 has been mainly as a result of:

- a lower capitalisation of salary costs on information technology projects;
- an increase in the average number of employees throughout the reporting period; and
- enterprise bargaining and other increases.

Other expenses rose primarily as a result of:

- costs associated with a departmental accommodation project (\$0.9 million);
- licenses purchased by RevenueSA (\$0.5 million); and
- consultants (\$0.8 million).

Operating Result

The Net Cost of Services from ordinary activities increased by 14 percent to \$38.6 million (\$33.8 million). This increase is consistent with the trend from the previous year, and is due mainly to the increase in employee costs and other expenses as previously discussed. Costs are not passed on and recovered through fees and charges. They are recovered by increased appropriations.

Statement of Cash Flows

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

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	5.6	5.8	1.4	5.0
Investing	(2.4)	(2.3)	(3.8)	(2.4)
Change in Cash	3.2	3.5	(2.4)	2.6
Cash at 30 June	23.9	20.7	17.2	19.6

During the year cash increased by \$3.2 million to \$23.9 million, and the Department continues to retain a large accumulated cash balance. As a result, interest revenue (\$1.3 million) continues to be a significant item in the Department's net cost of services. With the implementation of the cash alignment policy, it is anticipated there will be a reduction in cash during 2004-05.

Administered Items

The Administered financial statements mainly reflect the Department's transactions on behalf of the South Australian Government for the Consolidated Account. Part A of this Report includes comments in relation to the Consolidated Account result for 2003-04 which are reported in the Treasurer's Statements (refer to the Appendix to Part B of this Report).

	2004 \$'000	2003 \$'000	Percentage Change
OPERATING REVENUE			
Taxation	2 343	2 011	17
Commonwealth revenues	3 192	3 102	3
Revenues from SA Government	1 105	923	20
Other revenues	879	1 164	(24)
Total Operating Revenue	7 519	7 200	4
OPERATING EXPENDITURE			
Payments to SA Government	6 421	6 234	3
Other expenses	1 158	967	20
Total Operating Expenses	7 579	7 201	5
Operating Deficit	(60)	(1)	N/A
Net revenue from administrative restructure	29	-	N/A
Net Result	(31)	(1)	N/A
ASSETS			
Current assets	440	1 081	(59)
Non-current assets	1	-	N/A
Total Assets	441	1 081	(59)
LIABILITIES			
Current liabilities	388	995	(61)
Non-current liabilities	506	507	N/A
Total Liabilities	894	1 502	(40)
EQUITY	(453)	(421)	8

	2004 \$'000	2003 \$'000	Percentage Change
Net Cash Flows from Operating Activities	(637)	965	(166)
Net Cash Flows from Investing Activities	-	(7)	N/A
Net Cash Flows from Financing Activities	-	1	N/A
Net Increase (Decrease) in Cash Held	(637)	959	(166)
Cash at 1 July	1 063	104	N/A
Cash at 30 June	426	1 063	(60)

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

	Note	2004	2003
		\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	5	40 331	37 161
Supplies and services	6	25 978	23 174
Depreciation and amortisation	7	1 908	2 039
Other expenses	8	191	22
Total Expenses from Ordinary Activities		68 408	62 396
REVENUE FROM ORDINARY ACTIVITIES:			
Fees and charges	10	26 080	25 444
Interest	11	1 304	1 060
Other revenue	12	2 436	2 057
Total Revenues from Ordinary Activities		29 820	28 561
NET COSTS OF SERVICES FROM ORDINARY ACTIVITIES		(38 588)	(33 835)
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:			
Revenues from SA Government	13	40 560	36 846
NET RESULT FROM ORDINARY ACTIVITIES		1 972	3 011
TOTAL CHANGES IN EQUITY EXCLUDING THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		1 972	3 011

Statement of Financial Position
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	14	23 934	20 713
Receivables	15	1 147	790
Other	18	768	882
Total Current Assets		25 849	22 385
NON-CURRENT ASSETS:			
Property, plant and equipment	16	1 290	1 753
Intangibles	17	7 252	6 472
Other	18	-	50
Total Non-Current Assets		8 542	8 275
Total Assets		34 391	30 660
CURRENT LIABILITIES:			
Payables	19	1 965	1 949
Employee benefits	20(a)	3 321	2 650
Provisions	21	49	42
Other	22	6	3
Total Current Liabilities		5 341	4 644
NON-CURRENT LIABILITIES:			
Payables	19	819	783
Employee benefits	20(a)	7 245	6 216
Provisions	21	114	117
Total Non-Current Liabilities		8 178	7 116
Total Liabilities		13 519	11 760
NET ASSETS		20 872	18 900
EQUITY:			
Accumulated surplus	23	20 764	18 792
Asset revaluation reserve	23	108	108
TOTAL EQUITY		20 872	18 900
Commitments for Expenditure	25		
Contingent Assets and Liabilities	26		

Statement of Cash Flows
for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:		Note	\$'000
Employee payments		(38 611)	(36 789)
Supplies and services		(25 798)	(22 924)
GST payments on purchases		(2 914)	(2 846)
GST remitted to Australian Taxation Office		(2 138)	(2 274)
Total Outflows from Operating Activities		(69 461)	(64 833)
CASH INFLOWS:			
Receipts from SA Government		40 560	36 846
Fees and charges		25 863	25 391
Interest received		1 276	1 058
GST receipts on receivables		2 153	2 321
GST input tax credits		2 793	2 831
Other		2 428	2 240
Total Inflows from Operating Activities		75 073	70 687
Net Cash Inflows from Operating Activities	27(b)	5 612	5 854
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		(2 391)	(2 311)
Total Outflows from Investing Activities		(2 391)	(2 311)
Net Cash Outflows from Investing Activities		(2 391)	(2 311)
NET INCREASE IN CASH HELD		3 221	3 543
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		20 713	17 170
CASH AT THE END OF THE FINANCIAL YEAR	27(a)	23 934	20 713

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

	Program 1		Program 2		Program 3	
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:						
Employee expenses	11 536	10 123	26 883	25 608	1 656	1 185
Supplies and services	6 432	5 305	18 052	16 784	1 467	1 013
Depreciation and amortisation	221	262	1 672	1 765	14	11
Other expenses	1	9	190	12	-	1
Total Expenses from Ordinary Activities	18 190	15 699	46 797	44 169	3 137	2 210
REVENUES FROM ORDINARY ACTIVITIES:						
Fees and charges	1 136	979	24 900	24 442	40	23
Interest	438	342	790	669	66	40
Other revenue	872	800	1 411	1 250	151	6
Total Revenues from Ordinary Activities	2 446	2 121	27 101	26 361	257	69
NET COST OF SERVICES FROM ORDINARY ACTIVITIES	(15 744)	(13 578)	(19 696)	(17 808)	(2 880)	(2 141)
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:						
Revenues from SA Government	16 645	15 036	20 586	19 097	3 045	2 371
NET RESULT FROM ORDINARY ACTIVITIES	901	1 458	890	1 289	165	230
	Program 4		Program Total			
	2004	2003	2004	2003		
	\$'000	\$'000	\$'000	\$'000		
EXPENSES FROM ORDINARY ACTIVITIES:						
Employee expenses	256	245	40 331	37 161		
Supplies and services	27	72	25 978	23 174		
Depreciation and amortisation	1	1	1 908	2 039		
Other expenses	-	-	191	22		
Total Expenses from Ordinary Activities	284	318	68 408	62 396		
REVENUES FROM ORDINARY ACTIVITIES:						
Fees and charges	4	-	26 080	25 444		
Interest	10	9	1 304	1 060		
Other revenue	2	1	2 436	2 057		
Total Revenues from Ordinary Activities	16	10	29 820	28 561		
NET COST OF SERVICES FROM ORDINARY ACTIVITIES	(268)	(308)	(38 588)	(33 835)		
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:						
Revenues from SA Government	284	342	40 560	36 846		
NET RESULT FROM ORDINARY ACTIVITIES	16	34	1 972	3 011		

The allocations to programs are indicative and are based on broad costing methodologies.
Program descriptions are contained in Note 4.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Department of Treasury and Finance

The Department of Treasury and Finance (the Department) provides policy advice and financial management services to the Government of South Australia in order to strengthen state finances and contribute to community well being. This is achieved by promoting policy accountability in the public sector based on objective and comprehensive analysis of options, by managing the whole of Government financial processes and by providing financial services.

The Department is the lead agency supporting the Government's key economic and financial policy outcomes through the provision of advice and coordination of resource allocation for Government programs. The Department also provides financial services to the Government and the community, covering asset and liability management, collection of state taxes, insurance and superannuation.

The main priorities of the Department during the financial year were:

- Achieve a more efficient and effective public sector
- Improve budget and financial management processes
- Strengthen state finances
- Maintain the Department's service delivery
- Improve the management of the Department's people and resources

To achieve these Objectives, the Department delivers a number of programs for the Government. The program information is summarised in Note 4.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

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

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

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

2.2 Reporting Entity

The Department of Treasury and Finance produces both Departmental and Administered financial statements. The Departmental financial statements include the use of assets, liabilities, revenues and expenses controlled or incurred by the Department in its own right. The Administered financial statements include the revenues, expenses, assets and liabilities which the Department administers on behalf of the SA Government but does not control.

2.3 Comparative Figures

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

2.4 Rounding

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

2.5 Taxation

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

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

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

2.6 Revenue and Expenses

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

2.6 Revenue and Expenses (continued)

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

Revenue from fees and charges is derived from the provision of goods and services to other SA government agencies and to the public.

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

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

2.7 Revenues from/Payments to SA Government

Appropriations for program funding are recognised as Revenues from SA Government when the Department obtains control over the assets (normally obtained upon their receipt) and are accounted for in accordance with Treasurer's Instruction 3 'Appropriation'.

Payments to SA Government include the return of surplus cash pursuant to the cash alignment policy, taxation revenues and expiation fees paid directly to the Consolidated Account.

2.8 Current and Non-Current Items

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

2.9 Cash

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

In October 2003 the Government introduced a policy with respect to aligning agency cash balances with appropriation and expenditure authority. In 2003-04, no payments/receipts occurred as a result of this policy.

2.10 Receivables

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

The Department determines the provision for doubtful debts based on a review of debtor balances that are unlikely to be collected.

2.11 Non-Current Assets Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. However, if the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recorded at the value recorded by the transferor prior to transfer.

Where the payment for an asset is deferred, the Department measures it at the present value of the future outflow, discounted using the interest rate of a similar length borrowing.

The Department capitalises all non-current physical assets with a value of \$5 000 or greater in accordance with Accounting Policy Statement 2 'Asset Recognition'.

2.12 Revaluation of Non-Current Assets

In accordance with Accounting Policy Statement 3 'Valuation of Non-Current Assets':

- all non-current physical assets are valued at written down current cost (a proxy for both the fair value and deprival method of valuation);
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

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

2.13 Depreciation and Amortisation of Non-Current Assets

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

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

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

Class of Asset	Depreciation Method	Useful Life (Years)
Furniture and fittings	Straight Line	10
Intangibles	Straight Line	3-10
Office equipment - IT	Straight Line	4
Office equipment - Other	Straight Line	3

2.14 Intangible Assets

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an asset, and when the amount of expenditure is greater than or equal to \$5 000, in accordance with Accounting Policy Statement 2 'Asset Recognition'.

Capitalised software is amortised over the useful life of the asset, with the maximum time frame for amortisation of 10 years.

2.15 Payables

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

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

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

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

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

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

2.16 Employee Benefits

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

Liability for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2004 and is measured at the nominal amount.

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

2.17 Provisions

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

2.18 Leases

The Department has entered into operating leases. More information on operating leases is contained in Note 25.

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

3. Changes in Accounting Policies

3.1 Administered Items

The Department has prepared separate Administered financial statements and notes as it is considered that administered transactions and balances are significant in relation to the Department's overall financial performance and position.

3.2 Impact of Adopting Australian Equivalents to International Financial Reporting Standard

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

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', the Under Treasurer is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Department has analysed the exposure drafts issued by the Australian Accounting Standards Board (AASB) and has identified a number of potential issues that may need to be addressed as listed below under 'Expected differences in accounting policies'.

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

Expected Differences in Accounting Policies

- *Changes in Accounting Policy*
A major change is the treatment of accounting policy changes under AIFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.
- *Non-Current Asset Acquisition and Recognition*
The Australian equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an Accounting Policy Statement will continue to require revaluation on a class basis and the current thresholds (greater than \$1 million and estimated useful life is greater than three years) will continue to apply.

4. Programs of the Department

In achieving its objectives, the Department provides a range of services classified into the following Programs

Program 1: Ensuring Accountability for Public Sector Resources

The Department has the role of ensuring accountability for public sector resources through providing policy, economic and financial advice to the Government and coordinating resource allocations for government programs and priorities at the whole of government level.

Program 2: Financial Services Provision

The Department has a role of providing a range of whole of government services including liability management, collection of taxes, insurance and superannuation administration.

Program 3: Energy and Infrastructure Policy

This program includes the provision of policy advice to the Minister on energy issues, coordinating market reforms and reviewing infrastructure needs.

Program 4: Gambling Policy

The Department provides policy advice to the Government on economic, social and regulatory issues associated with gambling, provision of gambling licensing and regulatory services, and independent research and inquiries into gambling related issues.

5. Employee Expenses

	2004	2003
	\$'000	\$'000
Salaries and wages	28 695	26 927
TVSP (refer below)	241	286
Long service leave	1 612	992
Annual leave	2 831	2 381
Employment on-costs	5 862	5 491
Board fees ⁽ⁱ⁾	218	131
Other employee related expenses	872	953
Total Employee Expenses	40 331	37 161

(i) Represents fees paid to members of the SA Superannuation Board, South Australian Government Financing Authority, Energy Consumers Council and the Board of Directors of SAICORP.

Targeted Voluntary Separation Packages (TVSPs)

Amount Paid to these Employees:

TVSPs	2004	2003
Accrued annual and long service leave	\$'000	\$'000

Recovery from the Department of the Premier and Cabinet

2004	2003
\$'000	\$'000
241	286
55	13
296	299
(241)	(286)

Number of employees that were paid TVSPs during the reporting period

2004	2003
Number of Employees	Number of Employees
4	6

Remuneration of Employees

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

\$100 000 - \$109 999	12	10
\$110 000 - \$119 999	6	11
\$120 000 - \$129 999	7	8
\$130 000 - \$139 999	8	5
\$140 000 - \$149 999	3	2
\$150 000 - \$159 999	4	1
\$160 000 - \$169 999	1	3
\$170 000 - \$179 999	2	2
\$180 000 - \$189 999	-	1
\$190 000 - \$199 999	2	-
\$220 000 - \$229 999	1	-
\$240 000 - \$249 999	1	-
\$280 000 - \$289 999	-	1
\$300 000 - \$309 999	-	1
\$310 000 - \$319 999	1	-
	48	45

The table includes all employees who received remuneration of \$100 000 or more during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and other salary sacrifice benefits. The total remuneration received by these employees for the year was \$6 642 000 (\$6 171 000).

Average Number of Employees during the Reporting Period

On average the Department employed 546 (540) people throughout the reporting period.

6. Supplies and Services

Accommodation	2004	2003
General administration	\$'000	\$'000
EDS charges	4 510	4 411
Consultants	13 766	11 301
Contractors	2 996	3 368
Total Supplies and Services	1 778	1 006
	2 928	3 088
	25 978	23 174

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

	2004	2003	2004	2003
	Number	Number	\$'000	\$'000
Below \$10 000	13	16	47	85
Between \$10 000 and \$50 000	4	4	71	101
Above \$50 000	6	5	1 660	820
	23	25	1 778	1 006

7. Depreciation and Amortisation

Depreciation:

Furniture and fittings	2004	2003
Office equipment	\$'000	\$'000
Total Depreciation	506	484

2004	2003
\$'000	\$'000
268	331
774	815

Amortisation:

Intangible Assets	2004	2003
Total Amortisation	1 134	1 224
Total Depreciation and Amortisation	1 908	2 039

2004	2003
\$'000	\$'000
1 134	1 224

Revision in Accounting Estimates

Amortisation on software assets has changed due to a reassessment of the useful lives of seven assets. This has resulted in a decrease of \$133 000 in the amount of amortisation calculated on these assets in the 2004 financial year.

		2004 \$'000	2003 \$'000
8. Other Expenses	Assets write-offs	191	22
	Total Other Expenses	191	22
9. Auditor's Remuneration	Audit fees paid/payable to the Auditor-General's Department	348	341
10. Fees and Charges	Other Services No other services were provided by the Auditor-General's Department.		
	Fees and Charges Received/Receivable from:		
	Agencies for the provision of corporate services	1 643	1 498
	South Australian Government Captive Insurance Corporation	1 900	1 901
	South Australian Government Financing Authority	5 054	4 457
	South Australian Superannuation Board	9 289	8 893
	Community Emergency Services Fund	6 178	7 017
	Other recoveries for services	2 016	1 678
	Total Fees and Charges	26 080	25 444
11. Interest	Interest from entities within the SA Government	1 304	1 060
	Total Interest	1 304	1 060
12. Other Revenues	Banking recoveries	751	671
	Land agents enquiry fees	581	553
	Reimbursement for TVSPs paid	241	286
	Other reimbursements	311	6
	Regulatory fees	212	219
	Commissions	131	127
	Other	209	195
	Total Other Revenues	2 436	2 057
13. Revenues from SA Government	Appropriations from consolidated account pursuant to the <i>Appropriation Act</i>	40 560	36 846
	Total Revenues from SA Government	40 560	36 846
14. Cash	Deposits with the Treasurer	23 930	20 709
	Other	4	4
	Total Cash	23 934	20 713
	The Deposits with the Treasurer include the Accrual Appropriation Account. With the implementation of the cash alignment policy, it is anticipated there will be a reduction in the level of cash at June 2005.		
15. Receivables	Current:		
	Receivables	163	236
	Accrued revenues	690	366
	GST	294	188
	Total Receivables	1 147	790

16. Property, Plant and Equipment		2004	2003	
Furniture and Fittings:		\$'000	\$'000	
Furniture and fittings at cost (deemed fair value)		314	139	
Accumulated depreciation		(52)	(4)	
Furniture and fittings at deprival value		1 139	4 807	
Accumulated depreciation		(413)	(3 602)	
Total Furniture and Fittings		988	1 340	
Office Equipment:				
Furniture and fittings at cost (deemed fair value)		700	989	
Accumulated depreciation		(398)	(576)	
Total Office Equipment		302	413	
Total Property, Plant and Equipment		1 290	1 753	
Furniture and fitting assets with deprival value of \$3.7 million and accumulated depreciation of \$3.3 million at the beginning for the financial year were fully depreciated during 2003-04 and these assets are in the process of being replaced.				
Valuation of Non-Current Assets				
Valuations of furniture and fittings was determined as at 30 June 2002. The valuation was based on an indexed book value. The indexation is based on professional advice from Contour Management.				
Reconciliation of Property, Plant and Equipment				
The following table shows the movement of property, plant and equipment during 2003-04:		Furniture and Fittings	Office Equipment	Total
Carrying amount at the beginning of the financial year		\$'000	\$'000	\$'000
Additions		1340	413	1 753
Write-off non-current assets		116	198	314
Depreciation and amortisation expense		(3)	-	(3)
Other movements		(506)	(268)	(774)
Carrying Amount at the End of the Financial Year		41	(41)	-
			988	302
				1 290
17. Intangible Assets		2004	2003	
Computer software		\$'000	\$'000	
Accumulated amortisation		12 814	11 234	
Total Intangible Assets		(5 562)	(4 762)	
			7 252	
			6 472	
18. Other Assets				
Current:				
Prepayments			768	
Total Current Other Assets			768	
			882	
Non-Current:				
Prepayments			-	
Total Non-Current Other Assets			50	
			-	
Total Other Assets			50	
			768	
			932	
19. Payables				
Current:				
Creditors		(2)	(2)	
Accrued expenses		1 461	1 351	
Employee on-costs		506	600	
Total Current Payables		1 965	1 949	
Non-Current:				
Accrued expenses			-	
Employee on-costs			69	
Total Non-Current Payables		819	714	
			819	
Total Payables			783	
			2 784	
			2 732	

20. (a) Employee Benefits		2004	2003
Current:		\$'000	\$'000
Accrued salaries and wages	334	106	
Annual leave	2 423	2 023	
Long service leave	564	521	
Total Current Employee Benefits	3 321	2 650	
Non-Current:			
Long service leave	7 245	6 216	
Total Non-Current Employee Benefits	7 245	6 216	
Total Employee Benefits	10 566	8 866	
(b) Employee Benefits and Related On-Costs			
Accrued Salaries and Wages:			
On-costs included in payables - Current (Note 19)	54	211	
Employee benefits - Current (Note 20(a))	334	106	
	388	317	
Annual Leave:			
On-costs included in payables - Current (Note 19)	388	329	
Employee benefits - Current (Note 20(a))	2 423	2 023	
	2 811	2 352	
Long Service Leave:			
On-costs included in payables - Current (Note 19)	64	60	
Employee benefits - Current (Note 20(a))	564	521	
	628	581	
	819	714	
On-costs included in payables - Non-Current (Note 19)	7 245	6 216	
Employee benefits - Non-current (Note 20(a))	8 064	6 930	
Aggregate Employee Benefit and Related On-Costs	11 891	10 180	
21. Provisions			
Current:			
Provisions for workers compensation	49	42	
Total Current Provisions	49	42	
Non-Current:			
Provisions for workers compensation	114	117	
Total Non-Current Provisions	114	117	
Total Provisions	163	159	
Carrying amount at the beginning of the financial year	159	126	
Payments made	(80)	(136)	
Increase in the Provision	84	169	
Carrying Amount at the End of the Financial Year	163	159	
22. Other Liabilities			
Current:			
Unearned revenue	6	3	
Total Other Liabilities	6	3	
23. Equity			
Accumulated Surplus:			
Balance at the beginning of the financial year	18 792	15 781	
Net result from ordinary activities	1 972	3 011	
Balance at the End of the Financial Year	20 764	18 792	
Asset Revaluation Reserve:			
Balance at the beginning of the financial year	108	108	
Increase (decrease) in asset revaluation reserve	-	-	
Balance at the End of the Financial Year	108	108	

24. Financial Instruments**(a) Terms, Conditions and Accounting Policies****(i) Financial Assets**

Cash is available at call and is recorded at cost.

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

Receivables are normally settled within 30 days.

(ii) Financial Liabilities

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

(b) Interest Rate Risk

Financial Instrument	2004				2003				Weighted Average Effective Interest Rate
	Floating Interest Rate	Non-Interest Bearing	Total Amount	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-Interest Bearing	Total Amount	Weighted Average Effective Interest Rate	
Financial Assets:									
Cash	\$'000	\$'000	\$'000	Percent	\$'000	\$'000	\$'000	Percent	
	23 930	4	23 934	4.87	20 709	4	20 713	4.60	
Receivables	-	1 147	1 147		-	790	790		
	23 930	1 151	25 081		20 709	794	21 503		
Financial Liabilities:									
Payables	-	2 784	2 784		-	2 732	2 732		
	-	2 784	2 784		-	2 732	2 732		

(c) Net Fair Values

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

25. Commitments For Expenditure**(a) Capital Commitments**

The Department's capital commitments are for software licence agreements.

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

Not later than one year	63	15
Later than one year but not later than five years	-	-
Later than five years	-	-
	63	15

2004	2003
\$'000	\$'000
63	15
-	-
63	15

(b) Operating Lease Commitments

At the reporting date, the Department's operating leases are for the lease of office accommodation and office equipment.

Office accommodation is leased from the Real Estate Management business unit of the Department for Administrative and Information Services (DAIS). The leases are non-cancellable with terms ranging up to six years with some leases having right of renewal. The rental amount is based on floor space and the time period of the lease, with the rental rate reviewed taking into account movements in market rental values or CPI. Rental is payable in arrears. The Department has recently renewed the lease on the State Administration Centre until 2010.

Office equipment leases are non-cancellable with rental payable in arrears. No contingent rental provisions exist within the lease arrangements and no options exist to renew the leases at the end of their term.

For the current financial year, the total amount of rental expense for minimum lease payments for operating leases was \$3 295 000 (\$3 373 000).

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

Not later than one year	2 906	3 311
Later than one year but not later than five years	9 595	634
Later than five years	2 378	-
	14 879	3 945

2004	2003
\$'000	\$'000
2 906	3 311
9 595	634
2 378	-
14 879	3 945

(c) Other Commitments

The Department's other commitments are for agreements for the provision of cars to senior executive officer's or sections (ie pool cars) with Fleet SA. There are no purchase options available to the Department.

	2004 \$'000	2003 \$'000
Not later than one year	372	292
Later than one year but not later than five years	349	259
Later than five years	-	-
	721	551

For the current financial year, the total amount paid to Fleet SA for the provision of cars was \$393 000 (\$425 000).

26. Contingent Assets and Liabilities

The Department is not aware of any contingent assets or liabilities in relation to the Department's operations. In addition, the Department has made no guarantees.

27. Cash Flow Reconciliation**(a) Reconciliation of Cash - Cash at Year End**

As per:

	2004 \$'000	2003 \$'000
Statement of Cash Flows	23 934	20 713
Statement of Financial Position	23 934	20 713

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

Net cash inflows from operating activities

5 612

5 854

Add: Revenue from Government

(40 560)

(36 846)

Add Non-Cash Items:

Depreciation and amortisation

(1 908)

(2 039)

Asset write-offs

(191)

(22)

Non-current assets accrual in payables

25

-

Change in Assets/Liabilities:

Increase (Decrease) in receivables

357

(179)

Increase (Decrease) in other assets

(164)

122

(Increase) Decrease in payables

(52)

(401)

(Increase) Decrease in employee benefits

(1 700)

(303)

(Increase) Decrease in provisions

(4)

(33)

(Increase) Decrease in other liabilities

(3)

12

Net Cost of Services from Ordinary Activities

(38 588)

(33 835)

28. Events after Balance Date

There were no events occurring after balance date that have material financial implications on these financial statements.

**Statement of Administered Revenues and Expenses
for the year ended 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Taxation	30	2 343 376	2 011 293
Commonwealth revenues	31	3 191 957	3 102 090
Dividends and distributions	32	505 103	700 362
Interest	33	152 900	144 035
Revenues from SA Government	34	1 104 766	923 325
Fees and charges	35	122	-
Other	36	220 145	318 681
Total Revenues from Ordinary Activities		7 518 369	7 199 786
EXPENSES FROM ORDINARY ACTIVITIES:			
Payments to SA Government	34	6 421 305	6 234 008
Employee expenses	37	325 679	276 476
Supplies and services	38	59 757	33 595
Interest		306 804	324 099
Grants and subsidies	39	372 471	255 043
Depreciation	40	523	-
Other expense	41	92 134	77 719
Total Expenses from Ordinary Activities		7 578 673	7 200 940
OPERATING DEFICIT		(60 304)	(1 154)
Net revenue from administrative restructure	52	29 033	-
TOTAL CHANGES IN EQUITY EXCLUDING THOSE RESULTING RESULTING FROM TRANSACTION WITH OWNERS AS OWNERS		(31 271)	(1 154)

Statement of Administered Assets and Liabilities
as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	42	426 235	1 063 428
Receivables	43	13 526	8 892
Other financial assets	44	131	8 402
Total Current Assets		439 892	1 080 722
NON-CURRENT ASSETS:			
Other financial assets	44	223	354
Property, plant and equipment	45	552	-
Total Non-Current Assets		775	354
Total Assets		440 667	1 081 076
CURRENT LIABILITIES:			
Payables	46	387 302	986 903
Interest bearing liabilities	47	131	8 402
Other		25	-
Total Current Liabilities		387 458	995 305
NON-CURRENT LIABILITIES:			
Payables	46	504 660	506 775
Interest bearing liabilities	47	223	354
Other	48, 54	955	-
Total Non-Current Liabilities		505 838	507 129
Total Liabilities		893 296	1 502 434
NET ASSETS		(452 629)	(421 358)
EQUITY:			
Accumulated deficit	49	(452 629)	(421 358)
TOTAL EQUITY		(452 629)	(421 358)
Commitments for Expenditure	51		
Contingent Assets and Liabilities	53		

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

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:			
Taxation revenues		Note	\$'000
Receipts from Commonwealth			2 343 376
Dividends and distributions			3 191 957
Interest received			505 103
Receipts from SA Government			154 032
Fees and charges			1 104 766
GST receipts on receivables			68
GST input tax credits			3 989
Other			1 710
Total Inflows from Operating Activities			218 241
			7 523 242
CASH OUTFLOWS:			7 210 126
Payments to SA Government			(7 016 548)
Employee payments			(315 811)
Supplies and services			(59 881)
Interest payments			(307 857)
Grants and subsidies			(371 578)
GST payments on purchases			(8 084)
GST remitted to Australian Taxation Office			(3 985)
Other			(77 166)
Total Outflows from Operating Activities			(8 160 910)
Net Cash Inflows (Outflows) from Operating Activities	55(b)		(637 668)
			965 735
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Payment to agency			-
Total Outflows from Investing Activities			(7 499)
Net Cash Outflows from Investing Activities			(7 499)
			-
CASH FLOWS FROM FINANCING ACTIVITIES:			
CASH INFLOWS:			
Proceeds from other financial assets			8 363
Proceeds from lease/sale of electricity assets			-
Total Inflows from Financing Activities			8 363
CASH OUTFLOWS:			
Repayment of interest bearing liabilities			(8 363)
Total Outflows from Financing Activities			(8 363)
Net Cash Inflows from Financing Activities			-
NET (DECREASE) INCREASE IN CASH HELD			(637 668)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR			959 083
CASH INCREASE AS A RESULT OF RESTRUCTURING			1 063 428
CASH AT THE END OF THE FINANCIAL YEAR	55(a)		475
			426 235
			1 063 428

**Schedule of Administered Revenue and Expenses
for the year ended 30 June 2004**

	Commonwealth					
	Admin Items on behalf of the Consolidated	Mirror Taxes on Commonwealth Places Revenue	Community Development	Sales/Lease Proceeds	ETSA Hospitals	Local Govt Fund
	Account	Account	Fund	Account	Fund	Fund
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ADMINISTERED REVENUES FROM ORDINARY ACTIVITIES:						
Taxation	2 343 376	-	-	-	-	-
Commonwealth revenues	3 174 464	17 493	-	-	-	-
Revenues from SA Government	1 084 766	-	20 000	-	-	-
Interest	148 209	-	-	-	-	2 042
Dividends and distributions	505 103	-	-	-	-	-
Fees and charges	-	-	-	-	-	-
Other	69 386	-	-	3 680	137 200	-
Total Administered Revenues	7 325 304	17 493	20 000	3 680	137 200	2 042
ADMINISTERED EXPENSES FROM ORDINARY ACTIVITIES:						
Payments to SA Government	6 240 538	17 493	-	-	137 200	-
Employee expenses	315 641	-	-	-	-	-
Supplies and services	59 382	-	-	-	-	40
Interest	306 207	-	-	-	-	-
Grants and subsidies	350 940	-	20 000	-	-	638
Depreciation	-	-	-	-	-	-
Other expenses	52 596	-	-	-	-	-
Total Administered Expenses	7 325 304	17 493	20 000	-	137 200	678
OPERATING SURPLUS (DEFICIT)						
Increase in net assets due to administrative restructure	-	-	-	3 680	-	1 364
TOTAL CHANGES IN EQUITY INCLUDING THOSE RESULTING FROM TRANSACTION WITH OWNERS AS OWNERS						
	-	-	-	3 680	-	1 364

**Schedule of Administered Revenue and Expenses
for the year ended 30 June 2004 (continued)**

Treasurer's						
	Ports Corp Sales/Lease Account	TAB Sales Proceeds Account	Interest in the National Wine Centre Account	Treasury Working Account	Other ⁽¹⁾	Total
ADMINISTERED REVENUES FROM ORDINARY ACTIVITIES:						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Taxation	-	-	-	-	-	2 343 376
Commonwealth revenues	-	-	-	-	-	3 191 957
Revenues from SA Government	-	-	-	-	-	1 104 766
Interest	1 155	312	32	-	1 150	152 900
Dividends and distributions	-	-	-	-	-	505 103
Fees and charges	-	-	122	-	-	122
Other	27	-	21	8 100	1 731	220 145
Total Administered Revenues	1 182	312	175	8 100	2 881	7 518 369
ADMINISTERED EXPENSES FROM ORDINARY ACTIVITIES:						
	26 049	-	-	-	25	6 421 305
Payments to SA Government	10 000	-	38	-	-	325 679
Employee expenses	(3)	14	321	-	3	59 757
Supplies and services	-	-	-	-	597	306 804
Interest	-	-	-	-	-	523
Grants and subsidies	-	-	893	-	-	372 471
Depreciation	-	-	523	-	-	92 134
Other expenses	(1 469)	4 361	26 829	8 100	1 717	7 578 673
Total Administered Expenses	34 577	4 375	28 604	8 100	2 342	(60 304)
OPERATING SURPLUS (DEFICIT)						
	(33 395)	(4 063)	(28 429)	-	539	(31 271)
TOTAL CHANGES IN EQUITY						
INCLUDING THOSE RESULTING FROM TRANSACTION WITH OWNERS AS OWNERS						
	(33 395)	(4 063)	604	-	539	(31 271)

(1) Includes Country Equalisation Scheme Account, Home Purchases Assistance Account, Inter-regional Settlements Residues Account, Local Government Concessions Senior Card Holders and Stony Point Indenture Account.

NOTES TO AND FORMING PART OF THE ADMINISTERED FINANCIAL STATEMENTS

The Administered financial statements include the revenues, expenses, assets and liabilities which the Department administers on behalf of the SA Government but does not control.

These financial statements include a number of revenue and expense transactions on behalf of the South Australian Government for the Consolidated Account. Such transactions include collection of revenues for taxations, revenues from the Commonwealth Government, dividends and distributions, and interest. The expense transactions include transfers to agencies for employee entitlements and supplies and services, grants and subsidies to public sector agencies and the private sector and the transfer of revenues to the Consolidated Account.

The administered financial statements also includes the transactions of numerous special deposit accounts established under Section 8 of the *Public Finance and Audit Act 1987* that are administered by the Department.

29. Summary of Significant Accounting Policies

The Department's significant accounting policies are contained in Note 2 'Summary of Significant Accounting Policies'. The policies outlined in Note 2 apply to both the Department and Administered Financial Statements.

The following policies are only applicable to the Administered Financial Statements.

29.1 Dividends and Distributions

These revenues includes Commonwealth tax equivalents, in particular income tax payable by most South Australian State enterprises in accordance with undertakings given by State and Territory Governments under the Competition Principles Agreement. In addition, revenues are also collected for Local Government Rate Equivalents.

29.2 Net Revenue from Administrative Restructure

In August 2003 the *National Wine Centre (Restructuring and Leasing Arrangements) Act 2002* (the Restructuring Act) was proclaimed and the *National Wine Centre Act 1997* was repealed. As a result the corporate body known as the 'National Wine Centre' was dissolved and all of its assets and liabilities were vested with the Treasurer.

29.3 Depreciation and Amortisation of Non-Current Assets

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

Class of Asset	Depreciation Method	Useful Life (Years)
Buildings	Straight Line	40
30. Taxation		
Payroll tax		2004 \$'000 2003 \$'000
Commonwealth Places Mirror - Payroll tax	855 731	782 886
Stamp duties	14 974	13 701
Commonwealth Places Mirror - Stamp duties	1 120 623	916 596
Land tax	1 400	819
Commonwealth Places Mirror - Land tax	199 781	159 217
Financial institutions duty	705	593
Debits tax	-	1 500
Commonwealth Places Mirror - Debits tax	59 901	58 425
Save the River Murray levy	414	403
Hindmarsh Island Bridge levy	12 773	-
Contribution from Lotteries Commission	-	841
Contribution from on-course totalizators and small lotteries	75 615	74 809
Recoup from Recreation and Sport	1 206	1 079
	253	424
Total Taxation	2 343 376	2 011 293

31. Commonwealth Revenues

Commonwealth Specific Purpose Grants:

Competition grants	40 679	57 134
GST revenue grants	3 146 430	2 859 081
Transitional assistance	-	87 743
Transitional grant overpayment (recovery)	(34 715)	56 762
Commonwealth Places Mirror taxes	17 493	15 516
Total Commonwealth Specific Purpose Grants	3 169 887	3 076 236

Commonwealth Specific Purpose Grants:

Concessions to pensioners and others	18 297	17 631
Debt redemption assistance	3 773	3 751
Additional First Home Owner grant	-	4 472
Total Commonwealth Specific Purpose Grants	22 070	25 854
Total Commonwealth Revenues	3 191 957	3 102 090

32. Dividends and Distributions	2004	2003
Administrative and Information Services	\$'000	\$'000
Forestry SA	72 710	56 413
HomeStart Finance	33 106	39 073
Land Management Corporation	2 581	2 533
Lotteries Commission	53 070	9 994
Motor Accident Commission	8 047	8 025
Public Trustee Office	5 000	10 000
SA Water Corporation	1 800	2 007
South Australian Asset Management Corporation	237 334	228 408
South Australian Government Financing Authority	58 500	230 000
TransAdelaide	25 800	94 275
Transport SA	2 670	4 592
Other	3 059	12 618
	1 426	2 424
Total Dividends and Distributions	505 103	700 362
33. Interest		
Interest from entities within the SA Government	150 245	140 030
Other	2 655	4 005
Total Interest	152 900	144 035
34. Revenues from/Payments to SA Government		
Revenues from SA Government:		
Appropriations from consolidated account pursuant to the <i>Appropriation Act</i>	1 046 890	817 468
Appropriations under other Act	57 876	105 857
Total Revenues from SA Government	1 104 766	923 325
Payments to SA Government:		
Transfer of Revenue received on behalf of Consolidated Account	6 240 538	6 085 968
Payment to SAFA for retirement of state debt	26 049	-
Other payments to the Consolidated Account	154 718	148 040
Total Payments to SA Government	6 421 305	6 234 008
35. Fees and Charges		
Food and beverage sales	68	-
Other	54	-
Total Fees and Charges	122	-
36. Other Revenues		
Contributions towards public hospital costs	137 200	132 489
Superannuation contributions	-	56 414
Guarantee fees	17 370	17 187
Repayment of advances	33 995	68 091
Repayment of equity capital contributions	-	16 000
Light motor vehicle fleet - Rental payment recoveries	4 854	6 958
Essential Services Commission of SA	4 924	3 272
Other	21 802	18 270
Total Other Revenues	220 145	318 681
37. Employee Expenses		
Superannuation contribution to various schemes	243 765	255 824
Transfers to entities within SA Government	71 684	12 759
Support services to Parliamentarians	9 967	7 678
Minister's salary, electorate and expense allowance	225	215
Other employee related expenses	38	-
Total Employee Expenses	325 679	276 476
38. Supplies and Services		
Transfers to entities within SA Government	54 484	28 018
Unclaimed monies	110	1 367
Support services to Parliamentarians	2 658	2 110
General administration	2 083	2 004
Consultants	407	96
Other	15	-
Total Supplies and Services	59 757	33 595

38. Supplies and Services (continued)

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

Below \$10 000	1	4
Between \$10 000 and \$50 000	-	1
Above \$50 000	1	1
	2	6

2004 Number	2003 Number	2004 \$'000	2003 \$'000
1	4	1	4
-	1	-	28
1	1	406	64
2	6	407	96

39. Grants and Subsidies

Grant and subsidies paid to entities within the SA Government:

Recurrent grants
Capital grants

Total Grants and Subsidies - SA Government Entities

2004 \$'000	2003 \$'000
216 478	135 614
216 478	135 614

Grant and subsidies paid to entities external to the SA Government:

Recurrent grants
Capital grants

Total Grants and Subsidies - Non-SA Government Entities

155 100	119 429
893	-
155 993	119 429
372 471	255 043

40. Depreciation

Buildings

Total Depreciation

523	-
523	-

Change in Depreciation due to a Revaluation

The National Wine Centre's buildings and land were revalued downwards at 30 June 2004. As a result of the revaluation, depreciation on the building assets will decrease in subsequent reporting periods. An estimated full year depreciation expense decrease of \$590 000 is expected as a result of the revaluation. The above depreciation is for the part year from 22 August 2003.

41. Other Expenses

Asset revaluation decrement

Refunds and remissions

Petroleum subsidies

Repayment of borrowings

Payment to TABQ under sales agreement

Other

Total Other Expenses

2004 \$'000	2003 \$'000
26 826	-
28 010	22 476
14 968	15 089
7 762	14 477
4 374	5 008
10 194	20 669
92 134	77 719

42. Cash

Deposits with the Treasurer

Other

Total Cash

385 235	1 023 628
41 000	39 800
426 235	1 063 428

43. Receivables

Current:

Receivables

Provision for doubtful debts

Accrued revenues

GST receivables

Total Receivables

63	2
(25)	-
6 997	8 773
6 491	117
13 526	8 892

44. Other Financial Assets

Current:

Investments with Santos Ltd

Investments with Adelaide Bank

Total Current Other Financial Assets

-	8 249
131	153
131	8 402

Non-Current:

Investments with Adelaide Bank

Total Non-Current Other Financial Assets

223	354
223	354
354	8 756

These assets have liabilities with corresponding values in the accounts and are disclosed in Note 47.

45. Property, Plant and Equipment	2004	2003
Buildings:	\$'000	\$'000
Buildings at cost (deemed fair value)	539	-
Total Buildings	539	-
Land:		
Land at cost (deemed fair value)	13	-
Total Land	13	-
Total Property, Plant and Equipment	552	-

Valuation of Non-current Assets

Valuation of the land and buildings transferred from the National Wine Centre was performed by Valcorp Australia Pty Ltd as at 30 June 2004. Due to the lease arrangement with the University of Adelaide for a period of 40 years for an upfront rent amount of \$1 million, a market value based on the income approach has been adopted in accordance with Accounting Policy Statement 3 'Valuation of Non-Current Assets'. This approach resulted in the site being revalued downwards to \$552 000.

Reconciliation of Property, Plant and Equipment

	Buildings \$'000	Land \$'000	Furniture and Fittings \$'000	Total \$'000
Carrying amount at the beginning of the financial year	-	-	-	-
Acquisition from Transfer	24 301	3 600	752	28 653
Revaluation decrement	(23 239)	(3 587)	-	(26 826)
Depreciation expense	(523)	-	-	(523)
Other movements	-	-	(752)	(752)
Carrying Amount at the End of the Financial Year	539	13	-	552

46. Payables

Current:	2004	2003
Electricity entities - Lease proceeds	\$'000	\$'000
Creditors - Other	2 115	3 680
Accrued expenses	372 344	966 952
Total Current Payables	12 843	16 271
	387 302	986 903
Non-Current:		
Electricity entities - Lease proceeds	504 660	506 775
Total Non-Current Payables	504 660	506 775
Total Payables	891 962	1 493 678

47. Interest Bearing Liabilities

Current:		
Santos Ltd	-	8 249
Adelaide Bank	131	153
Total Current Interest Bearing Liabilities	131	8 402
Non-Current:		
Adelaide Bank	223	354
Total Non-Current Interest Bearing Liabilities	223	354
Total Interest Bearing Liabilities	354	8 756

These liabilities have assets with corresponding values in the accounts and are disclosed in Note 44.

48. Other Liabilities

Non-Current:		
Unearned revenue - Operating lease income	955	-
Total Other Liabilities	955	-

49. Equity

Accumulated Deficit:		
Balance at the beginning of the financial year	(421 358)	(420 204)
Operating deficit	(60 304)	(1 154)
Net revenue from administrative restructure	29 033	-
Balance at the End of the Financial Year	(452 629)	(421 358)

50. Financial Instruments**(a) Terms, Conditions and Accounting Policies****(i) Financial Assets**

Cash is available at call and is recorded at cost.

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

Receivables are normally settled within 30 days.

(ii) *Financial Liabilities*

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

(b) *Interest Rate Risk*

Financial Instrument	2004					Weighted Average Interest Rate Percent
	Floating Interest Rate	Fixed Interest Rate	Non-Bearing Interest	Total Carrying Amount		
Financial Assets:	\$'000	\$'000	\$'000	\$'000		
Cash	17 137	41 000	368 098	426 235		4.87
Receivables	-	-	13 526	13 526		-
Other financial assets	-	354	-	354		14.28
	17 137	41 354	381 624	440 115		
Financial Liabilities:						
Payables	-	-	891 962	891 962		-
Interest bearing liabilities	-	354	-	354		14.28
	-	354	891 962	891 962		

(b) *Interest Rate Risk*

Financial Instrument	2003					Weighted Average Interest Rate Percent
	Floating Interest Rate	Fixed Interest Rate	Non-Bearing Interest	Total Carrying Amount		
Financial Assets:	\$'000	\$'000	\$'000	\$'000		
Cash	55 981	39 800	967 647	1 063 428		4.60
Receivables	-	-	8 892	8 892		-
Other financial assets	-	8 756	-	8 756		19.33
	55 981	48 556	976 539	1 081 076		
Financial Liabilities:						
Payables	-	-	1 493 678	1 493 678		-
Interest bearing liabilities	-	8 756	-	8 756		19.33
	-	8 756	1 493 678	1 493 678		

(c) *Net Fair Values*

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

51. **Commitments for Expenditure**

Under the Memorandum of Lease between the Treasurer and the University of Adelaide, the Treasurer has an obligation to undertake certain maintenance work that existed at the time the lease arrangements commenced.

	2004	2003
	\$'000	\$'000
Not later than one year	66	-
Later than one year and not later than five years	-	-
Later than five years	-	-
	66	-

52. **Net Revenue from Administrative Restructure**

Assets:			
Cash	475	-	
Trading stock	140	-	
Receivables	132	-	
Property, plant and equipment	28 653	-	
Total Assets	29 400	-	
Liabilities:			
Payables	315	-	
Unearned revenue	38	-	
Employee benefits	14	-	
Total Liabilities	367	-	
Net Assets	29 033	-	

On 21 August 2003, the Restructuring Act was proclaimed as coming into operation on that day. As a consequence, the body corporate known as the National Wine Centre was dissolved and the assets and the liabilities of the Centre vested in the Treasurer.

53. Contingent Assets and Contingent Liabilities

The Department is not aware of the existence of any contingent assets. However, the following contingent liabilities exist for the Administered Items:

- Under an agreement between National Power South Australia Investments Ltd and the Treasurer for Pelican Point, National Power is to undertake landscaping works and development of public amenities on certain leased land. The cost of these works is to be refunded to the lessee at the expiration of the initial five year term. The maximum exposure value of the contingent obligation at 30 June 2004 has been estimated at \$300 000. As the Electricity Reform and Sales Operating Account has been closed, this amount is to be paid from the Consolidated Account.
- Residual responsibilities for structural integrity of the National Wine Centre's buildings outside agreed maintenance regimes as required by the Memorandum of Lease - National Wine Centre. The estimated maximum exposure of this liability is undefined.

54. Lease

The Treasurer entered into an agreement with the University of Adelaide to lease land and building previously owned by the National Wine Centre over a 40 year period, for an upfront consideration of \$1 000 000. The effective commencement date for the lease was 9 September 2003. The lease has been treated as an operating lease in accordance with accounting standard AASB 1008 'Leases'. The consideration of \$1 000 000 has been recorded as unearned revenue and will be apportioned over the life of the lease.

55. Cash Flow Reconciliation**(a) Reconciliation of Cash**

	2004	2003
	\$'000	\$'000
Statement of Cash Flows	426 235	1 063 428
Statement of Financial Position	426 235	1 063 428

(b) Reconciliation of Net Cash Inflows (Outflows) from Operating Activities to Operating Deficit

Net cash inflows (outflows) from operating activities	(637 668)	965 735
Add: Distribution from electricity entities and transfer	-	847
Add Non Cash Items:		
Asset revaluation decrement	(26 826)	-
Depreciation	(523)	-
Grant and subsidies for no consideration	(752)	-
Net liabilities from administrative restructure	95	-
Change in Assets and Liabilities:		
Increase (Decrease) in receivables	4 634	(4 761)
(Increase) Decrease in payables	601 716	(962 975)
(Increase) Decrease in other liabilities	(980)	-
Operating Deficit	(60 304)	(1 154)

56. Events after Balance Date

There were no events occurring after balance date that have material financial implications on these financial statements.

APPENDIX TO
AUDITOR-GENERAL'S
ANNUAL REPORT

TREASURER'S
FINANCIAL STATEMENTS

(Pursuant to section 22 of the *Public Finance and Audit Act, 1987*)

2003-04

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STATEMENT A

SUMMARY OF THE CONSOLIDATED
ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004
(Section 22 (a) (i) *Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	Budget	Actual
	\$	\$
RECEIPTS		
Taxation	2 305 710 000	2 647 733 207
Commonwealth General Purpose grants	3 103 900 000	3 152 394 723
Commonwealth Specific Purpose grants	47 742 000	44 545 155
Contributions from State Undertakings	491 436 000	505 102 708
Fees and Charges	72 752 000	106 243 076
Recoveries	32 117 000	20 297 977
Royalties	74 400 000	75 177 332
Other Receipts	208 915 000	187 409 001
 Total Receipts	 6 336 972 000	 6 738 903 179
 PAYMENTS		
Appropriation Act	6 273 796 000	6 306 673 641
Specific Appropriation Authorised in Various Acts	97 492 000	102 774 872
 Total Payments	 6 371 288 000	 6 409 448 513
 CONSOLIDATED ACCOUNT (SURPLUS) / DEFICIT	 <u>34 316 000</u>	 <u>(329 454 666)</u>

The surplus for 2003-04 has been applied, pursuant to section 16(4) (a) of the *Public Finance and Audit Act, 1987*, to reduce the level of debt serviced from Consolidated Account

KEVIN FOLEY, Treasurer

STATEMENT A

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
 TO THE CONSOLIDATED ACCOUNT OF THE GOVERNMENT OF SOUTH AUSTRALIA
 FOR THE YEAR ENDED 30 JUNE 2004
 (Section 22 (a) (i) *Public Finance and Audit Act, 1987*)
 (Prepared on a Cash Basis)

	Budget 2003-04	Actual 2003-04
RECEIPTS		\$
TAXATION		
Payroll Tax	818 700 000	855 730 676
Commonwealth places mirror payroll tax	14 300 000	14 974 329
Stamp Duties	833 500 000	1 120 623 102
Commonwealth places mirror stamp duties	1 100 000	1 399 907
Land Tax	187 700 000	199 781 186
Commonwealth places mirror land tax	700 000	704 991
Debits Tax	59 400 000	59 900 770
Commonwealth places mirror debits tax	400 000	413 781
Other Taxes on Property	10 000	-
River Murray Levy	15 900 000	12 772 890
Gaming Machines Tax	274 900 000	279 601 784
Contribution from Lotteries Commission	71 900 000	75 615 610
Contribution from Casino Operations	18 400 000	17 078 908
Contribution from South Australian Totalizator Agency Board	6 400 000	6 575 416
Contribution from On-course Totalizators, Bookmakers and Small Lotteries	2 200 000	2 306 366
Recoup from Recreation and Sport Fund	200 000	253 491
Total Taxation Receipts	2 305 710 000	2 647 733 207
COMMONWEALTH GENERAL PURPOSE PAYMENTS		
Competition Grants	48 100 000	40 678 992
GST Revenue Grants	3 004 100 000	3 146 431 359
Transitional Grants (a)	51 700 000	-
Transitional Grant Overpayment/Recovery (a)	-	(34 715 628)
Total Commonwealth General Purpose Payments	3 103 900 000	3 152 394 723
COMMONWEALTH SPECIFIC PURPOSE PAYMENTS		
Companies Code - Fees	10 900 000	11 673 321
Concessions to Pensioners and Others	18 297 000	18 297 000
SA Infrastructure Corporation	3 500 000	-
Debt Redemption Assistance	3 770 000	3 772 834
Legal Aid	10 802 000	10 802 000
Native Title Legislation – Administration	473 000	-
Total Commonwealth Specific Purpose Payments	47 742 000	44 545 155
CONTRIBUTIONS FROM STATE UNDERTAKINGS		
Adelaide Convention Centre –		
Dividend	-	355 000
Administrative and Information Services –		
Dividend	50 805 000	70 254 818
Income Tax Equivalent	1 189 000	1 294 194
Local Government Rate Equivalent	709 000	4 904

(a) The Commonwealth reduced payments for Transitional Grants in 2003-04 to recover an overpayment of \$ 56.8 m in 2002-03 financial year.

STATEMENT A—continuedCOMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
TO THE CONSOLIDATED ACCOUNT, 2003-04—*continued*

	Budget 2003-04	Actual 2003-04
RECEIPTS— <i>continued</i>	\$	\$
CONTRIBUTIONS FROM STATE UNDERTAKINGS— <i>continued</i>		
Forestry SA—		
Dividend.....	20 873 000	21 793 000
Income Tax Equivalent.....	9 871 000	11 312 698
Local Government Rate Equivalent.....	1 000	-
Funds SA—		
Local Government Rate Equivalent.....	137 000	170 363
HomeStart Finance—		
Income Tax Equivalent.....	1 600 000	2 580 572
Industrial and Commercial Premises Corporation—		
Dividend.....	415 000	-
Income Tax Equivalent.....	23 000	-
Land Management Corporation—		
Dividend.....	51 479 000	51 479 000
Income Tax Equivalent.....	1 893 000	1 591 050
Local Government Rate Equivalent.....	105 000	-
Lotteries Commission—		
Additional Lotteries Dividend	3 479 000	-
Income Tax Equivalent.....	6 100 000	8 012 143
Local Government Rate Equivalent.....	-	35 116
Motor Accident Commission—		
Dividend.....	5 000 000	5 000 000
Police Security Services—		
Income Tax Equivalent.....	97 000	101 319
Public Trustee Office—		
Dividend.....	1 215 000	1 175 500
Income Tax Equivalent.....	311 000	595 165
Local Government Rate Equivalent.....	26 000	28 756
SA Water Corporation—		
Dividend.....	174 509 000	164 110 000
Income Tax Equivalent.....	62 313 000	72 090 944
Local Government Rate Equivalent.....	900 000	1 133 289
South Australian Asset Management Corporation—		
Dividend.....	58 500 000	58 500 000
South Australian Government Captive Insurance Corporation—		
Income Tax Equivalent.....	-	171 112
South Australian Government Employee Residential Properties—		
Dividend	1 156 000	1 156 000
Income Tax Equivalent.....	465 000	-
Local Government Rate Equivalent.....	938 000	-
South Australian Government Financing Authority—		
Dividend.....	18 252 000	19 000 000
Income Tax Equivalent.....	7 500 000	6 800 000
Trade and Economic Development—		
Dividend.....	901 000	-

STATEMENT A—continuedCOMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
TO THE CONSOLIDATED ACCOUNT, 2003-04—*continued*

	Budget 2003-04	Actual 2003-04
RECEIPTS— <i>continued</i>	\$	\$
CONTRIBUTIONS FROM STATE UNDERTAKINGS— <i>continued</i>		
TransAdelaide—		
Dividend.....	3 521 000	2 296 000
Income Tax Equivalent.....	875 000	-
Local Government Rate Equivalent.....	83 000	374 159
Transport Services—		
Dividend.....	4 113 000	2 961 163
Income Tax Equivalent.....	1 457 000	-
Local Government Rate Equivalent.....	82 000	98 282
West Beach Trust—		
Income Tax Equivalent.....	543 000	628 161
Total Contributions from State Undertakings	491 436 000	505 102 708
FEES AND CHARGES		
Auditor-General's Department - Fees for audit and other sundry receipts.....	8 423 000	8 530 435
Community Road Safety Fund related infringement notices.....	-	32 682 359
Court and Probate fees.....	16 559 000	15 552 619
Court fines	7 456 000	14 248 365
Guarantee fees	17 210 000	17 370 381
Infringement notice schemes - Expiation fees.....	22 080 000	16 772 356
Sundry fees	24 000	6 814
Water, Land and Biodiversity Conservation - Excess Water Charges	1 000 000	1 079 747
Total Fees and Charges	72 752 000	106 243 076
RECOVERIES		
Child Abuse Protection Program - Intra sector grants received	200 000	200 000
Community Development Fund - St John Australia SA Inc	-	100 000
Community Emergency Service Fund.....	475 000	-
Contingency provisions - Recoveries.....	35 000	5 840
Contribution to the cost of private plated vehicles.....	10 000	13 105
Essential Services Commission of SA	3 281 000	4 923 500
Helicopter service - Recovery of costs and sponsorships	2 246 000	2 113 938
Rehabilitation Fund.....	1 500 000	1 500 000
Legislature - Sale of publications	550 000	186 994
Light motor vehicle fleet - Rental payments recovery	4 300 000	4 854 373
National Tax Equivalent Program	12 000	-
Qualco-Sunlands Ground Water	-	790 471
Return of Commonwealth places mirror taxes collected (b)	16 500 000	-
Return of deposit account balances	-	2 960 596
Return of Racing Industry guarantee funding - SATAB.....	-	157 422
Sale of evidence/transcripts.....	1 235 000	1 280 864
Sale of Government Gazette	150 000	-
Sundry recoupment	115 000	192 323
Unclaimed monies	1 508 000	1 018 551
Total Recoveries	32 117 000	20 297 977

(b) Refer to the Taxation Receipts for details of Commonwealth places mirror taxes collected for the 2003-04 financial year

STATEMENT A—continuedCOMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
TO THE CONSOLIDATED ACCOUNT, 2003-04—*continued*

	Budget 2003-04	Actual 2003-04
RECEIPTS— <i>continued</i>	\$	\$
ROYALTIES		
Department of Primary Industries and Resources.....	74 400 000	75 177 332
Total Royalties.....	74 400 000	75 177 332
OTHER RECEIPTS		
Interest on investments.....	97 000 000	86 092 523
Interest recoveries from—		
General government	14 543 000	13 024 052
Public non-financial corporations	45 843 000	47 209 409
Universities	1 418 000	1 417 874
Other.....	97 000	464 703
Repayment of advances—		
Adelaide Festival Centre Trust	160 000	160 000
Administrative and Information Services	-	1 730 000
Human Services	1 073 000	305 484
Land Management Corporation.....	7 270 000	30 207
Lotteries Commission	1 452 000	1 452 312
Minister for Education and Children's Services	1 500 000	-
Minister for Industry, Trade and Regional Development.....	5 223 000	5 223 400
Office of Public Transport.....	1 100 000	1 100 000
Primary Industries and Resources.....	1 017 000	54 787
Renmark Irrigation Trust	101 000	86 325
South Australian Government Employee Residential Properties.....	1 193 000	1 193 000
SA Country Arts Trust	-	20 000
South Australian Housing Trust	16 951 000	16 966 626
South Australian Tourism Commission	139 000	129 341
TransAdelaide.....	5 381 000	5 381 000
Transport Services	125 000	-
West Beach Trust.....	136 000	-
Other.....	5 000	162 958
Other—		
Sale of land and buildings.....	7 188 000	5 205 000
Total Other Receipts.....	208 915 000	187 409 001
TOTAL CONSOLIDATED ACCOUNT RECEIPTS	6 336 972 000	6 738 903 179

STATEMENT A—continued

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL PAYMENTS
FROM THE CONSOLIDATED ACCOUNT OF THE GOVERNMENT OF SOUTH AUSTRALIA
FOR THE YEAR ENDED 30 JUNE 2004
(Section 22 (a) (i) *Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	Budget 2003-04	Actual 2003-04
PAYMENTS - AUTHORISED BY VARIOUS ACTS	\$	\$
SALARIES AND ALLOWANCES		
Agent-General - <i>Pursuant to Agent-General Act 1901</i>	267 000	289 789
Auditor-General - <i>Pursuant to Public Finance and Audit Act 1987</i>	209 000	216 275
Commissioner of Police - <i>Pursuant to Police Act 1988</i>	231 000	284 057
Electoral Commissioner and Deputy Electoral Commissioner - <i>Pursuant to Electoral Act 1985</i>	292 000	274 868
Employee Ombudsman - <i>Pursuant to the Industrial and Employee Relations Act 1994</i>	89 000	106 929
Governor - <i>Pursuant to Constitution Act 1934</i>	192 000	202 931
Judges - <i>Pursuant to Remuneration Act 1990</i> —		
Chief Justice.....	384 000	438 147
Judges.....	12 728 000	13 207 903
Magistrates - <i>Pursuant to Remuneration Act 1990</i>	8 192 000	9 955 528
Members of various Standing Committees - <i>Pursuant to Parliamentary Remuneration Act 1990</i> <i>and Parliamentary Committees (Miscellaneous) Act 1991</i>	612 000	489 492
Ombudsman - <i>Pursuant to Ombudsman Act 1972</i>	215 000	219 613
Parliamentary Salaries and Electorate and Expense Allowances—		
Ministers, Officers and Members of Parliament - <i>Pursuant to Parliamentary Remuneration Act 1990</i>	10 313 000	10 529 916
Senior Judge and Judges of the Industrial Relations Commission - <i>Pursuant to Remuneration Act 1990</i>	1 212 000	2 189 063
Solicitor-General - <i>Pursuant to Solicitor-General Act 1972</i>	254 000	370 052
Valuer-General - <i>Pursuant to Valuation of Land Act 1971</i>	102 000	137 587
OTHER		
Contribution for injuries suffered as a result of the commission of criminal offences - <i>Pursuant to Victims of Crime Act 2001</i>	6 200 000	6 200 000
Electoral Districts Boundaries Commission - <i>Pursuant to Constitution Act 1934</i>	-	11 856
First Home Owners' Grants - <i>Pursuant to First Home Owner Grant Act 2000</i>	56 000 000	57 650 866
Total Payments Authorised by Various Acts	<u>97 492 000</u>	<u>102 774 872</u>

STATEMENT A—continued

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL PAYMENTS FROM THE CONSOLIDATED ACCOUNT, 2003-04—continued

	Budget (Appropriation Act 2003)		Actual 2003-04	
	Initial Section 4(1)	Transfers Section 5	Balance	
PAYMENTS				
Department of the Premier and Cabinet.....	46 278 000	(5 300 000)	40 978 000	42 100 000
Administered Items for the Department of the Premier and Cabinet	6 361 000	-	6 361 000	5 890 337
State Governor's Establishment	2 503 000	-	2 503 000	2 503 000
Arts SA.....	89 337 000	-	89 337 000	89 866 000
South Australian Tourism Commission	43 159 000	-	43 159 000	45 278 000
Minister for Tourism	4 862 000	-	4 862 000	4 862 000
Auditor-General's Department	9 682 000	-	9 682 000	9 782 000
Administered Items for the Auditor-General's Department.....	766 000	-	766 000	767 667
Department of Treasury and Finance	38 639 000	-	38 639 000	38 975 000
Administered Items for the Department of Treasury and Finance.....	1 011 298 000	-	1 011 298 000	1 026 890 367
Independent Gambling Authority.....	1 386 000	-	1 386 000	1 439 000
Department for Business, Manufacturing and Trade	103 670 000	(26 230 191)	77 439 809	77 439 809
Administered Items for the Department for Business, Manufacturing and Trade	2 538 000	-	2 538 000	3 586 000
Office of Economic Development	14 062 000	(9 140 191)	4 921 809	4 921 809
Department of Trade and Economic Development.....	-	35 370 382	35 370 382	35 383 382
Department of Primary Industries and Resources.....	112 043 000	(3 240 000)	108 803 000	107 955 340
Administered Items for the Department of Primary Industries and Resources.....	88 619 000	-	88 619 000	90 819 000
Department for Correctional Services	117 694 000	-	117 694 000	120 162 800
South Australia Police	342 648 000	-	342 648 000	346 660 835
Administered Items for Police and Emergency Services	49 151 000	-	49 151 000	48 811 962
Courts Administration Authority	62 789 000	-	62 789 000	62 817 550
State Electoral Office.....	2 065 000	-	2 065 000	1 959 000
Attorney-General's Department.....	49 996 000	7 985 000	57 981 000	61 008 000
Administered Items for Attorney-General's Department.....	53 887 000	(7 985 000)	45 902 000	37 125 252
Department of Human Services	1 584 149 000	-	1 584 149 000	1 654 065 280
Administered Items for the Department of Human Services	107 680 000	-	107 680 000	113 980 000
Department of Education and Children's Services.....	1 419 931 000	-	1 419 931 000	1 409 461 000
Administered Items for the Department of Education and Children's Services.....	129 443 000	-	129 443 000	129 140 183
Department of Further Education, Employment, Science and Technology	220 331 000	-	220 331 000	221 714 000
Department for Environment and Heritage	92 651 000	-	92 651 000	99 984 500
Administered Items for the Department for Environment and Heritage	3 838 000	-	3 838 000	4 338 000
Environment Protection Authority	8 775 000	(300 000)	8 475 000	8 718 000
Department of Water, Land and Biodiversity Conservation.....	51 151 000	3 540 000	54 691 000	56 165 000
Administered Items for the Department of Water, Land and Biodiversity Conservation.....	38 878 000	-	38 878 000	35 967 889
Office of Local Government.....	2 670 000	-	2 670 000	2 798 000
Administered Items for the Office of Local Government	512 000	-	512 000	512 000
Planning SA	16 861 000	-	16 861 000	14 969 000
Administered Items for Planning SA	958 000	-	958 000	1 217 474
Transport Services.....	9 913 000	-	9 913 000	20 883 614
Administered Items for Transport Services	13 180 000	-	13 180 000	38 108 013
Transport Planning.....	2 304 000	-	2 304 000	2 314 000
Passenger Transport Board.....	167 646 000	(80 646 000)	87 000 000	87 000 000
Office of Public Transport.....	-	80 646 000	80 646 000	82 852 866
TransAdelaide	5 350 000	-	5 350 000	3 753 599
Offices for Sustainable Social, Environmental and Economic Development.....	869 000	-	869 000	869 000
Department for Administrative and Information Services	119 469 000	5 300 000	124 769 000	29 442 853
Administered Items for the Department for Administrative and Information Services	5 254 000	-	5 254 000	5 254 000
House of Assembly	6 092 000	-	6 092 000	5 499 754
Joint Parliamentary Services	8 672 000	-	8 672 000	7 205 212
Legislative Council	3 786 000	-	3 786 000	3 456 294
Total Payments Appropriated for Departments and Ministers	6 273 796 000		-	6 273 796 000
TOTAL CONSOLIDATED ACCOUNT PAYMENTS	6 371 288 000		-	6 409 448 513

STATEMENT B

SUMMARY OF MOVEMENTS OF FUNDS OF THE TREASURER
DURING THE YEAR ENDED 30 JUNE 2004
(Section 22 (a) (ii) *Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	2003-04	2002-03
	\$'000	\$'000
SOURCE OF FUNDS		
Consolidated Account Receipts —		
Taxation	2 647 733	2 277 632
Commonwealth General Purpose Grants	3 152 395	3 060 721
Commonwealth Specific Purpose Grants	44 545	47 596
Contributions from State Undertakings	505 103	700 362
Fees and Charges	106 243	101 548
Recoveries	20 298	52 526
Royalties.....	75 177	81 520
Other Receipts.....	187 409	236 758
 Total Receipts	 6 738 903	 6 558 663
Increase in balance of Special Deposit Accounts	32 218	237 321
Increase in balance of Deposits lodged with the Treasurer	28 598	-
Decrease in balance of Imprest Accounts	-	119
Decrease in cash at bank	-	90 291
Increase in the value of cheques drawn but not presented.....	20 485	-
 6 820 204	 6 886 394	 6 886 394
 APPLICATION OF FUNDS		
Consolidated Account Payments	6 409 448	6 115 029
Repayment of borrowings to the South Australian Government Financing Authority (a)	329 455	443 634
Increase in cash at bank	79 223	-
Increase in deposits by the Treasurer with SAFA.....	878	228 519
Increase in deposits by the Treasurer with LGFA.....	1 200	1 800
Decrease in balance of Deposits lodged with the Treasurer	-	64 471
Decrease in the value of cheques drawn but not presented.....	-	32 941
 6 820 204	 6 886 394	 6 886 394

(a) As reported in Statement A and Statement J, the surplus on Consolidated Account for 2003-04 was used to repay borrowings of the Treasurer from the South Australian Government Financing Authority.

KEVIN FOLEY, Treasurer

STATEMENT C

FUNDS OF THE TREASURER AS AT 30 JUNE 2004
 (Section 22 (a) (xiv) *Public Finance and Audit Act, 1987*)

	2003-04	2002-03
	\$'000	\$'000
BALANCE OF FUNDS		
CONSOLIDATED ACCOUNT—See Statement A	-	-
SPECIAL DEPOSIT ACCOUNT BALANCES—See Statement F	1 217 012	1 184 794
DEPOSITS LODGED WITH THE TREASURER—See Statement G	478 185	449 587
CHEQUES DRAWN BUT NOT PRESENTED	52 214	31 729
	<u>1 747 411</u>	<u>1 666 110</u>

REPRESENTED BY

CASH AT BANK.....	222 151	142 928
DEPOSITS WITH SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY—See Statement J	1 482 712	1 481 834
DEPOSITS WITH LOCAL GOVERNMENT FINANCE AUTHORITY OF SA —See Statement E	41 000	39 800
DEPARTMENTAL IMPREST ACCOUNTS—See Statement H	1 548	1 548
	<u>1 747 411</u>	<u>1 666 110</u>

KEVIN FOLEY, Treasurer

STATEMENT D

ABSTRACT OF CONSOLIDATED ACCOUNT RECEIPTS AND PAYMENTS FOR OPERATING ACTIVITIES
FOR THE YEAR ENDED 30 JUNE 2004 (a)
(Section 22 (a) (iii) *Public Finance and Audit Act, 1987*)

PAYMENTS FOR OPERATING ACTIVITIES MADE, AND RECOVERIES IN THE NATURE OF EARNINGS, FEES AND RECOVERIES, IN CARRYING OUT THE VARIOUS STATE FUNCTIONS WERE AS UNDER—

	\$'000 Payments	\$'000 Recoveries	\$'000 Cost
Department of the Premier and Cabinet	47 990	-	47 990
State Governor's Establishment	2 503	-	2 503
Arts SA	89 866	-	89 866
South Australian Tourism Commission	45 278	-	45 278
Minister for Tourism	4 862	-	4 862
Auditor-General's Department	10 550	8 530	2 020
Department of Treasury and Finance	1 058 103	710 785	347 318
Independent Gambling Authority	1 439	-	1 439
Department for Business, Manufacturing and Trade	81 026	-	81 026
Office of Economic Development	4 922	-	4 922
Department of Trade and Economic Development	35 383	-	35 383
Department of Primary Industries and Resources	198 574	-	198 574
Department for Correctional Services	120 163	-	120 163
South Australia Police Department	395 473	49 545	345 928
Courts Administration Authority	62 818	33 206	29 612
State Electoral Office	1 959	-	1 959
Attorney-General's Department	98 133	22 679	75 454
Department of Human Services	1 742 427	-	1 742 427
Department of Education and Children's Services	1 538 601	-	1 538 601
Department of Further Education, Employment, Science & Technology	221 714	-	221 714
Department for Environment and Heritage	104 322	2 800	101 522
Environmental Protection Authority	8 718	-	8 718
Department of Water, Land and Biodiversity Conservation	85 026	1 870	83 156
Department of Transport and Urban Planning	255 023	-	255 023
Department for Administrative and Information Services	34 239	-	34 239
Legislature	16 161	187	15 974
Special Acts (b)	102 775	-	102 775
Total	6 368 048	829 602	5 538 446

TOTAL NET COST TO CONSOLIDATED ACCOUNT FOR OPERATING ACTIVITIES..... 5 538 446

RECEIPTS FROM THE FOLLOWING SOURCES WERE APPLIED TOWARDS MEETING THE ABOVE NET COST—

	\$'000	\$'000
State Taxation—		
Payroll Tax	855 731	
Stamp Duties	1 120 623	
Land Tax	199 781	
Debits Tax	59 901	
Commonwealth Places Mirror Tax	17 493	
River Murray Levy	12 773	
Gaming Machines Tax	279 602	
Contribution from Lotteries Commission	75 616	
Contribution from Casino Operations	17 079	
Contribution from Totalizator Agency Board	6 576	
Contribution from On-course Totalizators, Bookmakers and Small Lotteries	2 306	
Recoup from Recreation and Sport Fund	253	
Total Receipts from State Taxation	2 647 734	
Commonwealth Government General Purpose Grants	3 152 395	
Royalties	75 177	
Total Direct Receipts	5 875 306	
LEAVING A (SURPLUS) / DEFICIT ON ACCOUNT OF OPERATING ACTIVITIES FOR THE YEAR OF		(336 860)
THIS WAS REDUCED BY THE NET OF—		
Payments for investing activities	33 638	
Payments for financing activities	7 762	
Receipts from investing activities	(33 995)	
		7 405
RESULTING IN A CONSOLIDATED ACCOUNT (SURPLUS) / DEFICIT FOR THE YEAR OF		(329 455)

STATEMENT D—continued

ABSTRACT OF CONSOLIDATED ACCOUNT RECEIPTS AND PAYMENTS FOR OPERATING ACTIVITIES
FOR THE YEAR ENDED 30 JUNE 2004 (a)—*continued*
(Section 22 (a) (iii) *Public Finance and Audit Act, 1987*)

- (a) This statement meets the requirements of section 22 (a) (iii) of the *Public Finance and Audit Act, 1987*, which specifies a statement showing the 'net recurrent cost to the Consolidated Account'. The categorisation of Consolidated Account transactions as recurrent or capital has been replaced with classifications contained in the Generally Accepted Accounting Principles. Consequently amounts described in this statement as operating activities correspond to transactions of a 'recurrent' nature and similarly investing and financing activities correspond to the transactions of a 'capital' nature.
- (b) Payments authorised under various Acts (eg Parliamentary & Judicial Salaries).

KEVIN FOLEY, Treasurer

STATEMENT E

ORGANISATIONS (OTHER THAN THE SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY)
WITH WHICH THE TREASURER INVESTED FUNDS DURING
THE YEAR ENDED 30 JUNE 2004
(Section 22 (a) (iv) *Public Finance and Audit Act, 1987*)

Local Government Finance Authority of South Australia

As a result of an agreement between the Local Government Association and the Government, the Local Government Disaster Fund was established in August 1990 to fund assistance to the Stirling Council and to help meet the cost of providing assistance to local authorities which face unusually high expenditures as a result of natural disasters. As part of the arrangements agreed between the Treasurer, the Minister for Local Government Relations and the Local Government Association the majority of the balance in the Fund is invested with the Local Government Finance Authority of South Australia.

At 30 June 2004 the amount invested with the Local Government Finance Authority of South Australia under these arrangements was \$41.0 million.

KEVIN FOLEY, Treasurer

STATEMENT F

SPECIAL DEPOSIT ACCOUNTS—BALANCES ON 30 JUNE 2004
 (Section 22 (a) (v) (C) *Public Finance and Audit Act, 1987*)

Account	Balance
	\$
Interest Bearing—	
Accrual Appropriation Excess Funds.....	270 128 126
Adelaide Convention Centre Future Asset Replacement Account	5 539 242
Adelaide Convention Centre Operating Account	10 636 595
Administrative and Information Services Operating Account	180 698 884
Attorney-General's Operating Account	10 628 311
Auditor-General's Operating Account	1 841 555
Community Emergency Services Fund	13 086 485
Community Road Safety Fund.....	275 547
Correctional Services Operating Account	4 987 738
Country Equalisation Scheme.....	10 984 681
Dog Fence Fund	70 650
Education and Children's Services Operating Account.....	12 303 992
Electoral Office Operating Account	876 823
Electricity Reform and Sales Operating Account	-
Electricity Sale/Lease Proceeds Account	-
Emergency Services Administrative Unit Operating Account	15 132 974
Environment and Heritage Operating Account.....	9 632 723
Environment Protection Authority	4 183 311
Fleet SA Operating Account	-
Forestry SA - Insurance Reserve Account	-
Further Education, Employment, Science and Technology Operating Account	35 584 383
Gamblers Rehabilitation Fund	905 413
Gas Supply Options RFS Operating Account	-
Governors' Pensions Account	7 101
HIH Builders Indemnity Assistance Account.....	875 354
Home Purchase Assistance Account	-
HomeStart Finance Account	410 922
Housing Loans Redemption Fund.....	6 637 790
Human Services Operating Account	96 489 798
Judges' Pensions Account	26 065
Local Government Disaster Fund	272 169
National Wine Centre Operating Account	1 119 172
Natural Disaster Relief Fund.....	-
Office of the Venture Capital Board Operating Account	207 966
Office of Venue Management Operating Account.....	-
Ombudsman's Office Operating Account.....	-
Parliamentary Superannuation Scheme Account	23 199
Playford Centre Operating Account	1 305 144
Police Complaints Authority	-
Police Operating Account	40 677 034
Police Superannuation Scheme Contribution Account	1 197 375
Ports Corp Sale/Lease Proceeds	-
Premier and Cabinet Operating Account.....	33 153 171
Primary Industries (Log Rebate Funding) Operating Account.....	-
Primary Industries and Resources Operating Account	16 264 265
Public Trustee Office Operating Account	2 538 697
Rural Finance Account	30 847 425
Rural Industry Adjustment and Development Fund	14 891 632
School Loans Scheme	2 047 597
South Australian Aboriginal Heritage Fund.....	468 856
South Australian Government Insurance and Risk Management Fund	12 306 487
South Australian Local Government Grants Commission Account	127 104
South Australian Superannuation Fund Account.....	3 775 604
Southern State Superannuation Fund Account.....	2 175 435
State Governor's Establishment Operating Account	368 743
TAB Sale – Proceeds	5 881 395
Trade and Economic Development Operating Account	90 901 646
Transport and Urban Planning Operating Account	15 215 505

STATEMENT F—continuedSPECIAL DEPOSIT ACCOUNTS—BALANCES ON 30 JUNE 2004
(Section 22 (a) (v) (C) *Public Finance and Audit Act, 1987*)

Account	Balance \$
Interest bearing—continued	
Treasury and Finance Operating Account	21 940 606
Victims of Crime Fund	17 134 449
Water, Land and Biodiversity Conservation Operating Account	15 342 500
Sub-Total	1 022 127 639
Non-interest bearing—	
Charitable and Social Welfare Fund	2 389 624
Commonwealth Mirror Taxes on Commonwealth Places Revenue Account	-
Dingo Control Fund	57 748
Egg Industry Deregulation Account.....	464 709
Firearms Acquisition/Compensation Account.....	42 495
Firearms Acquisition/Disposal - Full-Time Firearms Dealers.....	-
Government Workers Rehabilitation and Compensation Fund.....	669 900
Highways Fund.....	118 633 855
Hospitals Fund.....	-
Industry Development Fund	-
Interregional Settlements Residues Account	-
Local Government Concessions - Seniors Card Holders.....	147 422
Local Government Disaster Fund	41 000 000
Motor Vehicles - Clearing Account	723 044
Office for Government Enterprises Asset Sales Operating Account	18 901
Sale of Government Land and Property.....	3 500 419
Save the River Murray Fund.....	4 683 293
Save the River Murray Voluntary Contributions Fund.....	879
South Australian Electricity Supply Industry Planning Council Operating Account	892 690
South Australian Independent Industry Regulator	3 755 831
Sport and Recreation Fund	3 921 403
State - Local Government Reform Fund	-
Stony Point (Liquids Project) Indenture Account	-
Surplus Cash Working Account.....	-
Targeted/Voluntary Separation Package Schemes.....	11 993 281
Treasurer's Interest in the National Wine Centre	1 090 249
Treasury – Working Account.....	899 291
Sub-Total	194 885 034
Total Special Deposit Accounts	1 217 012 673

KEVIN FOLEY, Treasurer

STATEMENT F (1)

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004
(Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Accrual Appropriation Excess Funds	To record all receipts and payments associated with surplus cash balances generated in agencies by the shift to accrual appropriations.
Adelaide Convention Centre Future Asset Replacement Account	To record all receipts and payments associated with surplus cash balances generated by the Adelaide Convention Centre for future asset replacement.
Adelaide Convention Centre Operating Account	To record receipts and disbursements relating to the operation of the Adelaide Convention Centre and borrowings by the Minister of Tourism.
Administrative and Information Services Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Attorney-General's Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Auditor General's Operating Account	To record all activities of the Department (excluding those administered by the Auditor General's Department) including recurrent expenditure, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Charitable and Social Welfare Fund	To record receipts and disbursements associated with the <i>Gaming Machines (Miscellaneous) Amendment Bill, 1996</i> relating to supporting the work of not-for-profit charities and community based social welfare organisations.
Commonwealth Mirror Taxes on Commonwealth Places Revenue Account.....	To receive amounts that are levied pursuant to the Commonwealth Places (Mirror Taxes) Act 1998 of the Commonwealth as contemplated by the arrangements entered into by the State and the Commonwealth pursuant to that Act and to the Commonwealth Places (Mirror Taxes Administration) Act 1999 of the State, and to deal with those amounts as contemplated by those Acts and arrangements.
Community Emergency Services Fund.....	To record all of the activities of the Community Emergency Services Fund as outlined in Parts 3 and 4 of the <i>Emergency Services Funding Act, 1998</i> and any amendments as approved by Parliament.
Community Road Safety Fund	To receive revenue derived from anti-speeding devices and other monies approved by both the Minister and the Treasurer and to make payments for road safety programs and policing.
Correctional Services Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.

STATEMENT F (1)—continued

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Country Equalisation Scheme	To record injections of funds provided from the Consolidated Account, and to make 'refund' payments to electricity retailers in accordance with the Country Equalisation Scheme.
Dingo Control Fund	To record rates paid by landholders inside and outside the State's dog fence and to provide payments for the destruction of dingoes and any other purpose relating to the control of dingoes.
Dog Fence Fund	To record receipts and disbursements relating to the operation of the Dog Fence Board.
Education and Children's Services Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenue from the Consolidated Account, revenue from various activities, receipt of borrowings and receipt of various Commonwealth grants and associated payments.
Egg Industry Deregulation Account	To facilitate all transactions associated with or resulting from deregulation of the Egg Industry and the winding up of the SA Egg Board.
Electoral Office Operating Account	To record all of the activities of the Office and those formerly carried on by the Electoral Department including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Electricity Reform and Sales Operating Account.....	To record all of the financial transactions of the Electricity Reform and Sales Unit, recurrent and capital expenditure on disposal of assets, revenue from various activities, injections of funds provided from the Consolidated Account, to make payments to the Electricity Sale/Lease Proceeds Account and to apply net or gross proceeds from a sale/lease agreement, sale or lease to repay the Government's indebtedness or for other approved purposes.
Electricity Sale/Lease Proceeds Account.....	To receive proceeds of a sale/lease agreement, sale or lease under the <i>Electricity Corporations (Restructuring and Disposal) Act 1999</i> and other funds as approved by the Treasurer, and to receive interest payments from other interest bearing accounts in which sale/lease agreement proceeds are placed, and to invest those monies and to apply those monies, and income from their investment, towards the retirement of State debt.
Emergency Services Administrative Unit Operating Account.....	To record all of the activities of the Emergency Services Administrative Unit (including those formerly carried on by the Country Fire Service, SA Metropolitan Fire Service and State Emergency Service SA) including operating, investing and financing activities, transfer and receipt of funds from/to other special deposit accounts, revenue from various activities, injection of funds provided from the Consolidated Account and borrowings.

STATEMENT F (1)—continued

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Environment and Heritage Operating Account	To record all of the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Environment Protection Authority Operating Account.....	To record all of the activities of the Authority including recurrent and capital expenditures, revenue from various activities, injection of funds provided from Consolidated Account and borrowings.
Firearms Acquisition/Compensation Account	To record receipts and disbursements relating to the purchase of firearms from members of the public.
Firearms Acquisition/Disposal - Full-Time Firearms Dealers	To record receipts and disbursements relating to the operation of firearms and disposal.
Fleet SA Operating Account.....	To record all of the activities of Fleet SA as manager of the State's vehicle fleet including (without limitation): recurrent and capital expenditure; revenues and receipts from activities; making and receiving of funds in respect of investments, borrowing and interest rate hedging activities with South Australian Government Financing Authority; making and receiving of funds to and from Agencies and related to vehicle leases; making and receiving of funds to and from the Department of Administrative Services; and making and receiving of funds to and from Consolidated Account.
ForestrySA – Insurance Reserve Account.....	To record receipts and payments associated with the self-insurance of ForestrySA's growing timber assets.
Further Education, Employment, Science and Technology Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenues from the Consolidated Account, revenue from various activities, receipt of borrowings and receipts of various Commonwealth grants and associated payments.
Gamblers Rehabilitation Fund	To record receipts and disbursements relating to programs for the rehabilitation of addicted gamblers, for counselling such gamblers and their families and for the development of early intervention strategies.
Gas Supply Options RFS Operating Account	To record all of the financial transactions associated with the management of the Request for Submissions process to provide new gas supply options into South Australia including injections of funds from the Consolidated Account.
Government Workers Rehabilitation and Compensation Fund.....	To provide for the funding of rehabilitation programs and payment of workers compensation benefits for Government workers in accordance with current workers compensation legislation and in respect of claims for damages at common law for injury or disease suffered as a result of work.
Governors' Pensions Account.....	To record receipts and payments for the Governors' Pensions scheme.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Highways Fund	To record all transactions associated with the Highways Act including the receipt of State and Commonwealth funds and expenditure on the construction and maintenance of roads and bridges.
HIH Builders' Indemnity Assistance Account.....	To account for the expenditure of funds made available from the Budget and from an increase in building work contractor licence fees to assist consumers relying on builders' warranty indemnity insurance with the HIH Group and to cover administrative costs of the assistance scheme.
Home Purchase Assistance Account.....	Established in 1978 to facilitate the recording of transactions associated with the administration of welfare housing loans under Housing Agreements between the Commonwealth and the State.
HomeStart Finance Account	To provide for the administration of loans under the Home Ownership Made Easy and HomeStart schemes, including the administration of borrowings required to fund the scheme.
Hospitals Fund	To record receipts from the State Lotteries Commission, Totalizator Agency Board and from Stamp Duty on Third Party Insurance policies to be used for the purpose of maintenance, development and improvement of public hospitals, to refund unclaimed dividends from unauthorised Racing Clubs and to make payments to the Racing Clubs and Trotting Clubs for a share of tax on winning bets made with book-makers.
Housing Loans Redemption Fund	Established under the <i>Housing Loans Redemption Fund Act, 1962</i> to control amounts received in respect of a low cost insurance scheme established by the South Australian Government, which is administered through various lending authorities.
Human Services Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Industry Development Fund	For the purpose of recording payments and receipts associated with providing industry development packages.
Interregional Settlements Residues Account.....	To deposit and distribute funds under the Inter-regional Settlements Residue (IRSR) Auction Process, including the payment of auction costs.
Judges' Pensions Account.....	To record receipts and payments for the Judges' Pensions scheme.
Local Government Concessions – Seniors Cardholders	To administer receipts and payments for Local Government Concessions – Seniors Cardholders.
Local Government Disaster Fund.....	To record transactions related to the administration of a local government disaster fund in a manner agreed between the Treasurer, the Minister of Local Government and the Local Government Association of South Australia.

STATEMENT F (1)—continued

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Motor Vehicles - Clearing Account	To record the majority of Motor Registration Division receipts pending clearance at the end of each month.
National Wine Centre Operating Account	To record all the activities of the Centre including recurrent and capital expenditures, revenue from various activities, injections of funds from Consolidated Account and borrowings.
Natural Disaster Relief Fund	To facilitate the administration of natural disaster relief particularly by way of loans to farmers.
Office for Government Enterprises Asset Sales Operating Account.....	To record all of the financial transactions of the Office for Government Enterprises Asset Sales Unit, recurrent and capital expenditure on disposal of assets, revenue from the various activities, injections of funds provided from the Consolidated Account and to apply net proceeds from asset sales to repay the Government's indebtedness to SAFA or for other approved purposes.
Office of the Venture Capital Board Operating Account.....	To record all the activities of the Office including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Office of Venue Management Operating Account.....	To record all the activities of the Office of Venue Management including recurrent and capital expenditures, revenue from various activities, injections of funds provided from Consolidated Account and borrowings.
Ombudsman's Office Operating Account	To record all the activities of the Ombudsman's Office including recurrent and capital expenditures, revenues from various activities, injections of funds provided from the Consolidated Account and borrowings.
Parliamentary Superannuation Scheme Account.....	To record receipts and payments for the Parliamentary Superannuation Scheme.
Playford Centre Operating Account.....	To reflect all financial transactions of the Playford Centre in its objective to encourage development of the information industry in South Australia.
Police Complaints Authority	To record costs incurred while investigating complaints against the Police.
Police Operating Account.....	To record all the activities of the Police Department including operating and investing expenditures, revenues from various activities, injections of funds provided from the Consolidated Account and borrowings.
Police Superannuation Scheme Contribution Account	To record receipts and payments for the Police Superannuation Scheme.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Ports Corp sale/lease - proceeds.....	To apply proceeds of the sale/lease in accordance with Section 12 of the <i>South Australian Ports (Disposal of Maritime Assets) Act, 2000</i> and to account for the net proceeds.
Premier and Cabinet Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Primary Industries (Log Rebate Funding) Operating Account.....	To record the receipt and the disbursement of rebates as per the agreement for the sale of Forwood Products and Mount Burr Mill.
Primary Industries and Resources Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Public Trustee Office Operating Account.....	To record all the business and other activities of the Public Trustee Office including recurrent and capital expenditures, revenue raised from commercial activities, injections of funds provided from the Consolidated Account and borrowings.
Rural Finance Account.....	<p>To provide for the administration of separate funds covering -</p> <ul style="list-style-type: none"> · the agreement between the Commonwealth and the States relating to: <ul style="list-style-type: none"> - rural reconstruction entered into on 4 June 1971 - rural assistance entered into on 1 January 1977 - rural assistance entered into on 1 July 1985 - rural assistance entered into on 1 January 1989 - rural assistance entered into on 1 January 1993 - Marginal Dairy Farms and Dairy Adjustment; · loans under the Commercial Rural Loans Scheme; · loans made to producer Co-operatives and borrowings required to fund the scheme; <p>To facilitate the Minister for Primary Industries becoming a unit holder in rural property trusts set up by the State Bank of South Australia to assist farmers on Eyre Peninsula and to make payments to the Rural Industry Adjustment and Development Fund and to make payments from profits on the Commercial Rural Loans Scheme to the Primary Industries Operating Account.</p>
Rural Industry Adjustment and Development Fund...	To record receipts and payments authorised by the <i>Rural Industry Adjustment and Development Act, 1985</i> .
Sale of Government Land and Property	To record all receipts and payments associated with the sale of Crown lands and other Government land and property.
Save the River Murray Fund	To receive the proceeds of the Save the River Murray Levy via Consolidated Account and make payments as prescribed by the <i>Waterworks (Save the River Murray Levy) Amendment Act 2003</i> .

STATEMENT F (1)—continued

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Save the River Murray Voluntary Contributions Fund	To receive voluntary payments and donations in relation to the Save the River Murray Fund and make payments as prescribed by the <i>Waterworks (Save the River Murray Levy) Amendment Act 2003</i> .
School Loans Scheme	To administer loans to Schools.
South Australian Aboriginal Heritage Fund	To receive funds from the Commonwealth, State and other sources for application towards the protection and preservation of Aboriginal heritage.
South Australian Electricity Supply Industry Planning Council Operating Account	To record all financial transactions for the South Australian Electricity Supply Industry Planning Council.
South Australian Government Insurance and Risk Management Fund.....	To record receipts and payments associated with the operation of the Government's insurance and risk management program.
South Australian Independent Industry Regulator....	To record the financial transactions of the South Australian Independent Regulator.
South Australian Local Government Grants Commission Account	To record all transactions associated with the <i>South Australian Local Government Grants Commission Act, 1992</i> including the receipt and payment of Commonwealth funds and expenditure on the administration of the Act.
South Australian Superannuation Fund Account.....	To record receipts and payments in respect of the South Australian Superannuation Fund.
Southern State Superannuation Fund Account.....	To record receipts and payments in respect of the Southern State Superannuation Fund.
Sport and Recreation Fund	To record receipts and disbursements associated with the <i>Gaming Machines (Miscellaneous) Amendment Bill, 1996</i> relating to the provision of financial assistance to sporting and recreational organisations.
State Governor's Establishment Operating Account..	To record all the activities of the Establishment including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
State - Local Government Reform Fund	To administer and fund particular functions/programs nominated by the State Government for negotiation with Local Government.
Stony Point (Liquids Project) Indenture Account	To facilitate financial dealings between the Government and the Cooper Basin Producers.
Surplus Cash Working Account	To record the movement of surplus cash to and from agencies operating accounts, and to the Consolidated Account, in accordance with the requirements of the Cash Alignment Policy.

STATEMENT F (1)—continued**SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2004—continued**
(Section 22 (a) (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
TAB sale - proceeds.....	To apply proceeds of the sale in accordance with Section 14 of the <i>TAB (Disposal) Act, 2000</i> and to account for the net proceeds.
Targeted/Voluntary Separation Package Scheme.....	To administer the costs associated with the Targeted/Voluntary Separation Package Scheme.
Trade and Economic Development Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Transport and Urban Planning Operating Account	To record all the activities of the Department (including Transport Services, Transport Planning, Office of Public Transport, Planning SA and the Offices for Sustainable Social, Environmental and Economic Development) including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Treasurer's Interest in the National Wine Centre.....	To record all of the financial transactions associated with the management of the <i>National Wine Centre (Restructuring and Leasing Arrangements) Act 2002</i> including injections of funds from the Consolidated Account.
Treasury and Finance Operating Account	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Treasury - Working Account	To hold charges incurred by the Agent-General in London for semi-Government and non-Government bodies, to record receipts and payments for small lotteries, to record certain receipts and payments arising from various superannuation arrangements, to record certain interest receipts and payments, to effect accounting adjustments and transfers and to hold amounts in suspense pending determination of appropriate treatment.
Victims of Crime Fund.....	To provide for the receipt of fines, levies and recoveries from offenders and for payment of compensation/costs to victims of crime and any other payments approved by the Attorney-General as being in the interests of victims of crime.
Water, Land and Biodiversity Conservation Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.

STATEMENT F (2)

SPECIAL DEPOSIT ACCOUNTS OPENED DURING THE YEAR ENDED 30 JUNE 2004
 (Section 22 (a) (v) (A) *Public Finance and Audit Act, 1987*)

Account	Purpose
Community Road Safety Fund	To receive revenue derived from anti-speeding devices and other monies approved by both the Minister and the Treasurer and to make payments for road safety programs and policing.
Education and Children's Services Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenue from the Consolidated Account, revenue from various activities, receipt of borrowings and receipt of various Commonwealth grants and associated payments.
Fleet SA Operating Account.....	To record all of the activities of Fleet SA as manager of the State's vehicle fleet including (without limitation): recurrent and capital expenditure; revenues and receipts from activities; making and receiving of funds in respect of investments, borrowing and interest rate hedging activities with South Australian Government Financing Authority; making and receiving of funds to and from Agencies and related to vehicle leases; making and receiving of funds to and from the Department of Administrative Services; and making and receiving of funds to and from Consolidated Account.
Further Education, Employment, Science and Technology Operating Account.....	To record all of the activities of the Department including operating and investing expenditures, revenues from the Consolidated Account, revenue from various activities, receipt of borrowings and receipts of various Commonwealth grants and associated payments.
Office of the Venture Capital Board Operating Account.....	To record all the activities of the Office including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Save the River Murray Fund	To receive the proceeds of the Save the River Murray Levy via Consolidated Account and make payments as prescribed by the Waterworks (<i>Save the River Murray Levy</i>) Amendment Act 2003.
Save the River Murray Voluntary Contributions Fund	To receive voluntary payments and donations in relation to the Save the River Murray Fund and make payments as prescribed by the Waterworks (<i>Save the River Murray Levy</i>) Amendment Act 2003.
Surplus Cash Working Account	To record the movement of surplus cash to and from agencies operating accounts, and to the Consolidated Account, in accordance with the requirements of the Cash Alignment Policy.
Trade and Economic Development Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.

STATEMENT F (2)—continued

SPECIAL DEPOSIT ACCOUNTS OPENED DURING THE YEAR ENDED 30 JUNE 2004—*continued*
 (Section 22 (a) (v) (A) *Public Finance and Audit Act, 1987*)

Account	Purpose
Transport and Urban Planning Operating Account	To record all the activities of the Department (including Transport Services, Transport Planning, Office of Public Transport, Planning SA and the Offices for Sustainable Social, Environmental and Economic Development) including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Treasurer's Interest in the National Wine Centre.....	To record all of the financial transactions associated with the management of the <i>National Wine Centre (Restructuring and Leasing Arrangements) Act 2002</i> including injection of funds from the Consolidated Account.
Water, Land and Biodiversity Conservation Operating Account.....	To record all the activities of the Department including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.

KEVIN FOLEY, Treasurer

STATEMENT G

DEPOSITS LODGED WITH THE TREASURER—BALANCES ON 30 JUNE 2004 (Section 22 (a) (vi) *Public Finance and Audit Act, 1987*)

The balances listed below represent amounts held by the Treasurer (pursuant to Section 21 of the *Public Finance and Audit Act, 1987*) on behalf of various bodies.

\$

Interest bearing—

Adelaide Festival Centre Trust	6 173 095
Adelaide Festival Trust Fund	-
Adelaide Hills Wine Industry Fund	21 075
Agents Indemnity Fund	5 195 930
Aquaculture Resource Management Fund	427 502
Arid Areas Catchment Water Management Board	415 513
Art Gallery Board Bequests Account	1 677 252
Basketball Association of South Australia	11 308
Bio-Innovation SA	2 310 065
Boating Administration - Working Account	1 915 514
Botanic Gardens Board Endowment and Commercial Fund	2 222 966
Carrick Hill Trust	101 234
Cattle Compensation Fund	2 445 871
Cooperative Research Centre for Molecular Plant Breeding	-
Cooperative Research Centre for Sustainable Aquaculture of Finfish	2 329 116
Country Fire Services Workers Compensation Fund	-
Courts Administration Authority	5 739 201
Crown Solicitor's Trust Account	12 418 244
Daniel Livingston Scholarship	26 875
Deer Keepers' Compensation Fund	117 980
Distribution Lessor Corporation Account	20 787
District Court Suitors' Fund	1 880 942
Dried Fruits Board	-
Education Department - Scholarships and Prizes	118 418
Electricity Industry Superannuation Fund	-
Employment and Technical and Further Education – College Council Funds	626 827
Employment and Technical and Further Education – Scholarships and Prizes	-
Environment Protection Fund	1 671 062
Eyre Peninsula Catchment Water Management Board	767 026
Fire Equipment Services Operating Account	-
Generation Lessor Corporation Account	24 779
Grains Industry Levy Fund	875 045
Gulf St Vincent Prawn Fishery Voluntary Contributions	20 931
History Trust of South Australia	714 117
Independent Gambling Authority	1 129 115
Industrial & Commercial Premises Corporation	-
Institute of Medical and Veterinary Science	13 122 438
Land Management Corporation	33 772 265
Land Technologies Alliance Fund	378 572
Langhorne Creek Wine Industry Fund	27 107
Legal Practitioners Act	222 488
Libraries Board of South Australia	2 892 716
Local Government Taxation Equivalents Fund	627 446
Lower Murray Reclaimed Irrigation Areas Operating Account	792 865
Loxton Irrigation Scheme	-
Marine Scalefish Industry Fund	48 067
McLaren Vale Wine Industry Fund	39 639
Motor Accident Commission Account	1 117 249
Museum Board – Bequests Account	2 670 071
National Action Plan for Salinity and Water Quality	21 998 377
National Parks General Reserves Account	2 062 766
Native Vegetation Fund	1 277 686
Natural Heritage Trust Extension (NHT2)	10 799 017
Northern Adelaide and Barossa Catchment Water Management Board	930 614
Office of Catchment Water Management Boards'	4 803 509
Onkaparinga Catchment Water Management Board	1 666 201
Outback Areas Community Development Fund	705 925
Passenger Transport Board	6 478 711
Passenger Transport Research and Development Fund	480 142

STATEMENT G—continued

DEPOSITS LODGED WITH THE TREASURER—BALANCES ON 30 JUNE 2004—continued (Section 22 (a) (vi) *Public Finance and Audit Act, 1987*)

The balances listed below represent amounts held by the Treasurer (pursuant to Section 21 of the *Public Finance and Audit Act, 1987*) on behalf of various bodies.

	\$
Phylloxera and Grape Industry Fund	1 161 061
Pitjantjatjara Council - Replacement of Plant Account.....	-
Planning and Development Fund	8 004 165
Pleuro Pneumonia Fund.....	70 959
Police Superannuation Fund.....	637 389
Racing Industry Development Authority	-
Rail Transport Facilitation Fund	10 300 568
Real Property Act Assurance Fund	5 007 350
Real Property Act Trust Account	58 888
Recreation and Sport Disability Foundation of South Australia	-
Recreational Boating Facilities Fund	1 831 799
RESI Corporation Account	309 330
RESI FP Pty Ltd Account	-
Residential Tenancies Fund	3 392 146
Retail Shop Leases Fund.....	490 140
Returned and Services League of Australia - Poppy Day Trust Inc - Enfield Project Account	549 895
Returned and Services League of Australia (South Australian Branch) Incorporated	734 821
River Murray Catchment Water Management Board	5 281 487
Riverland Wine Industry Fund	107 937
SA BITS Funds Pty Ltd – Playford Centre Capital.....	5 493 835
Second-Hand Vehicles Compensation Fund	537 637
Soil Conservation and Land Care Fund	26 347
South Australian Aboriginal Housing Authority	8 214 496
South Australian Apiary Industry Fund	165 594
South Australian Community Housing Development Fund	12 555 440
South Australian Co-ordinated Care - SA Health Plus.....	-
South Australian Country Arts Trust	1 749 309
South Australian Film Corporation Investors Returns Account	216 280
South Australian Finance Trust Limited	-
South Australian Forestry Corporation	19 771 886
South Australian Government Financing Authority	25 725 956
South Australian Housing Trust	84 158 717
South Australian Infrastructure Corporation	3 400 000
South Australian Metropolitan Fire Service	24 832 727
South Australian Metropolitan Fire Service Superannuation Trustees Account	-
South Australian Pig Industry Fund.....	1 522 990
South Australian Ports Corporation	-
South Australian Sheep Industry Fund	1 182 311
South Australian Timber Corporation	1 486 944
South Australian Tourism Commission	4 947 062
South Australian Water Corporation	-
South East Catchment Water Management Board	1 763 670
Southern Group Insurance Corporate Account	141 777
State Disaster Relief Fund	100 323
State Supply Board – Gaming Machine Operations	1 245 858
Superannuation Funds Management Corporation Operating Account.....	935 442
Supreme Court Suitors Fund.....	23 278 905
Teachers' Registration Board	2 084 254
Totalizator Agency Board – Capital Infrastructure Fund	-
TransAdelaide	13 111 157
Transmission Lessor Corporation Account.....	23 028
Upper South East Dryland Salinity Project	5 543 604
Waste to Resources Fund	5 173 571
Water Resources Levy Fund	-
Wildlife Conservation Fund	417 828
Woods and Forests - Research into Forest Pest Disease	10 782
Woods, Bagot, Jory and Laybourne-Smith - National War Memorial Account.....	1 900
World Congress on Information Technology 2002	-
2007 World Police and Fire Games Corporation.....	-
Sub-Total	446 069 226

STATEMENT G—continued**DEPOSITS LODGED WITH THE TREASURER—BALANCES ON 30 JUNE 2004—continued**
(Section 22 (a) (vi) *Public Finance and Audit Act, 1987*)

The balances listed below represent amounts held by the Treasurer (pursuant to Section 21 of the *Public Finance and Audit Act, 1987*) on behalf of various bodies.

Non-interest bearing—	\$
Adelaide Children's Court.....	3 514
Adelaide Magistrates Court.....	183 757
Agriculture – Research and Services Grants	5 958 625
Animal and Plant Control Commission Fund.....	445 980
Children's Services Office – Capital Assistance Fund.....	192 235
Coast Protection Fund	13 995
Commissioner for Equal Opportunity Account	-
Companies Liquidation Account.....	18 548
Contractors' Deposits	182 022
Co-operatives Liquidation Account.....	64 993
Correctional Services - Prisoners' Monies	288 522
Economic Development Authority.....	12 543 811
Extractive Areas Rehabilitation Fund.....	4 504 833
Fisheries – Research and Development Fund	3 356 150
Government's Light Motor Vehicle Replacement Program.....	3 221 625
Metropolitan Drainage Maintenance Fund.....	101 557
Natural Gas Authority of South Australia.....	302 198
Recreation and Sport Fund	41 512
Sheriff's Office Account	2 948
South Eastern Water Conservation and Drainage Board.....	4 458
State Heritage Fund	102 300
Unclaimed Salaries and Wages Account	295 015
Workmen's Liens	286 963
Sub-Total	<hr/> 32 115 561
Total Deposits lodged with the Treasurer.....	<hr/> 478 184 787

KEVIN FOLEY, Treasurer

STATEMENT H

IMPREST ACCOUNTS (Section 22 (a) (vii) *Public Finance and Audit Act, 1987*)

These amounts represent monies advanced by the Treasurer to Chief Executive Officers pursuant to Section 9 of the *Public Finance and Audit Act, 1987*. Imprest accounts provide funds to meet payments at short notice and are subsequently recovered from departmental monies.

By Whom Held	Agency	Unappropriated Funds Allocated
Chief Executive	Department for Administrative and Information Services	\$ 114 950
Chief Executive	Attorney-General's Department.....	44 020
Auditor-General	Auditor-General's Department.....	3 100
Chief Executive	Department of Education and Children's Services.....	121 000
Chief Executive	Department of Further Education, Employment, Science and Technology	498 700
Clerk	House of Assembly.....	344
Chief Executive	Department of Human Services.....	285 000
Chief Executive	Department of the Premier and Cabinet	30 380
Chief Executive	South Australian Police Department.....	200 000
Electoral Commissioner	State Electoral Office.....	200
Chief Executive	Department of Trade and Economic Development	3 000
Chief Executive	Department for Transport and Urban Planning	247 590
	Total.....	<hr/> 1 548 284 <hr/>

KEVIN FOLEY, Treasurer

STATEMENT I

INDEBTEDNESS OF THE TREASURER AS AT 30 JUNE 2004 (Section 22 (a) (viii) *Public Finance and Audit Act, 1987*)

As prescribed in Section 22 (a) (viii) of the *Public Finance and Audit Act, 1987*, this statement provides details on the total indebtedness of the Treasurer.

Lending arrangements within the South Australian public sector give rise to a direct debt relationship between the South Australian Government Financing Authority (SAFA) and certain public non financial corporations and the consolidation of general government sector debt with the Treasurer.

As the State's central financing authority, SAFA's main function is to develop and provide a range of borrowing, investment, and other financial services for South Australian public sector entities. The Treasurer has appointed SAFA to manage the portfolio forming the general government sector debt and is in turn indebted to SAFA.

As a result of these arrangements all of the Treasurer's indebtedness is to SAFA and the balance as at 30 June 2004 was \$3 046.3 million. Details on the management of the Treasurer's debt portfolio can be found in SAFA's Annual Report.

The Consolidated Account is the Treasurer's main operating account and it is through this Account that public monies are received and expended pursuant to the requirements of the *Public Finance and Audit Act, 1987*. Each year the Treasurer borrows from SAFA an amount equal to the Consolidated Account financing requirement. If there is a negative Consolidated Account financing requirement then an equivalent amount of the Treasurer's debt to SAFA is repaid.

In 2003-04 the Consolidated Account surplus was \$329.5 million and was used to repay borrowings of that amount to SAFA.

The indebtedness of the Treasurer to SAFA is serviced from Consolidated Account and is recovered, in part, from loans provided by the Treasurer to public sector agencies and other bodies as described below. In addition the Treasurer has provided equity contributions to certain agencies some of which pay dividends to Consolidated Account as shown in Statement A.

The Treasurer's indebtedness to SAFA has been applied in the public accounts as follows:

	2003-04 \$ 000	2002-03 \$ 000
Loans to State Government Departments		
Administrative and Information Services—		
Operations	2 769	2 769
Government Commercial Properties	49 457	51 187
Government Employee Residential Properties	34 992	36 185
Environment and Heritage.....	38 054	38 054
Office of Public Transport	2 068	3 168
Primary Industries and Resources—		
Gulf St Vincent Prawn Fishery	-	97
Rural Loans.....	1 996	1 851
Transport and Urban Planning	47 761	47 761
	<u>177 097</u>	<u>181 072</u>

Loans to Statutory Authorities and Other Bodies

Adelaide Bank	393	726
Adelaide Festival Centre Trust	27 938	28 098
Basketball Association of South Australia Incorporated	10 451	10 451
Flinders Medical Centre.....	24 510	24 205
Land Management Corporation	9 953	9 983
Lotteries Commission	5 429	6 881
Lyrup Village Association	54	62
Medical Board of South Australia	57	95
Minister for Education and Children's Services	7 460	7 460
Minister for Industry, Trade and Regional Development.....	-	5 223
Minister for Recreation, Sport and Racing.....	437	459
Renmark Irrigation Trust	1 667	1 829
South Australian Country Arts Trust.....	15 717	15 737
South Australian Housing Trust	792 806	809 773
South Western Suburbs Drainage.....	2 912	3 039
South Australian Tourism Commission	1 036	1 166
TransAdelaide.....	86 752	92 133

STATEMENT I—continuedINDEBTEDNESS OF THE TREASURER AS AT 30 JUNE 2004—*continued*
(Section 22 (a) (viii) *Public Finance and Audit Act, 1987*)

	2003-04 \$ 000	2002-03 \$ 000
Loans to Statutory Authorities and Other Bodies—continued		
University of South Australia	15 000	15 000
West Beach Trust	2 716	2 716
Women's and Children's Hospital	5 395	5 662
Woodville, Henley and Grange Drainage.....	260	267
	<u>1 010 943</u>	<u>1 040 965</u>
Equity Contributions		
Adelaide Convention Centre	77 794	77 794
Adelaide Entertainments Corporation	55 536	55 536
Administrative and Information Services—		
Operations.....	164 708	164 250
Government Commercial Properties	63 529	63 529
Distribution Lessor Corporation	28 273	28 273
Education and Children's Services.....	4 463	4 463
Forestry SA	4 984	4 984
Generation Lessor Corporation	24 539	24 539
Human Services	114 340	88 722
National Electricity Administrator.....	93	93
National Electricity Market Management Company	490	490
Office of Public Transport	16 800	16 800
Police Department	25 069	25 069
Primary Industries and Resources.....	1 059	1 059
SA Water Corporation.....	247 950	247 950
South Australian Asset Management Corporation	52 716	52 716
South Australian Film Corporation	8 460	8 460
South Australian Ports Corporation	-	15 000
Transport and Urban Planning.....	118 498	118 243
Water, Land and Biodiversity Conservation.....	7107	-
	<u>1 016 408</u>	<u>997 970</u>
Other Indebtedness		
Debt associated with indemnity payments to the former State Bank of South Australia.....	2 002 173	2 002 173
Debt associated with recapitalisation of State Government Insurance Commission	335 077	335 077
Unallocated debt.....	<u>(1 495 402)</u>	<u>(1 136 739)</u>
	<u>841 848</u>	<u>1 200 511</u>
Total Treasurer's Indebtedness to SAFA	<u>3 046 296</u>	<u>3 420 518</u>

Further information on the Treasurer's indebtedness to SAFA can be found in Statement J – Financial Relationships and Transactions between the Treasurer and the South Australian Government Financing Authority.

Contingent Liabilities

The Treasurer is also authorised or required under a number of Acts to guarantee credit arrangements (eg repayment of borrowings) of various bodies. In the event of default, payment is made from the Consolidated Account. There is, therefore, a contingent liability of the Treasurer.

These fall into two main categories:

- general guarantees in respect of the operations of certain statutory bodies; and
- guarantees to assist the development of an industry or service (eg in respect of the indebtedness of companies and individuals pursuant to the *Industries Development Act 1941*).

The Treasurer has residual liabilities arising from the sale/lease of the State's electricity assets. The liabilities represent prepaid lease rental payments received by the Treasurer on behalf of the Transmission Lessor Corporation, Distribution Lessor Corporation and Generation Lessor Corporation. The Treasurer's liability to the corporations at 30 June 2004 was \$506.8 million. This amount will reduce over the terms of the leases, (up to 200 years), as lease rental revenue is brought to account. No cash payments are anticipated.

In addition, the Treasurer may incur contingent liabilities under the *Government Financing Authority Act 1982* arising from SAFA's role in financing the South Australian Public Sector. These liabilities arise as a result of guarantees and indemnities provided, together with swap contracts and forward foreign currency transactions.

KEVIN FOLEY, Treasurer

STATEMENT J

FINANCIAL RELATIONSHIPS AND TRANSACTIONS BETWEEN THE TREASURER AND THE SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY (Section 22 (a) (ix) *Public Finance and Audit Act, 1987*)

The South Australian Government Financing Authority (SAFA) is an integral part of the management of the Government's finances. Transactions between SAFA and the Public Accounts are described below—

Indebtedness

The indebtedness of the Government to SAFA largely stems from ongoing operations of Government including—

- direct loans from SAFA to the Government;
- indebtedness resulting from the assumption by SAFA of the obligations of the State to the Commonwealth Government under the Financial Agreement, Housing and other Specific Purpose Agreements;
- indebtedness in respect of payments made on account of the Government's indemnity arrangements with the former State Bank of South Australia (net of repayments);
- indebtedness resulting from debt rearrangements within the South Australian Public Sector whereby SAFA is assigned loan assets in return for assuming the associated debt servicing obligations of the South Australian Government; and
- assumption by the Government of obligations of semi-government authorities and Public Sector financial institutions for past loans from SAFA.

The overall movement in the Government's indebtedness to SAFA during 2003-04 is summarised as follows—

	\$ million
Balance at 30 June 2003.....	3 421
Less- Realised gain (net) (i)	11
Less- Consolidated Account repayment of borrowings in 2003-04.....	330
Less- Repayment of borrowing.....	26
Less- Other minor adjustments (net).....	8
Balance at 30 June 2004.....	<u>3 046</u>
Market value at 30 June 2004 (ii).....	<u>3 148</u>

(i) SAFA's accounting policy in relation to realised gains and losses resulting from debt management transactions is to recognise these gains and losses immediately in its Statement of Financial Performance and recover the gain/loss through an adjustment to the Treasurer's debt level.

(ii) SAFA manages its financial assets and liabilities on a market value basis (net fair value).

Cash Balances

Arrangements for the management of cash require that virtually all funds under the control of the Treasurer which are not immediately required, are deposited with SAFA each day on an at call basis. During 2003-04 interest at the Common Public Sector Interest Rate (CPSIR) was paid to the Treasurer by SAFA in respect of those balances held by the Treasurer, which earn interest at the CPSIR. The Treasurer received interest at a rate determined by reference to SAFA's overnight borrowing rate in respect of the remaining funds deposited with SAFA.

At 30 June 2004 the amount deposited by the Treasurer with SAFA was \$1 483 million (SAFA's market valuation \$1 489 million).

Statement C shows details of cash balances held by the Treasurer at 30 June 2004 and the form in which those balances were held.

Capital and Surpluses

Consistent with the South Australian Commission of Audit recommendations of April 1994, SAFA has repaid all capital contributions from the Government.

The size of SAFA's operating surplus in 2003-04 prior to income tax was \$29.0 million. SAFA and its controlled entities come under the Tax Equivalent Regime (TER) and under this arrangement \$6.8 million from the surplus was paid to Consolidated Account in 2003-04 and is reported in Statement A.

After taking account of the retained surplus carried forward from previous years and the TER payment in 2003-04 the amount of SAFA's surplus potentially available for distribution at 30 June 2004 was \$214.0 million. The Treasurer determined that the distribution for 2003-04 would be \$ 19.0 million.

STATEMENT J—*continued*

FINANCIAL RELATIONSHIPS AND TRANSACTIONS BETWEEN THE TREASURER AND THE SOUTH
AUSTRALIAN GOVERNMENT FINANCING AUTHORITY—*continued*
(Section 22 (a) (ix) *Public Finance and Audit Act, 1987*)

Banking Arrangements

Similar to many other semi-government authorities, SAFA operates a Deposit Account—see Statement G. Any surplus funds otherwise standing to the credit of the Account are invested by SAFA each day.

Government Guarantee

All the liabilities of SAFA are unconditionally guaranteed by the State pursuant to Section 15 of the *Government Financing Authority Act, 1982*. The Government does not foresee any circumstances in which the guarantee is likely to be called upon.

KEVIN FOLEY, Treasurer

STATEMENT K

STATEMENT OF APPROPRIATION AUTHORITIES

 GOVERNOR'S APPROPRIATION FUND
 (Section 22 (a) (xi) (A) and (B) *Public Finance and Audit Act, 1987*)

	\$
Maximum amount that could have been appropriated from the Fund in 2003-04.....	181 506 000

Purpose of Appropriation	Amounts Issued and Applied
	\$
South Australian Tourism Commission	125 000
Administered Items for the Department of Treasury and Finance (a).....	54 609 367
Independent Gambling Authority	53 000
Administered Items for the Department for Business, Manufacturing and Trade	1 000 000
Administered Items for the Department of Primary Industries and Resources	1 000 000
Department for Correctional Services.....	464 800
South Australia Police	2 431 835
Courts Administration Authority.....	28 550
Attorney-General's Department.....	188 000
Department of Human Services	29 239 280
Department of Further Education, Employment, Science and Technology.....	1 000 000
Department for Environment and Heritage.....	6 491 500
Administered Items for the Department for Environment and Heritage.....	500 000
Department of Water, Land and Biodiversity Conservation	295 000
Office of Local Government.....	128 000
Administered Items for Planning SA.....	259 474
Transport Services	9 630 614
Administered Items for Transport Services	24 928 013
Department for Administrative and Information Services	527 853
Office of Public Transport.....	1 027 866
Total.....	133 928 152

(a) Comprises payment for implementation of Gas Full Retail Contestability

STATEMENT K—continued

STATEMENT OF APPROPRIATION AUTHORITIES—continued

TRANSFERS AUTHORISED PURSUANT TO SECTION 13 OF THE PUBLIC FINANCE AND AUDIT ACT
(Section 22 (a) (xii) *Public Finance and Audit Act, 1987*)

<u>Adjustment</u>	<u>Purpose of Appropriation</u>	<u>Amount</u> \$
Decrease	Department for Administrative and Information Services	95 854 000
Increase	Department of the Premier and Cabinet.....	1 122 000
	Administered Items for the Department of the Premier and Cabinet.....	250 000
	Arts SA.....	529 000
	South Australian Tourism Commission	1 994 000
	Auditor-General's Department.....	100 000
	Administered Items for the Auditor-General's Department.....	2 000
	Department of Treasury and Finance	336 000
	Administered Items for the Department of Treasury and Finance	25 000 000
	Department of Trade and Economic Development	13 000
	Administered Items for the Department for Business, Manufacturing and Trade..	48 000
	Administered Items for the Department of Primary Industries and Resources	1 200 000
	Department of Correctional Services	2 004 000
	South Australia Police	1 581 000
	Attorney-General's Department.....	2 839 000
	Administered Items for Attorney-General's Department.....	5 111 000
	Department of Human Services.....	40 677 000
	Administered Items for the Department of Human Services	6 303 000
	Administered Items for the Department of Education and Children's Services	698 000
	Department of Further Education, Employment, Science and Technology	383 000
	Department for Environment and Heritage.....	842 000
	Environment Protection Authority	300 000
	Department of Water, Land and Biodiversity Conservation.....	1 179 000
	Transport Services	1 340 000
	Transport Planning	10 000
	Office of Public Transport.....	1 179 000
	House of Assembly	415 000
	Joint Parliamentary Services	112 000
	Legislative Council.....	287 000

REDUCTIONS AUTHORISED PURSUANT TO SECTION 14 OF THE PUBLIC FINANCE AND AUDIT ACT
(Section 22 (a) (xiv) *Public Finance and Audit Act, 1987*)

No reductions were made during 2003-04.

APPROPRIATION AUTHORITIES FOR ACTUAL PAYMENTS FROM THE
CONSOLIDATED ACCOUNT, 2003-04
(Section 22 (a) (xiii) *Public Finance and Audit Act, 1987*)

	Appropriation Authority	Actual Payments
	\$	\$
Appropriation Act, 2003 Section 4	6 273 796 000	6 172 745 489
Public Finance and Audit Act, 1987 - Section 15.....	-	-
The Governor's Appropriation Fund, <i>Public Finance and Audit Act, 1987</i> - Section 12.....	6 273 796 000	6 172 745 489
Specific appropriation authorised in various Acts.....	181 506 000 6 455 302 000 102 774 872	133 928 152 6 306 673 641 102 774 872
Total.....	6 558 076 872	6 409 448 513

KEVIN FOLEY, Treasurer

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