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

Report

of the

Auditor-General

for the

Year ended 30 June 2003

Tabled in the House of Assembly and ordered to be published, 13 October 2003

Third Session, Fiftieth Parliament

PART B

Volume IV

By Authority: J. D. Ferguson, Government Printer, South Australia

2003

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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 and VI 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.

MINISTER FOR TRANSPORT;
MINISTER FOR URBAN DEVELOPMENT AND PLANNING;
MINISTER FOR LOCAL GOVERNMENT;
MINISTER FOR THE SOUTHERN SUBURBS

PORTFOLIO – TRANSPORT AND URBAN PLANNING

INTRODUCTION

This 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 Ministers, namely:

- Minister for Transport
- Minister for Urban Development and Planning
- Minister for Local Government
- Minister for the Southern Suburbs

The agencies included herein relating to the portfolio of Transport and Urban Planning are:

- Local Government Finance Authority of South Australia
- Passenger Transport Board
- TransAdelaide
- Transport and Urban Planning — Department for

SUPPLEMENTARY REPORT

There are bodies whose financial statements have not been finalised or the audit has not been completed in time for inclusion in this Report. The financial statements for, and commentary on the operations of, the Department for Transport and Urban Planning will be included in a Supplementary Report to be presented to Parliament later in this financial year.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

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

Functions

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

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

Organisational Structure

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

Guarantee by the Treasurer

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

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 33(2) of the *Local Government Finance Authority Act 1983* specifically provides for the Auditor-General to audit the accounts of the Authority in respect of each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Local Government Finance Authority 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 all major financial systems and was directed primarily towards obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal control.

During 2002-03 specific areas of audit attention included:

- interest income, other income and expenses
- council loans, advances, and deposits
- investments, derivatives and investment income
- administrative expenses including payroll
- borrowings, derivatives and interest expense
- budgetary control and management reporting
- computer information systems environment.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. Responses to the management letter were generally considered to be satisfactory. Major matters raised with the Authority and the related responses are considered in Audit Findings and Comments.

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 Local Government Finance Authority as at 30 June 2003, 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 Local Government Finance Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Local Government Finance Authority have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

LGCS — E-Commerce Venture

A follow-up review was conducted of audit matters raised in 2001-02 in relation to the investment and loan provided by the Authority to the Ecouncils e-commerce venture, which commenced operations during 2000-01. It was noted that Board approval was given for the Authority to participate in this venture. Approval was also obtained from the Minister for Local Government and the Treasurer, as involvement in the e-commerce proposal constituted an investment of a nature which required approval under the *Local Government Finance Authority Act 1983*.

In monetary terms, the Authority has $50 000 invested in the LGCS Unit Trust (LGCS), the organisation trading as Ecouncils, and a convertible cash advance debenture facility for $700 000 has been approved for LGCS of which $683 000 has been drawn. This results in a total exposure to the LGFA of $733 000. As LGCS has no assets as such, this cash advance debenture is effectively unsecured (unlike council loans which are secured over general revenue of the council). As there is no effective security for the loan, this would indicate a risk as to the recovery of the loan which is dependent upon the success of the venture. As the loan made is not due for repayment until January 2006, no adjustment to write-down the value of the loan was made by the Authority.

The follow-up review conducted of LGCS Unit Trust included a review of the Trusts' latest available audited financial statements for the year ended 30 June 2002 and compliance with the Australian Accounting Standard AASB 1016 - 'Accounting for Investments in Associates'. That review revealed the following:

- LGCS accumulated losses (as at 30 June 2002) were $708 000 and its net assets deficiency $608 000 (liabilities exceeded assets); and

- Under the Australian Accounting Standard, as the Authority does not control the Unit Trust but exercises significant influence by virtue of the composition of the Board of Directors (of the Trustee Company), the authority should account for the investment in the Unit Trust using the equity method which requires the investment to be adjusted for the Authority's share of the Unit Trusts' losses.

The above matter was raised in a management letter to the Chief Executive Officer and the recommendation made to adopt the equity method and write-down the value of the investment.

In response to the matter raised, the Chief Executive Officer advised that the investment in the Unit Trust was written-off and details and explanations provided in the Notes to the financial statements (Note 4 refers).

Audit will continue to monitor developments as to the financial performance of the Unit Trust and the recovery of the loan made.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

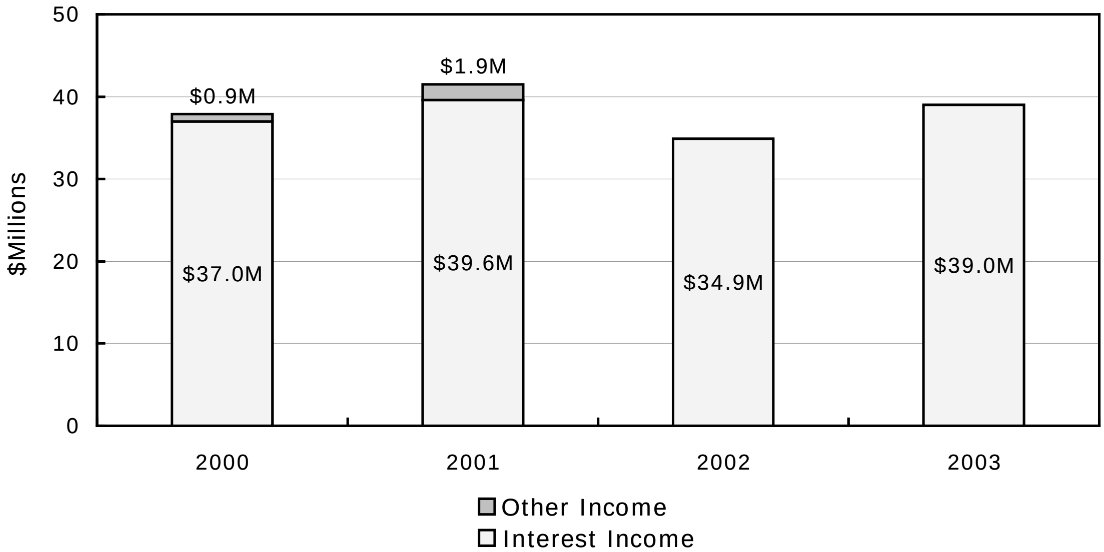
Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Interest income	**39.0**	34.9	11.7
Total Operating Revenue	**39.0**	34.9	11.7
OPERATING EXPENDITURE			
Interest expense	**34.2**	30.4	12.5
Guarantee fee, administration and other expenses	**2.0**	1.9	5.3
Total Operating Expenses	**36.2**	32.3	12.1
Surplus before tax	**2.8**	2.6	7.7
Income tax expense	**0.8**	0.8	-
Net profit	**2.0**	1.8	11.1
Net Cash Flows from Operations	**2.5**	1.4	78.6
ASSETS			
Investments, loans and advances	**374.0**	349.5	7.0
Other assets	**13.6**	12.7	7.1
Total Assets	**387.6**	362.2	7.0
LIABILITIES			
Deposits and borrowings	**331.5**	307.1	7.9
Other liabilities	**9.3**	8.9	4.5
Total Liabilities	**340.8**	316.0	7.8
EQUITY	**46.8**	46.2	1.3

Statement of Financial Performance

Operating Revenues

As the Authority is a financial institution servicing Local Government, its main operating revenue is interest income with other income being insignificant. For the four years to 2003 a structural analysis of operating revenues for the Authority is presented in the following chart.

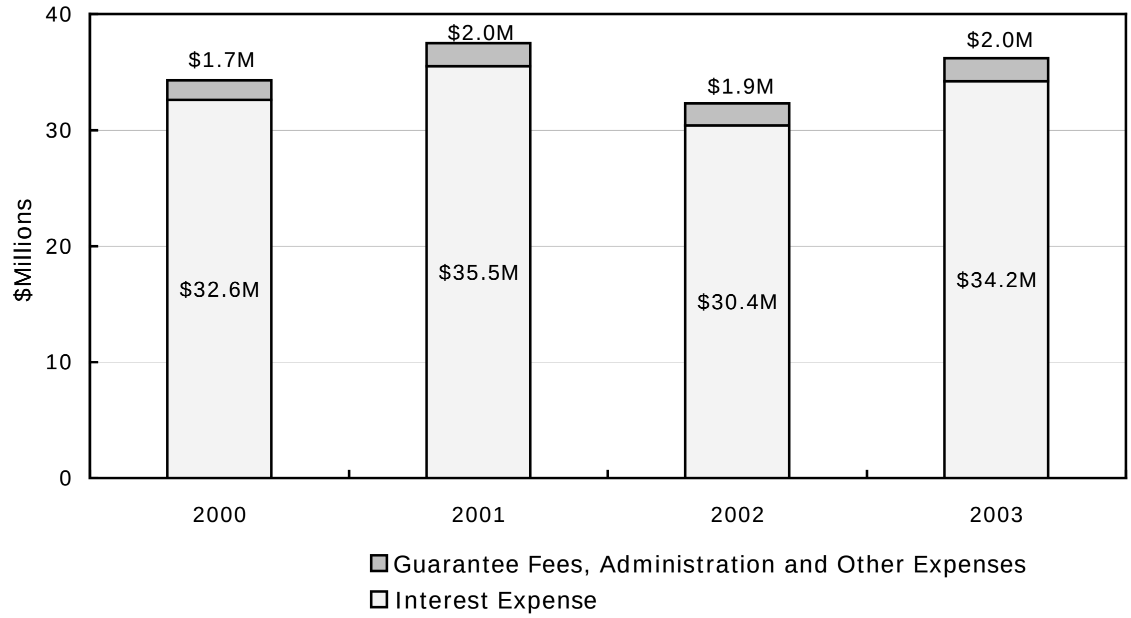


The increase in interest income in 2003 reflects increases in the average balance of loans and advances and the hedge average notional balance. Details of interest income, rates and balances are provided in Note 22 to the accounts.

Operating Expenses

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

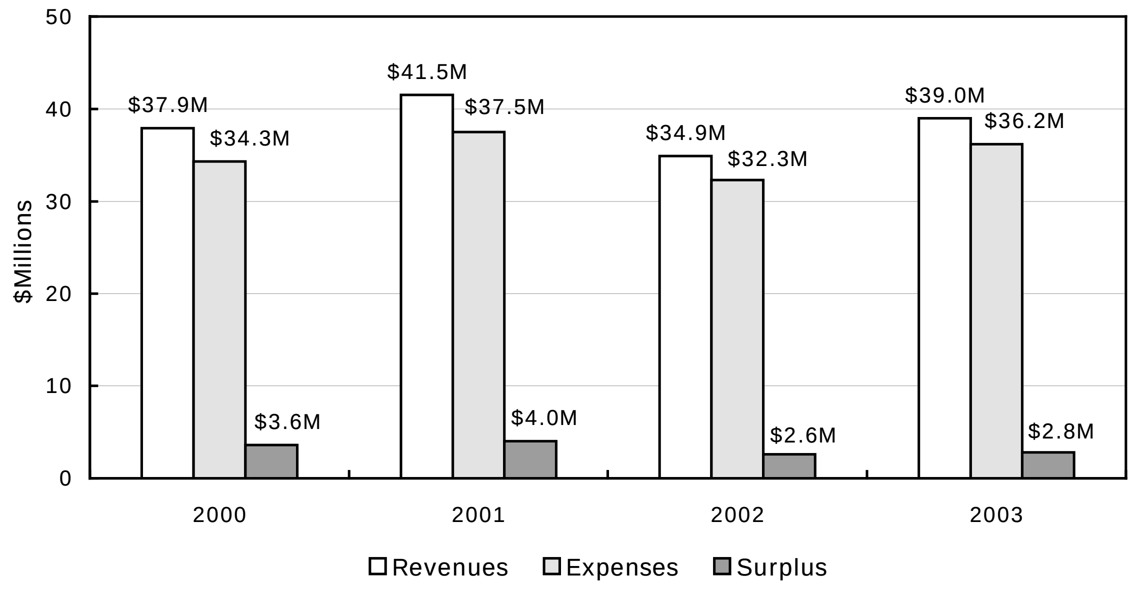
For the four years to 2003 a structural analysis of the main operating expense items for the Authority is shown in the following chart.



The increase in interest expense in 2003 reflects increases in the average balance of deposits and the hedge payments average notional balance. Details of interest expense, rates and balances are provided in Note 22 to the accounts.

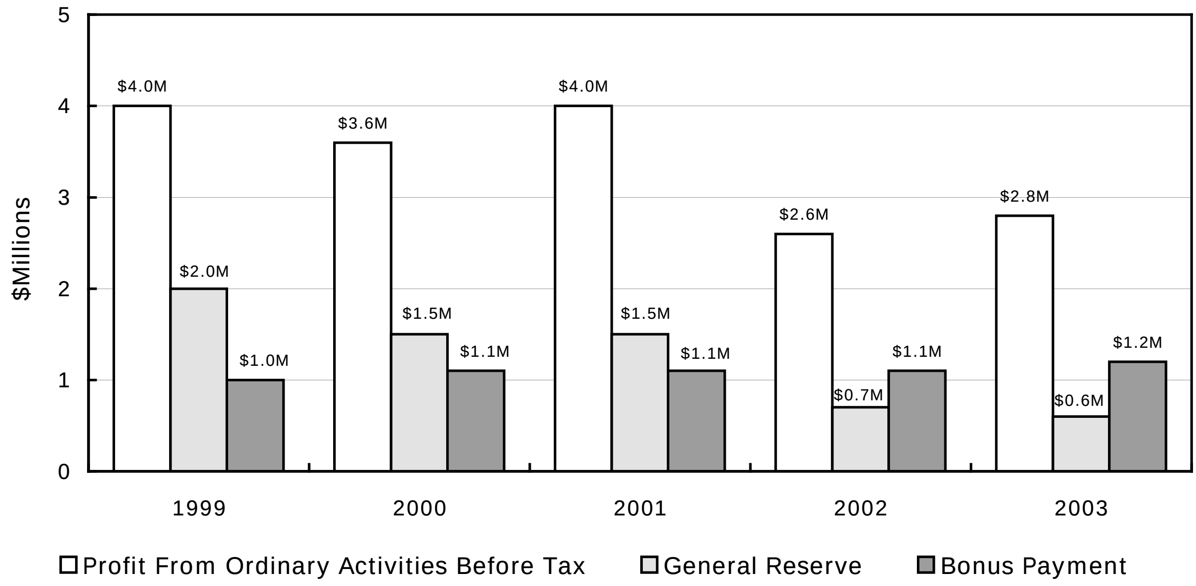
Operating Result

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2003.



Profit and Distributions

In 2002-03 the Authority achieved a profit from ordinary activities before tax of $2.8 million ($2.6 million) and a net profit of $2 million ($1.8 million) which was available for appropriation. The profit and principal distributions from the total profit available for appropriation for the past five years are presented in the following chart.

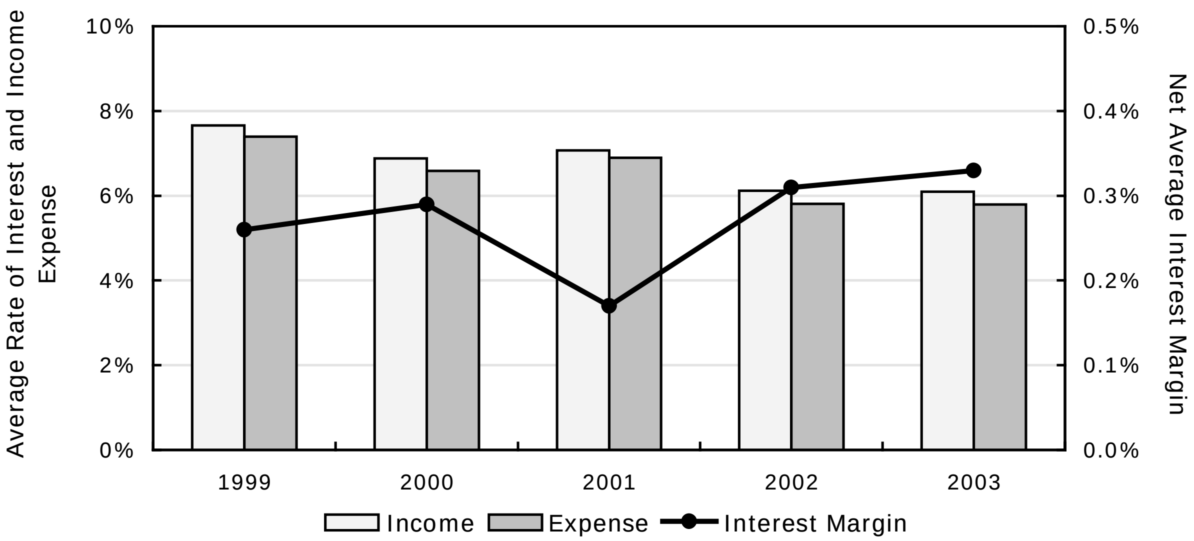


The profit from ordinary activity before tax results for the years 1999 to 2001 were consistent and decreased in the 2002 and 2003 years. That decrease reflects other income (commission) generated from a structured finance deal which finally matured in 2001. A previous chart on operating revenues shows the quantum of other income earned in the earlier years.

The profit from ordinary activities before tax result for 2003 is consistent with the previous year and reflects minimal changes in interest rates.

Net Average Interest Margin

The following chart highlights that in terms of financial performance, the Authority has re-established a net average interest margin in the order of what was achieved prior to 2001.



The decrease in the net average interest margin in 2001 reflects slightly lower increases in interest rates on loans and advances and hedge receipts than the slightly higher increase in interest rates on borrowings and deposits, thus lowering the margin in that year. Details of interest margins are provided in Note 22 to the accounts.

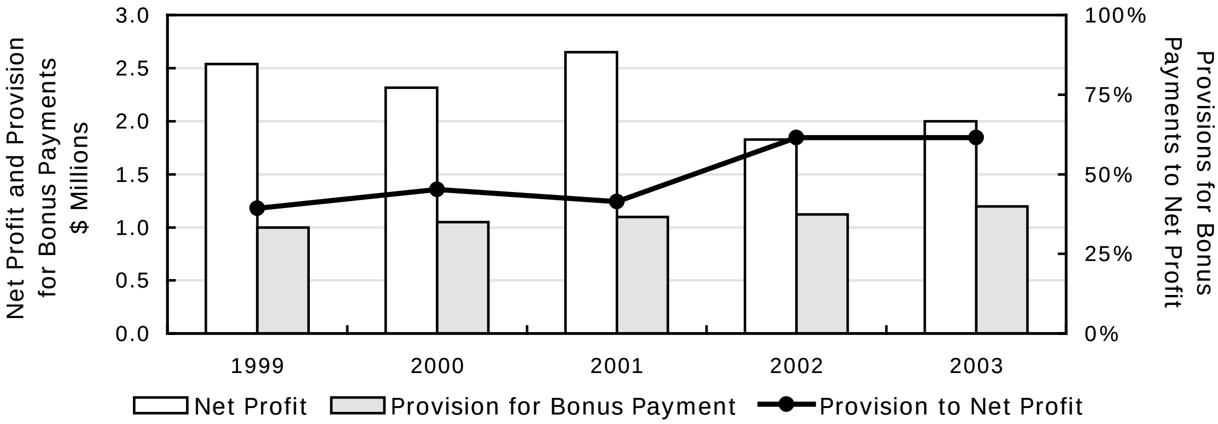
Tax Equivalent Payments

As from 1 June 1996, the Authority came under a Taxation Equivalent Payments System and is required to make payments equivalent to Company Income Tax. The amounts are paid into an account established with the State Treasurer titled the 'Local Government Taxation Equivalents Fund' and the funds are then available for local government development purposes as recommended by the Local Government Association of South Australia and agreed by the Minister for Local Government in accordance with section 31A of the *Local Government Finance Authority Act 1983*. For this financial year, the amount payable for income tax equivalent was $0.8 million.

Provision for Bonus Payments

Under subsection 22(2) of the *Local Government Finance Authority Act 1983*, the Authority has discretion to make distributions from the surplus for the year to Councils and local government bodies. These distributions are recorded as bonus payments in the financial statements. In 2002-03, a provision for a bonus payment of $1.2 million was made which was consistent with amounts provided in the previous year.

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

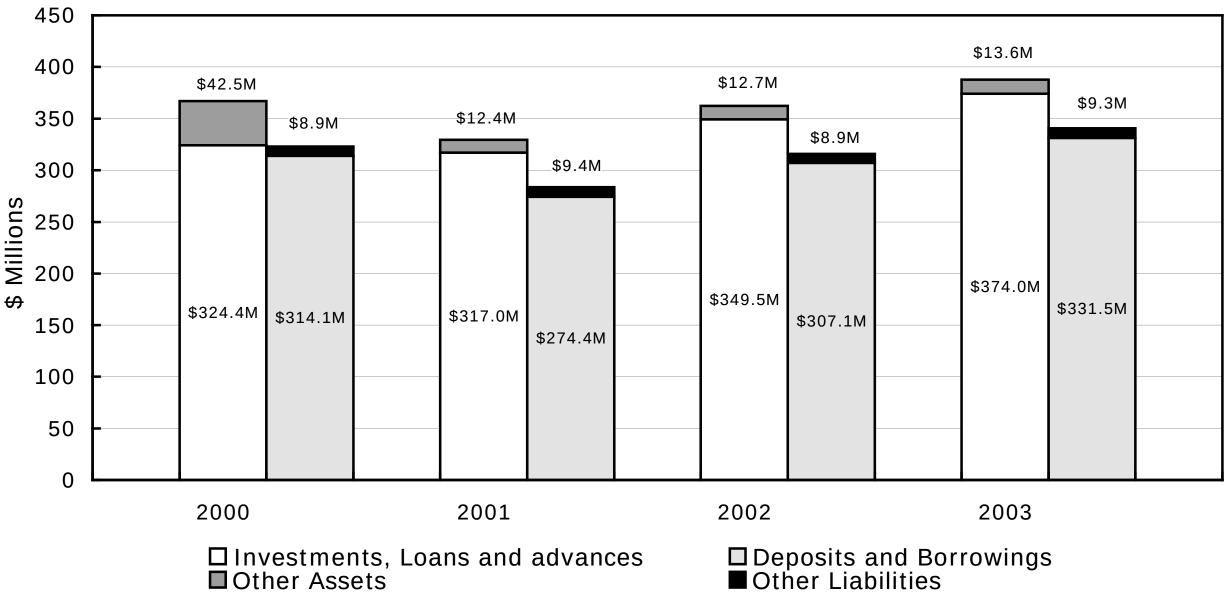


This chart highlights the consistency of the amount of the provision for bonus payments, (average of $1.1 million per year) and the net profit up to 2001. The percentage allocation to provision for bonus payment from net profit has increased in the 2002 and 2003 years. The net profit for 2003 is consistent with that achieved in 2002 and all other things being equal, the net profit is likely to remain around that level.

Statement of Financial Position

Assets and Liabilities

For the four years to 2003 a structural analysis of assets and liabilities is shown in the following chart.



The Statement of Financial Position shows assets of $388 million and liabilities of $341 million at 30 June 2003 compared with corresponding amounts of $362 million and $316 million at 30 June 2002.

The increase in assets and liabilities was due mainly to the following:

- The increase in assets was due to an increase in Loans and Advances made to Councils and Local Government Bodies of $24.4 million (7.1 percent); and

- The increase in liabilities resulted from an increase in Deposits from Councils and Local Government bodies of $21.8 million (10.8 percent).

Asset Quality

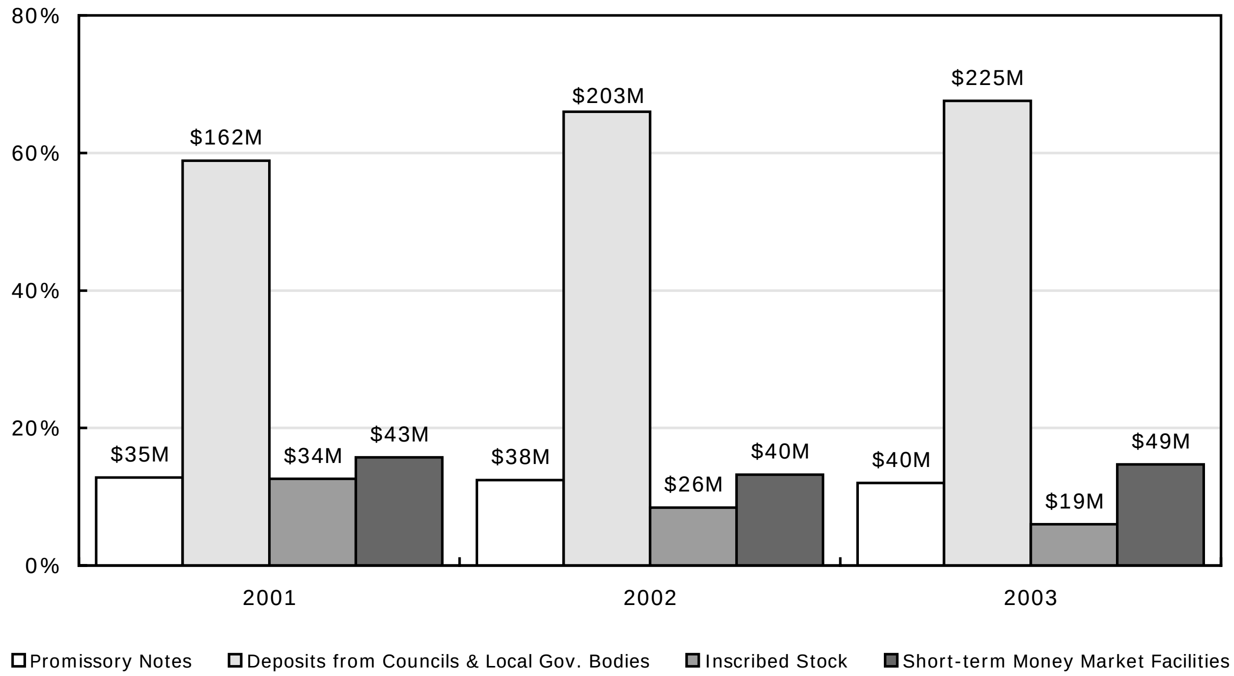
The Authority predominantly lends to councils and local government bodies on a secured basis. The security is by debentures providing a charge over the Council's general revenue. Note 1(g) and Note 9 to the accounts explain the details.

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

Liabilities of the Authority

The following chart displays the variations in the composition of major liabilities over the period 2000-01 to 2002-03. Accrued interest payable, provisions and other liabilities have been excluded from the analysis.

Analysis of Liabilities



The chart highlights the trend in the composition of the Authority's liabilities. In recent years reliance is being placed on deposits from Councils and Local Government Bodies and short term money market borrowings to fund the Authority's lending activities.

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

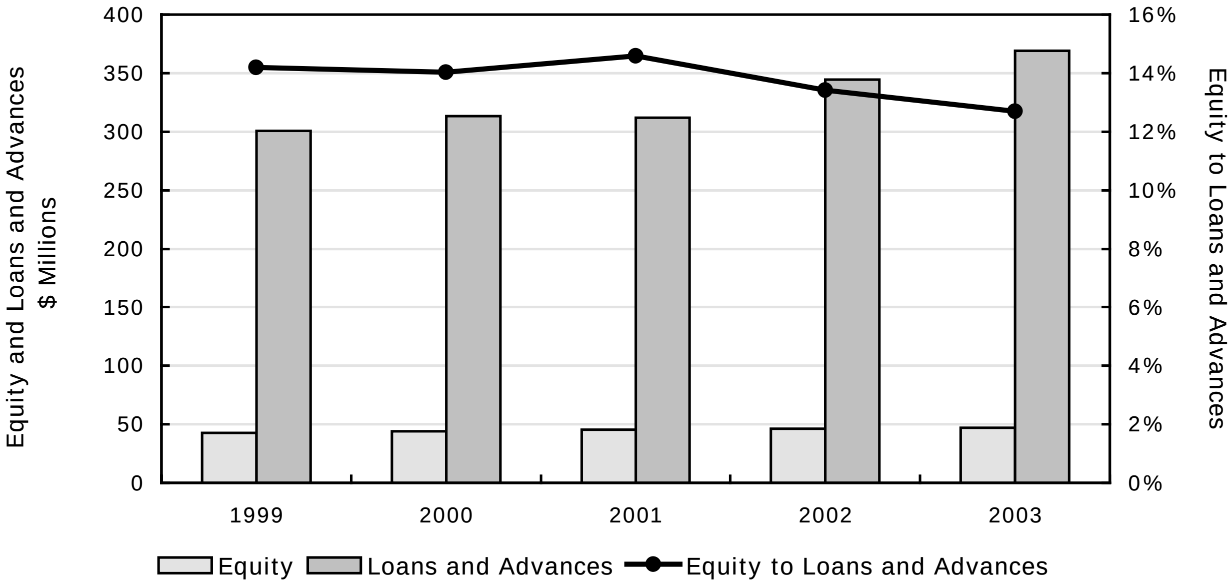
General Reserve and Equity

The Authority appropriated $0.6 million from total profit available for appropriation to the General Reserve, resulting in a balance as at 30 June 2003 of $46.3 million.

Total equity of the Authority amounted to $46.8 million as compared to total assets of $387.6 million. The equity comprises the General Reserve of $46.3 million, and Retained Profit of $0.5 million. In relation to the General Reserve, the earlier produced table titled Profit and Distributions demonstrates the policy of regularly appropriating a significant portion of the profit to that reserve ($6.3 million over the five years to 30 June 2003).

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

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



The chart highlights that notwithstanding the increase in equity through retained profits and transfers to reserves, the ratio has fallen in 2002 and 2003 with the substantial increase in loans and advances (7.1 percent in 2003). As indicated previously, the majority of these loans are secured by debentures.

Statement of Cash Flows

The following table summarises the net cash flows for the current year and the preceding three years.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**2.5**	1.4	3.4	2.7
Investing	**(24.5)**	(32.8)	35.9	38.0
Financing	**22.1**	31.3	(39.6)	(40.4)
Change in Cash	**0.1**	(0.1)	(0.3)	0.3
Cash at 30 June	**0.1**	0.0	0.1	0.4

The Statement of Cash Flows shows that the main inflow was from financing activities which provided cash inflows of $22.1 million. The main contributing source for this inflow was from funds received from deposits from Councils and Local Government Bodies of $21.8 million. These inflows from financing activities were used to fund investing activities which had total cash outflows of $24.5 million that included loans to Councils and Local Government Bodies of $24.5 million.

Statement of Financial Performance for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
REVENUES FROM ORDINARY ACTIVITIES:			
Interest on investments	22	**2 077**	2 052
Interest on loans and advances	22	**36 980**	32 875
Other income	2	**18**	27
Total Revenues		**39 075**	34 954
EXPENSES FROM ORDINARY ACTIVITIES:			
Interest on deposits from councils and local government bodies	22	**11 599**	9 280
Interest on borrowings	22	**22 655**	21 199
Fees for the guarantee of the Treasurer of SA on liabilities		**722**	635
Administration expenses	3	**1 206**	1 228
Share of net loss of associate accounted for using the equity method	4	**50**	-
Total Expenses		**36 232**	32 342
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		**2 843**	2 612
Income tax expense relating to ordinary activities	1(e)	**853**	784
NET PROFIT	16	**1 990**	1 828
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE OWNERS AS OWNER		**1 990**	1 828

Statement of Financial Position
as at 30 June 2003

	Note	2003 $'000	2002 $'000
ASSETS:			
Cash and liquid assets	5	**101**	6
Accrued interest receivable	6	**6 625**	6 311
Other assets	7	**6 535**	5 871
Investment securities	8	**5 100**	5 100
Investment in associate	4	**-**	50
Loans and advances	9	**368 895**	344 452
Property, plant and equipment	10	**357**	396
Total Assets		**387 613**	362 186
LIABILITIES:			
Deposits from councils and local government bodies	11	**224 681**	202 847
Accrued interest payable	12	**7 026**	6 405
Provisions	13	**1 886**	1 707
Other liabilities	14	**383**	723
Borrowings	15	**106 813**	104 295
Total Liabilities		**340 789**	315 977
NET ASSETS		**46 824**	46 209
EQUITY:			
Reserves	16	**46 300**	45 700
Retained profits	16	**524**	509
TOTAL EQUITY		**46 824**	46 209
Commitments	9		
Contingent Liabilities	21		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM ORDINARY ACTIVITIES:			
Interest and bill discounts received		**38 776**	34 824
Interest paid		**(33 666)**	(30 644)
Fees paid re guarantee provided by the Treasurer of SA		**(714)**	(630)
Cash payments to suppliers and employees		**(1 078)**	(1 049)
Fees received		**14**	26
Income tax paid		**(792)**	(1 134)
Net Cash provided by Ordinary Activities	18	**2 540**	1 393
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans to councils and local government bodies		**(24 517)**	(32 720)
Payments for property, plant and equipment		**(115)**	(299)
Proceeds from sale of property, plant and equipment		**49**	77
South Australian Government Financing Authority		**74**	159
Net Cash used in by Investing Activities		**(24 509)**	(32 783)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of inscribed stock		**(7 402)**	(8 561)
Repayment of promissory notes		**1 800**	2 700
Deposits from councils and local government bodies		**21 834**	41 207
Short-term money market facilities		**8 120**	(2 630)
Bonus payment to councils and local government bodies		**(1 125)**	(1 100)
Grant to LGCS Pty Ltd		**(150)**	-
Other payments		**(1 013)**	(343)
Net Cash provided by Financing Activities		**22 064**	31 273
NET INCREASE (DECREASE) IN CASH HELD		**95**	(117)
CASH AT 1 JULY		**6**	123
CASH AT 30 JUNE	18	**101**	6

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Accounting Policies

(a) Basis of Accounting

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

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

The accounting policies have been consistently applied, unless otherwise stated.

(b) Property, Plant and Equipment

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

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

	Years
Office equipment	3
Office furniture	5
Computer software	2.5
Motor vehicles	6.7

(c) Employee Benefits

A provision is made in respect of the Authority's liability for annual leave, long service leave and related on-costs as at balance date. Long service leave is accrued for all employees from the date of commencement of service. No provision is made in the accounts for sick leave entitlements.

(d) Derivative Transactions

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

(i) Interest Rate Swaps are recorded in the accounts on the basis of historical cost.

(ii) Futures Contracts are recorded at market value with the resultant change in value recorded in the Statement of Financial Performance.

(e) Income Tax

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

(f) Investment Securities

The Authority invests in fixed interest securities with a view to holding them until maturity. Subsequently all such investments are recorded in the accounts on the basis of historical cost.

(g) Loans and Advances

Loans and advances are recorded in the accounts on the basis of historical cost. The majority of loan agreements are secured by debentures, providing a charge over Council general revenue.

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

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

(h) Concentration of Deposits

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

2. Other Income

	2003	2002
	$'000	$'000
Fee income	**15**	27
Gain on sale of fixed assets	**3**	-
	18	27

3. Administration Expenses Comprises

	2003	2002
Salaries and on-costs	**637**	614
Depreciation	**108**	138
Auditor's fees	**47**	50
Consultancy fees	**22**	21
Other expenses	**392**	405
	1 206	1 228
The amounts received, or due and receivable, in respect of this financial year by the auditors in connection with auditing the accounts	**47**	50

4. Associated Entity

		2003	2002
		$'000	$'000
(a)	Share of Net Loss of Associate accounted for using the equity method	**50**	-

During the year the audited financial statements of the LGCS Unit Trust No. 1 for the year ended 30 June 2002 were provided to the LGFA Board of Trustees. The reported accumulated net loss of $708 000 was due, in part, to the amortisation expense of the initial contract for the distribution rights of the electronic procurement software to Councils in South Australia.

The Authority's share of the net loss is restricted to its $50 000 investment and this has been written down to zero as at 30 June 2003 using the equity method of accounting. Should the LGCS Unit Trust No. 1 fully recover its accumulated loss and return profits then the Authority will be entitled to a share of those profits under the equity method of accounting.

		2003	2002
		$'000	$'000
(b)	Investment in Associate	**-**	50

As at 30 June 2003 the Authority held a fifty percent ownership of the LGCS Unit Trust No. 1 in the form of 50 000 fully paid one dollar units. As the Authority does not control the Unit Trust but exercises significant influence, the Trust is accounted for using the equity method under Accounting Standard AASB 1016 'Accounting for Investments in Associates'. The principal activity of the LGCS Unit Trust No. 1 has been the establishment of an electronic procurement system for local government in South Australia. As explained in Note 4(a) the Investment in Associate has been written off.

5. Cash and Liquid Assets

	2003	2002
	$'000	$'000
Cash at Bank	**101**	6

6. Accrued Interest Receivable

Interest receivable - Loans to councils and local government bodies	**6 582**	6 266
Interest receivable - Investments	**43**	45
	6 625	6 311

7. Other Assets

Swap principal receivable	**6 370**	5 718
Sundry debtors and prepayments	**165**	153
	6 535	5 871

8. Investment Securities

Deposits and securities issued by banks	**5 100**	5 100

Maturity analysis - Investment securities:		
At call	**-**	-
Not longer than 3 months	**-**	-
Longer than 3 months and not longer than 12 months	**-**	-
Longer than 1 year and not longer than 5 years	**-**	-
Longer than 5 years	**5 100**	5 100
	5 100	5 100

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

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

9. Loans and Advances

	2003	2002
	$'000	$'000
Advances	**15 595**	21 995
Term loans	**353 300**	322 457
	368 895	344 452
Maturity analysis - Loans and advances:		
At call	**15 595**	21 995
Not longer than 3 months	**25 429**	23 712
Longer than 3 months and not longer than 12 months	**40 122**	32 865
Longer than 1 year and not longer than 5 years	**139 630**	141 579
Longer than 5 years	**148 119**	124 301
	368 895	344 452

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

9. Loans and Advances (continued)

As explained in Notes 1(g) and (h) the risk is considered minimal and in addition, a concentration of credit risk also occurs as under the *Local Government Finance Authority Act 1983*, loans and advances made are restricted to Councils and Local Government Bodies. The majority of loan agreements are secured by debentures providing a charge over the Council's general revenue and the Authority has not incurred any bad debts since its inception in 1984.

	2003	2002
Commitments not later than one year - Loans and advances:	**$'000**	$'000
Unused cash advance facilities	**133 565**	112 469
Term loans approved not advanced	**7387**	7 957
	140 952	120 426

10. Property, Plant and Equipment

Plant, equipment and motor vehicles:		
At cost	**794**	757
Less: Accumulated depreciation	**437**	361
Total Property, Plant and Equipment	**357**	396

11. Deposits from Councils and Local Government Bodies

Deposits from councils and local government bodies	**224 681**	202 847
Maturity analysis - Deposits from councils and local government bodies:		
At call	**161 497**	154 800
Not longer than 3 months	**52 618**	38 518
Longer than 3 months and not longer than 12 months	**6 578**	2 547
Longer than 1 year and not longer than 5 years	**3 635**	6 982
Longer than 5 years	**353**	-
	224 681	202 847

12. Accrued Interest Payable

Interest payable on:		
Deposits from councils and local government bodies	**2 613**	2 152
Borrowings	**4 413**	4 253
	7 026	6 405

13. Provisions

Employee benefits	**191**	172
Fringe benefits tax	**9**	10
Bonus payment to councils and local government bodies	**1 225**	1 125
Provision for income tax	**461**	400
	1 886	1 707

Movements of major provisions during the year

(i) Bonus payment to Councils and Local Government Bodies		
Opening balance 1 July 2002	**1 125**	1 100
Increase in provision	**1 225**	1 125
Amounts paid	**(1 125)**	(1 100)
Closing Balance 30 June 2003	**1 225**	1 125
(ii) Provision for Income Tax		
Opening balance 1 July 2002	**400**	751
Increase in provision	**853**	783
Amounts paid	**(792)**	(1 134)
Closing Balance 30 June 2003	**461**	400

14. Other Liabilities

Sundry Creditors	**154**	151
Payments due to South Australian Government Financing Authority	**229**	572
	383	723

15. Borrowings

Short-term money market facilities	**48 510**	40 390
Promissory notes	**39 800**	38 000
Inscribed stock	**18 503**	25 905
	106 813	104 295
Maturity analysis - Borrowings:		
At call	**48 510**	40 390
Not longer than 3 months	**41 259**	39 658
Longer than 3 months and not longer than 12 months	**4 361**	5 993
Longer than 1 year and not longer than 5 years	**11 601**	16 041
Longer than 5 years	**1 082**	2 213
	106 813	104 295

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

16. Retained Profits and Reserves

(a) *Retained Profits*

	2003	2002
	$'000	$'000
Net profit	**1 990**	1 828
Retained profits at 1 July	**509**	506
Total Available for Appropriation	**2 499**	2 334
Transfer to general reserve	**600**	700
Transfer to bonus payment provision	**1 225**	1 125
* Grant to LGCS Pty Ltd	**150**	-
Retained Profits at 30 June	**524**	509

* The Grant paid to LGCS Pty Ltd during the year was an appropriation of profit for local government purposes as enabled by the *Local Government Finance Act, 1983* Section 22(2)(c).

(b) *Reserves*

(i) *Composition*

	2003	2002
General reserve	**46 300**	45 700

(ii) *Movements during the year*

	2003	2002
General reserve:		
Opening balance	**45 700**	45 000
Transfer from retained profits	**600**	700
Closing Balance	**46 300**	45 700

17. Superannuation Commitments

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

18. Notes to the Statement of Cash Flows

(a) *Reconciliation of Cash*

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

	Note	2003	2002
		$'000	$'000
Cash at Bank	5	**101**	6

For the purpose of the Statement of Cash Flows, cash includes Cash on Hand and Deposits at Call with the Short Term Money Market. All bank bills are normally held by the Authority until maturity. This treatment ensures that the value of the bills do not fluctuate due to changes in interest rates. Accordingly, bank bills are considered to be ordinary investments with a term facility and, as such cash flows arising from bank bill transactions are treated as flows from the investing activities of the Authority.

(b) *Cash Flows Presented on a Net Basis*

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

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

(c) *Reconciliation of Net Cash provided by Ordinary Activities to Net Profit*

	2003	2002
	$'000	$'000
Net Profit	**1 990**	1 828
Increase in interest payable	**623**	(34)
Increase in interest receivable	**(314)**	(167)
Increase in sundry creditors	**3**	19
Increase in provisions	**79**	(331)
Decrease in sundry debtors	**4**	(2)
Depreciation	**108**	138
Amortisation	**-**	(67)
Profit on disposal of fixed assets	**(3)**	9
Share of Net Loss of Associate	**50**	-
Net Cash provided by Ordinary Activities	**2 540**	1 393

19. Related Party Information

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

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

Mr John Keough
Councillor Bert Taylor, AM
Ms Ione Brown
Mr Paul Cohen
Mr John Comrie
Councillor Anthony Pederick
Ms Vivienne Pring
Councillor John Sanderson
Mr Peter Fairlie-Jones

Remuneration, Retirement Benefits and Loans

Board members are entitled to receive an attendance allowance for official Board Meetings (normally held monthly). Attendance allowances are not payable (effective from 1.10.97) in respect of those members appointed by the Minister of Local Government or the State Treasurer in accordance with arrangements approved by the Minister and the Treasurer. Amounts payable in respect of the Executive Director of the Local Government Association of SA are paid to the Local Government Association as per section 13 of the *Local Government Finance Authority Act 1983*. The total amount paid in respect of the attendance of Board members for the financial year ended 30 June 2003 was $32 000.

Board Member Related Entities

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

Board Member	*Entity*
Councillor Bert Taylor, AM	Corporation of the City of Adelaide
Mr John Comrie	Local Government Association of South Australia Local Government Association Workers Compensation Scheme Local Government Association Mutual Liability Scheme Council Purchasing Authority Pty Ltd Local Government Superannuation Scheme LGCS Pty Ltd
Mr Peter Fairlie-Jones	City of Salisbury Smithfield Memorial Park Cemetery LGCS Pty Ltd
Councillor Anthony Pederick	Corporation of the Town of Walkerville LGCS Pty Ltd
Ms Vivienne Pring	Department of Treasury and Finance
Councillor John Sanderson	City of Mitcham

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

20. Remuneration of Executives

Remuneration received, or due and receivable by executive officers, whose remuneration is $100 000 or more.	**2003 Number of Executives**	2002 Number of Executives
The number of executive officers whose remuneration was within the following bands:		
$100 000 - $110 000	**1**	2
$110 000 - $120 000	**1**	-
$220 000 - $230 000	**-**	1
$230 000 - $240 000	**1**	-

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

21. Contingent Liabilities

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

(a) Derivative Financial Instruments

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

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

(i) Notional Amounts and Credit Exposures of Derivatives

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

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

(i) *Notional Amounts and Credit Exposures of Derivatives (continued)*

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

	2003		2002	
	Notional Amount (Face Value) $'000	**Credit Exposure $'000**	Notional Amount (Face Value) $'000	Credit Exposure $'000
Interest Rate Swaps	**294 616**	**22 254**	257 700	27 841
Interest Rate Futures Contracts	**-**	**150**	-	134

(ii) *Interest Rate Risk Management*

The Treasurer issued a revised consent dated 18 November 2001, for the Authority to enter into a range of financial arrangements as part of its normal operations of providing borrowing and investments services to Local Government in South Australia.

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

(iii) *Liquidity Risk*

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

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

(iv) *Risk Management Policies*

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

(b) Financial Guarantee

The LGFA has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of the Workers Rehabilitation and Compensation Corporation of South Australia (WorkCover). The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred. As at 30 June 2003 the amount guaranteed was $15.315 million.

22. Interest Income and Interest Expense Analysis

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

The following tables provides the average balance and average rate for the major categories of interest bearing assets and liabilities, both on and off-Balance Sheet. All averages calculated are daily averages.

	2003				2002			
Interest Income:	**Average Notional Balance $'000**	**Average Balance $'000**	**Interest $'000**	**Average Rate Percent**	Average Notional Balance $'000	Average Balance $'000	Interest $'000	Average Rate Percent
Investments	**-**	**38 382**	**1 918**	**5.0**	-	36 873	1 740	4.72
Loans and advances	**-**	**335 789**	**24 056**	**7.16**	-	304 327	22 382	7.35
Hedge receipts	**266 151**	**-**	**13 083**	**4.92**	229 095	-	10 805	4.72
Total Interest Income	**266 151**	**374 171**	**39 057**	**6.1**	229 095	341 200	34 927	6.12
Interest Expense:								
Borrowings	**-**	**78 080**	**4 944**	**6.33**	-	82 444	5 494	6.66
Deposits	**-**	**253 477**	**11 599**	**4.58**	-	216 147	9 280	4.29
Hedge payments	**262 008**	**-**	**17 711**	**6.76**	225 596	-	15 705	6.96
Total Interest Expense	**262 008**	**331 557**	**34 254**	**5.77**	225 596	298 591	30 479	5.81

23. Net Fair Value of Financial Instruments

The net fair value of financial assets and financial liabilities which are payable on demand as at balance date approximate their carrying values with accrued interest.

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

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

	2003		2002	
Financial Assets:	**Carrying Value $'000**	**Fair Value $'000**	Carrying Value $'000	Fair Value $'000
Cash and liquid assets	**101**	**101**	6	6
Other assets	**6 535**	**6 535**	5 871	5 871
Investment securities	**5 100**	**4 614**	5 100	4 567
Investment in associate	**-**	**-**	50	50
Loans and advances	**368 895**	**397 226**	344 452	360 197

23. Net Fair Value of Financial Instruments (continued)

	2003		2002	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities:	**$'000**	**$'000**	$'000	$'000
Deposits from councils and prescribed bodies	**224 681**	**226 342**	202 847	204 868
Provisions	**1 886**	**1 886**	1 707	1 707
Other liabilities	**383**	**406**	723	750
Borrowings	**106 813**	**108 669**	104 295	106 578
Derivative Instruments:				
Assets:				
Interest rate swaps	**-**	**296 174**	-	258 966
Liabilities:				
Interest rate swaps	**-**	**314 287**	-	265 610

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

It should be noted that most of the abovementioned financial instruments are not readily traded on Financial Markets and therefore the fair market value assigned to them are based on a number of assumptions and estimates. Therefore the fair market values provided should in no way be interpreted as the realisable value of the Local Government Finance Authority of South Australia as at 30 June 2003.

PASSENGER TRANSPORT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Passenger Transport Board (the Board) is a body corporate established under the *Passenger Transport Act 1994* (the Act).

Functions

The functions of the Passenger Transport Board, as set out by subsection 20(1) of the Act, are as follows:

- overseeing the creation and maintenance of an integrated network of passenger transport services involving all modes of passenger transport by public passenger vehicles within the State;

- determining, monitoring and reviewing passenger transport services and fares payable by members of the public;

- accrediting operators of passenger transport services and the drivers of these vehicles; administering a system of fare subsidies and concessions in appropriate cases;

- establishing and maintaining facilities and various forms of infrastructure for the purposes of the passenger transport network;

- facilitating the use of passenger transport services by people with disabilities;

- establishing, auditing and, if necessary, enforcing safety, service, equipment and comfort standards for passenger transport within the State.

Subsection 20(2) of the Act specifies that the Board itself must not operate a passenger transport service.

The Act requires the Board to establish two committees, the:

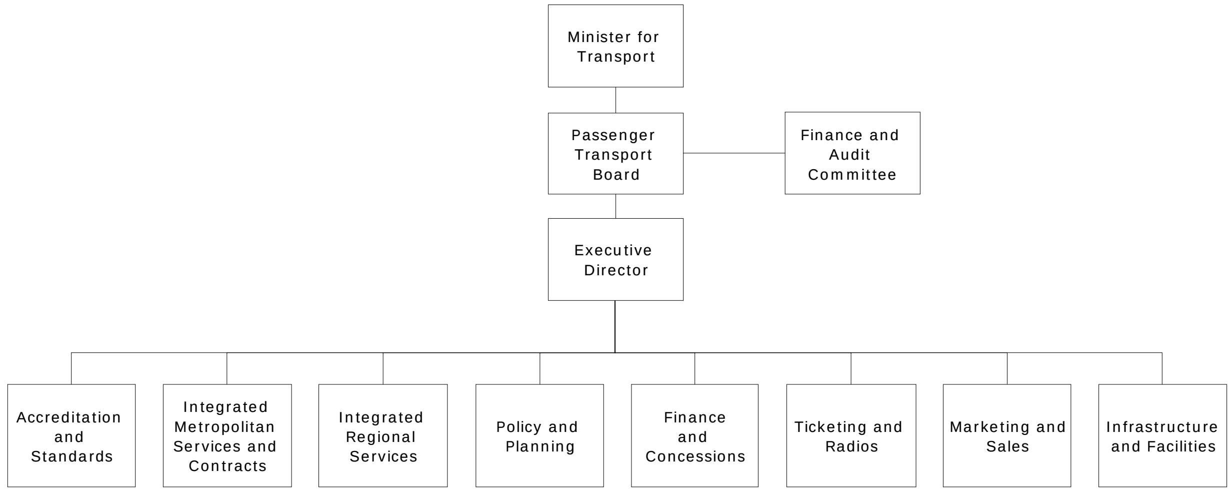
- Passenger Transport Industry Committee to provide an industry forum to assist the Board as appropriate in the performance of its functions;

- Passenger Transport User Committee to provide advice to the Board on matters of general relevance or importance to the users of passenger transport services.

The Board has also chosen to establish other committees and panels which include the Passenger Transport Standards Committee, the Taxi Industry Advisory Panel, the Bus Industry Advisory Panel and the Accessible Transport Advisory Panel. These committees and panels form part of the organisational structure and report to the Board.

Structure

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



Proposed Changes to Functions and Structure

The Government introduced a Bill, on 19 February 2003, to dissolve the Passenger Transport Board as a separate statutory authority and to establish an Office for Public Transport as part of the Department of Transport and Urban Planning. At the date of this report, the Bill was still before Parliament.

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 Passenger Transport 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 Passenger Transport Board 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. 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 2002-03, specific areas of audit attention included:

- administration of bus, train and tram service contracts including contract payments
- metropolitan public transport ticketing
- expenditure, including accounts payable and salaries and wages
- revenue, receipting and banking
- grants and subsidies
- budgetary control and management reporting
- Research and Development Fund.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Executive Director. The response to the management letter was considered to be satisfactory. Major matters raised with the Board and the related responses are considered in Audit Findings and Comments.

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, the financial position of the Passenger Transport Board as at 30 June 2003 and the results of its financial performance and cash flows for the year then ended.

Assessment of Controls

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

Significant Matters Raised with Agencies

Contract Management

On-Time Running

On-time running data is used by the Board as a renewal and termination performance benchmark in accordance with the Contracts for the provision of transport services. In addition, the self reported on-time running data provided by the contractors is used by the Board to determine adjustments to payments to contractors.

Last year's audit review identified and reported on the significant discrepancies in the on-time running data reported by the contractors against that identified from the Service Quality Audits (SQAs) undertaken by the Passenger Transport Board (PTB). This raised issues regarding the potential impact on the reputation of the PTB if transport services were unreliable and potential overpayments to contractors.

A follow up review of the self reported data provided by contractors against the SQA results for this financial year has found that there are still large discrepancies between the two.

Audit suggested that the Board collaborate with the contractors to determine the reasons for and validity of the significant variations between the audit results and the self reported data.

In response PTB has advised that it is working towards addressing this issue with the contractors. One of the key areas being reviewed is the timing points used by the SQAs. In addition, PTB has implemented on going audits throughout the year as opposed to quarterly audits.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 $'000	2002 $'000	Percentage Change
OPERATING REVENUE			
User charges, fees and fines	**53 630**	50 397	6
Other revenue	**35 094**	33 873	4
Total Operating Revenue	**88 724**	84 270	5
OPERATING EXPENDITURE			
Payments to service contractors	**218 685**	208 619	5
Other expenses	**40 274**	46 197	(13)
Total Operating Expenses	**258 959**	254 816	2
Deficit from Ordinary Activities	**(6 921)**	(9 393)	
Net Cash Flows used in Operations	**(1 856)**	(11 312)	
Cash Flows from Financing Activities - Equity Contribution from Government	**7 000**	5 800	

	2003 $'000	2002 $'000	Percentage Change
ASSETS			
Current assets	**13 654**	19 666	(31)
Non-current assets	**17 538**	11 729	50
Total Assets	**31 192**	31 395	(1)
LIABILITIES			
Current liabilities	**4 442**	7 095	(37)
Non-current liabilities	**3 590**	4 241	(15)
Total Liabilities	**8 032**	11 336	(29)
EQUITY	**23 160**	20 059	15

Statement of Financial Performance

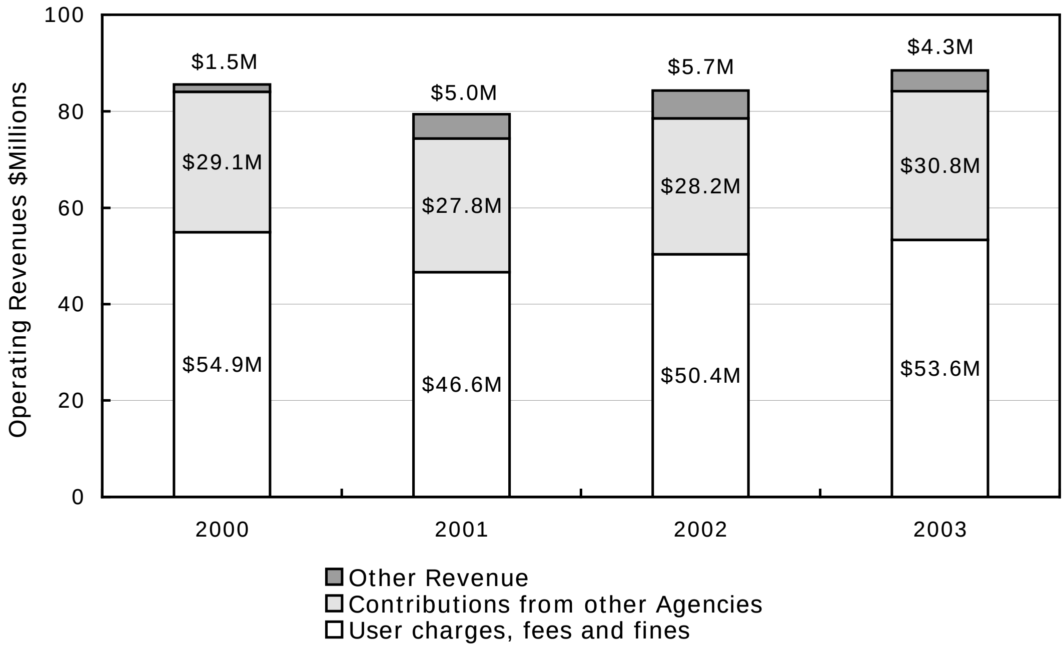
Operating Revenues

The Board is primarily funded from Parliamentary appropriations, however, it also receives significant monies in relation to metropolitan public transport ticket sales and concession ticket subsidies.

Revenues from Government increased by $2.2 million to $163.3 million. This includes an accrual appropriation of $464 000 which was bought to account for the first time in 2002-03. Refer Note 2(d).

Revenues from Ordinary Activities increased by $4.5 million to $88.7 million, of which $3.4 million relates to an increase in revenue from public transport ticket sales.

For the four years to 2003 a structural analysis of operating revenues for the Board is presented in the following chart.



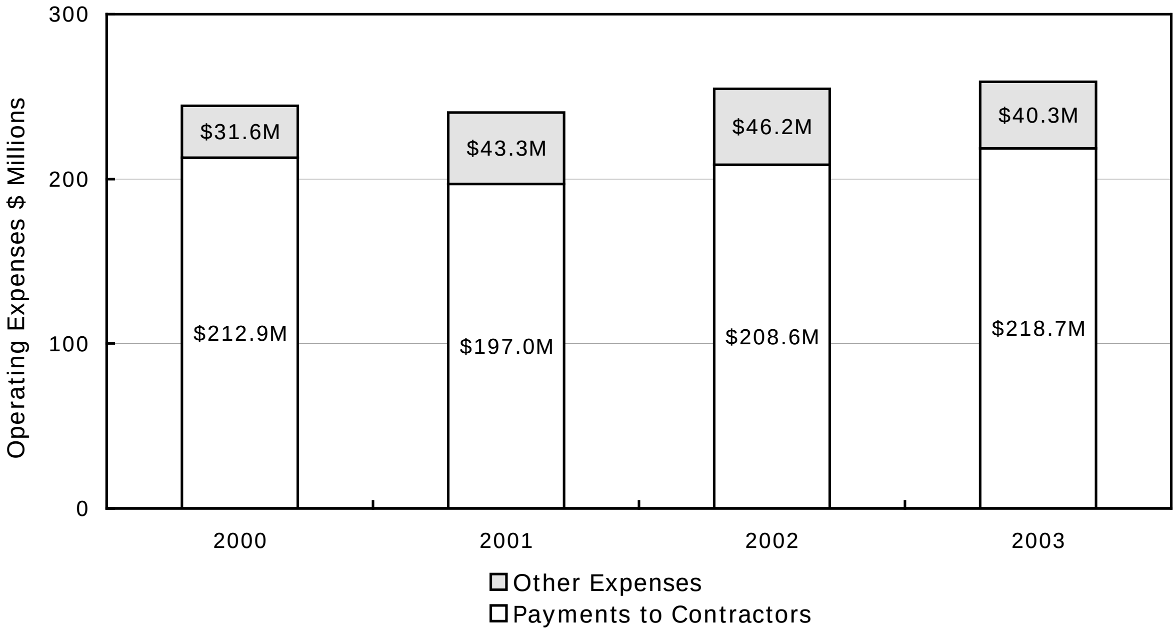
Operating Expenses

Expenses from Ordinary Activities increased by $4.1 million. The major movements related to:

- an increase in payments to service contractors of $10.1 million (5 percent) to $218.7 million. Refer Note 4. Payments to service contractors represent 84 percent (82 percent) of total expenses incurred by the Board in 2002-03;

- a decrease in the infrastructure, administration and service costs of $8.3 million, of which $6.6 million relates to infrastructure costs (refer Note 6). In 2001-2002 the Board made payments towards the Park n Ride initiative ($1.9 million) and contributed towards the cost of establishing and upgrading bus interchanges ($2.5 million).

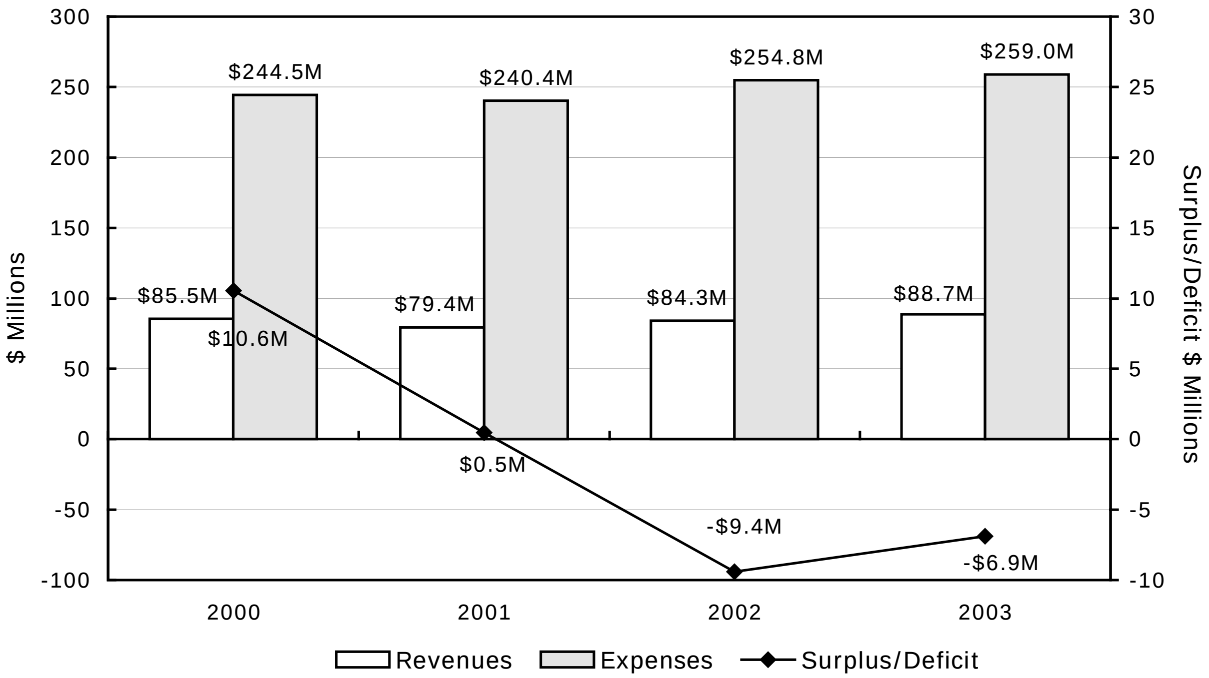
For the four years to 2003 a structural analysis of the operating expense items for the Board is shown in the following chart.



Operating Result

The operating result for the year was a Deficit from Ordinary Activities of $6.9 million, compared with a deficit of $9.4 million in 2001-02. While the Net Cost of Services for 2002-03 decreased slightly, the improved operating result reflects the increase in appropriations of $2.2 million.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2003.



The 2002 and 2003 deficit is in line with the approved budget strategy to reduce PTB's cash balance. Refer Note 12.

Cost Recovery from Passengers

The following table shows the extent to which the fares charged to passengers in the metropolitan area covers the outlays by the Board to Metropolitan Service Contractors.

	2003	2002
	$'000	$'000
MetroTicket sales	**52 230**	48 870
Payments to Metropolitan Service Contractors	**218 685**	208 619

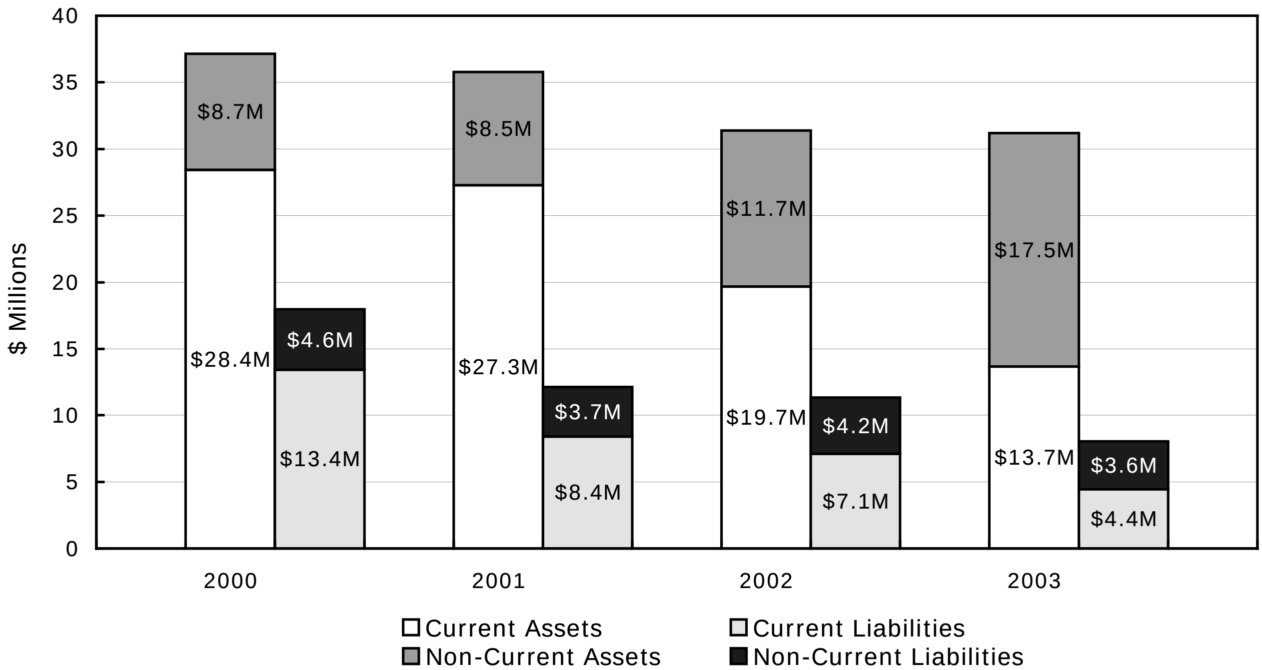
	2003	2002
MetroTicket sales as a percentage of payments to Metropolitan	Percent	Percent
Service Contractors	**23.9**	23.4

Statement of Financial Position

Non-Current Assets

The written down value of property, plant and equipment increased by $5.8 million to $17.5 million. During the year the Board revalued its land and public transport infrastructure (Crouzet Ticketing System) to fair value. This resulted in a revaluation increment of $3 million. Refer Note 2(f).

For the four years to 2003 a structural analysis of assets and liabilities is shown in the following chart.



Equity Contribution

The Board received an appropriation for Equity Contribution of $7 million. The amount received has been shown as equity in the Statement of Financial Position in accordance with the requirements of Treasurer's Instruction 3 'Appropriation'.

Administered Items

Deposit Account - Passenger Transport Research and Development Fund

Note 29(a) to the Financial Statements details the purpose and administration of the Fund and transactions for the year. The balance of the Fund at 30 June was $929 000 ($1 383 000).

FURTHER COMMENTARY ON OPERATIONS

Access Cabs System

The Access Cabs System is a transport (taxi) service for people with disabilities.

An external review of the Access Cabs System was undertaken in 2001-02 to determine whether the system was delivering the outcomes needed by customers.

The review identified a number of issues relating to:

- performance expectations of the system;
- the Board's role as a regulator of the system;
- the role of Yellow Cabs as operator of the Access Cabs Central Booking System;
- customer assessment of performance of the system.

The review resulted in a number of recommendations, the majority of which have been accepted and implemented by the Board.

Some of the key developments that have occurred during 2002-03 are:

- The Board has entered into a contract with Adelaide Independent Taxis (AIT) to operate the Access Cabs Central Booking System. While this contract commenced on 23 March 2003, the Board had not at the time of preparing this commentary signed the contract with AIT.

- Yellow Cabs have had a one year extension on their existing contract to manage the processing of the South Australian Transport Subsidy Scheme (SATSS) vouchers. PTB plans to put this contract to tender during 2003-04.

- The Board engaged external consultants during the year to review:

  — The potential level of fraud in the use of the SATSS vouchers in the general taxi fleet.

    While the review did not identify any instances of fraud, it did identify a number of control weaknesses in the SATSS system that increase the risk of potential fraud. The review made a number of recommendations to improve the system and mitigate the potential for fraud.

  — The Bonus Payment System introduced by PTB in December 2002. The bonus payment applies to all Access Cabs commencing a trip within 30 minutes of the scheduled start time and who have a valid booking number and SATSS voucher.

    The review focussed on determining whether the system and associated processes were operating in accordance with the guidelines and to verify the accuracy of the calculation of the bonus payments.

    The review highlighted that there was limited documentation to support the current systems and processes and that the functionality of the bonus payment system was limited by the capability of the systems in place. It is important to note that the review did acknowledge that the system had only been in for a short time at the time of the review.

    While the review was able to determine the adequacy of the calculation of bonus payments, it did identify the potential for incorrect bonus payments to drivers due to the lack of appropriate data validation and integrity checks and incomplete data collection.

PTB was, at the time of preparing this commentary, reviewing the recommendations and/or addressing the issues arising from the above reviews.

Statement of Financial Performance
for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Payments to service contractors	4	**218 685**	208 619
Grants and subsidies	5	**13 598**	12 326
Infrastructure, administration and service costs	6	**13 401**	21 747
Employee costs	7	**8 769**	6 998
Depreciation	8	**2 254**	2 793
Accommodation costs		**1 591**	1 630
Borrowing costs		**318**	534
Other expenses		**343**	169
Total Expenses		**258 959**	254 816
REVENUES FROM ORDINARY ACTIVITIES:			
User charges, fees and fines	9	**53 630**	50 397
Contributions from other agencies	10	**30 776**	28 153
Investment income		**708**	1 087
Other revenues	11	**3 610**	4 633
Total Revenues		**88 724**	84 270
NET COST OF SERVICES		**170 235**	170 546
REVENUES FROM GOVERNMENT:			
Appropriations	2(d)	**163 314**	161 153
Total Revenues from Government		**163 314**	161 153
DEFICIT FROM ORDINARY ACTIVITIES	12	**(6 921)**	(9 393)
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Net credit to an asset revaluation reserve on revaluation of non-current assets	2(f)	**3 022**	-
Total Valuation Adjustment recognised in Equity		**3 022**	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**(3 899)**	(9 393)

Statement of Financial Position
as at 30 June 2003

	Note	**2003 $'000**	2002 $'000
CURRENT ASSETS:			
Cash	13	**9 816**	10 871
Receivables	14	**3 625**	5 894
Prepaid expenses		**-**	2 718
Inventories		**213**	183
Total Current Assets		**13 654**	19 666
NON-CURRENT ASSETS:			
Property, plant and equipment	15	**17 498**	11 689
Loan receivable		**40**	40
Total Non-Current Assets		**17 538**	11 729
Total Assets		**31 192**	31 395
CURRENT LIABILITIES:			
Payables	7(c),16	**2 880**	5 857
Borrowings	17	**1 100**	900
Provision for employee entitlements	7(b)	**462**	338
Total Current Liabilities		**4 442**	7 095
NON-CURRENT LIABILITIES:			
Payables	7(c),16	**172**	112
Borrowings	17	**2 068**	3 168
Provision for employee entitlements	7(b)	**1 350**	961
Total Non-Current Liabilities		**3 590**	4 241
Total Liabilities		**8 032**	11 336
NET ASSETS		**23 160**	20 059
EQUITY:			
Accumulated surplus	18(a)	**2 685**	9 606
Equity contribution	18(b)	**16 800**	9 800
Asset revaluation reserve	18(c)	**3 675**	653
TOTAL EQUITY		**23 160**	20 059
Commitments	27,28		

Statement of Cash Flows
for the year ended 30 June 2003

		2003	2002
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		**(Outflows)**	(Outflows)
PAYMENTS:	Note	**$'000**	$'000
Metropolitan service contractors		**(218 264)**	(210 135)
Supplies and services		**(16 282)**	(23 164)
Grants and subsidies		**(13 432)**	(13 091)
Employee costs		**(8 076)**	(6 974)
Interest and other finance charges		**(321)**	(541)
GST payments on purchases		**(21 703)**	(21 353)
RECEIPTS:			
User charges, fees and fines		**53 726**	50 053
Contributions from other agencies		**30 287**	28 481
Interest		**756**	1 084
Other		**3 719**	5 035
GST collected		**5 559**	5 142
GST refunds from the Australian Taxation Office		**16 565**	15 294
CASH FLOWS FROM GOVERNMENT:			
Appropriation		**165 610**	158 857
Net Cash used in Operating Activities	19	**(1 856)**	(11 312)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from sale of assets		**5**	-
Payments for property, plant and equipment		**(5 304)**	(6 110)
Net Cash used in Investing Activities		**(5 299)**	(6 110)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash Flows From Government:			
Equity contribution		**7 000**	5 800
Repayment of debt		**(900)**	(1 100)
Net Cash provided by Financing Activities		**6 100**	4 700
NET DECREASE IN CASH HELD		**(1 055)**	(12 722)
CASH AT 1 JULY		**10 871**	23 593
CASH AT 30 JUNE	13	**9 816**	10 871

Program Schedule - Expenses and Revenues for the year ended 30 June 2003

	2003				2003	2002
Programs (Refer Note 3)	1	2	3	4	**Total**	Total
	$'000	$'000	$'000	$'000	**$'000**	$'000
EXPENSES FROM ORDINARY ACTIVITIES:						
Payments to metropolitan service Contractors	-	-	218 685	-	**218 685**	208 619
Grants and subsidies	-	-	13 598	-	**13 598**	12 326
Administration and service costs	65	846	9 250	3 240	**13 401**	21 747
Employee costs	180	1 423	4 853	2 313	**8 769**	6 998
Depreciation	6	147	2 046	55	**2 254**	2 793
Accommodation costs	16	382	1 050	143	**1 591**	1 630
Interest and other finance charges	-	6	310	2	**318**	534
Other expenses	7	53	241	42	**343**	169
Total Expenses	**274**	**2 857**	**250 033**	**5 795**	**258 959**	254 816
REVENUES FROM ORDINARY ACTIVITIES:						
User charges, fees and fines	-	1 223	52 407	-	**53 630**	50 397
Contributions from other agencies	-	-	30 776	-	**30 776**	28 153
Interest	-	-	708	-	**708**	1 087
Other revenues	-	9	3 601	-	**3 610**	4 633
Receipts from Government	274	1 625	155 620	5 795	**163 314**	161 153
Total Revenues	**274**	**2 857**	**243 112**	**5 795**	**252 038**	245 423
DEFICIT FROM ORDINARY ACTIVITIES	-	-	(6 921)	-	**(6 921)**	(9 393)
ADMINISTERED REVENUES AND EXPENSES						
Administered expenses	4	-	349	160	**513**	681
Administered revenues	4	-	37	18	**59**	82
ADMINISTERED REVENUES LESS ADMINISTERED EXPENSES	-	-	**(312)**	**(142)**	**(454)**	(599)
ADMINISTERED ASSETS - CASH	-	-	**632**	**297**	**929**	1 383

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The Passenger Transport Board (the Board) was established under the *Passenger Transport Act 1994* with the overall responsibility for the planning, management and regulation of public passenger transport services within the State of South Australia. The objectives of the Board are to promote innovation in the delivery of passenger transport services and reduce the cost of operating Adelaide's public transport system.

The Board is predominantly funded by Parliamentary appropriations, and also receives significant revenue from Metroticket sales.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The general purpose financial report has been prepared in accordance with Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, Accounting Policy Statements issued by the Department of Treasury and Finance, Statements of Accounting Concepts, applicable Australian Accounting Standards, Urgent Issues Group Consensus Views and other mandatory reporting requirements.

The accounts have been prepared on the accrual basis and in accordance with conventional historical cost principles except where detailed in the Notes to the Financial Statements.

(b) The Passenger Transport Board Reporting Entity

Controlled Resources

The financial report encompasses an interest bearing Special Deposit Account. The Board's principal source of funds consists of monies appropriated by Parliament.

Administered Resources

The Board administers but does not control certain resources on behalf of the Minister for Transport, and the Attorney-General. It is accountable for the transactions involving these administered resources, but does not have the discretion to deploy these resources for the achievement of the Board's objectives.

Transactions and balances relating to these administered resources are not recognised as Board revenues, expenses, assets, or liabilities, but are disclosed in the Notes to the Financial Statements (refer Note 29).

(c) Recognition of Revenues

All revenues are measured at the fair value of the consideration received or receivable.

(i) User charges and fees

User charges and fees are recognised when the Board has passed control of the goods or services to the buyer.

(ii) Fines

Revenue from Expiation Notices is recognised when the cash is received, due to the nature of this item.

(iii) Contributions from Other Agencies

Contributions from other agencies are recognised when the Board has passed control of the goods or services to the buyer.

(iv) Interest

Interest revenue earned is recognised when the Board controls a right relating to the income from its investments.

(v) Other Revenues

Other revenues are recognised when the Board has passed control of the goods or services to the buyer.

(d) Appropriations

Appropriations from the Consolidated Account are recognised as revenue when the Board obtains control over the assets comprising the contributions. Control over appropriations is normally obtained upon their receipt.

During the year an accrual appropriation of $464 000 was recognised in the Financial Statements for the first time.

Appropriations to the Board designated as 'equity contributions' are recognised directly in equity in accordance with Treasurer's Instruction 3 'Appropriation'.

(e) Non-Current Assets

The cost method of accounting is used for the initial recording of all acquisitions controlled by the Board. Cost is determined as the fair value of the assets which is represented by the purchase consideration plus costs incidental to the 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.

Assets acquired at no cost, or for nominal consideration are initially recognised at their fair value at the date of acquisition.

Capital work in progress represents costs accumulated during the construction or development of an asset and is valued at cost.

(f) *Revaluation of Non-Current Assets*

In accordance with the transitional provisions of Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' the fair value methodology has been applied as the basis of revaluing assets as from July 2002. All relevant assets will be revalued using fair value by 30 June 2005.

Assets valued at fair value are revalued every three years if the fair value at the time of acquisition is greater than $1 million in accordance with the Department of Treasury and Finance Accounting Policy Statement 3 'Revaluation of Non-Current Assets'.

During the year the Board engaged the services of Certified Practising Valuer Mr Simon B O'Leary (AAPI, MSAA) of the Australian Valuation Office to value the Crouzet Ticketing System as at 30 June 2003. The valuation was undertaken on the basis of Fair Value and as a result the book value of $258 000 was revalued upwards to $2.8 million. This has resulted in an increase to the Asset Revaluation Reserve of $2.6 million.

Land owned by the Board was revalued at 30 June 2003 by the Valuer-General of South Australia. Land with a book value of $3.2 million was revalued to $3.6 million. This resulted in an increase to the Asset Revaluation Reserve of $432 000.

(g) *Depreciation of Non-Current Assets*

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets with annual reassessments for major items.

Asset Class	Useful Lives
Public Transport infrastructure:	Years
Ticketing and radio equipment(1)	20
Bus stop information panels	7
Security equipment	7
Modbury Interchange	7
Other Interchanges	15
Plant and equipment:	
Computer equipment	3
Other plant and equipment	5
Furniture and fittings	7
Accessible taxi infrastructure	3 - 12

(1) The useful life of ticketing equipment has been extended from 15 to 20 years.

(h) *Leases*

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

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

(i) *Employee Entitlements*

(i) Salaries and Annual Leave

Liabilities for salaries and annual leave are recognised and measured as the amount unpaid at the reporting date in respect of employees' service to that date. Salaries are reported at current pay rates. An inflation factor of 4 percent has been applied to the annual leave liability.

(ii) Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by Board employees to balance date. The liability has been calculated at nominal amounts based on current salary rates. The Department of Treasury and Finance have advised that a benchmark of seven years can be used as a shorthand estimation of long service leave liability in accordance with Accounting Standard AASB 1028 'Employee Benefits'. This advice has been adopted and the long service leave liability has been calculated on that basis.

(iii) Sick Leave

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

(iv) Superannuation

Contributions are made by the Board to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation schemes.

(j) *Provision for Doubtful Debts*

A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date.

(k) *Cash*

For purposes of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Administered cash is reported separately.

(l) *Inventories*

Inventories consist of tickets held for sale or distribution. Inventories are valued at cost.

(m) Comparative Figures

The Board has adopted the presentation and disclosure requirements of Accounting Standard AASB 1018 'Statement of Financial Performance', Accounting Standard AASB 1040 'Statement of Financial Position' and Accounting Standard AASB 1034 'Financial Report Presentation and Disclosures'. In accordance with the requirements of these Standards, comparative amounts have been reclassified to comply with the changes to the presentation format.

The 2002 annual leave liability has not been adjusted by the 4 percent inflation factor.

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

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST. Receivables and Payables are stated with the amount of GST included.

The net GST receivable from the Australian Taxation Office (ATO) has been recognised as a receivable in the Statement of Financial Position.

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

3. Programs of the Passenger Transport Board

The identity and purpose of each major program undertaken by the Board during the year is summarised as follows:

Program 1: Policy Coordination, Development and Investment Strategy

Development and provision of strategic transport plans for and on behalf of the Government.

Program 2: Regulatory Services

Provision of compliance and other regulatory services under legislation committed to the Minister. Regulatory services provided include:

- Accreditation of passenger service drivers and operators
- Establishing and enforcing regulations for taxis and passenger carrying vehicles
- Inspection and enforcement of stipulated driver, operator and passenger conduct

Program 3: Operations

The efficient and effective maintenance and operation of public transport assets. Operations include:

- Provision of services to efficiently and effectively manage public transport infrastructure
- Development and management of contracted passenger transport services, to ensure the provision of user friendly and affordable regular passenger transport services in the Adelaide metropolitan area
- Regulation and partially funding passenger transport services within the country and regional areas, and fostering rural transport initiatives
- Provision of targeted transport assistance to groups with special needs by subsidising taxi travel (South Australian Transport Subsidy Scheme), provision of fully-accessible passenger transport and the contract management of Access Cabs

Program 4: Information Services

The provision of information to the public and industry in respect of all transport services, including the provision to customers of a comprehensive, centralised passenger transport information service that operates across a multi-modal and multi-operator metropolitan passenger transport system.

4. Payments for Service Contractors

Represents payments to Service Contractors to provide bus and rail passenger transport services in the metropolitan area. For the financial year, these payments were made to TransAdelaide, Serco, Torrens Transit, Australian Transit Enterprises, and TransitPlus. Payments to the Department for Transport and Urban Planning (DTUP) for the provision of buses and depots to Contractors are included in this item. Payments for country bus operators are disclosed in Note 5.

The competitive tendering of the bus services in April 2000 resulted in substantial savings made to the cost of providing public transport. The savings achieved have been reinvested by the Board in public transport through the introduction of increased services and improved infrastructure.

Payments for Service Contractors comprise:	**2003**	2002
	$'000	$'000
Bus contract payments	**97 134**	93 181
Rail contract payments	**83 811**	82 406
Bus and depot leases	**37 740**	33 032
	218 685	208 619

5. Grants and Subsidies

	2003	2002
Grants and subsidies comprise:	**$'000**	$'000
Concessions for people with mobility difficulties (Transport Subsidy Scheme)	**7 241**	7 534
Subsidies provided for concessional travel in Country Route Services and Regional Cities	**3 740**	2 980
Regional Cities Bus Operating Subsidies	**1 063**	1 015
Disabilities Discrimination Act 1992 initiatives	**590**	251
Country Bus Operating Subsidy	**212**	18
Community Passenger Networks	**752**	528
	13 598	12 326

6. Infrastructure, Administration and Service Costs

Infrastructure, administration and service costs include amounts provided to various parties for the provision of public transport infrastructure. These projects include land, Park and Ride facilities, car parks, pedestrian access crossing, various bus shelters, marketing initiatives and general administration and service costs.

Infrastructure, administration and service costs comprise:	2003	2002
	$'000	$'000
Infrastructure costs	**2 008**	8 642
Ticket network and timetable costs	**3 158**	3 257
Administration and service costs	**8 235**	9 848
	13 401	21 747

7. Employee Entitlements

(a) Employee Costs

Salaries	**6 463**	4 688
Superannuation and payroll tax expense	**1 275**	939
Annual leave expense	**563**	439
Long service leave expense	**408**	218
TVSP	**-**	664
Other employee related expenses	**60**	50
	8 769	6 998

(b) Provision for Employee Entitlements

Current Liabilities:		
Annual leave	**435**	311
Long service leave	**27**	27
	462	338
Non-Current Liabilities:		
Long service leave	**1 350**	961

(c) Employee Benefits and related on-cost liability

Annual leave		
Included in payables - Current (Note 16)	**81**	51
Provision for employee entitlements - Current (Note 7(b))(1)	**435**	311
	516	362
Long service leave		
Included in payables - Current (Note 16)	**3**	3
Provision for employee entitlements - Current (Note 7(b))(2)	**27**	27
Included in payables - Non-current (Note 16)	**172**	112
Provision for employee entitlements - Non-current (Note 7(b))(2)	**1 350**	961
	1 552	1 103
Aggregate employee benefits and related on-cost liabilities	**2 068**	1 465

(1) An inflation factor of 4 percent has been applied to the provision for annual leave for 2003. No inflation factor was applied for 2002.

(2) A change in accounting policy to reduce the shorthand estimation for long service leave from eight to seven years has resulted in an increase to the liability of $84 000.

8. Depreciation

	2003	2002
Depreciation was charged in respect of:	**$'000**	$'000
Public transport infrastructure	**1 634**	2 216
Plant and equipment	**612**	565
Accessible taxi infrastructure	**8**	12
	2 254	2 793

9. User Charges, Fees and Fines

User charges, fees and fines comprise:		
MetroTicket sales	**52 230**	48 870
Accreditation of drivers and operators of passenger transport services	**1 081**	1 169
Country bus route licences	**-**	40
Sale of blank tickets to operators	**177**	174
Expiation notices	**142**	144
	53 630	50 397

10. Contributions from Other Agencies

Contributions from other agencies comprise:

	2003	2002
	$'000	$'000
State Government reimbursements[(1)]	30 460	27 848
Home and Community Care	316	305
	30 776	28 153

(1) This item represents fare concession receipts from various State Government agencies to fund concessional travel provided to pensioners, the unemployed, and students on passenger transport in metropolitan and regional areas.

11. Other Revenue

Other Revenue comprises revenue derived from advertising on buses, recovery of targeted voluntary separation payments, sponsorship revenue and other minor receipts.

12. Deficit from Operating Activities

As the Board's contribution to the budget process, a policy decision was taken to budget for an operating deficit. This was achieved through a reduction in Appropriations from Government.

13. Cash

Cash comprises:

	2003	2002
	$'000	$'000
PTB Operating Account held at Westpac	9 329	10 848
Accrual appropriations (Note 2(d))	464	-
Cash on hand	18	18
Imprest Account held at BankSA	5	5
	9 816	10 871

14. Receivables

Receivables consists of:

	2003	2002
Debtors	3 625	5 846
Less: Provision for doubtful debts	38	38
	3 587	5 808
Accrued interest	38	86
	3 625	5 894

15. *(a)* *Property, Plant and Equipment*

	Cost/ Valuation		Accumulated Depreciation		Written Down Value	
	2003	2002	2003	2002	2003	2002
Asset Class:	$'000	$'000	$'000	$'000	$'000	$'000
Public Transport Infrastructure assets:						
At valuation	2 848	13 143	-	12 675	2 848	468
At cost	8 761	8 023	1 650	1 923	7 111	6 100
Plant and equipment at cost	2 297	2 947	881	1 651	1 416	1 296
Accessible taxi infrastructure:						
At cost	388	48	43	34	345	14
Land at valuation	3 601	2 129	-	-	3 601	2 129
Land at cost	-	1 040	-	-	-	1 040
Work in progress at cost[(1)]	2 177	642	-	-	2 177	642
Total	20 072	27 972	2 574	16 283	17 498	11 689

(1) Work in progress comprises costs in respect of public transport infrastructure assets.

(b)* *Property, Plant and Equipment Movement Schedule

	Land	Public Transport Infrastructure Assets	Plant & Equipment	Accessible Vehicles	Work in Progress	2003 Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross Carrying amount 1 July	3 169	21 166	2 947	48	642	27 972
Revaluation increment	432	2 590	-	-	-	3 022
Additions	-	2 435	732	340	1 904	5 411
Write offs	-	(14 582)	(1 382)	-	(369)	(16 333)
Balance as at 30 June	3 601	11 609	2 297	388	2 177	20 072
Accumulated depreciation 1 July	-	14 598	1 651	35	-	16 284
Accumulated depreciation of assets written off	-	(14 582)	(1 382)	-	-	(15 964)
Depreciation expense	-	1 634	612	8	-	2 254
Balance as at 30 June	-	1 650	881	43	-	2 574
Carrying Amount of Assets	3 601	9 959	1 416	345	2 177	17 498

16. Payables

	2003	2002
Payables comprise creditors and accruals:	**$'000**	$'000
Service contractors	**228**	2 524
Grants and subsidies	**1 327**	1 002
Infrastructure, administration and service costs	**1 194**	2 008
Employee on-costs	**256**	166
Other employee costs	**41**	-
Asset purchase	**6**	269
	3 052	5 969
Current liabilities	**2 880**	5 857
Non-Current liabilities	**172**	112
	3 052	5 969

17. Borrowings

The Board is responsible to the Department of Treasury and Finance for the payment of interest and the repayment of principal in respect of all loans. Borrowings relate to the transfer of Crouzet ticketing equipment and bus radios from TransAdelaide. The movement in Borrowings is:

	2003	2002
	$'000	$'000
Balance 1 July	**4 068**	3 849
Borrowings	**-**	1 319
Repayments	**(900)**	(1 100)
Balance 30 June	**3 168**	4 068
Current Liabilities	**1 100**	900
Non-Current Liabilities	**2 068**	3 168
Balance 30 June	**3 168**	4 068

18. Changes in Equity

(a) Accumulated Surplus

The movement in accumulated surplus is:		
Balance 1 July	**9 606**	18 999
Deficit from ordinary activities	**(6 921)**	(9 393)
Balance 30 June	**2 685**	9 606

(b) Equity Contribution

The movement in equity contribution is:		
Balance 1 July	**9 800**	4 000
Appropriation	**7 000**	5 800
Balance 30 June	**16 800**	9 800

(c) Asset Revaluation Reserve

The movement in asset revaluation reserve is:	Land		Public Transport Infrastructure		Total	
	2003	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Balance 1 July	**440**	440	**213**	213	**653**	653
Movement in reserve	**432**	-	**2 590**	-	**3 022**	-
Balance 30 June	**872**	440	**2 803**	213	**3 675**	653

19. Reconciliation of Net Cost of Services to Net Cash provided by (used in) Operating Activities

	2003	2002
	$'000	$'000
Net cost of services	**(170 235)**	(170 546)
Cash flows from government	**163 314**	161 153
Items not involving cash:		
Depreciation	**2 254**	2 793
(Loss) Profit on sale of assets	**(5)**	14
Changes in operating assets and liabilities:		
Receivables	**2 269**	(2 439)
Inventories	**(30)**	54
Prepayments	**2 718**	(2 718)
Creditors and accruals	**(2 654)**	302
Provision for employee entitlements	**513**	75
Net Cash used in Operating Activities	**(1 856)**	(11 312)

20. Disposal of Non-Current Assets

Proceeds from the disposal of non-current assets	**5**	-
Less: Written down value of non-current assets	**-**	14
Net Profit (Loss)	**5**	(14)

21. Operating Leases

Operating lease expenses comprise:	**2003 $'000**	2002 $'000
Bus and depots	**37 740**	33 007
Property	**1 591**	1 631
Motor vehicles	**292**	303
	39 623	34 941

22. Remuneration Benefits

(a) Board Members' Remuneration

The number of Members of the Board whose remuneration received or receivable falls within the following bands were:	**2003 Number of Members**	2002 Number of Members
$0 - $9 999	**1**	1
$10 000 - $19 999	**4**	4
$20 000 - $29 999	**1**	1

The aggregate remuneration received by Members was $103 000 ($103 000).

(b) Executive Remuneration

The number of employees whose remuneration received or receivable falls within the following bands were:	**2003 Number of Employees**	2002 Number of Employees
$100 000 - $109 999	**-**	2
$110 000 - $119 999	**2**	-
$130 000 - $139 999	**-**	1
$140 000 - $149 999	**1**	-
$180 000 - $189 999	**1**	1

The aggregate remuneration received by these employees was $555 000 ($537 000).

23. Targeted Voluntary Separation Package (TVSP) Scheme

	2003 Number of Employees	2002 Number of Employees
Number of employees paid TVSPs	**-**	8

Amounts paid to these employees:	**2003 $'000**	2002 $'000
TVSP	**-**	664
Accrued annual leave and long service leave	**-**	154
		818
Amount recovered from the Department of the Premier and Cabinet	**-**	664

24. Remuneration of Auditors

The amount due to and receivable by the Auditor-General's Department for auditing the accounts for the year was $54 000 ($53 000). The auditors received no other benefits.

25. Related Party Transactions

The names of the persons who were Board Members of the Passenger Transport Board during the financial year are as follows:

D Egen
R J Payze
N J Buddle
G J Crafter
H M I'Anson
J Bell

N J Buddle has declared an interest through her employment by Austereo Pty Ltd, a major sponsor of Skyshow. The Board funds and promotes the use of public transport services to this event. No other Member or employee has declared any interests in contracts involving the Board during the 2002-03 financial year.

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

26. Consultancies

During the year the Board engaged 4 (6) consultants to assist in its operations. The cost of these consultancies was $49 000 ($50 000).

The number of consultancies whose payments fell within the following bands were:	**2003 Number of Consultancies**	2002 Number of Consultancies
$0 - $10 000	**2**	5
$10 001 - $50 000	**2**	1

27. Commitments

	2003	2002
Operating Leases Payable	**$'000**	$'000
Not later than one year	**31 861**	30 501
Later than one year but not later than five years	**29 444**	50 491
Later than five years	**17 698**	11 652
	79 003	92 644

The Board leases depots and buses, property for office accommodation and motor vehicles.

Since the commencement of the seven new metropolitan bus contracts, the Board has had the responsibility for payment to DTUP for the leases of buses and depots. The Board receives as part of its Parliamentary appropriation an equivalent amount of funding to cover these commitments.

Terms for property leases vary up to forty years with rents payable monthly in advance. Rental provisions within the lease agreements require lease payments be reviewed and amended in line with movements in market rental values or CPI. An option exists to renew some of the leases at the end of the lease term.

Motor vehicles are leased for two or three year terms with lease payments reviewed annually.

28. Agreements Equally and Proportionately Unperformed

The Board has entered into a number of contracts with service providers of metropolitan transport services. The contract areas, service providers and contract expiry dates are as follows:

Contract Area	Service Provider	Contract Expiry Date
Aldinga Region	Australian Transit Enterprises (ATE)	23 April 2005
Outer South	ATE	23 April 2005
North South	Serco	23 April 2005
Outer North	Serco	23 April 2005
Outer North East	Serco	23 April 2005
East West	Torrens Transit	23 April 2005
City Free	Torrens Transit	23 April 2005
Adelaide Hills	Transit Plus	23 April 2005
Mt Barker Region	Transit Plus	23 April 2005
Rail Services	TransAdelaide	1 July 2005
Mt Pleasant to Tea Tree Gully	Affordable Hills Chauffeured	1 February 2007
Murray Mallee 'Medical'	Coorong Coaches	1 September 2005
Coorong Council Services	Coorong Coaches	1 January 2008

Agreements equally and proportionately unperformed (AEPUs) as at 30 June 2003 are as follows:	**2003** **$'000**	2002 $'000
Not later than one year	**180 144**	172 543
Later than one year but not later than five years	**161 972**	328 084
	342 116	500 627

The AEPUs have been calculated by extrapolating contract payments for each contract area during 2002-03 to the contract expiry date. Contract payments are based on the contract funding formula which includes a fixed component plus an incentive component to reward increased patronage.

These AEPUs are not recognised in the financial report.

29. Administered Items

(a) Passenger Transport Research and Development Fund

Pursuant to Section 62 of the *Passenger Transport Act 1994*, the Board administers on behalf of the Minister for Transport, the Passenger Transport Research and Development Fund (an interest bearing Deposit Account at the Department of Treasury and Finance).

The Fund may be applied by the Minister in consultation with the Board:

(i) for the purpose of carrying out research into the taxi-cab industry; or
(ii) for the purpose of promoting the taxi-cab industry; or
(iii) for any other purpose considered by the Minister and the Board to be beneficial to the travelling public, in the interests of the passenger transport industry, and an appropriate application of money standing to the credit of the Fund.

	2003	2002
	$'000	$'000
Balance at 1 July	**1 383**	1 982
Add: Receipts during the year	**55**	78
Less: Payments during the year	**509**	677
Balance at 30 June	**929**	1 383

(b) Criminal Injuries Compensation Levy

In accordance with the *Expiation of Offences Act 1996*, and on behalf of the Attorney-General's Department, the Board collects criminal injuries compensation levies. For 2002-03, the amount collected and paid to the Attorney-General's Criminal Injuries Compensation Fund was $4 000 ($4 000).

30. Financial Instruments

(a) Terms, Conditions and Accounting Policies

Financial Instrument	Note	Accounting Policies and Methods (including Recognition Criteria and Measurement Basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets			
Cash	13	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The Board invests surplus funds with the Department of Treasury and Finance in a Special Deposit Account. Interest is paid quarterly on the average daily balance of the account at an interest rate determined by the Treasurer for the balance up to the PTB level of borrowings and at the average 90 day bank bill rate for the balance over the level of borrowings. For the quarter ended 31 May 2003 the interest rate earned was 6.2 percent (the Common Public Sector Interest Rate) and the overnight cash deposit rate was 4.6 percent.
Receivables	14	These receivables are recognised at the nominal amounts due less any provision for doubtful debts. Collectability of debts is reviewed at balance date. Amounts are recognised when services are provided.	Standard credit terms are net 30 days.
Loan Receivable		This loan is recognised at its nominal value.	This working capital loan is repayable on demand and is free of interest.
Financial Liabilities			
Payables	16	Creditors and accruals are recognised at their nominal amounts. Liabilities are recognised to the extent that goods and services have been received.	Creditors are paid within 30 days.
Borrowings	17	Borrowings are recognised at their nominal amounts.	Borrowings relate to borrowings from the Department of Treasury and Finance. Interest is paid quarterly at a rate determined by the Treasurer. For the quarter ended 31 May 2003 the interest rate was 6.2 percent (the Common Public Sector Interest Rate). A guarantee fee charge is also paid to the Department of Treasury and Finance on these borrowings at the annual rate of 0.75 percent. No maturity date exists for these borrowings.

(b) Interest Rate Risk

		2003				2002			
Financial Instrument		**Floating Interest Rate**	**Non-Interest Bearing**	**Total**	**Weighted Average Effective Interest Rate**	Floating Interest Rate	Non-Interest Bearing	Total	Weighted Average Effective Interest Rate
Financial Assets (Controlled):	Note	**$'000**	**$'000**	**$'000**	**Percent**	$'000	$'000	$'000	Percent
Cash	13	**9 798**	**18**	**9 816**	**5.2**	10 853	18	10 871	5.8
Receivables	14	**-**	**3 625**	**3 625**	**-**	-	5 894	5 894	-
Loan receivable		**-**	**40**	**40**	**-**	-	40	40	-
Total Financial Assets		**9 798**	**3 683**	**13 481**		10 853	5 952	16 805	
Total Assets				**31 192**				31 395	
Financial Assets (Administered):									
Cash	29	**929**	**-**	**929**	**4.6**	1 383	-	1 383	4.3
Financial Liabilities (Controlled):									
Payables	16	**-**	**3 052**	**3 052**	**-**	-	5 969	5 969	-
Borrowings	17	**3 168**	**-**	**3 168**	**6.5**	4 068	-	4 068	6.9
Total Financial Liabilities		**3 168**	**3 052**	**6 220**		4 068	5 969	10 037	
Total Liabilities				**8 032**				11 336	

(c) Net Fair Values of Financial Assets and Liabilities

The net fair values of the financial assets and liabilities in these accounts approximate their carrying values.

(d) Credit Risk Exposure

The Board's maximum credit risk exposure at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

TRANSADELAIDE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

On 14 January 1999 the *TransAdelaide (Corporate Structure) Act 1998* (the Act) was proclaimed. The Act provides for the continuation of TransAdelaide as a statutory corporation to which the provisions of the *Public Corporations Act 1993* apply.

The Act establishes a Board of Directors as the governing body of TransAdelaide.

Functions

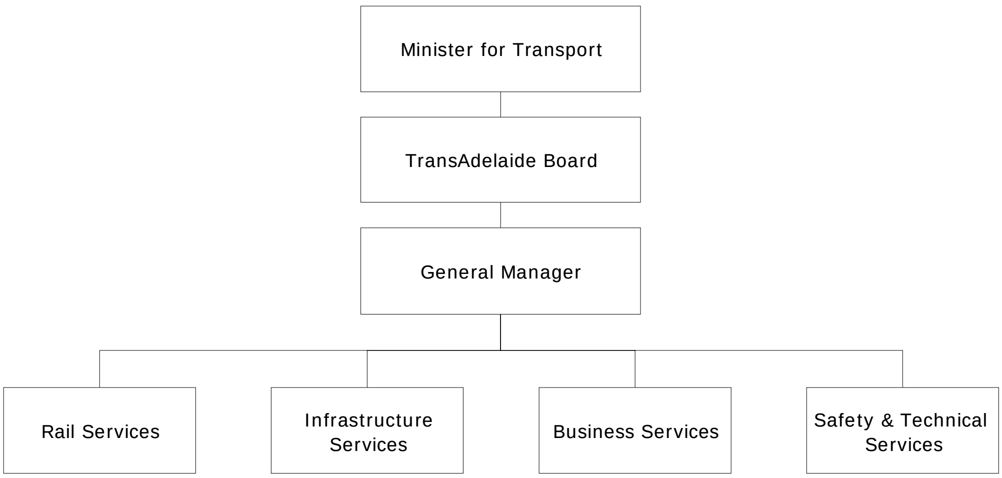
TransAdelaide's primary functions are to provide rail passenger transport services under a rail contract; and to act as the custodian of the State's rail passenger transport infrastructure.

In carrying out these functions, TransAdelaide's key objectives are to:

- ensure efficient, relevant and reliable rail passenger transport services are provided to its customers;
- undertake activities which build customer support and use of the rail passenger transport system;
- maintain infrastructure to a standard that ensures the efficient, safe and reliable delivery of rail passenger transport services.

Structure

The organisational structure of TransAdelaide is illustrated in the following diagram.



Controlled Entity

TransAdelaide is the ultimate controlling Parent Entity of Austrics established pursuant to Regulations under the *Public Corporations Act 1993*. Commentary on Austrics' principal business activities and financial results is provided later under the heading 'Further Commentary on Operations'.

Joint Venture

On 28 May 2000 a Joint Venture Agreement was established between TransAdelaide and Australian Transit Enterprises Pty Ltd (ATE) to manage a bus contract entered into with the Passenger Transport Board. The joint venture is known as the 'Adelaide Hills' joint venture. Further commentary on the joint venture relationship is included later under the heading 'Further Commentary on Operations'.

Contract to provide Passenger Transport Services

In December 2000 TransAdelaide re-negotiated an agreement with the Passenger Transport Board for the provision of rail (ie train and tram) passenger transport services. The term of the agreement is five years with a right of renewal for a further five years.

On 23 April 2000 TransAdelaide ceased providing bus transport services in its own right. Notwithstanding this, TransAdelaide retains an interest in one contract with the Passenger Transport Board for the provision of bus passenger transport services through its involvement with the Adelaide Hills joint venture.

Further commentary relating to passenger transport contracts is detailed later under the heading 'Interpretation and Analysis of Financial Statements'.

Finance and Audit Committee

Section 31 of the *Public Corporations Act 1993*, requires a public corporation to establish an Audit Committee and that the composition of the committee include members of the corporation Board.

In accordance with the above requirements TransAdelaide has established a Finance and Audit Committee whose membership comprises TransAdelaide Board members.

The primary function of the Finance and Audit Committee as outlined in the Finance and Audit Committee Charter 'is to assist the Board in effectively fulfilling responsibilities for financial management and reporting, risk management, internal control and achieving good corporate governance'.

The General Manager attends the Finance and Audit Committee meetings in an ex-officio capacity. Audit representatives attend Finance and Audit Committee meetings as observers.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 32(4) of the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts of TransAdelaide in respect of each financial year. The authority for the Auditor-General to audit the subsidiary of TransAdelaide is provided by subclause 13(3) of the Schedule to the *Public Corporations Act 1993*.

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

The scope of the audit for 2002-03 included:

- salaries and wages
- accounts payable including a review of corporate credit cards
- Passenger Transport Board revenue
- other revenue
- receipting and banking
- accounts receivable
- non-current assets
- inventory management.

In addition, audit coverage included a review and testing of controls associated with the general computer processing environment - UNIX/CA Masterpiece. That environment maintains application systems which process accounts receivables, accounts payables, general ledger, fixed assets, inventories and purchase orders.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. The findings were also provided to the Finance and Audit Committee and responses to the management letter were generally considered to be satisfactory. Major matters raised with the Corporation and related responses are considered in 'Audit Findings and Comments'.

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 TransAdelaide and of the Economic Entity as at 30 June 2003, their financial performance and their cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by TransAdelaide 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 outlined under 'Significant Matters Raised with Agencies', is sufficient to provide reasonable assurance that the financial transactions of TransAdelaide have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

General Control Environment

The audit of TransAdelaide's general control environment identified opportunities to enhance existing controls. In particular, Audit noted that TransAdelaide in a previous year had undergone a significant level of change resulting from the Government policy of competitive tendering for public transport services. This change resulted in:

- a shift in principal business activity;
- a significant reduction in staff numbers;
- changes to key personnel resulting in the loss of experience and knowledge.

Audit observed that the significant reduction in staff numbers and the resultant loss of experience and knowledge impacted on the control environment to the extent that there was scope to enhance independent checking procedures and reconciliation processes relating to some of its financial operations. Areas identified by Audit are outlined hereunder.

Rail Car Spare Parts Inventory

Audit recommended that TransAdelaide reconcile the results of the rail car spare parts inventory stock take conducted by the contractor responsible for rail car maintenance, to TransAdelaide's inventory management system and adjust the general ledger to the value of stock counted. As the Rail Car Maintenance Agreement is due for renewal, Audit also recommended that TransAdelaide amend the agreement to hold the service provider financially accountable for any future inventory losses.

Salaries and Wages

Major matters raised included the need to document and formalise policies and procedures with respect to award rate and contract salary changes to payroll master-files, and instances were noted where effective control and review was not being exercised over staff bona fide reports.

Non-Current Assets

Audit observed that a number of non-operational railcars were overvalued and recommended that their valuation be reassessed in line with the fair value method of revaluation. This resulted in a revaluation decrement of $7.4 million to the financial statements.

Accounts Payable

Although internal controls were being carried out, in order to provide corroborative evidence it was recommended that monthly vendors statements be retained with evidence of the check carried out, that error reports be retained with evidence of the review carried out, and that procedures be established to regularly review the Purchase-Order user file to ensure that all users that no longer require access are removed.

Credit Cards

Audit recommended that formal written procedures be developed for the collection, destruction and cancellation of credit cards.

Computer Processing Environment

Audit recommended that formal written procedures be developed covering the responsibilities of the Network administrator, that procedures be developed for the removal of users of specific applications once it has been determined that they no longer require access, and that consideration be given to restricting access to the database maintenance function.

The above matters were included in a report provided to the General Manager and the Finance and Audit Committee. The Corporation responded that it has established policies and procedures and has implemented controls on the majority of the matters raised where it was considered practical and cost effective to implement such controls.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

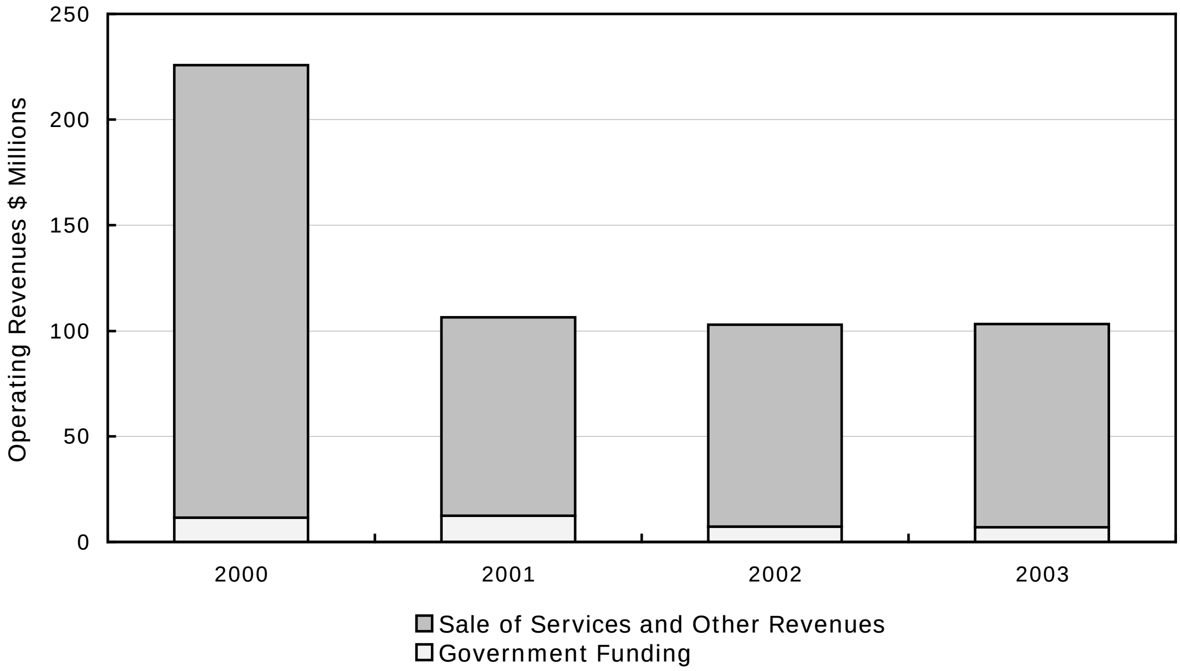
Highlights of Consolidated Financial Statements

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Government funding	**6.9**	7.3	(5.5)
Sale of services and other revenue	**96.4**	95.7	0.7
Total Operating Revenue	**103.3**	103.0	0.3
OPERATING EXPENDITURE			
Employment expenses	**41.4**	39.1	5.9
Other expenses	**63.9**	76.7	(16.7)
Total Operating Expenses	**105.3**	115.8	(9.1)
Share of Profits from Associates	**0.8**	0.8	-
Profit/(Loss) before Tax	**(1.2)**	(12.0)	(90)
Income Tax Benefit	**1.1**	3.7	(70.3)
Net (Loss)	**(0.1)**	(8.3)	(98.8)
Net Cash Flows from Operations	**21.4**	18.3	16.9
ASSETS			
Current assets	**18.1**	24.6	(26.4)
Non-current assets	**623.8**	645.1	(3.3)
Total Assets	**641.9**	669.7	(4.2)
LIABILITIES			
Current liabilities	**29.6**	32.3	(8.4)
Non-current liabilities	**116.7**	129.7	(10.0)
Total Liabilities	**146.3**	162.0	(9.7)
EQUITY	**495.6**	507.7	(2.4)

Consolidated Statement of Financial Performance

Operating Revenues

As TransAdelaide's primary functions are to provide rail passenger transport services under rail contracts, it's main operating revenue is Sale of Services with Government funding being less significant. For the four years to 2003, a structural analysis of Sale of Services Revenues and Government funding is presented in the following chart.



The above chart shows much higher income in the 2000 year as compared to the years 2001 to 2003 which have remained consistent. The reason for the variation is that from April 2000 TransAdelaide ceased providing bus transport services in its own right, hence the reduction in revenue from the 2001 year.

Contract Income - Passenger Transport Contracts

The passenger transport contracts require TransAdelaide to provide passenger services in the specified service area in return for contract payments. The contract payments are based on a fixed component plus an incentive component based on patronage. There are also penalties for late running. All ticket revenue collected by TransAdelaide is remitted to the Passenger Transport Board.

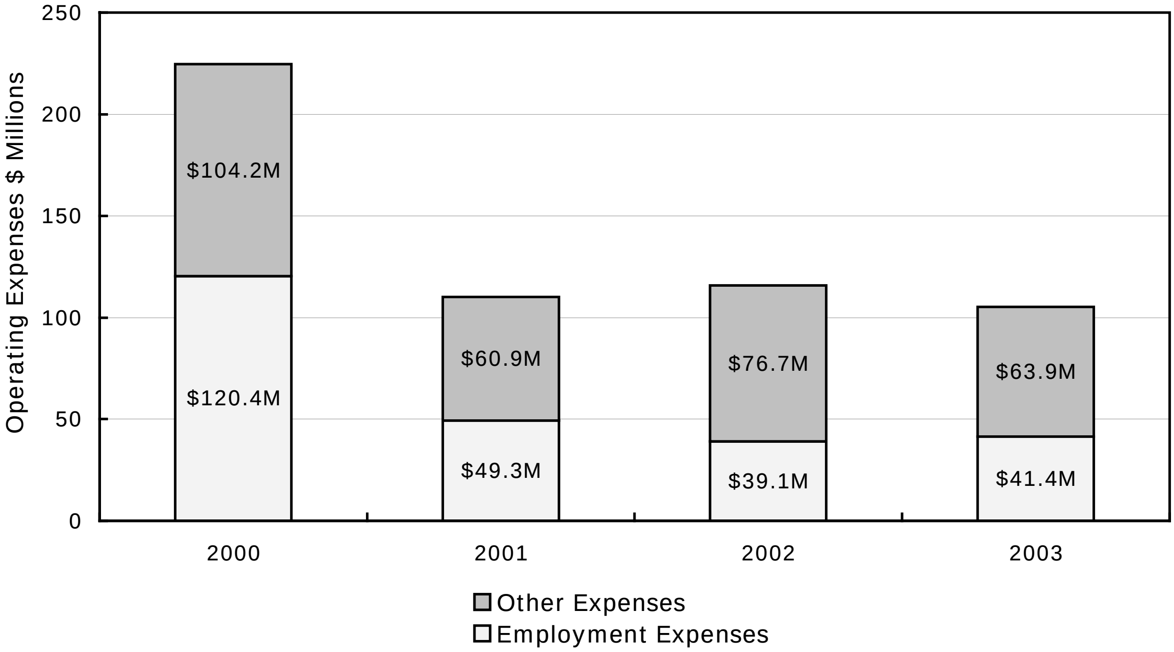
In addition, under the contracts TransAdelaide must maintain public liability insurance, comprehensive motor vehicle insurance and compulsory third party insurance.

Contract Income - Financial Dependence

Income of $84.6 million ($82.9 million) from the Passenger Transport Board relating to contracts for the provision of passenger services represented 82 percent, (80 percent), of TransAdelaide's consolidated revenue from ordinary activities and is included in sale of services and other revenue in the previous chart. The reliance on contract payments creates a high degree of financial dependency on the Passenger Transport Board. This dependency has been recognised in Note 1 to the Financial Statements.

Operating Expenses

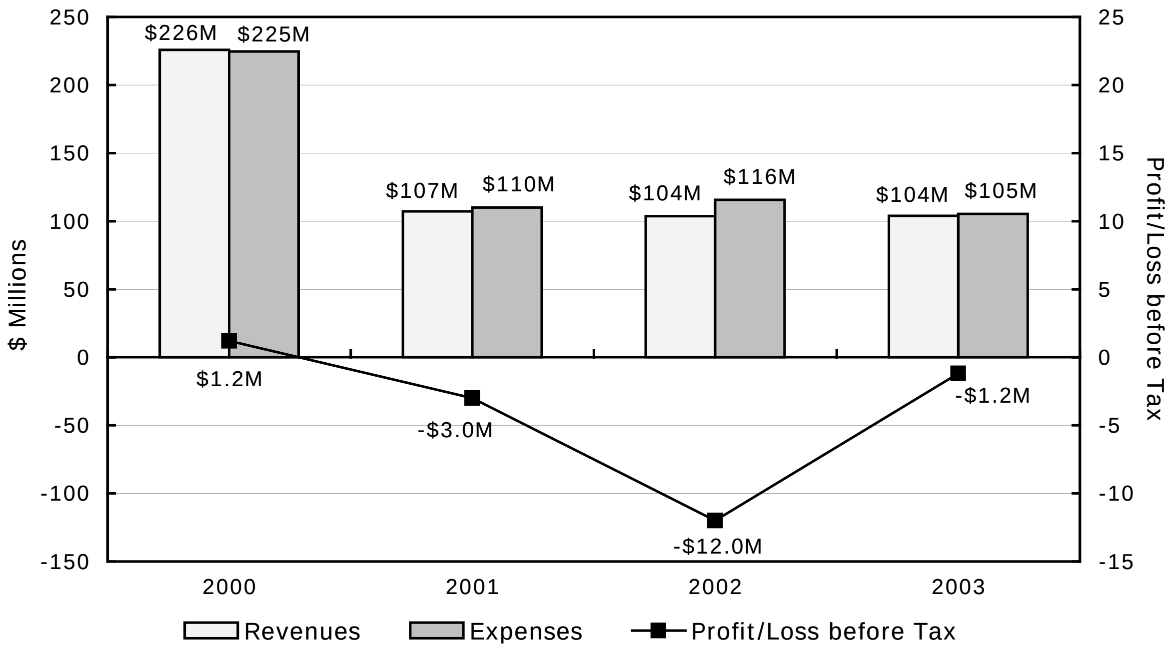
As TransAdelaide's primary functions are to provide rail passenger transport services under rail contracts, a significant expense is employment expenses with other expenses including depreciation. For the four years to 2003, a structural analysis of the main operating expense items for the Corporation is shown in the following chart.



The above chart shows much higher expenses in the 2000 year as compared to the years 2001 to 2003 which have remained consistent. The reason for the variation is that from April 2000 TransAdelaide ceased providing bus transport services in its own right, hence the reduction in expenses from the 2001 year.

Operating Result

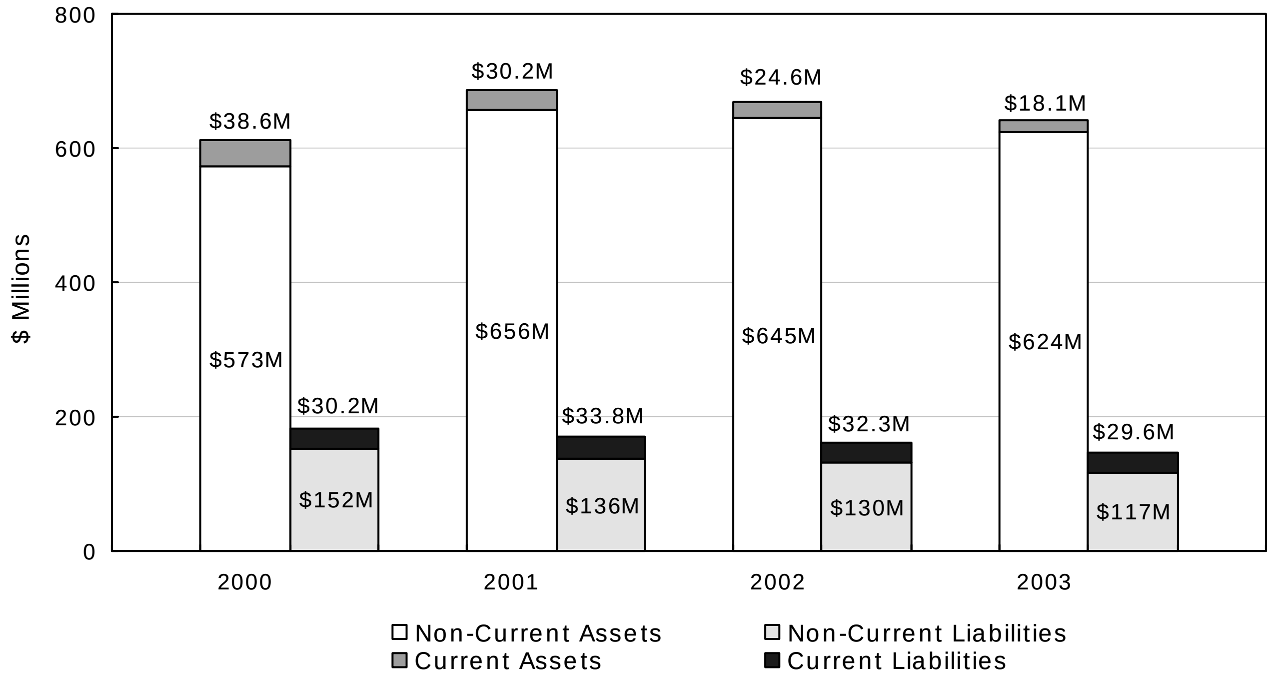
The following chart shows the operating revenues, operating expenses and profit/loss for the four years to 2003.



The Economic Entity made a consolidated loss from ordinary activities before income tax of $1.2 million (loss of $12 million). This reflects mainly a loss on sale/disposal of non-current assets of $12.1 million in 2002 as compared to $1.4 million in 2003. In 2002, the loss on sale/disposal included the transfer of the Corporation's control of its half interest in the Belair line to the Australian Railways Track Corporation for nil consideration, in accordance with an agreement between State and Federal Ministers in 1999.

Consolidated Statement of Financial Position

For the four years to 2003, a structural analysis of assets and liabilities is shown in the following chart.



Assets

Total rollingstock, property, plant and equipment and work in progress non-current assets decreased by $23.1 million which mainly reflects additions of $7.1 million, offset by the depreciation and amortisation charge of $20.9 million and revaluation decrements of $7.4 million.

Liabilities

Interest bearing liabilities (mainly non-current liabilities) decreased by $13.2 million reflecting the repayment of borrowings from the South Australian Government Financing Authority of $13.4 million and an increase in lease liability of $0.2 million.

Consolidated Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**21.4**	18.3	28.8	18.3
Investing	**(7.4)**	(17.2)	(10.2)	(6.2)
Financing	**(18.0)**	(7.1)	(16.5)	(4.0)
Change in Cash	**(4.0)**	(6.0)	2.1	8.1
Cash at 30 June	**11.8**	15.8	21.8	19.7

The analysis of cash flows shows that the inflow from operating activity of $21.4 million was consistent with the previous year and reflects the fact that the loss after tax of $0.1 million is converted to a cash inflow from operating activities as a result of the add-back of the main non-cash item being depreciation and amortisation of $20.9 million. Cash flow from operating activities of $21.4 million was used to finance the following:

- Investing activities with the main item being the acquisition of non-current assets of $8.5 million.
- Financing activities being special dividend payments of $4.6 million and loan repayments of $13.4 million.

FURTHER COMMENTARY ON OPERATIONS

Controlled Entity Operations Austrics

Austrics is a wholly-owned subsidiary of TransAdelaide established by Regulations under the *Public Corporations Act 1993*.

Principal Business Activities

The Regulations establish Austrics as a body corporate with board members being appointed by TransAdelaide. The functions of the subsidiary are to carry out research and to develop computer software and associated products within TransAdelaide's area of expertise, to market and to promote these products domestically and internationally, to provide consultancy and other services, and any other function conferred by TransAdelaide.

Audit Observations and Comments

The results of the audit indicated the following:

- There were opportunities to improve the control environment in key areas such as budgetary control, risk management and treatment of software development costs within Austrics.

- A review of the financial performance of Austrics raised a number of issues including the deteriorating financial performance of the subsidiary, and the reliance placed on funding from the Parent Entity.

The above matters were raised in reports addressed to the Chairman and the Chief Executive Officer and a satisfactory response was received. That response indicated that the management of Austrics had taken action to improve the control environment. In particular an undertaking was given to closely monitor Austrics' financial operations to ensure that budget forecasts are realistic and achieved thus ensuring that cash surpluses are generated to enable the debt to the Parent Entity to be repaid. In relation to its financial performance, a restructure had been put in place which involved a significant reduction in staff numbers in order to improve its bottom line.

Financial Results

For the 2002-03 financial year Austrics achieved a loss from ordinary activities before income tax of $1.04 million (loss $505 000).

A summary of Austrics financial performance and financial position is detailed below:

	2003	2002
	$'000	$'000
Financial Performance:		
Revenues from ordinary activities	**2 459**	2 439
Expenses from ordinary activities	**3 499**	2 944
(Loss) Profit from ordinary activities before income tax	**(1 040)**	(505)
Income tax benefit (expense) relating to ordinary activities	**345**	119
NET (LOSS) PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX	**(695)**	(386)
Financial Position:		
Total Assets	**1 103**	2 020
Total Liabilities*	**1 835**	2 057
NET (DEFICIENCY) ASSETS	**(732)**	(37)
TOTAL (DEFICIENCY) EQUITY	**(732)**	(37)

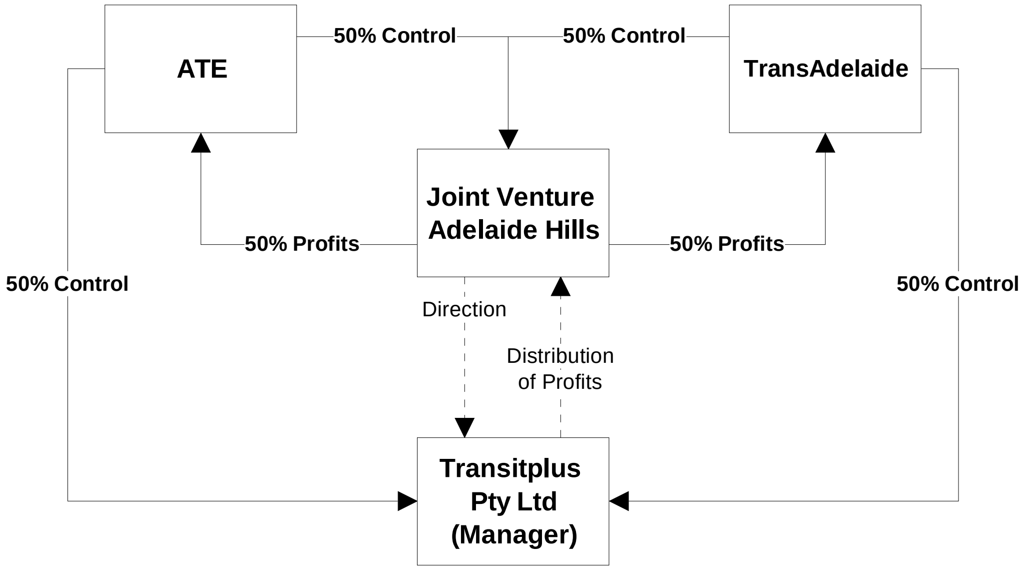
* Includes borrowings of $840 000 ($500 000) owed to TransAdelaide.

Joint Venture Relationship Adelaide Hills

In 1999-2000 TransAdelaide and Australian Transit Enterprises Pty Ltd (ATE) equally invested capital to form a company called Transitplus Pty Ltd to bid for passenger service contracts in the Adelaide Hills. Transitplus Pty Ltd was awarded a contract for the provision of bus passenger transport services in the Hills metroticket area and the Mount Barker country area.

Transitplus Pty Ltd's operations are governed by the *Corporations Act 2001* and a Board comprising two representatives each from TransAdelaide and ATE. The nature and scope of its activities are defined within the Transitplus Pty Ltd constitution.

The following diagram illustrates the joint venture relationship:



The Economic Entity has brought to account $839 000 ($792 000) for its share of net profit from the joint venture.

Statement of Financial Performance for the year ended 30 June 2003

	Note	Economic Entity **2003** **$'000**	Economic Entity 2002 $'000	Parent Entity **2003** **$'000**	Parent Entity 2002 $'000
REVENUE FROM ORDINARY ACTIVITIES	4	**103 240**	102 950	**100 863**	100 646
EXPENSES FROM ORDINARY ACTIVITIES					
Employee benefits expense		**37 128**	34 136	**35 326**	32 395
Supplies and services expense		**28 684**	32 227	**28 182**	31 462
Separation package and incentive payments		**301**	1 132	**301**	1 132
Bad and doubtful debts		**130**	(45)	**(19)**	(80)
Depreciation and amortisation expense	5	**20 867**	19 879	**20 826**	19 824
Loss on sale/disposal of assets	6	**1 357**	12 095	**592**	12 092
Movement in employee benefits provisions	7	**3 975**	3 803	**3 839**	3 618
Other expenses from ordinary activities		**5 532**	4 983	**5 509**	4 958
Borrowing costs expense	8	**7 330**	7 575	**7 330**	7 575
Total Expenses		**105 304**	115 785	**101 886**	112 976
Revaluation of subsidiary	3	**-**	-	**(2 829)**	-
Share of net profits from associates and joint ventures accounted for using the equity method		**839**	792	**843**	834
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		**(1 225)**	(12 043)	**(3 009)**	(11 496)
INCOME TAX BENEFIT (EXPENSE) RELATING TO ORDINARY ACTIVITIES	9	**1 152**	3 710	**1 656**	3 590
PROFIT(LOSS) FROM ORDINARY ACTIVITIES AFTER RELATED INCOME TAX EXPENSE	11	**(73)**	(8 333)	**(1 353)**	(7 906)
Increase (Decrease) in the asset revaluation reserve	10	**(7 383)**	88	**(7 383)**	88
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**(7 456)**	(8 245)	**(8 736)**	(7 818)

Statement of Financial Position
as at 30 June 2003

		Economic Entity		Parent Entity	
ASSETS:		**2003**	2002	**2003**	2002
CURRENT ASSETS:	Note	**$'000**	$'000	**$'000**	$'000
Cash assets	14	**11 786**	15 794	**11 474**	15 248
Receivables	12	**3 012**	5 401	**2 875**	5 025
Stores inventories	19	**2 900**	3 146	**2 900**	3 146
Work in progress		**94**	70	**94**	70
Dividend receivable		**277**	224	**277**	224
Investment in related entities	3	**-**	-	**340**	-
Total Current Assets		**18 069**	24 635	**17 960**	23 713
NON-CURRENT ASSETS:					
Rollingstock	13	**200 682**	216 074	**200 682**	216 074
Property, plant and equipment	13	**398 422**	406 875	**398 394**	406 220
Work in progress	13	**4 678**	3 974	**4 678**	3 974
Investment in related entities	3	**200**	204	**950**	3 779
Future income tax benefit		**19 852**	17 952	**20 153**	17 572
Total Non-Current Assets		**623 834**	645 079	**624 857**	647 619
Total Assets		**641 903**	669 714	**642 817**	671 332
LIABILITIES:					
CURRENT LIABILITIES:					
Interest bearing liabilities	15	**7 263**	5 381	**7 263**	5 381
Payables		**14 249**	17 427	**13 565**	16 379
Provisions	18	**8 092**	9 553	**8 017**	9 435
Total Current Liabilities		**29 604**	32 361	**28 845**	31 195
NON-CURRENT LIABILITIES:					
Interest bearing liabilities	15	**86 752**	101 796	**86 752**	101 796
Provisions	18	**19 680**	18 390	**19 521**	18 239
Provision for deferred income tax		**10 219**	9 471	**10 219**	9 294
Total Non-Current Liabilities		**116 651**	129 657	**116 492**	129 329
Total Liabilities		**146 255**	162 018	**145 337**	160 524
NET ASSETS		**495 648**	507 696	**497 480**	510 808
EQUITY:					
Reserves	10	**383 770**	391 506	**383 770**	391 506
Retained profits	11	**111 878**	116 190	**113 710**	119 302
TOTAL EQUITY		**495 648**	507 696	**497 480**	510 808
Commitments	16, 17, 20				
Contingent Liabilities	28				

Statement of Cash Flows
for the year ended 30 June 2003

		Economic Entity		Parent Entity	
		2003	2002	**2003**	2002
		Inflows	Inflows	**Inflows**	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		**(Outflows)**	(Outflows)	**(Outflows)**	(Outflows)
RECEIPTS:	Note	**$'000**	$'000	**$'000**	$'000
Sales of goods and services		**97 693**	93 713	**95 634**	90 656
Government funding		**6 534**	7 870	**6 534**	7 870
Separation packages		**-**	1 377	**-**	1 377
Investment revenues		**962**	1 319	**962**	1 310
Other receipts		**67**	49	**-**	-
Total Receipts		**105 256**	104 328	**103 130**	101 213
PAYMENTS:					
Wages and salaries		**(39 760)**	(37 519)	**(37 810)**	(35 824)
Separation packages		**(301)**	(1 132)	**(301)**	(1 132)
Goods and services		**(36 424)**	(39 845)	**(35 849)**	(39 083)
Interest on borrowings		**(7 385)**	(7 572)	**(7 385)**	(7 572)
Income tax		**-**	-	**-**	-
Total Payments		**(83 870)**	(86 068)	**(81 345)**	(83 611)
Net Cash provided by Operating Activities	14(a)	**21 386**	18 260	**21 785**	17 602
CASH FLOWS FROM INVESTING ACTIVITIES:					
RECEIPTS:					
Dividend receipts		**790**	784	**790**	784
Contributed Capital		**61**	-	**61**	-
Increase in lease liability		**-**	193	**-**	193
Proceeds from asset sales		**202**	1 166	**202**	1 166
Investment in related entities		**-**	27	**-**	27
Total Receipts		**1 053**	2 170	**1 053**	2 170
PAYMENTS:					
Purchase of non-current assets		**(8 474)**	(19 362)	**(8 299)**	(18 824)
Investment in related entities		**-**	(27)	**(340)**	(144)
Total Payments		**(8 474)**	(19 389)	**(8 639)**	(18 968)
Net Cash used in Investing Activities		**(7 421)**	(17 219)	**(7 586)**	(16 798)
CASH FLOWS FROM FINANCING ACTIVITIES:					
PAYMENTS:					
Dividend payments		**(4 592)**	(353)	**(4 592)**	(353)
Repayment of borrowings		**(13 381)**	(6 719)	**(13 381)**	(6 719)
Total Payments		**(17 973)**	(7 072)	**(17 973)**	(7 072)
Net Cash used in Financing Activities		**(17 973)**	(7 072)	**(17 973)**	(7 072)
NET DECREASE IN CASH		**(4 008)**	(6 031)	**(3 774)**	(6 268)
CASH AT 1 JULY		**15 794**	21 825	**15 248**	21 516
CASH AT 30 JUNE	14	**11 786**	15 794	**11 474**	15 248

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Introduction

TransAdelaide was established as a Public Authority under the *TransAdelaide (Corporate Structure) Act 1998* in January 1999. As a result, the TransAdelaide Board have endorsed the preparation of one set of financial statements and statutory accounts for the financial year ended 30 June 2003. TransAdelaide has one wholly owned subsidiary that was established under the *Public Corporations Act 1993*, being AUSTRICS. TransAdelaide also has a 50 percent interest in Transitplus Pty Ltd, a joint venture entity established for the provision of bus services through the Adelaide Hills.

1.1 Economic Dependency and Going Concern

The Economic Entity is dependent on contract payments from the Passenger Transport Board relating to the provision of train and tram services in the Adelaide metropolitan area.

2. Statement of Significant Accounting Policies

2.1 General

The financial statements are a General Purpose Financial Report which has been prepared in accordance with the Statements of Accounting Concepts, applicable Australian Accounting Standards, other mandatory reporting requirements (Urgent Issues Group Consensus Views), the Department of Treasury and Finance Accounting Policy Statements and Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987*. In the case of a conflict between the abovementioned standards and policies, the Department of Treasury and Finance Accounting Policy Statements and Treasurer's Instructions take precedent.

The Financial Report has been prepared in accordance with the historical cost convention, with the exception of non-current assets. Non-current assets are primarily valued applying the fair value method of valuation, as per the Department of Treasury and Finance Accounting Policy Statement No 3 and Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets'. Where the non-current assets have not been revalued, historical cost has been used.

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.

2.2 Principles of Consolidation

The consolidated financial statements of the Economic Entity include the financial statements of the Parent Entity, being TransAdelaide and its controlled entity, AUSTRICS. All inter-entity balances and transactions have been eliminated as at the reporting date in line with Australian Accounting Standard AASB 1024, 'Consolidated Accounts'.

Joint Ventures

In TransAdelaide's financial statements the investment in the joint venture entity is carried at the lower of cost and recoverable amount. The consolidated entity's share of the joint venture entity's net profit or loss is recognised in the consolidated Statement of Financial Performance from the date joint control commenced.

The Economic Entity's investment in the joint venture entity is based upon the equity method of accounting for investment in associates as per Australian Accounting Standard AASB 1016, 'Accounting for Investments in Associates'.

2.3 Recognition of Revenue

Sales of services represent:

- Contract Income earned from the provision of passenger transport services provided on behalf of the Passenger Transport Board.
- Other revenue earned from the provision of products, advertising and property to entities outside the Economic Entity.

All revenue is recognised when the service is provided.

2.4 Taxation Equivalents

The Economic Entity is subject to the payment of income tax equivalents, land tax equivalents and council rate equivalents. From 1 July 2001, the Economic Entity has operated under the National Tax Equivalent Regime (NTER) pursuant to the Memorandum of Understanding of NTER between the Commonwealth of Australia, the Commissioner of Taxation and all of the States and Territories. The NTER is administered by the Australian Taxation Office.

The Economic Entity adopts the liability method of tax-effect accounting for income tax equivalents whereby the income tax expense is based on the net profit (loss) from operating activities adjusted for any permanent differences. Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the assumption that the Economic Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by relevant legislation.

Land tax and council rate equivalents have been calculated by the Department of Treasury and Finance, based on valuations supplied by the Valuer-General.

2.5 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 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.

2.6 Financial Instruments Included in Liabilities

All financial instruments included within the liabilities category are recognised when they are incurred.

2.7 Financial Instruments Included in Assets

Receivables are initially recorded at the current value of the sales proceeds.

Provision for doubtful debts is recognised to the extent the recovery of outstanding amounts is less than likely. The provision is based on a review of all outstanding amounts at balance date.

Dividend revenue is recognised when dividends are declared.

Investment in the subsidiary is based on a Directors valuation and the joint venture is included at cost.

2.8 Non-Current Assets

(a) *Basis of Valuation*

Rollingstock, property, rail and tram infrastructure are included at fair value or cost. Plant and equipment are included at cost. Valuations are provided by either an independent valuer, by the Valuer-General or at a Directors' valuation in accordance with applicable Accounting Policy Statements.

The cost of property, plant and equipment constructed by the Economic Entity includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

(b) *Revaluations*

Under Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets', each class of non-current assets are required to be measured on either the cost of fair value basis. A Directors valuation was conducted at 30 June 2003 for stored railcars to reflect their fair value.

(c) *Disposal of Revalued Assets*

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in the Profit (Loss) from Ordinary Activities in the year of disposal.

Where a revalued asset is disposed of, the balance of the Asset Revaluation Reserve which relates to that asset has been transferred from the Asset Revaluation Reserve to Retained Profits.

(d) *Depreciation and Amortisation*

Rollingstock, property, plant and equipment, buildings and assets under finance lease are depreciated/amortised over their estimated useful lives using the straight-line method.

Assets are depreciated or amortised from the date of acquisition.

Estimated useful lives applicable to each class of asset is detailed below:

	Useful Life Range (Years)
Rollingstock:	
Railcars	20 - 42
Tramcars	10 -80
Buildings	10 - 100
Permanent way	20 - 240
Machinery, plant and equipment	3 - 15
Artworks	100

(e) *Leases*

Leases of plant and equipment, under which TransAdelaide or its controlled entity assume substantially all the risks and benefits of ownership, are classified as finance leases. Other leases are classified as operating leases.

(i) *Finance Leases*

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Capitalised leased assets are amortised on a straight-line basis over the term of the lease and are regularly revalued to reflect their fair value. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the Statement of Financial Performance. (Refer Note 16).

(ii) *Operating Leases*

Minimum lease payments for assets subject to operating lease agreements where the risk and rewards incidental to ownership rest with the lessor, are treated as an expense in the Statement of Financial Performance. (Refer Note 17).

2.9 Inventories

Stores inventories are valued on a weighted average cost basis. As they are only held for use in providing services, net realisable value, as specified in Australian Accounting Standard AASB 1019, 'Inventories' is not applicable.

2.10 Work in Progress

Work in progress is valued at cost plus on-charges.

2.11 Receivables

Trade Debtors to be settled in 30 days are carried at amounts due. The collectibility is assessed at balance date and specific provision is made for any doubtful amounts.

2.12 Employee Benefits

(a) *Annual Leave*

Liabilities arising in relation to Annual Leave are accrued on the basis of statutory or contractual obligations. On-costs associated with this provision are included as a payable in the Statement of Financial Position as per the Department of Treasury and Finance Accounting Policy Statement No 9, 'Employee Benefits'.

(b) *Long Service Leave*

Entitlements to Long Service Leave are based on legislation applicable to Government employees. Provision has been made for those employees who have completed seven or more years service with Government. In addition, an actuarial based provision for employees with less than seven years service at 30 June 2003 has been made. On-costs associated with this provision are included as a payable in the Statement of Financial Position as per APS 9.

(c) *Retiring and Death Gratuity*

Provision is made for the Retiring and Death Gratuity payable under a scheme, which applies to daily paid employees of the former Municipal Tramways Trust. The amount provided covers benefits accrued to all members of the scheme.

(d) *Workers Compensation*

A provision has been established relating to claims under the *Workers Rehabilitation and Compensation Act 1986* and the repealed *Workers Compensation Act 1971*. The value of TransAdelaide's outstanding claims liability is valued by an independent actuary.

(e) *Superannuation*

During 2002-03 the Economic Entity paid amounts to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of its employees.

There is no liability for payments to beneficiaries as they have been assumed by the superannuation funds.

(f) *Sick Leave*

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

2.13 Insurance

TransAdelaide is self-insured for the following risks:

- Workers compensation claims;
- Public liability claims relating to all self owned assets, except for claims covered by Motor Accident Commission insurance;
- Property claims for all self owned assets.

The above self-insurance (excluding workers compensation) is for amounts up to $1 million for the total of each incident. Insurance cover for amounts above $1 million is arranged through the South Australian Government Captive Insurance Corporation (SAICORP). In addition, insurance cover has been arranged with AON Insurance Services in relation to the Adelaide Railway Station building and also the Heath Lambert Group through the ASER Services Corporation for the area above the Adelaide Railway Station Platforms.

AUSTRICS is externally insured for a proportion of the risks associated with workers compensation.

2.14 Research and Development Costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred.

2.15 Rounding Off

Amounts included in the financial report have been rounded off to the nearest thousand dollars unless otherwise stated.

3. Investment in Related Entities

	Ownership Interest		Investment	
	2003	2002	**2003**	2002
Controlled Entities:	**Percent**	Percent	**$'000**	$'000
AUSTRICS	**100**	100	**250**	3 079
Joint Venture:				
Transitplus Pty Ltd	**50**	50	**200**	200
Loans to Related Entities:				
AUSTRICS			**840**	500
Investment in Related Entities			**1 290**	3 779

3. Investment in Related Entities (continued)

	Economic Entity		Parent Entity	
Principal Activities	**2003**	2002	**2003**	2002
AUSTRICS - Software marketing and development.	**$'000**	$'000	**$'000**	$'000
Transitplus Pty Ltd - Provision of bus services.				
Investment in Transitplus Pty Ltd				
Carrying amount at 1 July 2002	**204**	246	**200**	200
Valuation increment (decrement)	**-**	-	**-**	-
Share of net profit less dividends received	**(4)**	(42)	**-**	-
Capital contributions	**-**	-	**-**	-
Carrying Amount at 30 June 2003	**200**	204	**200**	200
Investment in AUSTRICS				
Carrying amount at 1 July 2002	**-**	-	**3 079**	3 079
Valuation increment (decrement)[1]	**-**	-	**(2 829)**	-
Share of net profit less dividends received	**-**	-	**-**	-
Capital contributions	**-**	-	**-**	-
Carrying Amount at 30 June 2003	**-**	-	**250**	3 079

(1) A Director's valuation of AUSTRICS was undertaken in 2002-03 which resulted in a revaluation decrement of $2.829 million.

4. Revenue from Ordinary Activities

From Operating Activities:				
Sale of services	**90 292**	88 420	**88 060**	86 199
Government funding	**6 858**	7 258	**6 858**	7 258
Investment revenue	**935**	1 237	**960**	1 247
Other revenue	**170**	93	**-**	-
From outside Operating Activities:				
Sale of services	**611**	892	**611**	892
Property rental	**4 073**	3 918	**4 073**	3 918
Recoveries for separation packages and incentive payments	**301**	1 132	**301**	1 132
Total Revenue	**103 240**	102 950	**100 863**	100 646

5. Depreciation and Amortisation Expense

Railcars	**6 068**	5 829	**6 068**	5 829
Tramcars	**994**	386	**994**	386
Permanent Way	**8 378**	8 303	**8 378**	8 303
Buildings	**2 901**	2 741	**2 901**	2 741
Machinery, plant and equipment	**1 340**	1 196	**1 299**	1 141
Amortisation of railcars	**1 186**	1 424	**1 186**	1 424
	20 867	19 879	**20 826**	19 824

6. Loss on Sale / Disposal of Assets

Gross proceeds from asset sales	**202**	1 166	**202**	1 166
Less: Written down value	**1 559**	13 261	**794**	13 258
Net Loss on Sale / Disposal	**1 357**	12 095	**592**	12 092

The 2002 loss on disposal includes the loss of Belair Line Assets previously transferred to the Australian Railways Track Corporation (ARTC) in accordance with the Agreement between State and Federal Ministers in 1999.

7. Movements in Employee Benefits Provisions

Annual leave	**2 886**	2 809	**2 767**	2 677
Long service leave	**1 090**	985	**1 073**	932
Retiring and death gratuity	**(1)**	9	**(1)**	9
	3 975	3 803	**3 839**	3618

8. Borrowing Costs Expense

Ordinary borrowings interest	**6 368**	6 567	**6 368**	6 567
Treasury guarantee fee	**740**	811	**740**	811
Interest on borrowings	**7 108**	7 378	**7 108**	7 378
Interest on leases	**222**	197	**222**	197
	7 330	7 575	**7 330**	7 575

9. Income Tax Benefit (Expense)

Profit (Loss) from ordinary activities before income tax expense	**(1 225)**	(12 043)	**(3 009)**	(11 496)
Prima facie tax thereon at 30 percent	**367**	3 613	**903**	3 449
Prior year adjustments	**768**	-	**736**	-
Tax effect of permanent differences:				
Non-deductible expenses	**(1)**	(31)	**(1)**	-
Grant funding	**18**	141	**18**	141
Tax effect on equity accounting - Transitplus	**-**	(13)	**-**	-
Income Tax Benefit (Expense) Relating to Ordinary Activities	**1 152**	3 710	**1 656**	3 590

9. Income Tax Benefit (Expense) (continued)

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
Total Income Tax Benefit (Expense) comprises movements in:	**$'000**	$'000	**$'000**	$'000
Provision for deferred income tax	**(748)**	1 354	**(925)**	1 234
Future income tax benefit	**1 900**	2 356	**2 581**	2 356
	1 152	3 710	**1 656**	3 590

10. Reserves

Asset Revaluation Reserve	**383 770**	391 506	**383 770**	391 506
Movements during the year				
Asset Revaluation Reserve:				
Balance at 1 July	**391 506**	402 158	**391 506**	402 158
Revaluation increment (decrement) on non-current assets:				
Land & Buildings	**-**	(45)	**-**	(45)
Infrastructure	**-**	133	**-**	133
Rollingstock	**(7 383)**	-	**(7 383)**	-
Transferred to retained profits amounts realised on disposal of:				
Land and buildings	**(119)**	(5 523)	**(119)**	(5 523)
Infrastructure	**-**	(5 126)	**-**	(5 126)
Rollingstock	**(234)**	(91)	**(234)**	(91)
Balance at 30 June	**383 770**	391 506	**383 770**	391 506

Nature and Purpose of Reserves

Asset Revaluation

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets in accordance with AASB 1041.

Upon disposal of revalued assets, any related revaluation increment standing to the credit of the asset revaluation reserve is transferred to retained profits.

11. Retained Profits

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Balance at 1 July	**116 190**	114 136	**119 302**	116 821
Add: Current year profits	**(73)**	(8 333)	**(1 353)**	(7 906)
Dividends provided for or paid	**(4 592)**	(353)	**(4 592)**	(353)
Transfers from Reserves	**353**	10 740	**353**	10 740
Balance at 30 June	**111 878**	116 190	**113 710**	119 302

12. Receivables

Receivables	**3 113**	5 588	**2 860**	5 116
Less: Provision for doubtful debts	**182**	200	**129**	165
	2 931	5 388	**2 731**	4 951
Add: Prepayments	**81**	13	**144**	74
	3 012	5 401	**2 875**	5 025

13. Non-Current Assets

ROLLINGSTOCK:				
Railcars:				
At cost	**7 048**	6 820	**7 048**	6 820
Less: Accumulated depreciation	**1 807**	1 566	**1 807**	1 566
Railcars at Cost	**5 241**	5 254	**5 241**	5 254
At Director's valuation 30 June 2003(1)	**20 300**	-	**20 300**	-
At independent valuation 30 June 2001	**233 383**	236 400	**233 383**	236 400
Less: Accumulated depreciation	**90 922**	71 929	**90 922**	71 929
Railcars at Valuation	**162 761**	164 471	**162 761**	164 471
Leased Railcars:				
At cost	**505**	392	**505**	392
Less: Accumulated amortisation	**36**	16	**36**	16
Leased Railcars at Cost	**469**	376	**469**	376
At independent valuation 30 June 2001	**42 016**	59 532	**42 016**	59 532
Less: Accumulated amortisation	**15 085**	19 781	**15 085**	19 781
Leased Railcars at Valuation	**26 931**	39 751	**26 931**	39 751
Total Railcars	**195 402**	209 852	**195 402**	209 852

13. Non-Current Assets (continued)

	Economic Entity 2003 $'000	Economic Entity 2002 $'000	Parent Entity 2003 $'000	Parent Entity 2002 $'000
Tramcars:				
Spare Parts - At cost	**55**	55	**55**	55
Less: Accumulated depreciation	**18**	15	**18**	15
Spare Parts at Cost	**37**	40	**37**	40
At cost(2)	**5 009**	11	**5 009**	11
Less: Accumulated depreciation	**749**	-	**749**	-
Tramcars at Cost	**4 260**	11	**4 260**	11
At independent valuation 30 June 2001	**52 951**	57 960	**52 951**	57 960
Less: Accumulated depreciation	**51 968**	51 789	**51 968**	51 789
Tramcars at Valuation	**983**	6 171	**983**	6 171
Total Tramcars	**5 280**	6 222	**5 280**	6 222
TOTAL ROLLINGSTOCK	**200 682**	216 074	**200 682**	216 074
PROPERTY, PLANT AND EQUIPMENT:				
Land and Buildings:				
Freehold Land:				
At independent valuation 30 June 2001	**89 944**	90 048	**89 944**	90 048
Total Land	**89 944**	90 048	**89 944**	90 048
Buildings:				
At cost	**5 140**	4 153	**5 140**	4 153
Less: Accumulated depreciation	**450**	325	**450**	325
Buildings at Cost	**4 690**	3 828	**4 690**	3 828
At independent valuation 30 June 2001	**72 118**	71 534	**72 118**	71 534
At Directors valuation 30 June 2001	**94 214**	94 958	**94 214**	94 958
Less: Accumulated depreciation	**97 909**	95 261	**97 909**	95 261
Buildings at Valuation	**68 423**	71 231	**68 423**	71 231
Total Buildings	**73 113**	75 059	**73 113**	75 059
Total Land and Buildings	**163 057**	165 107	**163 057**	165 107
Permanent Way:				
At cost	**21 888**	17 659	**21 888**	17 659
Less: Accumulated depreciation	**636**	164	**636**	164
Permanent Way at Cost	**21 252**	17 495	**21 252**	17 495
At independent valuation 30 June 2001	**338 412**	339 713	**338 412**	339 713
Less: Accumulated depreciation	**130 398**	122 889	**130 398**	122 889
Permanent Way at Valuation	**208 014**	216 824	**208 014**	216 824
Total Permanent Way	**229 266**	234 319	**229 266**	234 319
Plant and Equipment:				
At cost	**18 470**	19 876	**18 261**	19 077
Less: Accumulated depreciation	**12 371**	12 427	**12 190**	12 283
Plant and Equipment at Cost	**6 099**	7 449	**6 071**	6 794
TOTAL PROPERTY, PLANT AND EQUIPMENT	**398 422**	406 875	**398 394**	406 220
TOTAL ROLLINGSTOCK, PROPERTY, PLANT AND EQUIPMENT	**599 104**	622 949	**599 076**	622 294
Work in Progress:				
Rollingstock:				
Railcars	**352**	416	**352**	416
Tramcars	**50**	52	**50**	52
Corridor infrastructure, machinery and plant	**3 784**	2 940	**3 784**	2 940
Buildings	**492**	566	**492**	566
Total Work in Progress	**4 678**	3 974	**4 678**	3 974
NET ASSETS	**603 782**	626 923	**603 754**	626 268

All non-current assets are required to be revalued every three years on an existing use fair value basis and are included in the financial statements at the revalued amounts.

(1) During the year a number of stored railcar assets were deemed to be held in excess of their fair value. A Director's valuation was conducted to reflect their fair value as at 30 June 2003. The resultant decrement of $7.383m was debited to the Asset Revaluation Reserve (refer Note 10).

(2) A portion of assets previously recognised as 'Tramcars at Independent Valuation' ($4.958m) have been reclassified as 'Tramcars at Cost'.

(a) Non-Current Assets

Reconciliation of Carrying Amounts

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Railcars:				
Carrying amount at beginning of year	**169 725**	175 214	**169 725**	175 214
Additions	**217**	451	**217**	451
Disposals	**(78)**	(111)	**(78)**	(111)
Transfers	**11 589**	-	**11 589**	-
Revaluation decrement	**(7 383)**	-	**(7 383)**	-
Depreciation	**(6 068)**	(5 829)	**(6 068)**	(5 829)
Carrying Amount at End of Year	**168 002**	169 725	**168 002**	169 725
Leased Railcars:				
Carrying amount at beginning of year	**40 127**	41 205	**40 127**	41 205
Additions	**125**	392	**125**	392
Disposals	**(77)**	(46)	**(77)**	(46)
Transfers	**(11 589)**	-	**(11 589)**	-
Amortisation	**(1 186)**	(1 424)	**(1 186)**	(1 424)
Carrying Amount at End of Year	**27 400**	40 127	**27 400**	40 127
Tramcars:				
Carrying amount at beginning of year	**6 222**	2 641	**6 222**	2 641
Additions	**52**	4 017	**52**	4 017
Disposals	**-**	(50)	**-**	(50)
Depreciation	**(994)**	(386)	**(994)**	(386)
Carrying Amount at End of Year	**5 280**	6 222	**5 280**	6 222
Freehold Land:				
Carrying amount at beginning of year	**90 048**	95 467	**90 048**	95 467
Additions	**-**	-	**-**	-
Disposals	**(104)**	(5 419)	**(104)**	(5 419)
Carrying Amount at End of Year	**89 944**	90 048	**89 944**	90 048
Buildings:				
Carrying amount at beginning of year	**75 059**	74 895	**75 059**	74 895
Additions	**1 011**	4 053	**1 011**	4 053
Disposals	**(56)**	(1 148)	**(56)**	(1 148)
Depreciation	**(2 901)**	(2 741)	**(2 901)**	(2 741)
Carrying Amount at End of Year	**73 113**	75 059	**73 113**	75 059
Permanent Way:				
Carrying amount at beginning of year	**234 319**	229 356	**234 319**	229 356
Additions	**4 066**	19 739	**4 066**	19 739
Disposals	**(741)**	(6 473)	**(741)**	(6 473)
Depreciation	**(8 378)**	(8 303)	**(8 378)**	(8 303)
Carrying Amount at End of Year	**229 266**	234 319	**229 266**	234 319
Plant and Equipment:				
Carrying amount at beginning of year	**7 449**	6 458	**6 794**	6 282
Additions	**931**	2 225	**753**	1 688
Disposals	**(941)**	(38)	**(177)**	(35)
Depreciation	**(1 340)**	(1 196)	**(1 299)**	(1 141)
Carrying Amount at End of Year	**6 099**	7 449	**6 071**	6 794
Capital Work in Progress:				
Carrying amount at beginning of year:	**3 974**	15 377	**3 974**	15 377
Additions	**6 927**	18 824	**6 927**	18 824
Transfers to Rollingstock, Property, Plant and Equipment	**(6 223)**	(30 227)	**(6 223)**	(30 227)
Carrying amount at end of year	**4 678**	3 974	**4 678**	3 974
Total Carrying Amounts	**603 782**	626 923	**603 754**	626 268

14. Reconciliation of Cash

Cash as at 30 June	**11 786**	15 794	**11 474**	15 248

(a) Reconciliation of Net Cash provided by Operating Activities to Net Profit (Loss) from Ordinary Activities After related Income Tax Expense

Net Profit (Loss)	**(73)**	(8 333)	**(1 353)**	(7 906)
Depreciation	**19 681**	18 455	**19 640**	18 400
Amortisation	**1 186**	1 424	**1 186**	1 424
Loss on sale of assets	**1 357**	12 095	**592**	12 092
Revaluation of subsidiary	**-**	-	**2 829**	-
Dividend receipts	**(839)**	(742)	**(843)**	(784)

	Economic Entity		Parent Entity	
(a) Reconciliation of Net Cash provided by Operating Activities to Net Profit (Loss) from Ordinary Activities After related Income Tax Expense (continued)	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Movements in:				
Lease Liability	**218**	-	**218**	-
Receivables	**2 242**	313	**2 096**	(114)
Interest liability	**(55)**	(50)	**(55)**	(50)
Payables	**(1 241)**	(1 391)	**(954)**	(1 961)
Provisions	**(159)**	896	**(136)**	788
Stores inventory	**245**	(686)	**245**	(686)
Work in progress	**(24)**	(11)	**(24)**	(11)
Future income tax benefit	**(1 900)**	(2 356)	**(2 581)**	(2 356)
Provision for deferred income tax	**748**	(1 354)	**925**	(1 234)
Net Cash provided by Operating Activities	**21 386**	18 260	**21 785**	17 602

15. Interest Bearing Liabilities

Current Liability:				
Borrowings	**5 381**	5 381	**5 381**	5 381
Lease liability	**1 882**	-	**1 882**	-
	7 263	5 381	**7 263**	5 381
Non-Current Liability:				
Borrowings	**86 752**	100 133	**86 752**	100 133
Lease liability	**-**	1 663	**-**	1 663
	86 752	101 796	**86 752**	101 796
Total Interest Bearing Liabilities	**94 015**	107 177	**94 015**	107 177

16. Finance Lease Commitments

The Economic Entity's finance lease commitments at 30 June are due as follows:

Not later than one year	**1 960**	-	**1 960**	-
Later than one year but not later than five years	**-**	1 960	**-**	1 960
Minimum lease payments	**1 960**	1 960	**1 960**	1 960
Less: Future financing charges	**78**	297	**78**	297
Lease Liability	**1 882**	1 663	**1 882**	1 663
Classified as:				
Current liability	**1 882**	-	**1 882**	-
Non-Current liability	**-**	1 663	**-**	1 663
	1 882	1 663	**1 882**	1 663

The Parent Entity leases railcars under two finance leases. Under the lease arrangements there is one final payment due in October 2003 at which time the railcar ownership transfers to the Parent Entity.

17. Operating Lease Commitments

The Economic Entity's operating lease commitments at 30 June are due as follows:

Not later than one year	**1 185**	1 511	**1 081**	1 409
Later than one year but not later than five years	**1 069**	2 226	**1 064**	2 156
Later than five years	**-**	125	**-**	125
Minimum Lease Payments	**2 254**	3 862	**2 145**	3 690
Operating lease expenses paid	**2 198**	2 284	**2 058**	2 155

The Economic Entity leases property under operating leases expiring from one to five years. The leases generally provide the Economic Entity with a right of renewal at which time all terms are negotiated. Contingent rental payments are based on either movements in the Consumer Price Index or operating criteria.

18. Provisions

	Economic Entity		Parent Entity	
Provisions at 30 June 2003 were:	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Long service leave	**9 629**	9 056	**9 482**	8 927
Annual leave	**4 604**	4 497	**4 533**	4 385
Workers compensation claims	**10 809**	9 846	**10 793**	9 818
Third party accident damage	**2 480**	3 467	**2 480**	3 467
Retiring and death gratuity	**167**	197	**167**	197
Site remediation	**83**	880	**83**	880
	27 772	27 943	**27 538**	27 674
Current Liability	**8 092**	9 553	**8 017**	9 435
Non-Current Liability	**19 680**	18 390	**19 521**	18 239
Total Liability	**27 772**	27 943	**27 538**	27 674

18. Provisions (continued)

	Economic Entity		Parent Entity	
	Estimated to fall due within 1 yr	Estimated to fall due after 1 yr	**Estimated to fall due within 1 yr**	Estimated to fall due after 1 yr
	$'000	$'000	**$'000**	$'000
Long service leave	**1 424**	8 205	**1 424**	8 058
Annual leave	**4 243**	361	**4 172**	361
Workers compensation claims	**1 474**	9 335	**1 470**	9 323
Third party accident damage	**837**	1 643	**837**	1 643
Retiring and death gratuity	**31**	136	**31**	136
Site remediation	**83**	-	**83**	-
	8 092	19 680	**8 017**	19 521

19. Stores Inventories

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Stores inventories	**3 170**	3 385	**3 170**	3 385
Less: Provision for obsolescence	**270**	239	**270**	239
Net Stores Inventories	**2 900**	3 146	**2 900**	3 146

20. Capital Commitments

Aggregate capital expenditure commitments contracted for:				
Not later than one year	**2 893**	380	**2 893**	380
Later than one year but not later than two years	**3 269**	-	**3 269**	-
	6 162	380	**6 162**	380
Net capital expenditure incurred	**6 927**	18 849	**6 927**	18 849

21. Remuneration of Employees

The number of employees whose remuneration falls within the following remuneration bands were:	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	Number of Employees	Number of Employees	**Number of Employees**	Number of Employees
$100 000 - $109 999	**-**	1	**-**	1
$110 000 - $119 999	**1**	3	**-**	2
$120 000 - $129 999	**3**	2	**3**	2
$130 000 - $139 999	**1**	1	**1**	-
$140 000 - $149 999	**1**	1	**1**	1
$190 000 - $199 999[(1)]	**1**	-	**-**	-
$220 000 - $229 999	**1**	-	**1**	-
	8	8	**6**	6

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Employee remuneration	**1 174**	984	**861**	730

(1) Includes termination payments.

22. Remuneration of Auditors

Amounts due and receivable by the Auditors for auditing the accounts of the Economic Entity for the year were $141 000 ($130 000) GST exclusive. The Auditors received no other benefits.

23. Separation Packages

Separation payments totalling $0.301 million ($1.132 million) related to the redeployment of four (26) employees during 2002-03. These payments were met by the Parent Entity and will be recovered from the Department of the Premier and Cabinet. Leave entitlements totalling $0.109 million ($0.418 million) were paid to those employees who received a separation payment.

24. Consultants

During the financial year, the Economic Entity engaged consultants for a total cost of $82 000 ($207 000) GST exclusive.

25. Directors' Remuneration

Income paid or payable to all directors of each entity in the Economic Entity by the entities of which they are directors and any related parties.

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Income paid or payable to all directors of each entity in the Economic Entity by the entities of which they are directors and any related parties	90	99	-	-
Income paid or payable to all directors of the Parent Entity by the Parent Entity and any related parties	-	-	70	73

25. Directors' Remuneration

Number of all directors whose income from the Economic Entity was within the following bands:	Economic Entity **2003** **Number of Directors**	2002 Number of Directors
$0 - $9 999	**-**	-
$10 000 - $19 999	**1**	1
$20 000 - $29 999	**3**	1
$30 000 - $39 999	**-**	2
	4	4

The names of all directors within the Economic Entity who have held office during the financial year are:

Kevin Benger	Susan Law
Elizabeth Kosmala	Rex Phillips

26. Related Party Disclosures

(a) Director Transactions

Details of Directors' remuneration payments are set out in Note 25. The Economic Entity carried out transactions with Directors during the year within a normal customer relationship on terms and conditions no more favourable than those available on similar transactions to members of the public.

One Director is employed by Transport SA and forms part of that Agency's Raid Unit. He is supplied with a travel pass to assist him to carry out his duties.

(b) Transactions with Related Parties in the Economic Entity

The Parent Entity entered into the following transactions during the year with related parties in the Economic Entity:	**2003** **$'000**	2002 $'000
Receivable from Related Entities:		
AUSTRICS	**78**	2
Total Receivable	**78**	2
Sales of Goods and Services:		
AUSTRICS	**60**	47
Total Sales of Goods and Services	**60**	47
Purchases of Goods and Services:		
AUSTRICS	**21**	177
Total Purchases of Goods and Services	**21**	177
Loans to Related Entities:		
AUSTRICS	**840**	500
Loans to Related Entities	**840**	500

27. Financial Instruments

Interest Rate Risk Exposure

The Economic Entity is exposed to interest rate risk through primary financial assets and liabilities. The following table summarises interest rate risk for the Economic Entity, together with effective interest rate as at balance date.

	Cash		Receivables		Payables		Borrowings		Lease Liability(2)	
	2003 **$'000**	2002 $'000	**2003** **$'000**	2002 $'000	**2003** **$'000**	2002 $'000	**2003** **$'000**	2002 $'000	**2003** **$'000**	2002 $'000
Floating interest rate(1)	**11 786**	15 794	**-**	-	**-**	-	**92 133**	105 514	**-**	-
One year or less	**-**	-	**-**	-	**-**	-	**-**	-	**1 882**	-
One to five years	**-**	-	**-**	-	**-**	-	**-**	-	**-**	1 663
Over five years	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Non-interest bearing	**-**	-	**3 012**	5 401	**14 249**	17 427	**-**	-	**-**	-
Total	**11 786**	15 794	**3 012**	5 401	**14 249**	17 427	**92 133**	105 514	**1 882**	1 663
Weighted average interest rate (percent)	**6.02**	5.95	**-**	-	**-**	-	**7.00**	6.75	**13.36**	13.39

(1) Floating interest rates represent the most recently determined rate applicable to the instrument at balance date.
(2) The fixed rate on the lease liability represents the rate implicit in the lease agreements.

Credit Risk Exposure

Credit exposure represents the extent of credit related losses the Economic Entity may be subject to in respect of amounts to be received from financial assets. The total credit risk on financial assets is the carrying amounts net of any provision for doubtful debts.

The Economic Entity, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect any counterparties to fail to meet their obligation.

In addition, the Economic Entity does not have a significant exposure to any individual counterparty.

Receivables due from major counterparties are not normally secured by collateral, however the credit worthiness of counterparties is monitored. Therefore based on the above, no losses are expected.

Credit Risk Exposure (continued)

The concentration of credit risk on financial assets is indicated in the following table by percentage of the total balance receivable from customers in the specified categories:

Customer/Industry Classification	**2003**	2002
	Percent	Percent
Transport Industry	**9**	3
Federal, State Government and Councils	**85**	96
Private Businesses and Individuals	**6**	1

Net Fair Value of Financial Assets and Liabilities

The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged or a liability settled in a current transaction between willing parties after allowing for transaction costs.

The carrying amounts and estimated net fair values of financial assets and financial liabilities held at balance date are as per the previous table.

The following methods and assumptions were used to estimate the net fair value of each class of financial instrument.

The non-current borrowings are a static amount that changes by the occurrence of specific events, for example, increased borrowings, repayment of borrowings and debt reduction through the transfer of assets to other Government Departments. As such events are not determinable, the carrying amount and the net fair value have been reported as the same.

In relation to the non-current lease liability, the net fair value is estimated by discounting the future cash flow to its present value, based on the interest rate applicable to the lease, and is equivalent to the amount as reported in the table.

28. Contingent Liabilities

TransAdelaide has entered into a financial arrangement in respect of railcar assets with unrelated overseas based investors for which it received a facilitation fee. As part of these arrangements, certain indemnities and undertakings have been agreed to by TransAdelaide with third parties. The risk of these indemnities or undertakings being invoked is considered remote and relates to amounts that might become payable by TransAdelaide to third parties in the event of early termination to the arrangement. No amount has been recognised because it is considered unlikely that any liability will arise.

AUSTRICS has a contingent liability in relation to the warranty of products and the provision of annual support. As at balance date this could not be reliably measured.

AUSTRICS currently has a legal claim against it by AMT Genoa for breach of contract which is covered by a current insurance policy with SAICORP. The excess payable on this policy is $25 000.

29. Events Subsequent to Balance Date

There have been no events subsequent to balance date.

DEPARTMENT OF TRANSPORT AND URBAN PLANNING

FUNCTIONAL RESPONSIBILITY

The Department is an administrative unit established pursuant to the *Public Sector Management Act 1995*. It has a broad ranging role which seeks to integrate urban and regional development, local government initiatives and transport infrastructure for South Australia.

The Department's objectives are to:

- develop and provide policy advice and strategic transport plans including road safety, infrastructure and industry development plans;
- provide improved passenger transport to meet the social inclusion, environmental, efficiency and safety objectives of the Government by improving mobility and accessibility for all to enhance the quality of life of South Australians;
- achieve a transport system that supports State development and leads to an improved quality of life for all South Australians, by implementing government priorities and in collaboration with other tiers of government, industry groups and the community;
- develop and manage contracted passenger train and tram services within the metropolitan area;
- efficiently and effectively maintain and operate rail infrastructure, facilities and equipment within the metropolitan area;
- guide and administer the South Australian planning and development system that includes land use planning, building, urban design and development proposals;
- facilitate a whole-of-government approach to improve economic development, social and environmental outcomes in the following regions identified as being of high need:
  - the Metropolitan North
  - the Southern Suburbs
  - the Upper Spencer Gulf, Flinders Ranges and Outback
  - the River Murray communities
- strengthen South Australian communities through close cooperation between the State Government and Local Government.

STATUS OF FINANCIAL STATEMENTS

The Department of Transport and Urban Planning was unable to finalise its financial statements for the year ended 30 June 2003 in sufficient time to enable the audit to be completed at the date of finalisation of this Report.

The audited financial statements of the Department of Transport and Urban Planning for the year ended 30 June 2003 will be included in a Supplementary Audit Report to Parliament.

MINISTER FOR TOURISM

PORTFOLIO – TOURISM

INTRODUCTION

This 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 Minister, namely:

- Minister for Tourism

The agencies included herein relating to the portfolio of Tourism are:

- Adelaide Convention Centre Corporation
- Adelaide Entertainments Corporation
- South Australian Tourism Commission

ADELAIDE CONVENTION CENTRE CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Adelaide Convention Centre Corporation, a subsidiary to the Minister for Tourism, was established on 10 August 2000 pursuant to regulations under the *Public Corporations Act 1993*.

Functions

The functions of the Adelaide Convention Centre Corporation are as follows:

- Manage and operate the Adelaide Convention Centre site, and to hold and manage assets associated with the Adelaide Convention Centre.

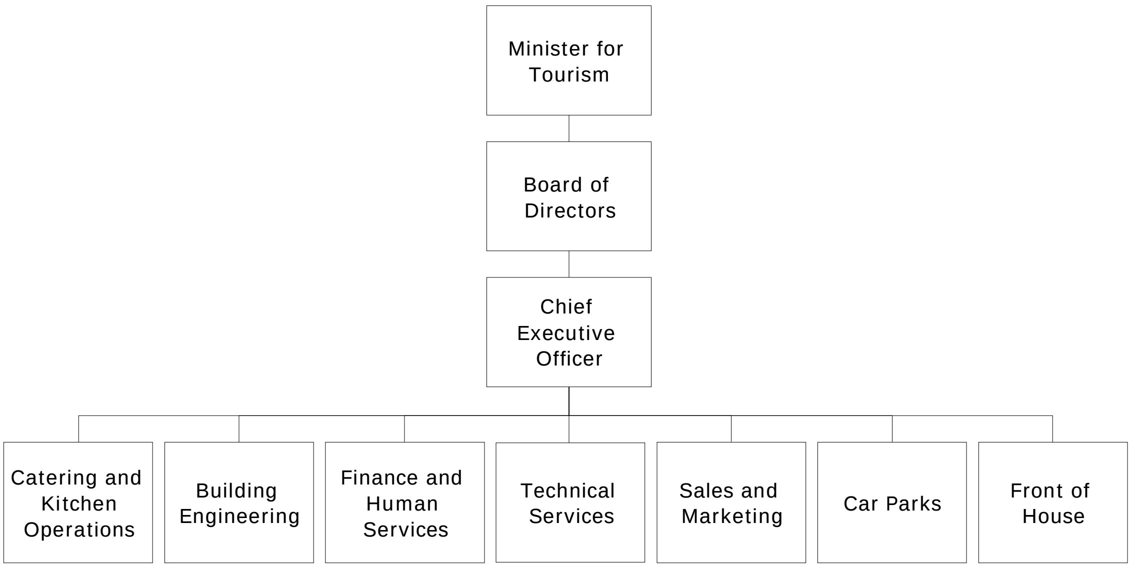
- Manage, promote and sponsor events at the Adelaide Convention Centre site or elsewhere.

- Foster and assist the commercial development of the Adelaide Convention Centre site in order to complement and enhance the commercial potential of the Adelaide Convention Centre.

- Carry out other functions conferred on the subsidiary by the Minister.

Structure

The structure of the Corporation at 30 June 2003 is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

The Schedule to the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts of the 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 Adelaide Convention Centre 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 2002-03, specific areas of audit attention included:

- review of financial accounting and related processes covering:
  - revenue
  - accounts payable
  - payroll
  - inventory
  - property, plant and equipment.
- review of the following Information Technology activities:
  - information resource strategy and planning
  - relationship with outsourced vendors
  - information security
  - business continuity planning.

Audit Communications to Management

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

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 Adelaide Convention Centre Corporation as at 30 June 2003, 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 Adelaide Convention Centre Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Adelaide Convention Centre Corporation have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Procurement Activities

Audit review of the Corporation's procurement activities revealed areas in which the Corporation's procurement practices did not comply with State Supply Board policies and procedures, as required under the *State Supply Act 1985*, and the procurement reform framework approved by the South Australian Government in December 1997.

Audit understand the Corporation was concerned with the relevance and applicability of the State Supply Board policies and procedures and the procurement reform framework to the Corporation. Accordingly Audit recommended that the Corporation seek clarification from the State Supply Board regarding the application of State Supply Board policies and procedures and the procurement reform framework to the Corporation.

Adelaide Convention Centre Corporation Response

The Corporation advised that it had related with the Secretariat of the State Supply Board and was advised:

- the State Supply Board would be reviewing the Corporation's status as part of their on-going development of the *State Supply Act 1985*; and
- in the interim, the State Supply Board in principle had no objection to the Corporation continuing with their current procurement arrangements.

Internal Audit Activity

A review of the Adelaide Convention Centre Corporation's Audit Committee minutes and related agenda papers during the interim audit indicated that consideration had not yet been given to the formulation of strategic/annual audit plans.

Notwithstanding, it was noted that the following individual audit assignments were requested by the Audit Committee and performed during 2002-03:

- Outsourced Internal Audits
  - Energy audit - Hydraulic Services
  - Energy audit - Mechanical and Electrical Services.
- In-house performed Internal Audits
  - review of salaries and wages processing
  - review of cash collection procedures.

Audit recommended that following a risk assessment, an internal audit plan be developed, documented and approved by the Audit Committee that would see certain identified risks subject to internal audit review.

At its July 2003 meeting the Audit Committee considered and adopted an audit plan for the 2003-04 financial year.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
REVENUE			
Revenue from operating activities	**28.0**	23.4	19.7
Revenue from non-operating activities	**0.1**	9.2	(98.9)
Total Revenue	**28.1**	32.6	(13.8)
EXPENDITURE			
Salaries, wages and related payments	**11.7**	10.9	7.3
Operational overheads	**6.6**	9.9	(33.3)
Raw materials and consumables	**2.7**	2.4	12.5
Depreciation and amortisation	**4.4**	4.6	(4.3)
Total Expenses	**25.4**	27.8	(8.6)
Operating Profit	**2.7**	4.8	(43.8)

	2003 $'million	2002 $'million	Percentage Change
ASSETS			
Current assets	**9.4**	7.3	28.8
Non-current assets	**154.1**	152.9	0.8
Total Assets	**163.5**	160.2	2.1
LIABILITIES			
Current liabilities	**3.1**	2.5	24
Non-current liabilities	**0.6**	0.6	-
Total Liabilities	**3.7**	3.1	19.4
EQUITY	**159.8**	157.1	1.7

Statement of Financial Performance

Revenue

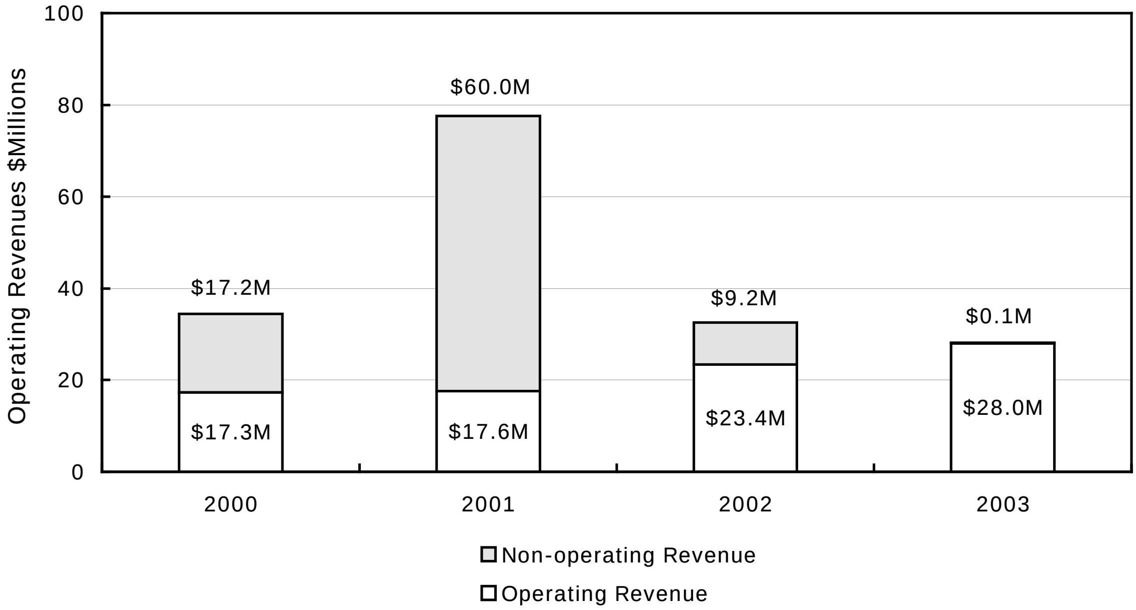
The Corporation's operating revenue has increased from $17.3 million in 2000 to $28 million in 2003. The increase of $10.7 million (61.8 percent) is due mainly to:

- an increase in revenue from trading operations as a result of the extension of the Adelaide Convention Centre to provide an additional 7000 square metres of exhibition space (creating a total exhibition area of more than 10 000 square metres) together with banquet facilities for up to 4800 people; and

- an increase in Contributions from the South Australian Government from $3.6 million in 2000 to $7.3 million in 2003.

The Corporation has received $86.5 million in non-operating revenue in the last four years. Of this amount $84.9 relates to Contributions from the South Australian Government towards the upgrade of the Adelaide Convention Centre.

For the fours years to 2003 a structural analysis of main revenue items for the Corporation is presented in the following chart.

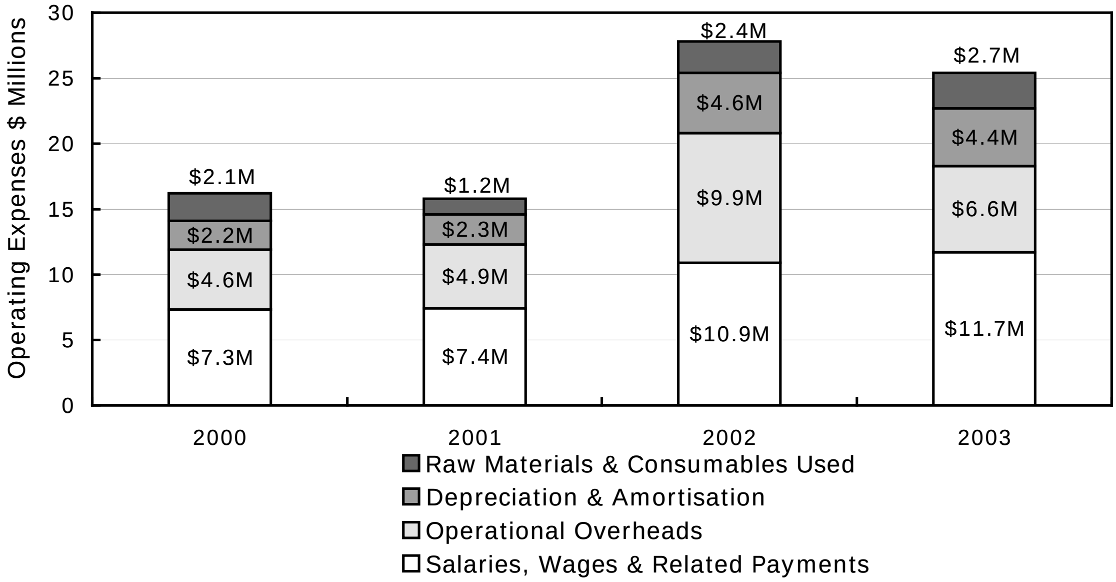


Expenses

The Corporation's expenses from ordinary activities have increased from $16.2 million in 2000 to $25.4 million in 2003. The increase of $9.2 million is due mainly to:

- an increase in trading operation expenditure associated with the extension of the Adelaide Convention Centre; and
- an increase in depreciation expense associated with the recognition of the extension of the Adelaide Convention Centre as a non-current asset.

For the four years to 2003 a structural analysis of main expense items for the Corporation is presented in the following chart.

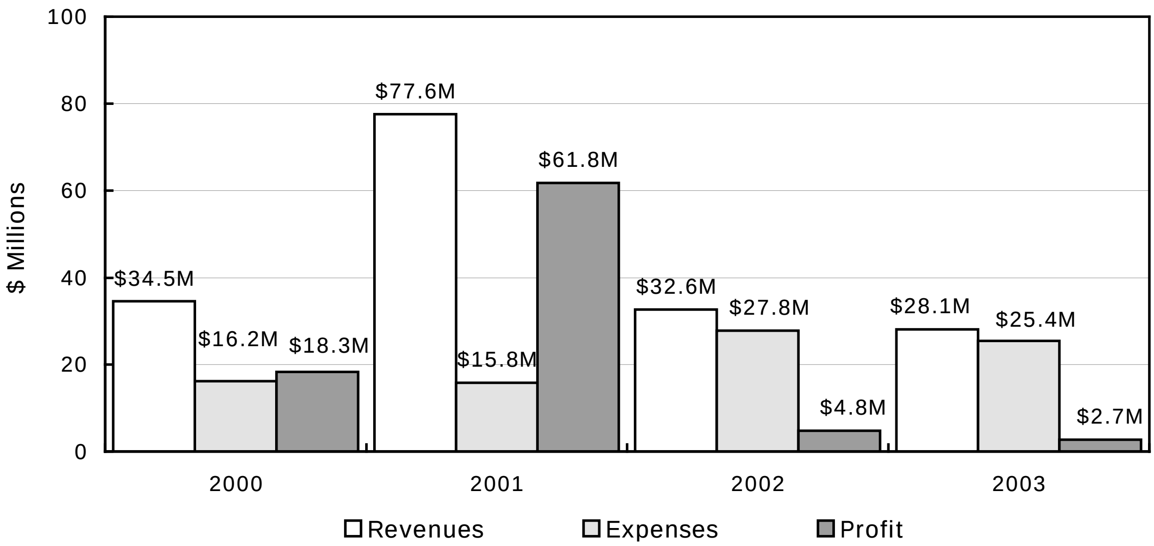


Operating Result

The reporting surplus in each year from 2000 to 2002 reflected the receipt by the Corporation of contributions from the South Australian Government towards the cost of upgrading and expanding the Centre. These costs were capitalised. The 2003 year is the first full year of operations for the upgraded Centre which has resulted in the reporting of a $2.7 million operating profit (before income tax equivalents expense).

The operating profit for 2003 includes recognition of revenue from the SA Government of $7.3 million.

The following chart presents the revenues, expenses and profit for the four years to 2003.



Statement of Financial Position

The Corporation's net assets have increased from $89 million in 2002 to $160 million in 2003 reflect the significant expansion of the Centre over that period. As is reflected in the commentary regarding the Operating Result, the expansion of the Centre was funded with Grants from the South Australian Government and the Corporation has no debt funding.

Both the balance as at 30 June 2003 of total liabilities of $3.7 million and assets other than Buildings, plant and equipment of $17.8 million are insignificant when compared to the balance of Buildings, plant and equipment of $145 million.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003	2002	2001	2000
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**7.2**	3.5	4.8	2.2
Investing	**(4.3)**	(13.8)	0.5	2.8
Change in Cash	**2.9**	(10.3)	5.3	5.0
Cash at 30 June	**16.2**	13.3	23.6	18.3

The analysis of cash flows shows that the Corporation's cash holdings continue to remain relatively high reporting $16.2 million in 2003. This amount is represented by $7.8 million in cash on hand, on deposit and at bank and $8.4 million in specific purpose deposits. Refer Note 24(a).

Statement of Financial Performance
for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
REVENUES FROM ORDINARY ACTIVITIES:			
Revenues from operating activities	4	**28 049**	23 381
Revenues from non-operating activities	5	**88**	9 216
Total Revenues		**28 137**	32 597
EXPENSES FROM ORDINARY ACTIVITIES:			
Salaries, wages and related expenses	14(a)	**11 695**	10 942
Operational overheads	6	**6 597**	9 902
Raw materials and consumables used		**2 748**	2 391
Depreciation and amortisation	7	**4 360**	4 552
Total Expenses		**25 400**	27 787
OPERATING PROFIT BEFORE INCOME TAX EQUIVALENT		**2 737**	4 810
Income tax equivalent expense	8	**-**	-
OPERATING PROFIT AFTER INCOME TAX EQUIVALENT	16	**2 737**	4 810
Net increase in asset revaluation reserve arising from revaluation of non-current assets	17	**-**	2 097
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE SOUTH AUSTRALIAN GOVERNMENT AS OWNER		**2 737**	6 907

Statement of Financial Position
as at 30 June 2003

	Note	2003 $'000	2002 $'000
CURRENT ASSETS:			
Cash on deposit, at bank and on hand	24(a)	**7 843**	6 221
Receivables	9	**786**	394
Inventories		**217**	209
Other current assets	10	**534**	471
		9 380	7 295
NON-CURRENT ASSETS:			
Specific purpose deposits	11, 24(a)	**8 364**	7 101
Buildings, plant and equipment	12	**145 749**	145 841
		154 113	152 942
Total Assets		**163 493**	160 237
CURRENT LIABILITIES:			
Payables	13	**494**	376
Employee benefits and related costs	14(b)	**690**	554
Provision for dividend	15(b)	**355**	273
Taxation liabilities		**36**	59
Security deposits held		**1 565**	1 244
		3 140	2 506
NON-CURRENT LIABILITIES:			
Employee benefits and related costs	14(b)	**569**	602
		569	602
Total Liabilities		**3 709**	3 108
NET ASSETS		**159 784**	157 129
EQUITY:			
South Australian Government equity		**77 804**	77 804
Retained profits	16	**79 434**	76 779
Asset revaluation reserve	17	**2 546**	2 546
TOTAL EQUITY		**159 784**	157 129
Commitments and Contingent Liabilities	18		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Facility charges		**19 794**	16 362
GST on facility charges		**2 069**	1 618
GST receipts from Taxation Authority		**-**	1 366
Interest income		**751**	805
Other revenue		**20**	36
Operating contribution from SA Government		**7 316**	6 619
		29 950	26 806
Payments to suppliers and employees		**(20 691)**	(20 423)
Payment of GST on purchases		**(1 069)**	(2 918)
GST payments to Taxation Authority		**(1 023)**	-
		(22 783)	(23 341)
Net Cash provided by Operating Activities	24(b)	**7 167**	3 465
CASH FLOWS FROM INVESTING ACTIVITIES:			
Funding received for building extension		**-**	8 973
Proceeds from sale of assets		**88**	209
Payment for assets		**(4 370)**	(22 937)
Net Cash used in Investing Activities		**(4 282)**	(13 755)
NET INCREASE (DECREASE) IN CASH HELD		**2 885**	(10 290)
CASH AT 1 JULY		**13 322**	23 612
CASH AT 30 JUNE	24(a)	**16 207**	13 322

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Establishment and Functions

(a) Establishment

On 10 August 2000, the Adelaide Convention Centre Corporation was established as a subsidiary to the Minister for Tourism by Regulations issued under the *Public Corporations Act 1993*.

(b) Functions

The functions of the Corporation are to:

- manage and operate the Adelaide Convention Centre site, and to hold and manage assets associated with the Adelaide Convention Centre;
- manage, promote and sponsor events at the Adelaide Convention Centre site or elsewhere;
- attract economic benefits to the State of South Australia; and
- foster and assist the commercial development of the Adelaide Convention Centre site in order to complement and enhance the commercial potential of the Adelaide Convention Centre.

2. Funding

(a) Contributions from SA Government

The South Australian Government (through the Minister for Tourism) provides funding to the Corporation for expenses relating to the maintenance of the common areas, and the Riverbank Precinct Exhibition Hall land, administration office rent and the depreciation of buildings. The funding for the depreciation of buildings is transferred by the Department of Treasury and Finance into an interest bearing Special Deposit Account titled 'Adelaide Convention Centre Future Asset Replacement Account'. With the approval of the Treasurer, these funds are available for the replacement and upgrade of assets and minor works. As of 1 July 2003, the annual funding for the depreciation of buildings has been reduced by $1.5 million for future financial years.

In addition, the South Australian Government provided funding of $2 million to subsidise a shortfall in revenue this financial year as a result of a downturn in the convention industry market due to world events.

3. Significant Accounting Policies

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

(a) Basis of Accounting

The general purpose financial statements have been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987* and Urgent Issues Group Consensus Views.

The going concern and the accrual accounting basis have been used for the preparation of the financial statements. With accrual accounting, items are brought to account as they are earned or incurred and included in the statements for the accounting periods to which they relate.

The financial statements have also been prepared in accordance with the historical cost convention and do not take account of changes in either the general purchasing power of the dollar or current valuations with the exception of the revaluation of non-current assets.

(b) Tax Equivalent Regime

The Corporation is required to pay income tax equivalents using the Accounting Profits Model and other tax equivalents to the State Government in accordance with Treasurer's Instruction 22 'Tax and Tax Equivalents Applicable to Government Businesses'.

(c) Dividend Policy

The Department of Treasury and Finance have determined a distribution policy, which will apply to the Corporation as being 75 percent of the assessable operating profit before income tax equivalents. This distribution is reduced by the income tax equivalent expense plus the other Tax Equivalent Regime expenditure resulting in a dividend which is paid to the Department of Treasury and Finance. The deduction of income tax equivalent and other tax equivalent regime expenditure from the gross 75 percent distribution ensures consistency with Competitive Neutrality and Department of Treasury and Finance policies concerning budget neutrality.

(d) Revenue Recognition

Revenue from Operating Activities is recorded in the Statement of Financial Performance at the time it is earned or at the time control passes to the Corporation. This is generally at the conclusion of an event or after a service has been provided. Interest revenues are recognised as they accrue.

(e) Provision for Doubtful Debts

The Corporation's Board of Directors has deemed that the provision for doubtful debts should be calculated at 0.25 percent of turnover. Any trade debtors that are considered doubtful as at 30 June 2003 are added to this figure.

(f) ***Depreciation and Amortisation of Non-Current Assets***

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

	Useful Life Years
Motor vehicles	5
Plant and equipment	3-20
Furniture, fixtures and fittings	3-10
Crockery, cutlery and glassware	3-10
Buildings	50

Leasehold improvements are amortised over the period of the lease.

Minor items with an individual value of less than $1 000 and useful life deemed to be less than three years have been expensed in the year of acquisition.

Change in Accounting Estimate

As a result of an independent review of the buildings' useful life, it has been determined that the buildings' useful life should be increased from 40 years to 50 years. This change in useful life was adopted from 1 July 2002, with the written down value of the buildings at that time being depreciated over the now adjusted remaining 49 years of the buildings' useful life. The financial effect of this change in the buildings' useful life has been a reduction in building depreciation of $695 000. This change was made to better align the consumption of benefits derived from this class of assets with its expected useful life.

(g) ***Valuation of Non-Current Assets***

All classes of non-current assets with the exception of motor vehicles were revalued as at 28 February 2002 by Edward Rushton (Australia) Pty Ltd with the fair value methodology being adopted as the valuation basis.

Notwithstanding the above, all non-current assets are reviewed annually to determine whether their carrying amounts require any write downs to recoverable amounts.

(h) ***Work in Progress***

The Corporation capitalises costs associated with projects to work in progress. On completion of a project the capitalised costs are cleared to the relevant non-current asset account. The balance of work in progress reflects costs for projects which are at various stages of completion at balance date.

(i) ***Inventories***

Inventories are carried at cost as they are expected to be consumed in the holding of functions that will have a net realisable value that exceeds cost. Cost is assigned on a current cost basis.

(j) ***Leases***

The Corporation has no finance leases.

The Corporation has entered into non-cancellable operating leases for the land on which the buildings are situated and for office accommodation. The leases are reviewed each year for adjustments in the Consumer Price Index. Operating lease payments are expensed over the accounting periods covered by the lease term (refer Note 18).

(k) ***Employee Benefits***

Employee Numbers

The Corporation had 264 (264) full time equivalent employees as at 30 June 2003, of which 112 (106) were permanent and 152 (158) were casual. The number of casual employees actually working is dependent on the level of activity in the Centre. The Corporation has a casual labour base workforce of 379 employees.

Workers Compensation

The Corporation is deemed to be an exempt employer by virtue of the *Workers Rehabilitation and Compensation Act 1986*, and as such is registered with the WorkCover Corporation as an exempt employer. Being an exempt employer, the Corporation's liability is limited to medical, income and other day to day type expenses associated with the claim. The Corporation is not liable for any lump sum, redemption or permanent disability type payments as these are funded through a central government fund.

Employer Superannuation

The Corporation made contributions of $928 000 ($776 000) in respect of its employees for the financial year to several superannuation schemes operated by the South Australian Government.

Accrued Salaries and Wages

Liability for salaries and wages is measured as the portion of unpaid service as at 30 June 2002 at current pay rates.

Annual Leave

A liability has been recognised for the unused component of annual leave as at 30 June 2003. The liability is calculated at nominal amounts based on the 2003-04 pay rates as it is expected to be paid over the next twelve months of the 2003-04 financial year. On-costs (payroll tax and superannuation) have been included in the liability and calculated in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No liability has been recognised for sick leave as sick leave, when taken, is considered to be taken from the current year's accrual.

Long Service Leave
A liability for long service leave is recognised and is measured as the current value of entitlements in respect of employees with seven or more years service. This base provides a reasonable approximate of the present value of the estimated future cash outflows to be made for these entitlements. On-costs have been included in the liability and calculated in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'. The superannuation on-cost has been calculated on that component of long service leave that is expected to be taken as leave (55 percent of the liability at June 2003). This calculation is based upon an average percentage supplied by the Department of Treasury and Finance for long service leave that will be taken as a lump sum (45 percent). A weighted average superannuation contribution rate covering employees of various schemes of 10 percent was used as advised by the Department of Treasury and Finance.

The current component of long service leave reflects the amount taken during the current financial year and based on estimates of long service leave due to be taken during the 12 months ending 30 June 2004.

Change in Accounting Estimate
The Corporation, after reviewing its history of employee retention and the taking of long service leave, has revised its recognition criteria for long service leave liability from five to seven years of service. The financial effect of this change has resulted in a reduction in the long service leave expense for the financial year of $127 000.

(l) Security Deposits Held
The Corporation holds all security deposits received from clients/hirers and does not treat these monies as consideration until such time as the deposits are applied towards payment at the conclusion of the event/hiring period or are forfeited and applied towards a cancellation fee. Security deposits for car park cards are returned to the client when the card is returned.

(m) Financial Instruments
The Corporation's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised as at 30 June 2003, are as follows:

Financial Assets
Cash on deposit and at bank comprises deposits at call with the Westpac Banking Corporation and Bank SA and are recorded at cost. Interest revenues are recognised as they accrue. For the deposit with the Westpac Banking Corporation, the interest rate ranged from 4.59 percent to 4.60 percent. For the account with Bank SA, the interest rate was nil.

Specific Purpose Deposits comprise the Future Asset Replacement Deposit Account with the Department of Treasury and Finance and the Adelaide Railway Station Area Service Facilities maintenance monies at the South Australian Government Financing Authority (SAFA). Both deposits are recorded at cost and interest revenues are recognised as they accrue. The interest rate on the Deposit Account with the Department of Treasury and Finance ranged from 4.59 percent to 4.60 percent and the interest rate on the monies at SAFA ranged from 4.78 percent to 4.95 percent.

Total Receivables (Note 9) are reported at amounts due less the provision for doubtful debts.

Financial Liabilities
Trade creditors (Note 13) are recognised for goods and services that have been supplied but have not been paid for and are normally settled within 30 days or in accordance with the terms of credit offered by the trade creditor.

Security deposits held are recorded at cost.

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

(n) Comparative Figures
Where appropriate, comparative figures have been reported where additional note disclosures have been shown in the current financial year.

4. Revenues from Operating Activities

	2003	2002
	$'000	$'000
Catering	**10 399**	7 991
Room hire	**2 640**	2 068
Technical services	**3 299**	2 575
Car parking	**3 605**	3 458
Contribution from SA Government[(a)]	**7 316**	6 521
Interest received or earned	**770**	732
Sundry income	**20**	36
Total Revenue from Operating Activities	**28 049**	23 381

(a) Contributions received for the 2002-03 financial year as part of the annual funding (refer to Note 2(a) for further details) includes the revenue shortfall subsidy of $2 million ($1.5 million).

5. Revenues from Non-Operating Activities

Contributions to the Adelaide Convention Centre upgrade[(a)]	**-**	8 973
Gross proceeds from the sale of non-current assets	**88**	209
Gain on revaluation of non-current assets[(b)]	**-**	34
Total Revenue from Non-Operating Activities	**88**	9 216

(a) Contributions received from the South Australian Government towards the upgrade of the Centre
(b) Revaluation increment for buildings reverses a previous revaluation decrement recognised as an expense.

6. Operational Overheads

	2003 $'000	2002 $'000
Maintenance	**724**	622
Marketing and promotions	**739**	1 228
Building service costs	**2 667**	2 554
Administration expenses and sundries	**2 365**	2 296
Loss on revaluation of non-current assets[a]	**-**	2 783
Carrying amount of non-current assets disposed [b]	**102**	419
Total Operational Overheads	**6 597**	9 902

(a) Revaluation decrement for plant and equipment, furniture, fixtures and fittings and crockery, cutlery and glassware less the previous revaluation increment recognised in the asset revaluation reserve.

(b) Net loss on disposal of non-current assets is $14 000 ($210 000).

7. Depreciation and Amortisation

	2003 $'000	2002 $'000
Depreciation expense for the reporting period was charged in respect of:		
Buildings[a]	**2 879**	3 015
Plant, equipment, furniture, fixtures, motor vehicles, crockery, cutlery and glassware	**1 451**	1 508
	4 330	4 523
Amortisation expense for the reporting period was charged in respect of:		
Leasehold improvements	**30**	29
Total Depreciation and Amortisation	**4 360**	4 552

(a) For details on the change in the buildings' useful life, refer to Note 3(f).

8. Income Tax Equivalent Expense

As per Note 3(b) the Corporation is required to pay income tax equivalents using the Accounting Profits Model.

	2003 $'000	2002 $'000
Operating profit before income tax equivalent expense	**2 737**	4 810
Less: Exempt income[a]	**2 000**	10 473
Assessable operating profit (loss) before income tax equivalent expense	**737**	(5 663)
Less: Carried forward assessable losses[b]	**737**	-
Income tax equivalent expense	**-**	-
Assessable Loss after Income Tax Equivalent Expense	**-**	(5 663)

(a) The Treasurer has exempted the Contributions received for the upgrade of the Centre plus the revenue shortfall subsidy from the tax equivalent regime.

(b) Carried forward losses consist of $708 000 from 2000-01 and $29 000 from 2001-02 leaving a balance of $5 634 000 to be offset in future periods.

9. Receivables

	2003 $'000	2002 $'000
Trade receivables	**925**	434
Less: Provision for doubtful debts	**139**	40
Total Receivables	**786**	394

10. Other Current Assets

	2003 $'000	2002 $'000
Prepayments	**420**	355
Accrued income	**114**	116
Total Other Current Assets	**534**	471

11. Specific Purpose Deposits

	2003 $'000	2002 $'000
Future Asset Replacement Deposit Account	**6 883**	5 690
Adelaide Railway Station Area Services Facilities maintenance investment in SAFA	**1 481**	1 411
Total Specific Purpose Deposits	**8 364**	7 101

12. Buildings, Plant and Equipment

Buildings

	2003 $'000	2002 $'000
Gross carrying amount:		
Opening balance	**141 460**	56 392
Additions	**2 051**	1 228
Transfers from work in progress	**151**	86 420
Accumulated depreciation written back on revaluation	**-**	(5 159)
Revaluation increment	**-**	2 579
Closing Balance	**143 662**	141 460
Accumulated depreciation:		
Opening balance	**(2 076)**	(4 220)
Depreciation expense	**(2 879)**	(3 015)
Accumulated depreciation written back on revaluation	**-**	5 159
Closing Balance	**(4 955)**	(2 076)
Net Carrying Amount	**138 707**	139 384

12. Buildings, Plant and Equipment (continued)

	2003 $'000	2002 $'000
Leasehold Improvements		
Gross carrying amount:		
Opening balance	**295**	294
Additions	**2**	1
Closing Balance	**297**	295
Accumulated amortisation:		
Opening balance	**(41)**	(12)
Amortisation expense	**(30)**	(29)
Closing Balance	**(71)**	(41)
Net Carrying Amount	**226**	254
Plant and Equipment		
Gross carrying amount:		
Opening balance	**5 349**	5 817
Additions	**911**	1 179
Transfers from work in progress	**332**	2 547
Disposals	**(84)**	(114)
Accumulated depreciation written back on revaluation	**-**	(2 396)
Revaluation decrement	**-**	(1 684)
Closing Balance	**6 508**	5 349
Accumulated depreciation:		
Opening balance	**(482)**	(1 669)
Depreciation expense	**(1 227)**	(1 252)
Disposals	**21**	43
Accumulated depreciation written back on revaluation	**-**	2 396
Closing Balance	**(1 688)**	(482)
Net Carrying Amount	**4 820**	4 867
Furniture, Fixtures and Fittings		
Gross carrying amount:		
Opening balance	**1 101**	918
Additions	**19**	34
Transfers from work in progress	**7**	1 002
Disposals	**(16)**	(2)
Accumulated depreciation written back on revaluation	**-**	(385)
Revaluation decrement	**-**	(466)
Closing Balance	**1 111**	1 101
Accumulated depreciation:		
Opening balance	**(50)**	(281)
Depreciation expense	**(148)**	(155)
Disposals	**4**	1
Accumulated depreciation written back on revaluation	**-**	385
Closing Balance	**(194)**	(50)
Net Carrying Amount	**917**	1 051
Motor Vehicles		
Gross carrying amount:		
Opening balance	**205**	213
Additions	**76**	118
Disposals	**(48)**	(126)
Closing Balance	**233**	205
Accumulated depreciation:		
Opening balance	**(40)**	(57)
Depreciation expense	**(41)**	(42)
Disposals	**23**	59
Closing Balance	**(58)**	(40)
Net Carrying Amount	**175**	165
Crockery, Cutlery and Glassware		
Gross carrying amount:		
Opening balance	**154**	699
Additions	**258**	617
Transfers from work in progress	**-**	200
Disposals	**(34)**	(280)
Revaluation decrement	**-**	(1 082)
Closing Balance	**378**	154
Accumulated depreciation:		
Opening balance	**(59)**	-
Depreciation expense	**(35)**	(59)
Disposals	**32**	-
Closing Balance	**(62)**	(59)
Net Carrying Amount	**316**	95

		2003	2002
12.	**Buildings, Plant and Equipment (continued)**	**2003**	2002
	Work in Progress:	**$'000**	$'000
	Opening balance	**25**	70 433
	Additions	**1 053**	19 761
	Transfers to buildings, plant and equipment, furniture fixtures and fittings, and crockery, cutlery and glassware	**(490)**	(90 169)
	Closing balance	**588**	25
	Total Buildings, Plant and Equipment	**145 749**	145 841

Edward Rushton (Australia) Pty Ltd independently valued all of the non-current assets with the exception of the motor vehicle class as at 28 February 2002. The valuation was performed on the basis of fair value (refer Note 3(g)).

		2003	2002
13.	**Payables**		
	Trade creditors	**416**	271
	Accruals	**78**	105
	Total Payables	**494**	376
14.	**Employee Benefits and Related Expenses**		
(a)	***Salaries, Wages and Related Payments***		
	Salaries and wages	**9 596**	9 048
	Superannuation and payroll tax expenses	**1 539**	1 378
	Annual and long service leave expenditure	**560**	516
	Total Salaries, Wages and Related Expenses	**11 695**	10 942
(b)	***Employee Benefits and Related Costs***		
	Current:		
	Accrued salaries and wages	**133**	77
	Annual Leave	**390**	328
	Long service leave	**93**	93
	Employee on-costs	**74**	56
	Total Current	**690**	554
	Non-Current:		
	Long service leave	**523**	553
	Employee on-costs	**46**	49
	Total Non-Current	**569**	602
15.	**Dividend Paid or Provided For**		
(a)	***Dividend Paid or Provided For***		
	Distribution based on 75 percent of assessable operating profit before income tax equivalent expense	**553**	-
	Less: Tax equivalent regime expenses:		
	Income tax equivalent expense	**-**	-
	Other tax equivalent regime expenses	**471**	-
		471	-
	Total Dividend Paid or Provided For	**82**	-
(b)	***Provision for Dividend***		
	Provision for dividend at 1 July	**273**	273
	Dividends provided for or paid (refer Note 15(a))	**82**	-
	Provision for dividend at 30 June	**355**	273
16.	**Retained Profits**		
	Retained profits at 1 July	**76 779**	71 969
	Dividends provided for or paid	**(82)**	-
	Operating profit after income tax equivalent	**2 737**	4 810
	Retained Profits at 30 June	**79 434**	76 779
17.	**Asset Revaluation Reserve**		
	Asset revaluation reserve at 1 July	**2 546**	449
	Building revaluation increment	**-**	2 546
	Plant and equipment revaluation decrement	**-**	(252)
	Furniture, fixtures and fittings revaluation decrement	**-**	(197)
	Asset revaluation reserve at 30 June	**2 546**	2 546

18. ***(a)*** ***Commitments***

	2003	2002
	$'000	$'000
Not later than one year	**406**	395
Later than one year and not later than five years	**1 622**	1 580
Later than five years	**22 745**	22 361
Total Commitments	**24 773**	24 336

Commitments relate to obligations under non-cancellable operating leases (refer Note 3(j)). These obligations have not been recognised as liabilities.

(b) ***Contingent Liabilities***
The Corporation has no known contingent liabilities.

19. **Consultants**
The Corporation engaged one consultant during the 2002-03 financial year with expenditure being $14 000 ($88 000).

Bestec Pty Ltd - Energy audit.

20. **Remuneration of Executives greater than $100 000**

The number of executives who received, or were due to receive, remuneration (including superannuation, motor vehicle and fringe benefits tax payable on other benefits) in connection with the management affairs of the Corporation were:	**2003 Number of Executives**	2002 Number of Executives
$100 000 - $109 999	**3**	-
$130 000 - $139 999	**1**	-
$140 000 - $149 999	**-**	1
$230 000 - $239 999	**1**	-
$240 000 - $249 999	**-**	1

The aggregate remuneration of the executives referred to in the above bands was $687 000 ($394 000).

21. **Related Party Information**
The name of each person holding the position as Board member of the Corporation during the financial year are:

Mr C Dunsford - Chairman
Mr M Harris - Term expired 30 September 2002
Mr J Ellison
Ms J Turnbill
Ms S Saville - Appointed 14 October 2002
Ms J Jeffreys - Deputy Chairperson
Ms J Wilson - Term expired 30 September 2002
Mr M Keelan
Mr R Dundon - Appointed 14 October 2002

The members of the Board may use the services and facilities of the Centre under terms and conditions no more favourable than members of the public.

22. **Remuneration of Board Members**

The number of Board Members who received, or were due to receive, remuneration from the Corporation were:	**2003 Number of Members**	2002 Number of Members
$0 (South Australian Government employee)	**-**	1
$0 - $9 999	**8**	8
$10 000 - $19 999	**1**	1

The aggregate remuneration of the Board members referred to in the above bands was $72 000 ($69 000).

23. **Remuneration to Auditors**

The total received, or due and receivable by the Auditor-General's Department in respect of:	**2003 $'000**	2002 $'000
Auditing the accounts	**36**	34

24. **Notes to the Statement of Cash Flows**
(a) ***Reconciliation of Cash***
For the purposes of the Statement of Cash Flows, cash includes cash on deposit, at bank and on hand. 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:

	2003	2002
Current:	**$'000**	$'000
Cash on deposit and at bank[(a)]	**7 794**	6 177
Cash on hand	**49**	44
	7 843	6 221
Non-Current:		
Specific purpose deposits[(b)]	**8 364**	7 101
Total cash on deposit, at bank and on hand	**16 207**	13 322

(a) Includes deposits held of $1.6 million ($1.2 million) which have restrictions on when used as operational cash (refer Note 3(l)).
(b) Specific purpose deposits (refer Note 11) cannot be used as operational cash.

(b) *Reconciliation of Operating Profit to Net Cash Provided by Operating Activities*

	2003	2002
	$'000	$'000
Operating profit after income tax equivalent expense	**2 737**	4 810
Non-operating revenue - contributions to the Adelaide Convention Centre upgrade	**-**	(8 973)
	2 737	(4 163)
Depreciation and amortisation	**4 360**	4 552
Gain on revaluation	**-**	(34)
Loss on revaluation	**-**	2 783
Loss on disposal of assets	**14**	210
Change in assets and liabilities:		
(Increase) Decrease in receivables	**(392)**	66
Increase in inventories	**(8)**	(65)
Decrease in taxation assets	**-**	7
Increase in other current assets	**(63)**	(30)
Increase (Decrease) in payables	**118**	(378)
Increase (Decrease) in taxation liabilities	**(23)**	59
Increase in security deposits held	**321**	361
Increase in employee benefits and related costs	**103**	97
Net Cash provided by Operating Activities	**7 167**	3 465

ADELAIDE ENTERTAINMENTS CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Adelaide Entertainments Corporation, a subsidiary to the Minister for Tourism, was established on 4 February 1999 pursuant to regulations under the *Public Corporations Act 1993*.

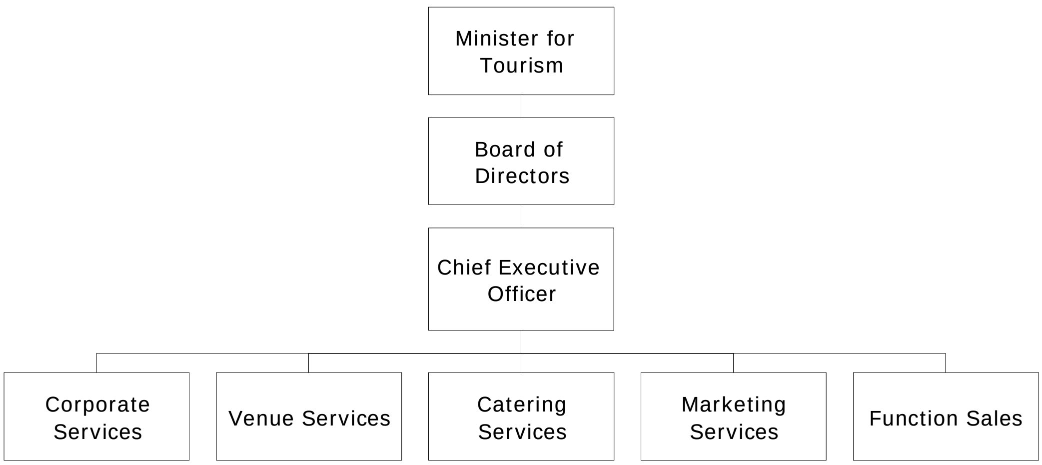
Functions

The functions of the Adelaide Entertainments Corporation are as follows:

- Manage and operate the Adelaide Entertainment Centre (the Centre) site.
- Manage, promote and sponsor events at the Centre site or elsewhere.
- Foster and assist the commercial development of the Centre site in order to complement and enhance the commercial potential of the Centre.
- Carry out other functions conferred on the subsidiary by the Minister.

Structure

The structure of the Adelaide Entertainments Corporation at 30 June 2003 is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

The Schedule to the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts of the Adelaide Entertainments 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 Adelaide Entertainments 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 2002-03, specific areas of audit attention included:

- follow-up of action taken by the Corporation with respect to the matters raised last year regarding Internal Audit Related activity and Policy and Procedures documentation;
- review of financial accounting and related processes covering:
  - revenue
  - accounts payable
  - payroll
  - inventory
  - property, plant and equipment
- review of the following Information Technology activities:
  - information resource strategy and planning
  - relationship with outsourced vendors
  - information security
  - business continuity planning

Audit Communications to Management

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

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 Adelaide Entertainments Corporation as at 30 June 2003 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 Adelaide Entertainments Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Adelaide Entertainments Corporation have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Risk Management Plan

A review of risk management practices at the Corporation determined that a comprehensive risk identification process was undertaken in 2000 which resulted in divisional managers being given responsibility for the management of risks within their Division, including identifying and implementing strategies to minimise identified risks.

The review also established the Corporation has not implemented a central risk management plan which reflects the information held by divisional managers or the current Adelaide Entertainments Corporation environment and operations.

Audit recommended:

- the findings of the risk identification process undertaken in 2000 be updated for the current Adelaide Entertainments Corporation environment and operations;
- a central risk management plan and risk minimisation strategy be developed as a result of the risk identification process; and
- the Adelaide Entertainments Corporation Audit Committee consider the revised risk management plan in determining an internal audit strategy.

The Adelaide Entertainments Corporation has advised that a comprehensive risk management strategy and risk management plan would be completed by September 2003.

Follow up of 2001-02 Audit Matters

The audit of the Corporation included review of its response to matters arising from the audit for 2001-02, including the implementation of an internal audit function by the Corporation as required by the regulations under the *Public Corporations Act 1993* which established the Corporation.

Follow up in the current year indicated that the Corporation had addressed some aspects of the establishment of internal audit but had not, at the time of the 2002-03 interim audit, prepared and submitted an internal audit plan to the Corporation Board. Subsequent to that audit the Corporation's Audit Committee required a risk assessment to be prepared which will provide a foundation for an internal audit plan. Audit understand the risk assessment has been prepared and will be submitted to the Board.

In responding to audit findings the Corporation has noted that it has limited resources to address matters raised by Audit and that there are competing demands for those resources. It has also observed that staff turnover during the year has impacted on progress in addressing matters raised by Audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

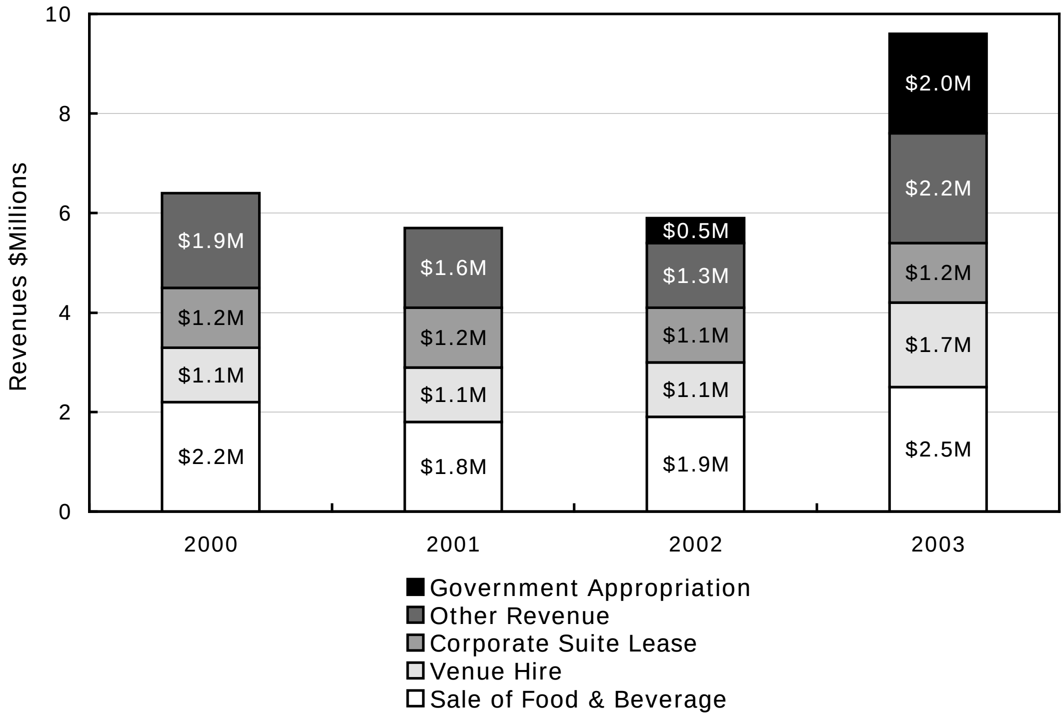
	2003 $'million	2002 $'million	Percentage Change
REVENUE			
Revenue from venue operations	**5.4**	4.1	31.7
Government appropriation	**2.0**	0.5	300.0
Other revenue	**2.2**	1.3	69.2
Total Revenue	**9.6**	5.9	62.7
EXPENDITURE			
Salaries, wages and related payments	**3.4**	3.1	9.7
Depreciation and amortisation	**1.9**	1.5	26.7
Other expenses	**3.9**	3.7	5.4
Total Expenses	**9.2**	8.3	10.8
Surplus (Deficit)	**0.4**	(2.4)	116.7
ASSETS			
Current assets	**5.1**	3.3	54.5
Non-current assets	**46.9**	48.6	(3.5)
Total Assets	**52.0**	51.9	0.2
LIABILITIES			
Current liabilities	**2.1**	2.4	(12.5)
Non-current liabilities	**0.1**	0.1	-
Total Liabilities	**2.2**	2.5	(12.0)
EQUITY	**49.8**	49.4	0.8

Statement of Financial Performance

Revenues

The Corporation's revenue (excluding Appropriation from Government) of $7.6 million in 2003 reached a four year high reflecting an increase in trading activity during 2003.

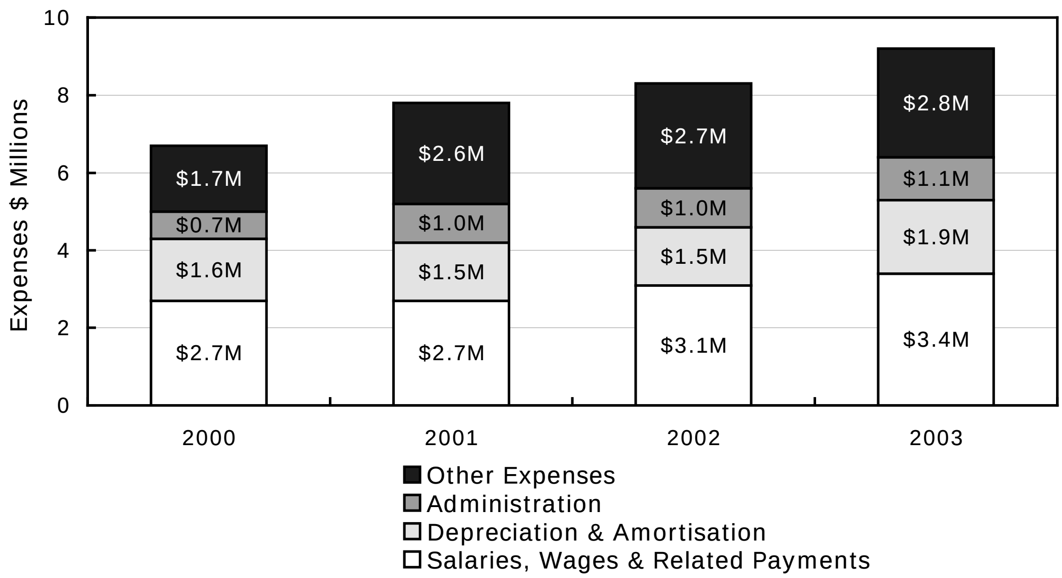
For the four years to 2003 a structural analysis of main revenue items (including Appropriation from Government) for the Corporation is presented in the following chart.



Expenses

The Corporation's expenses of $9.2 million in 2003 reached a four year high reflecting an increase in trading activity during 2003.

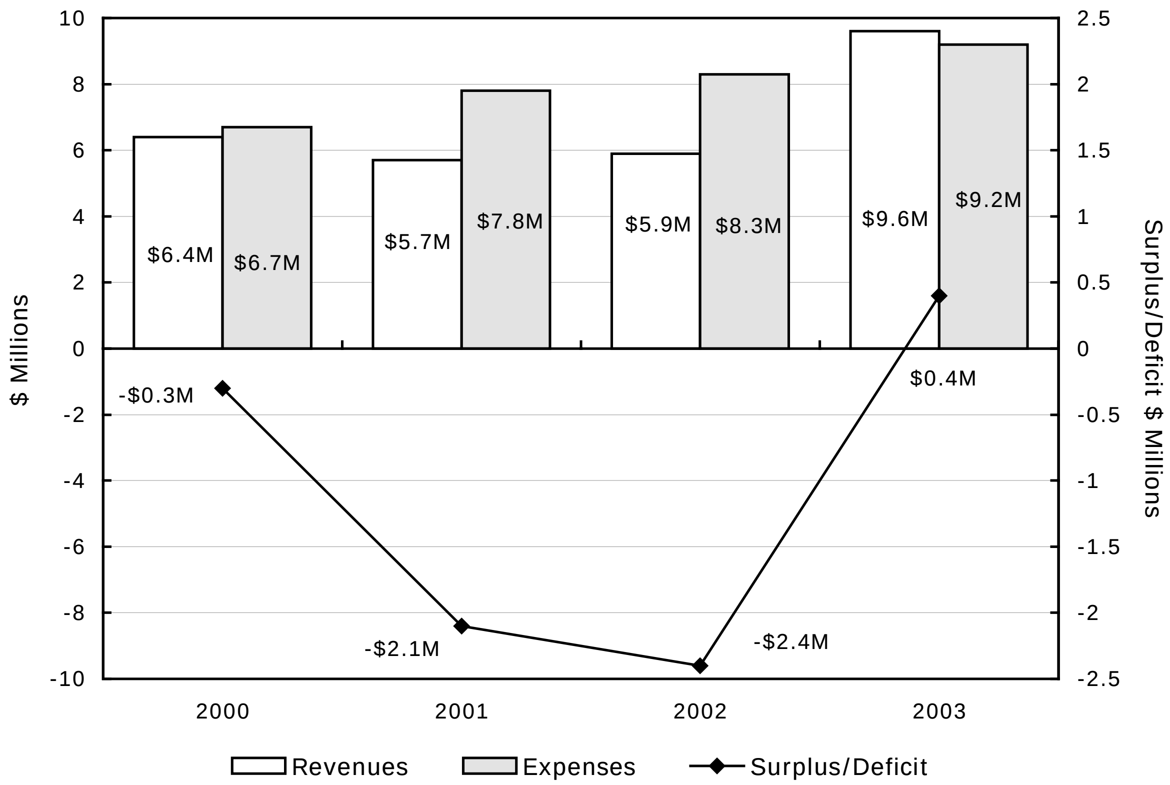
For the four years to 2003 a structural analysis of the main expense items for the Corporation is presented in the following chart.



Operating Result

The Corporation recorded a surplus of $416 000 for the year ended 30 June 2003 after deficits for each of the previous three years. The surplus was determined after recognising grant funding from the South Australian Government of $2 million.

The following chart presents the revenues, expenses and surpluses/deficits for the four years to 2003.

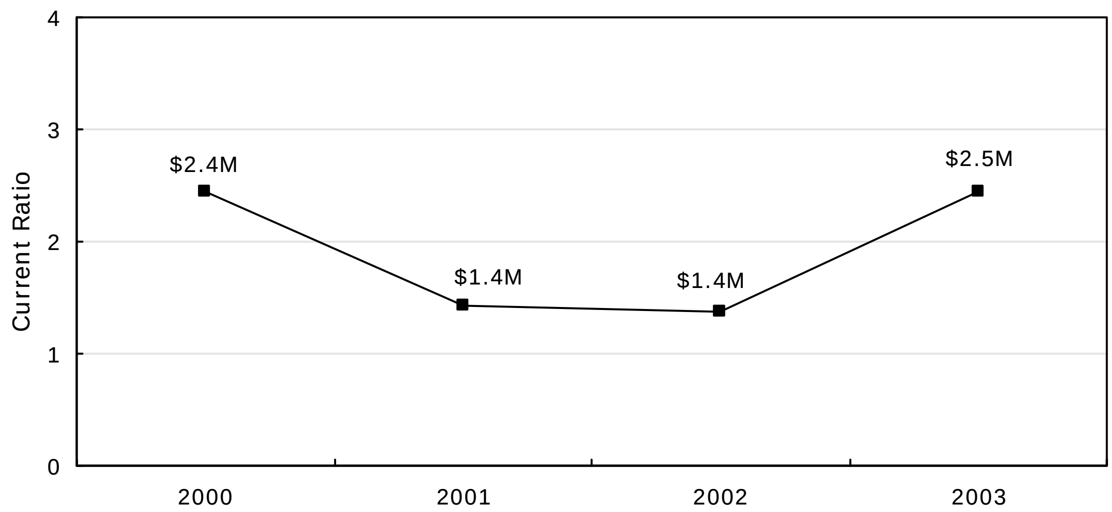


Statement of Financial Position

The Corporation is an asset intensive public sector entity with net assets of $49.8 million recorded in 2003.

The Corporation's current ratio (current assets divided by current liabilities) continues to be greater than 1 reflecting the Corporation's ability to continue operating as a going concern. This, however, is due mainly to an increase in cash holdings in 2002 and 2003. Refer comments under Statement of Cash Flows.

For the four years to 2003 the movement in the current ratio is presented in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**2.3**	(0.3)	1.4	0.1
Investing	**(0.1)**	(0.6)	(0.4)	(0.4)
Change in Cash	**2.2**	(0.9)	1.0	(0.3)
Cash at 30 June	**4.8**	2.6	3.5	2.5

The analysis of cash flows shows that the Corporation's cash holdings have increased from $2.5 million in 2000 to $4.8 million in 2003. The increase of $2.3 million (92 percent) is due mainly to:

- revenues received from Government in 2002 and 2003; and
- a decision by Government that the Corporation retain its dividend payable to the Treasurer for 2000 and 2001 and that nil dividends were payable in respect of 2002 and 2003.

Statement of Financial Performance
for the year ended 30 June 2003

	Note	**2003** **$'000**	2002 $'000
REVENUE FROM TRADING ACTIVITIES:			
Sale of food and beverage	3	**2 534**	1 948
Corporate suite lease		**1 190**	1 155
Venue hire		**1 692**	941
Recovery of production costs		**1 169**	551
Interest revenue		**160**	114
Merchandise revenue		**214**	91
Other revenue	4	**633**	532
Total Revenues		**7 592**	5 332
EXPENSES FROM TRADING ACTIVITIES:			
Salaries, wages and related payments		**3 219**	2 839
Depreciation	5	**242**	472
Administration		**889**	823
Production costs		**807**	519
Food and beverage purchases		**784**	589
Repairs and maintenance		**75**	37
Utilities		**104**	118
Other expenses	8	**250**	232
Total Expenses		**6 370**	5 629
SURPLUS (DEFICIT) FROM TRADING ACTIVITIES		**1 222**	(297)
REVENUES FROM PROPERTY MANAGEMENT ACTIVITIES:			
Other revenue	4	**25**	37
Total Revenues		**25**	37
EXPENSES FROM PROPERTY MANAGEMENT ACTIVITIES:			
Salaries, wages and related payments		**180**	244
Depreciation	5	**1 348**	1 070
Administration		**162**	179
Repairs and maintenance		**436**	348
Utilities		**401**	316
Other expenses	8	**17**	17
Total Expenses		**2 544**	2 174
DEFICIT FROM PROPERTY MANAGEMENT ACTIVITIES		**(2 519)**	(2 137)
Asset write-off	6	**-**	(434)
Adjustment of depreciation expense	7	**(278)**	-
Appropriation from Government		**1 991**	542
OPERATING SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES		**416**	(2 326)
Net increase in asset revaluation reserve	17	**-**	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**416**	(2 326)

Statement of Financial Position
as at 30 June 2003

	Note	**2003** **$'000**	2002 $'000
CURRENT ASSETS:			
Cash assets	9	**4 813**	2 591
Inventories	10	**71**	84
Receivables	11	**248**	583
Total Current Assets		**5 132**	3 258
NON-CURRENT ASSETS:			
Land and buildings	12	**46 124**	47 750
Plant and equipment	13	**714**	824
Total Non-Current Assets		**46 838**	48 574
Total Assets		**51 970**	51 832
CURRENT LIABILITIES:			
Payables	14	**1 957**	2 230
Employee benefits and related payments	15	**139**	144
Total Current Liabilities		**2 096**	2 374
NON-CURRENT LIABILITIES:			
Employee benefits and related payments	15	**82**	82
Total Non-Current Liabilities		**82**	82
Total Liabilities		**2 178**	2 456
NET ASSETS		**49 792**	49 376
EQUITY:			
Capital provided by South Australian Government	16	**55 536**	55 536
Asset revaluation reserve	17	**7 716**	7 716
Accumulated deficit	18	**(13 460)**	(13 876)
TOTAL EQUITY		**49 792**	49 376
Commitments	27		
Contingent Liabilities	28		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**7 689**	5 349
Appropriation from Government		**1 991**	542
GST received from customers		**715**	513
Interest received		**160**	114
Payments to suppliers and employees		**(7 022)**	(6 327)
Net ticket sales to promoters		**(444)**	(47)
Payment to Australian Taxation Office of GST		**(415)**	(171)
GST paid to suppliers		**(320)**	(327)
Net Cash provided by (used in) Operating Activities	26(a)	**2 354**	(354)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for plant and equipment		**(132)**	(572)
Net Cash used in Investing Activities		**(132)**	(572)
NET INCREASE (DECREASE) IN CASH HELD		**2 222**	(926)
CASH AT 1 JULY		**2 591**	3 517
CASH AT 30 JUNE	26(b)	**4 813**	2 591

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Establishment and Functions of the Adelaide Entertainments Corporation

The Adelaide Entertainments Corporation (AEC), known as the Adelaide Entertainment Centre, was established on 4 February 1999 as a subsidiary of the Minister for Tourism by Regulations under the *Public Corporations Act 1993*.

The functions of the AEC are to:

- manage and operate the Adelaide Entertainment Centre site;
- manage, promote and sponsor events at the Adelaide Entertainment Centre site or elsewhere;
- foster and assist the commercial development of the Adelaide Entertainment Centre site in order to complement and enhance the commercial potential of the Adelaide Entertainment Centre;
- carry out any other functions conferred on the subsidiary by the Minister.

The AEC is governed by a Board of Directors and operates under a charter approved pursuant to the provisions of the *Public Corporations Act 1993*. The Act and the charter require the preparation of a general purpose financial report which reflects the performance and position of the AEC for each financial year ended 30 June.

2. Statement of Accounting Policies

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

(a) Basis of Preparation of Financial Statements

The financial statements have been prepared in accordance with the Statements of Accounting Concepts, applicable Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*, and Urgent Issues Group Consensus Views.

The financial statements have been prepared on the basis of historical costs and are not adjusted to take into account changing money values or, except where stated, current valuations of major non-current assets.

(b) Revenue Recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised when it is earned.

(c) Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write-off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all depreciable assets. The major asset categories and their expected useful lives are as follows:

	Years
Buildings	40
Site plant and equipment	5-10
Kitchens and concessions	3-10
Office and administration	3-10
Production equipment	3-10
Furniture and fittings	3-10
Audiovisual equipment	3-10

(d) Inventories

Inventories are carried at cost as they are expected to be consumed in the holding of events and functions that will have a net realisable value that exceeds cost.

(e) Valuation of Non-Current Assets

In accordance with Australian Accounting Standards AAS 10 'Accounting for the Revaluation of Non-Current Assets', AASB 1041 'Revaluation of Non-Current Assets' and Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets', all non-current assets with a value at the time of acquisition greater than $1 million are required to be revalued every three years. Licensed valuers Edward Rushton Australia Pty Ltd carried out an independent valuation for land and buildings as at 30 June 2001, using the deprival basis.

(f) Employee Benefits

Provision has been made in the financial statements for the AEC's liability for employee entitlements arising from services rendered by employees to 30 June. Related on-costs consequential to the employment of employees have been included in the determination of the liability.

(i) Superannuation

The AEC contributes to externally managed superannuation funds. Contributions are charged as an expense in the period in which they occur. The AEC is not liable for payments to beneficiaries as this is the responsibility of the superannuation funds.

(ii) Wages and Salaries

Liabilities for wages and salaries are recognised as the amount unpaid at 30 June and are measured at current pay rates in respect of employees' services to that date.

(iii) Annual Leave

Provision has been made for the unused component of annual leave at 30 June. The provision has been calculated at nominal amounts based on estimated future wages and salary rates.

(iv) Long Service Leave

Provision has been made for employee entitlements to long service leave. The provision has been calculated at nominal amounts based on estimated future wages and salary 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', and as directed by Australian Accounting Policy Statement APS 9 'Employee Benefits'.

(v) *Sick Leave*
No provision has been made in respect of accumulated sick leave. Sick leave, when taken, is considered to be taken from the current year's accrual, therefore no liability is recognised.

(g) Financial Instruments
Financial Assets
Cash comprises cash on hand and deposits at call with the South Australian Government Financing Authority (SAFA) and Westpac Banking Corporation. Cash and deposits are recorded at cost. Interest revenues are recognised as they accrue.

Receivables are reported at amounts due less the provision for doubtful debts.

Financial Liabilities
Trade creditors are recognised for goods and services that have been supplied but have not been paid as at 30 June 2003. Trade creditors are recorded at cost and are normally settled within 30 days.

The AEC holds all ticket monies in trust on behalf of the ticket purchaser. Event payables represent a liability to the hirer on the completion of an event or to the AEC's ticketing agent (BASS) for refunds in the event of a cancellation.

Income received in advance mainly comprises corporate suite license and advertising fees and event/function deposits received in advance. Income received in advance is recognised as revenue at the time the event/function is held or service provided.

(h) Comparative Figures
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Sale of Food and Beverage

	2003 $'000	2002 $'000
Food	**1 646**	1 285
Beverage	**888**	663
	2 534	1 948
Cost of sales	**1 546**	1 201

4. Other Revenue

	2003 Trading $'000	**2003 Property $'000**	**2003 Total $'000**	2002 Trading $'000	2002 Property $'000	2002 Total $'000
Car park	**140**	**-**	**140**	104	-	104
Equipment hire	**78**	**-**	**78**	121	-	121
Sundry	**415**	**25**	**440**	307	37	344
	633	**25**	**658**	532	37	569

5. Depreciation

	2003 $'000	2002 $'000
Buildings (refer Note 7 and 12)	**1 348**	1 070
Plant and equipment (refer Note 13)	**242**	472
	1 590	1 542

6. Asset Write-Off
As part of development of the Fixed Asset Management System the AEC undertook a review of the Fixed Asset Register during the 2001-02 financial year. As a result of this review, assets with a net book value of $434 000 were written off.

A further review of the Fixed Asset Register was conducted during the 2002-03 financial year, and as result a further total of $680 000 in gross carrying amount was written off (refer Note 13). There was no impact on the Statement of Financial Performance, as all such assets were carried at nil book value.

7. Adjustment of Depreciation Expense
In the previous year, depreciation was charged on the written down value of buildings rather than on the gross carrying amount, resulting in an understatement of depreciation at 30 June 2002 of $278 000.

Restated financial information is presented to show the information that would have been disclosed in the prior financial year financial statements had the error not been made.

	2002 Restated $'000
Statement of Financial Performance:	
Revenue from ordinary activities	5 911
Expenses from ordinary activities	8 515
Operating Deficit	(2 604)
Restatement of Accumulated Deficit:	
Accumulated deficit at 1 July	(12 088)
Restated operating deficit	(2 604)
Net transactions with the State Government as Owners	538
Accumulated Deficit at 30 June	(14 154)

8. Other Expenses

	2003 Trading $'000	2003 Property $'000	2003 Total $'000	2002 Trading $'000	2002 Property $'000	2002 Total $'000
Sales and marketing	**236**	**-**	**236**	217	-	217
Bad debt expense	**3**	**-**	**3**	5	-	5
Other	**11**	**17**	**28**	10	17	27
	250	**17**	**267**	232	17	249

9. Cash Assets

	2003 $'000	2002 $'000
Cash at bank and on hand	**3 707**	1 535
SAFA investment	**1 106**	1 056
	4 813	2 591

10. Inventories

Beverages	**61**	64
Food	**10**	20
	71	84

11. Receivables

Trade debtors	**177**	460
Less: Provision for doubtful debts	**15**	12
	162	448
Accrued income and sundry debtors	**16**	28
Prepaid expenses	**70**	107
	248	583

12. Land and Buildings

	Land $'000	Buildings $'000	**Total $'000**
Gross Carrying Amount:			
Balance at 1 July	7 460	55 090	**62 550**
Balance at 30 June	7 460	55 090	**62 550**
Accumulated Depreciation:			
Balance 1 July	-	14 800	**14 800**
Depreciation expense	-	1 348	**1 348**
Adjustment of depreciation expense	-	278	**278**
Balance at 30 June	-	16 426	**16 426**
Net Book Value:			
As at 30 June 2002	7 460	40 290	47 750
As at 30 June 2003	**7 460**	**38 664**	**46 124**

13. Plant and Equipment

	Site Plant & Equipment	Kitchens & Concessions	Office & Administr-ation	Production Equipment	Furniture & Fittings	Audio Visual Equipment	**Total**
Gross Carrying Amount:	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**
Balance at 1 July	418	812	653	883	541	402	**3 709**
Asset write-off	(4)	(352)	(194)	(31)	(59)	(40)	**(680)**
Additions	26	48	8	-	34	16	**132**
Balance at 30 June	440	508	467	852	516	378	**3 161**
Accumulated Depreciation:							
Balance at 1 July	78	757	594	624	500	332	**2 885**
Asset write-off	(4)	(352)	(194)	(31)	(59)	(40)	**(680)**
Depreciation expense	48	21	41	72	28	32	**242**
Balance at 30 June	122	426	441	665	469	324	**2 447**
Net Book Value:							
As at 30 June 2002	340	55	59	259	41	70	824
As at 30 June 2003	**318**	**82**	**26**	**187**	**47**	**54**	**714**

14. Payables

	2003 $'000	2002 $'000
Trade creditors and accruals	**872**	638
Event payables	**751**	1 195
Income received in advance	**334**	397
	1 957	2 230

15. Employee Benefits and Related Payments

Current:		
Accrued wages	**14**	39
Annual leave	**104**	84
Employee on-costs	**21**	21
	139	144

15. Employee Benefits and Related Payments (continued)

	2003 $'000	2002 $'000
Non-Current:		
Long service leave	**72**	70
Employee on-costs	**10**	12
	82	82

16. Capital Provided by the South Australian Government

Land	**7 189**	7 189
Buildings	**44 534**	44 534
Site plant and equipment	**2 975**	2 975
Working capital	**838**	838
	55 536	55 536

17. Asset Revaluation Reserve

Land:		
Balance at 1 July	**271**	271
Increments (Decrements) on revaluation	**-**	-
Balance at 30 June	**271**	271
Buildings:		
Balance at 1 July	**7 445**	7 445
Increments (Decrements) on revaluation	**-**	-
Balance at 30 June	**7 445**	7 445
	7 716	7 716

18. Accumulated Deficit

Balance at 1 July	**(13 876)**	(12 088)
Transactions with the South Australian Government as owners:		
Dividend retained[(a)]	**-**	538
Operating surplus (deficit) from ordinary activities	**416**	(2 326)
Balance at 30 June	**(13 460)**	(13 876)

(a) On 15 January 2002 the Treasurer approved retention of the dividends payable by the AEC as at 30 June 2001 and accordingly the sum of $538 000 was written back as a credit to Accumulated Deficit during the 2001-02 financial year.

19. Financial Instruments

(a) Credit Risk

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

(b) Interest Rate Risk

The AEC's exposure to interest rate risk and the effective weighted interest rate is set out in the following table. Exposures arise predominantly from financial assets and financial liabilities bearing variable interest rates.

2003

	Weighted Average Effective Interest Rate Percent	**Variable Interest Rate $'000**	**Non-Interest Bearing $'000**	**Total $'000**
Financial Assets:				
Cash at bank	**4.19**	**3 707**	**-**	**3 707**
SAFA investment account	**4.65**	**1 106**	**-**	**1 106**
Trade debtors	**-**	**-**	**162**	**162**
Other receivables	**-**	**-**	**86**	**86**
		4813	**248**	**5 061**
Financial Liabilities:				
Trade creditors and accruals	**4.32**	**139**	**733**	**872**
Event payables	**4.32**	**751**	**-**	**751**
Income received in advance	**-**	**-**	**334**	**334**
		890	**1 067**	**1 957**

2002

	Weighted Average Effective Interest Rate Percent	Variable Interest Rate $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets:				
Cash at bank	4.18	1 535	-	1 535
SAFA investment account	4.44	1 056	-	1 056
Trade debtors	-	-	448	448
Other receivables	-	-	135	135
		2 591	583	3 174
Financial Liabilities:				
Trade creditors and accruals	4.18	113	525	638
Event payables	4.18	1 195	-	1 195
Income received in advance	-	-	397	397
		1 308	922	2 230

(c) ***Net Fair Value***

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their net fair value.

20. Remuneration of Employees

The number of executive officers who have received, or were due to receive, directly or indirectly from the AEC a total remuneration (including superannuation) in connection with the management of the affairs of the AEC, whether as Executive Officer or otherwise, as shown in the following bands, was:

	2003 Number of Executives	2002 Number of Executives
$160 001 - $170 000	**1**	-
$170 001 - $180 000	**-**	1

21. Superannuation

Pursuant to the Commonwealth Government's Superannuation Guarantee legislation, the AEC is required to contribute 9 percent of AEC employee's eligible earnings to externally managed superannuation funds. Payments made to externally managed superannuation funds during the year totalled $195 000 ($197 000).

22. Board of Directors

The following Directors served on the Board of the AEC during the year:

R Foord (Chairman)
M Burgess
J Bell (commenced 4 February 2003)
W Spurr (commenced 4 February 2003)
A Ashby (term expired 3 February 2003)
G Wallace
G Kelly (commenced 4 February 2003)
G Pitt (commenced 4 February 2003)
A Fletcher (Chairman, term expired 3 February 2003)
A Killey (term expired 3 February 2003)

Members of the Board received Director's fees as shown in the following table:

	2003 Number of Members	2002 Number of Members
$0 - $10 000	**7**	1
$10 001 - $20 000	**3**	5

The aggregate amount of remuneration received, or due and receivable, by AEC Directors in connection with the management of the AEC was $71 000 ($68 000).

23. Related Party Transactions

The Directors of the Board may use the services of the AEC in accordance with terms and conditions determined under Board policy.

Directors of the Board used the services of the AEC during the year under normal commercial arrangements.

24. Remuneration of Auditors

Amounts received or due and receivable by the Auditor-General's Department for auditing the AEC financial statements were $28 000 ($27 000).

25. Payments to Consultants

Payments to consultants totalled $97 000 ($135 000), and fell within the following bands:

	2003 Number of Consultants	2002 Number of Consultants
$0 - $10 000	**7**	5
$10 001 - $50 000	**5**	6

Range	**Consultant**	**Description**
$10 001 - $50 000	McGregor Tan	Market Research
	Ogden IFC	Strategic Business Review
	Deloitte Touche Tohmatsu	Review of Food and Beverage operations
	Swanbury Penglase	Building inspection/maintenance
	Gutteridge Hasken and Davey	Building Services Management

26. Notes to the Statement of Cash Flows

(a) ***Reconciliation of Net Cash provided by (used in) Operating Activities to Operating Surplus (Deficit) from Ordinary Activities***

	2003 $'000	2002 $'000
Operating surplus (deficit) from ordinary activities	**416**	(2 326)
Non-Cash Items:		
Depreciation	**1 590**	1 542
Adjustment of depreciation expense	**278**	-
Asset write-off	**-**	434
Dividend retention	**-**	538
Bad debt expense	**3**	5
Change in assets and liabilities:		
Decrease in receivables	**332**	81
Decrease in inventory	**13**	11
Decrease in payables	**(273)**	(669)
(Decrease) Increase in employee benefits and related payments	**(5)**	30
Net Cash provided by (used in) Operating Activities	**2 354**	(354)

(b) ***Reconciliation of Cash***

For the purposes of the Statement of Cash Flows, cash comprises cash on hand and in banks and investments in money market instruments. Refer Note 9.

27. Commitments

At 30 June the AEC had obligations under cancellable agreements for the service and maintenance of AEC equipment, grounds, security, etc. These obligations have not been recognised as liabilities in the Financial Statements.

In addition, during 2003 the AEC entered into a substantial program of repairs and maintenance, and capital upgrades. Commitments associated with the program of repairs and maintenance reflect purchase orders issued but not filled at 30 June. No comparable or relevant figures are available for these commitments for 2002.

	2003	2002
	$'000	$'000
Not later than one year:		
Cancellable agreements	**23**	116
Purchase orders – Operating expenditure	**503**	-
Purchase orders – Capital expenditure	**669**	-
	1 195	116
Later than one year but not later than five years:		
Cancellable agreements	**9**	35
Total Commitments	**1 204**	151

28. Contingent Liabilities

The AEC has no known contingent liabilities.

SOUTH AUSTRALIAN TOURISM COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Commission, a body corporate, is established pursuant to the *South Australian Tourism Commission Act 1993*.

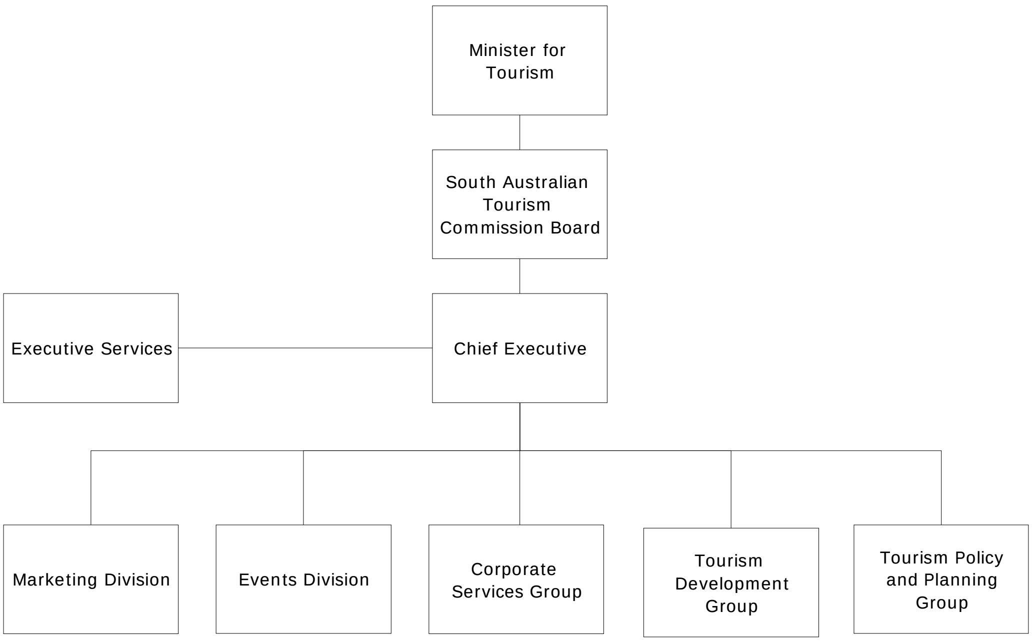
Functions

The functions of the Commission are as follows:

- Increase visitor numbers to and within the State by creating awareness of South Australia and its tourism assets in key target markets.
- Facilitate the development of a competitive and profitable tourism industry.
- Develop a competitive market position.
- Build strong networks and partnerships with relevant stakeholders for mutual benefit.
- Achieve sustainability of environmental and economic benefits.

Structure

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



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 23(3) of the *South Australian Tourism Commission Act 1993* provides for the Auditor-General to audit the accounts of the Commission for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the Public *Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the 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. 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 2002-03, specific areas of audit attention included:

- revenue
- ATLAS ticketing system
- accounts payable
- payroll
- general ledger
- non-current assets.

Audit Communications to Management

The outcome of the audit was satisfactory and as a result, no management letters were forwarded to the Chief Executive.

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 Tourism Commission as at 30 June 2003, 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 Tourism Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Commission have been conducted properly and in accordance with law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Revenue from Government	**46.0**	55.2	(17)
Other	**7.3**	9.2	(21)
Total Operating Revenue	**53.3**	64.4	(17)
OPERATING EXPENDITURE			
Employee benefits	**10.6**	10.5	1
Advertising and promotion	**16.2**	19.1	(15)
Industry assistance	**12.9**	16.1	(20)
Other	**13.5**	15.7	(14)
Total Operating Expenses	**53.2**	61.4	(13)
Surplus	**0.1**	3.0	(97)
Net Cash Flows from Operations	**0.7**	2.4	(71)

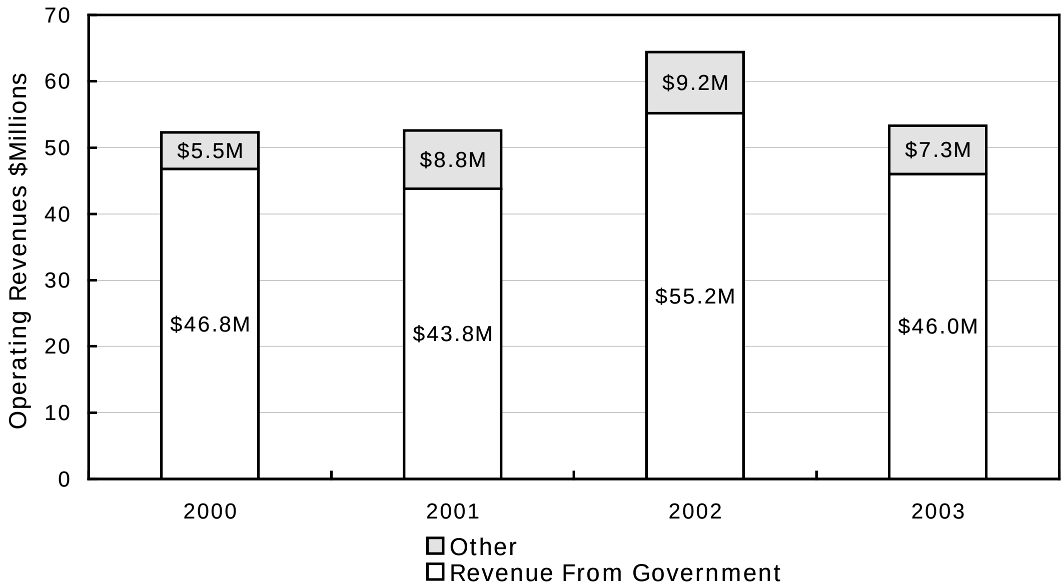
	2003 $'million	2002 $'million	Percentage Change
ASSETS			
Current assets	**9.3**	9.3	0
Non-current assets	**2.6**	2.9	(10)
Total Assets	**11.9**	12.2	(3)
LIABILITIES			
Current liabilities	**4.1**	4.7	(13)
Non-current liabilities	**1.5**	1.4	7
Total Liabilities	**5.6**	6.1	(8)
EQUITY	**6.3**	6.1	3

Statement of Financial Performance

Operating Revenues

Operating revenue decreased by $11.1 million to $53.3 million as a result of reductions of $9.2 million in revenue from Government and $1.9 million in event entry fees. These reductions are due to the availability of funds for infrastructure projects from the tourism infrastructure reserve and projects and events, undertaken in 2001-02, not staged in 2002-03.

A structural analysis of operating revenues for the Commission for the four years to 2003 is presented in the following chart.



Operating Expenses

Operating expenses decreased by $8.2 million to $53.2 million mainly as a result of reductions in expenses for:

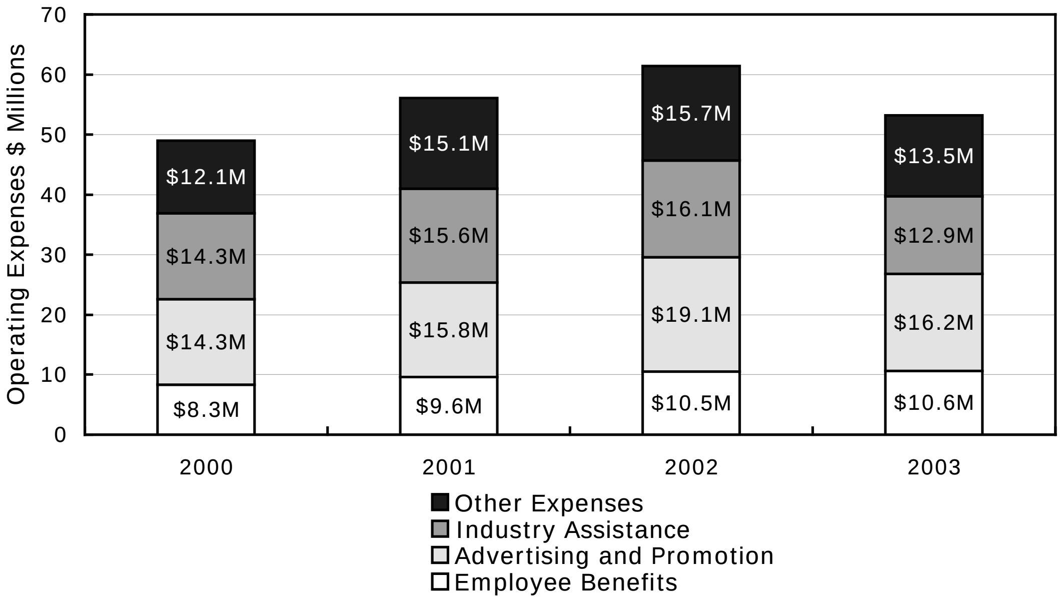
- advertising and promotion of $2.9 million;
- industry assistance of $3.2 million;
- event operations of $1.9 million.

Advertising and promotion expenses decreased mainly as a result of the completion of the Year of the Outback activities, biennial events staged by Australian Major Events and intrastate marketing activities.

The decrease in industry assistance expenses is due principally to a reduction in tourism infrastructure grants.

A reduction in the number of events in 2002-03 is the main reason for the lower expenditure on event operations.

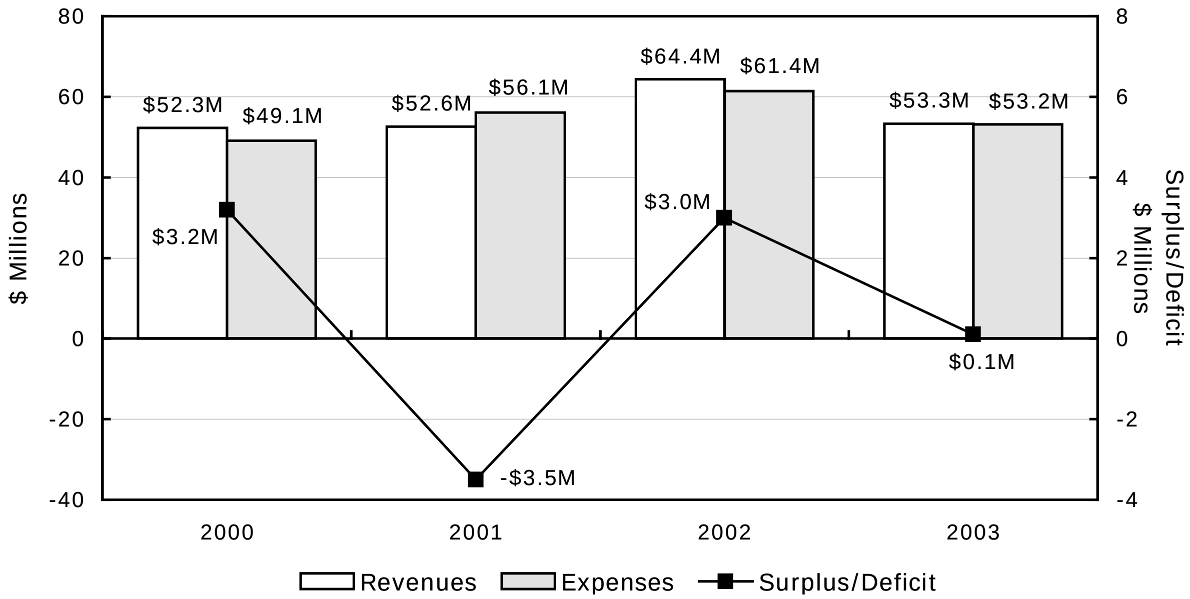
A structural analysis of the main operating expense items for the Commission is shown in the following chart.



Operating Result

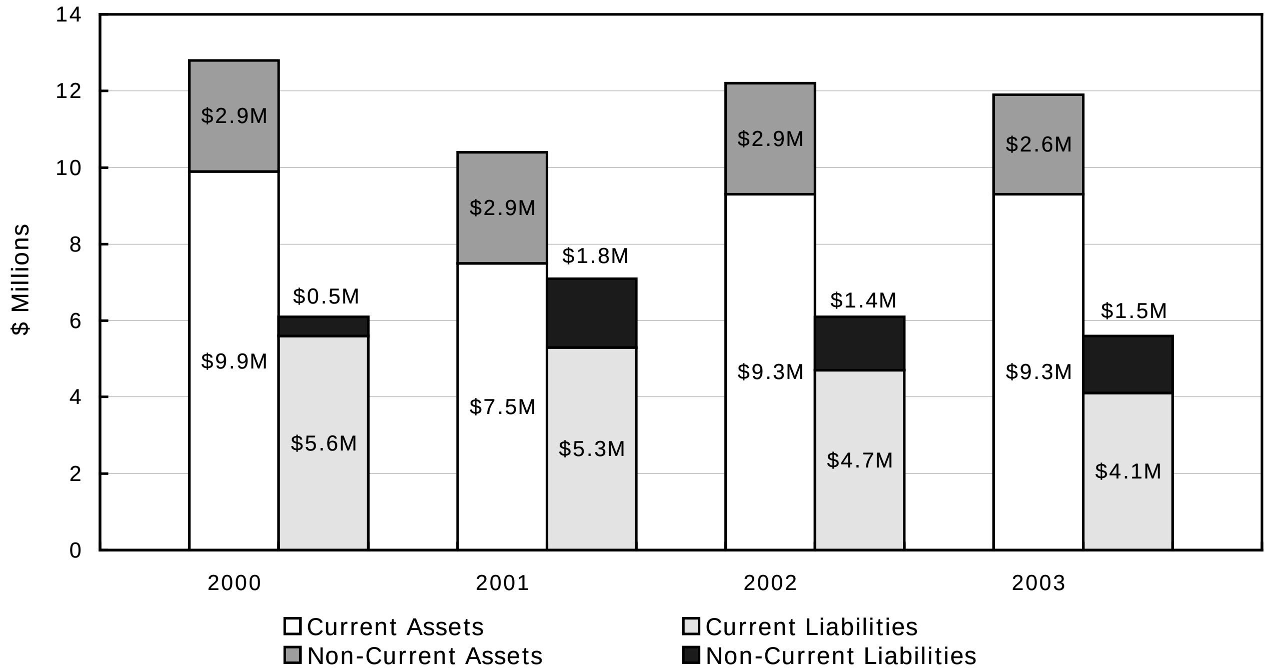
The operating surplus was $108 000 which compares to a surplus of $3 million in 2001-02. The budget for 2001-02 estimated a similar operating surplus to that of 2002-03, however, higher than expected revenue from sponsorship and event entry fees was the main reason for the increased surplus.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for four years to 2003.



Statement of Financial Position

A structural analysis of assets and liabilities for four years to 2003 is shown in the following chart.



The values of assets and liabilities, over the period of review, has remained virtually static.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**0.7**	2.4	(4.1)	4.3
Investing	**(0.5)**	(0.5)	(2.1)	(0.8)
Financing	**(0.1)**	(0.1)	1.4	-
Change in Cash	**0.1**	1.8	(4.8)	3.5
Cash at 30 June	**6.2**	6.1	4.3	9.1

The cash on hand has remained constant over the last two years following utilisation of the cash balance in 2001 to meet tourism infrastructure commitments.

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
REVENUE FROM ORDINARY ACTIVITIES:			
Revenue from Government	4	**46 058**	55 241
Participation fees	5	**3 906**	3 948
Interest		**665**	569
Commission on sales		**542**	545
Other revenue	6	**2 146**	4 082
Proceeds from disposal of non-current assets		**23**	7
Total Revenue		**53 340**	64 392
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits		**10 553**	10 470
Advertising and promotion	7	**16 239**	19 104
Industry assistance	8	**12 926**	16 094
Administrative costs		**5 717**	6 011
Event operations		**5 096**	7 045
Accommodation and services costs		**1 820**	1 847
Depreciation and amortisation	9	**569**	620
Interest on borrowings		**83**	93
Bad and doubtful debts expense		**6**	6
Carrying value of non-current assets disposed/written off		**223**	132
Total Expenses		**53 232**	61 422
OPERATING SURPLUS		**108**	2 970
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER	19,20	**108**	2 970

Statement of Financial Position
as at 30 June 2003

	Note	**2003** **$'000**	2002 $'000
ASSETS:			
CURRENT ASSETS:			
Cash	23(b)	**6 205**	6 115
Receivables	10	**3 041**	3 134
Prepayments	11	**48**	47
Total Current Assets		**9 294**	9 296
NON-CURRENT ASSETS:			
Plant and equipment	12	**2 034**	2 336
Intangibles	13	**128**	138
Investment in Australian Tourism Data Warehouse Ltd	14	**400**	400
Total Non-Current Assets		**2 562**	2 874
Total Assets		**11 856**	12 170
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	15	**2 987**	3 224
Other liabilities	16	**179**	178
Employee benefits	17	**786**	1 148
Borrowings	18	**129**	121
Total Current Liabilities		**4 081**	4 671
NON-CURRENT LIABILITIES:			
Payables	15	**50**	24
Other liabilities	16	**-**	15
Employee benefits	17	**432**	145
Borrowings	18	**1 036**	1 166
Total Non-Current Liabilities		**1 518**	1 350
Total Liabilities		**5 599**	6 021
NET ASSETS		**6 257**	6 149
EQUITY:			
Tourism infrastructure reserve	19	**4 791**	4 858
Accumulated surplus	20	**1 466**	1 291
TOTAL EQUITY		**6 257**	6 149
Commitments	21		
Contingent Obligations	22		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
PAYMENTS:			
Employee benefits		**(10 650)**	(10 160)
Goods and services		**(42 146)**	(51 087)
Borrowing costs		**(83)**	(91)
GST paid to suppliers		**(3 371)**	(4 603)
RECEIPTS:			
Recurrent appropriation		**46 058**	53 841
Other State Government funding		**-**	1 400
Participation fees		**3 906**	4 043
Commission earned		**542**	546
Interest received		**650**	541
GST recovered from Australian Taxation Office		**2 671**	3 503
GST received from customers		**955**	1 059
Other		**2 148**	3 436
Net Cash provided by Operating Activities	23(a)	**680**	2 428
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of plant and equipment		**(480)**	(362)
Payments for purchases of shares in Australian Tourism Data Warehouse Ltd		**-**	(150)
Proceeds from disposal of plant and equipment		**12**	7
Net Cash used in Investing Activities		**(468)**	(505)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of Borrowings		**(122)**	(113)
Net Cash used in Financing Activities		**(122)**	(113)
NET INCREASE IN CASH HELD		**90**	1 810
CASH AT 1 JULY		**6 115**	4 305
CASH AT 30 JUNE	23(b)	**6 205**	6 115

Schedule of Administered Revenues and Expenses for the year ended 30 June 2003

	Olympic Football		SA Motor Sport Board		OVM*		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
ADMINISTERED REVENUES:								
State Government appropriation	**-**	-	**-**	1 950	**-**	2 321	**-**	4 271
Operating revenue	**-**	-	**-**	-	**-**	24 639	**-**	24 639
Total Administered Revenues	**-**	-	**-**	1 950	**-**	26 960	**-**	28 910
ADMINISTERED EXPENSES:								
Employee benefits	**-**	-	**-**	-	**-**	152	**-**	152
Advertising and promotion	**-**	-	**-**	-	**-**	20	**-**	20
Administrative costs	**-**	-	**-**	-	**-**	239	**-**	239
Event operations	**-**	-	**-**	-	**-**	84	**-**	84
Accommodation and service costs	**-**	-	**-**	-	**-**	190	**-**	190
Depreciation and Amortisation	**-**	-	**-**	-	**-**	10	**-**	10
Transfers to:								
Department of the Premier and Cabinet	**-**	148	**-**	-	**-**	-	**-**	148
SA Motor Sport Board	**-**	-	**-**	1 950	**-**	-	**-**	1 950
Total Administered Expenses	**-**	148	**-**	1 950	**-**	695	**-**	2 793

* Office of Venue Management

Schedule of Administered Assets and Liabilities as at 30 June 2003

	Olympic Football		SA Motor Sport Board		OVM*		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
ADMINISTERED ASSETS:								
Cash	**-**	-	**476**	476	**-**	199	**476**	675
Receivables	**-**	-	**-**	-	**-**	97	**-**	97
Plant and Equipment	**-**	-	**-**	-	**-**	53	**-**	53
Land and Buildings	**-**	-	**-**	-	**-**	26 070	**-**	26 070
Total Administered Assets	**-**	-	**476**	476	**-**	26 419	**476**	26 895
ADMINISTERED LIABILITIES:								
Payables	**-**	-	**-**	-	**-**	69	**-**	69
Employee benefits	**-**	-	**-**	-	**-**	13	**-**	13
Total Administered Liabilities	**-**	-	**-**	-	**-**	82	**-**	82

* Office of Venue Management – On July 1 2003, the functions of the Office of Venue Management were transferred to the Office for Recreation and Sport. This involved the transfer of net assets of $26.3 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

Objectives

The purpose of the South Australian Tourism Commission is, on behalf of the Government, to work in partnership with the private sector in productively marketing South Australia's tourism product intrastate, interstate and internationally to ensure that South Australia is a compelling part of any Australian holiday. The principal goals of the Commission are to:

- add value to the efforts of the tourism industry and other government agencies, by ensuring a coordinated approach to the promotion of South Australia which results in an increase in visitor numbers to all regions of the State thereby increasing the value of tourism to the economy and generating employment for South Australians;
- attract, develop, own and support major and strategic events that generate substantial economic and social benefits for South Australia and promote the image and profile of Adelaide and South Australia;
- ensure the development of South Australia's tourism resources in a socially responsible way with emphasis on the continued maintenance and preservation of South Australia's environmental and cultural heritage and the profitability and effective utilisation of infrastructure;
- achieve a strong corporate team and positive corporate culture that uses its resources in the most effective and efficient manner.

Financial Arrangements

The Commission's principal source of funding consists of monies appropriated by Parliament.

The financial activities of the Commission are primarily conducted through a Special Deposit Account pursuant to section 21 of the *Public Finance and Audit Act 1987*.

Administered Funds

The Commission is responsible for the administration of the funds described below. These funds are not recorded in the Commission's Statement of Financial Performance or Statement of Financial Position as the Commission does not have control over how these funds are to be spent. Administered revenues, expenses, assets and liabilities are detailed separately within these statements and are shown in the Schedules of Administered Items. Administered items comprise:

(i) *SA Motor Sport Board*

The Commission administered the appropriation transfers from the Department of Treasury and Finance to the SA Motor Sport Board until 30 June 2002.

(ii) *Office of Venue Management*

Funding for the management and operation of the Hindmarsh Soccer Stadium was administered by the Commission from 1 July 2001 on behalf of the Minister for Tourism. The management and operation of the Hindmarsh Soccer Stadium was transferred from the Office of Venue Management to the Office for Recreation and Sport on 1 July 2002.

2. Significant Accounting Policies

(a) Basis of Preparation

The financial statements have been drawn up in accordance with the requirements of the Statements of Accounting Concepts, applicable Australian Accounting Standards, Treasurer's Instructions and applicable Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views). The accrual basis has been used in the preparation of the financial statements.

(b) Recognition of Revenues

Commission

Commission earned on sales of travel through the SA Travel and Visitor Centre is recognised at the date of ticketing.

Interest

Interest earned on deposit accounts at the Department of Treasury and Finance is recognised as revenue as it accrues.

Participation Fees

The Commission earns revenue from participants in the Tourism Industry through cooperative marketing schemes, sponsorship of events, subscriptions and training fees. This revenue is recognised as it accrues.

Revenues from Government

Appropriation from Government and contributions from other Government agencies are recognised as revenue in the period in which the monies are received and the Commission obtains control of the asset.

(c) Depreciation and Amortisation

Items of plant and equipment are depreciated on a straight line basis over their expected useful lives. The estimated useful lives of each asset class are as follows:

	Years
General plant and equipment	3-5
Christmas Pageant assets	5-15

Fitouts are amortised over the length of the lease of the property using the straight line method.

(d) Inventories

Consumable supplies are not recognised in the Statement of Financial Position as the value of these supplies is not considered material.

(e) Plant and Equipment

Items of plant and equipment controlled by the Commission with an individual value greater than $2 000 are recognised as non-current assets in the Statement of Financial Position. Items of plant and equipment are recorded at historic cost less accumulated depreciation.

Minor items of plant and equipment and Pageant assets with an individual value less than $2 000 are expensed in the Statement of Financial Performance at the time of acquisition.

(f) Intangible Assets

Goodwill and intellectual property arising from acquisition of the Christmas Pageant is accounted for at cost and is amortised on a straight line basis over 20 years, the period in which the benefits are expected to arise.

(g) Investment in Australian Tourism Data Warehouse Ltd

The Commission holds a total of 400 000 $1 shares in the Australian Tourism Data Warehouse (ATDW) Ltd, making the total holding $400 000. The Commission's shareholding does not give the Commission controlling interest in ATDW Ltd. The Commission's interest in ATDW Ltd is brought to account at cost.

(h) Employee Benefits

Provision has been made in the financial statements for the Commission's liability for employee benefits arising from services rendered by employees to 30 June. Related on-costs consequential to the employment of employees have been included in Payables (Note 15).

Salaries and Wages

Salaries and wages reflect remuneration received or due and receivable by employees as at the balance date.

Annual Leave

Provision has been made for the unused component of annual leave at 30 June. The provision has been calculated on current pay rates, plus an allowance of four percent.

Long Service Leave

Provision has been made for employee entitlements to long service leave at 30 June. The provision has been calculated at nominal amounts based on current pay rates using a benchmark of seven years service as a shorthand estimation of long service leave liability in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

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

Superannuation

During 2002-03 a total of $757 000 ($722 000) was paid, or due and payable, to the Department of Treasury and Finance towards the accruing government liability for superannuation in respect of the Commission's employees. In addition, $83 000 ($82 000) was paid to other externally managed superannuation schemes. Superannuation contributions are charged as an expense in the period in which they occur. The Commission is not liable for payments to beneficiaries as this is the responsibility of the superannuation schemes.

(i) Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains and losses are not material.

(j) Financial Instruments

The Commission's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2003, are as follows:

Financial Assets

Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.

Cash comprises Cash on hand and at Treasury and deposits at call. Cash is recorded at nominal amounts. Interest on cash is credited to revenue as it accrues.

Receivables are recognised at the nominal amounts due less provision for bad or doubtful debts (maximum credit risk). Credit terms are net 14 days.

Shares in Australian Tourism Data Warehouse Ltd are recognised at cost.

Financial Liabilities

Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. With the exception of employee on-costs, payables are normally settled within 30 days. It is policy to effect early payment where a discount can be achieved.

Borrowings are recognised at their principal amounts. Interest is expensed as it accrues. The term of the loan is 10 years commencing in 2000-01. The borrowings were for working capital purposes.

(k) *Comparative Figures*

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(l) *Taxation*

The Commission is exempt from income tax.

3. Program Class Schedule of Expenses and Revenues for the year ended 30 June 2003

The Commission has identified four broad program classes that reflect the nature of the services delivered to the South Australian community. These are:

Program Class 1: ***Strategic Advice***
To assist the tourism industry by providing tourism forecasting data and statistical research advice and evaluation, and industry policy and planning services.

Program Class 2: ***Tourism Development***
To provide advice and assistance to tourism operators and develop sustainable tourism product and infrastructure to raise the standard of tourism services and facilities across the State.

Program Class 3: ***Tourism Events***
To bid for and stage major events in South Australia.

Program Class 4: ***Tourism Marketing***
To provide high quality marketing services and development of marketing strategies and campaigns that increase the number of visitors to South Australia.

Revenues and expenses by Program Class for the year are as follows:

	Strategic Advice $'000	Tourism Dvlpmt $'000	Tourism Events $'000	Tourism Marketing $000	**2003 Total $'000**	2002 Total $'000
REVENUES:						
Revenues from Government	2 064	7 394	10 076	26 524	**46 058**	55 241
Participation fees	2	56	2 403	1 445	**3 906**	3 948
Interest	43	66	136	420	**665**	569
Commission on sales	-	-	-	542	**542**	545
Other revenue	59	377	699	1 011	**2 146**	4 082
Proceeds from the disposal of non-current assets	1	2	4	16	**23**	7
Total Revenues	2 169	7 895	13 318	29 958	**53 340**	64 392
EXPENSES:						
Employee benefits	752	1 195	2 415	6 191	**10 553**	10 470
Advertising and promotion	740	246	1 063	14 190	**16 239**	19 104
Industry assistance	191	6 112	3 442	3 181	**12 926**	16 094
Administration costs	200	550	1 637	3 330	**5 717**	6 011
Event operations	-	-	4 526	570	**5 096**	7 045
Accommodation and services costs	83	128	501	1 108	**1 820**	1 847
Depreciation and amortisation	31	47	189	302	**569**	620
Interest on borrowings	6	8	17	52	**83**	93
Bad and doubtful debts expense	-	-	-	6	**6**	6
Carrying value of non-current assets disposed/written off	14	22	46	141	**223**	132
Total Expenses	2 017	8 308	13 836	29 071	**53 232**	61 422
OPERATING SURPLUS (DEFICIT)	152	(413)	(518)	887	**108**	2 970

4. Revenue from Government

	2003 $'000	2002 $'000
Recurrent appropriation from South Australian Government	**46 058**	53 841
Transfers from other government agencies	**-**	1 400
	46 058	55 241

5. Participation Fees

	2003	2002
Cooperative marketing/advertising	**1 168**	1 022
Sponsorship revenue	**2 159**	2 902
Subscriptions for tourism publications	**7**	-
Workshops/Training	**45**	24
Advertising revenue	**34**	-
Trade/consumer show participation	**208**	-
Contra transactions	**285**	-
	3 906	3 948

6. Other Revenue

	2003	2002
	$'000	$'000
Event entry fees	**309**	2 202
Refunds/recoups of expenses	**903**	327
Service fees	**32**	269
Salary recoups	**72**	167
Familiarisation expenditure recouped	**118**	112
Sales of merchandise	**64**	127
Minor grants	**-**	60
Recognition of ATDW Ltd shares expensed in prior financial years	**-**	250
Sundry revenue	**648**	568
	2 146	4 082

7. Advertising and Promotion

The decrease of $2.9 million in advertising and promotion expenditure is due mainly to the completion of Year of the Outback Activities, biennial events staged by Australian Major Events and intrastate marketing activities.

8. Industry Assistance

	2003	2002
	$'000	$'000
Sponsorship of events	**4 126**	4 025
Tourism infrastructure grants	**5 650**	9 180
Tourism marketing boards/information centre grants	**2 044**	2 014
Marketing support	**977**	756
Membership of tourism industry bodies	**42**	51
Trade show subsidies	**87**	68
	12 926	16 094

9. Depreciation and Amortisation

The aggregate amount of depreciation and amortisation expensed during the year for each class of depreciable asset was as follows:

	2003	2002
Plant and equipment:		
General plant and equipment	**231**	254
Fitouts	**246**	246
Pageant assets	**82**	80
	559	580
Intangibles:		
Christmas Pageant goodwill	**10**	10
World solar challenge event naming rights	**-**	30
	10	40
	569	620

10. Receivables

	2003	2002
Debtors	**2 331**	2 301
Less: Provision for doubtful debts	**20**	18
	2 311	2 283
GST receivable	**730**	851
	3 041	3 134

11. Prepayments

	2003	2002
Event sponsorship and advertising	**-**	4
Other	**48**	43
	48	47

12. Plant and Equipment

	2003			
	General Plant & Equipment	Fitouts	Pageant Assets	**Total**
Gross Carrying Amount:	$'000	$'000	$'000	**$'000**
Balance at 1 July	1 163	2 115	643	**3 921**
Purchases	207	185	88	**480**
Disposals	(290)	(264)	-	**(554)**
Balance at 30 June	1 080	2 036	731	**3 847**
Accumulated Depreciation:				
Balance at 1 July	696	587	302	**1 585**
Depreciation expense	231	246	82	**559**
Disposals	(245)	(86)	-	**(331)**
Balance at 30 June	682	747	384	**1 813**
Net Book Value:				
As at 30 June 2002	467	1 528	341	2 336
As at 30 June 2003	398	1 289	347	**2 034**

13. Intangibles

	2003 Christmas Pageant Goodwill $'000
Gross Carrying Amount:	
Balance at 1 July	**200**
Balance at 30 June	**200**
Accumulated Amortisation:	
Balance at 1 July	**62**
Amortisation expense	**10**
Balance at 30 June	**72**
Net Book Value:	
As at 30 June 2003	**128**
As at 30 June 2002	**138**

14. Investment in Australian Tourism Data Warehouse

The Australian Tourism Data Warehouse (ATDW) is a joint project of all State and Territory tourism authorities working with the Australian Tourism Commission (ATC) to present and market Australian tourism product to the world through the ATC's website. Operators listed on the ATDW will then have their details uploaded onto the new consumer website offering worldwide exposure. The Commission's shareholding of 400 000 D Class shares in the Company does not give the Commission controlling interest in the Company.

15. Payables

	2003	2002
Current:	**$'000**	$'000
Trade creditors	**2 275**	2 484
Accrued expenses	**311**	493
Employee on-costs	**182**	162
GST payable	**219**	85
	2 987	3 224
Non-Current:		
Employee on-costs	**50**	24

16. Other Liabilities

Current:		
Unclaimed monies	**52**	51
Unearned revenue	**127**	122
Workers Compensation*	**-**	5
	179	178
Non-Current:		
Workers Compensation*	**-**	15

* The workers compensation provision is an actuarial estimate of the outstanding liability at 30 June provided by Taylor Fry Consulting Actuaries engaged through the Office for the Commissioner for Public Employment. This actuarial estimate provides for the estimated cost of ongoing payments to employees as required under current legislation.

17. Employee Benefits

	2003	2002
Current:	**$'000**	$'000
Provision for annual leave	**510**	599
Provision for long service leave	**276**	549
	786	1 148
Non-Current:		
Provision for long service leave	**432**	145
Employee benefits and related on-costs		
Current:		
Provisions	**786**	1 148
On-costs	**182**	162
	968	1 310
Non-current:		
Provisions	**432**	145
On-costs	**50**	24
	482	169
Aggregate employee benefits and related on-cost liabilities	**1 450**	1 479

18. Borrowings

	2003 $'000	2002 $'000
Balance 1 July	**1 287**	1 400
Less: Repayments	**122**	113
Balance 30 June	**1 165**	1 287
Represented by:		
Current borrowings	**129**	121
Non-current borrowings	**1 036**	1 166
	1 165	1 287

19. Tourism Infrastructure Reserve

The Commission receives appropriation from Parliament for specific tourism infrastructure projects. Funds not expended during the year are transferred to the Tourism Infrastructure Reserve. The movement in the Reserve for the year was:

	2003 $'000	2002 $'000
Balance 1 July	**4 858**	1 481
Transfer (to) from accumulated surplus	**(67)**	3 377
Balance 30 June	**4 791**	4 858

20. Accumulated Surplus

Balance 1 July	**1 291**	1 698
Operating Surplus	**108**	2 970
Transfer from (to) Tourism Infrastructure Reserve	**67**	(3 377)
Balance 30 June	**1 466**	1 291

21. Commitments

(a) Operating Lease Commitments

At the reporting date, the Commission had the following obligations under non-cancellable leases, the sum of which is not recognised as a liability:

Not later than one year	**909**	990
Later than one year but not later than five years	**1 213**	1 913
Later than five years	**395**	540
	2 517	3 443

These commitments have been calculated at current rates as lease terms are reviewed at regular intervals.

(b) Other Commitments

The Commission has entered into agreements in the nature of liabilities which, as at the reporting date, are not recognised in the Statement of Financial Position because they have been assessed as giving rise to a future rather than a present obligation for payment. These commitments are summarised as follows:

	2003 $'000	2002 $'000
Tourism marketing boards	**1 630**	1 625
International marketing representation fees	**969**	1 710
Tourism infrastructure projects	**230**	1 101
Events/sponsorship	**3 624**	1 814
Co-operative marketing	**740**	743
Service contracts	**370**	524

22. Contingent Obligations

Contingent obligations are items in the nature of liabilities which, as at the reporting date, are not recognised in the Statement of Financial Position because they have been assessed as being dependent on certain events taking place before a present obligation for the Commission to make payments in respect of them will arise.

The Commission is currently contesting a claim concerning the staging of the LeMans event in Adelaide. It is not possible to estimate the amount, if any, of eventual payments that may be required in relation to this claim.

23. Notes to the Statement of Cash Flows

(a) Reconciliation of Net Cash provided by Operating Activities to Operating Result

	2003 $'000	2002 $'000
Net cash provided by operating activities	**680**	2 428
Proceeds from disposal of non-current assets	**12**	7
Depreciation and amortisation	**(569)**	(620)
Carrying value of non-current assets disposed/written off	**(223)**	(132)
Recognition of ATDW Ltd shares expensed in prior years	**-**	250
Change in assets and liabilities:		
Increase (Decrease) in prepayments	**1**	(3)
Decrease in receivables	**(93)**	(7)
Decrease (Increase) in employee benefits	**75**	(120)
Decrease in other liabilities	**14**	261
Decrease in payables	**211**	906
Operating Surplus	**108**	2 970

(b) Reconciliation of Cash

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

	2003	2002
Cash at 30 June comprised:	**$'000**	$'000
Cash on hand and at Treasury (unexpended balance)	**4 988**	4 954
Deposits at call (accrual appropriation funds)	**1 217**	1 161
	6 205	6 115

24. Financial Instruments

(a) Interest Rate Risk

The following table details the Commission's exposure to interest rate risk.

2003

			Fixed Interest Rate Maturity				
	Average Interest Rate	Variable Interest Rate	Less than 1 year	1 to 5 years	Greater than 5 years	Non-Interest Bearing	**Total**
Financial Assets:	Percent	$'000	$'000	$'000	$'000	$'000	**$'000**
Cash - operating account	4.60	4 988	-	-	-	-	**4 988**
Cash - accrual appropriation funds	4.87	1 217	-	-	-	-	**1 217**
Receivables	-	-	-	-	-	3 041	**3 041**
Shares	-	-	-	-	-	400	**400**
		6 205	-	-	-	3 441	**9 646**
Financial Liabilities:							
Payables	-	-	-	-	-	2 805	**2 805**
Borrowings	6.72	-	129	612	424	-	**1 165**
		-	129	612	424	2 805	**3 970**

2002

			Fixed Interest Rate Maturity				
	Average Interest Rate	Variable Interest Rate	Less than 1 year	1 to 5 years	Greater than 5 years	Non-Interest Bearing	Total
Financial Assets:	Percent	$'000	$'000	$'000	$'000	$'000	$'000
Cash - operating account	4.27	4 954	-	-	-	-	4 954
Cash - accrual appropriation funds	4.52	1 161	-	-	-	-	1 161
Receivables	-	-	-	-	-	3 134	3 134
Shares	-	-	-	-	-	400	400
		6 115	-	-	-	3 534	9 649
Financial Liabilities:							
Payables	-	-	-	-	-	3 062	3 062
Borrowings	6.72	-	121	573	593	-	1 287
		-	121	573	593	3 062	4 349

(b) Credit Risk

The Commission does not have any significant credit risk exposure to any single creditor.

The carrying amount of financial assets recorded in the Statement of Financial Position, net of provisions for doubtful debts, represents the Commission's maximum exposure to credit risk.

(c) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the Statement of Financial Position represents their respective net fair values.

25. Targeted Voluntary Separation Packages (TVSPs)

In accordance with Government policy to reduce the public sector work force, 4 (1) employees of the Commission were paid a TVSP during 2002-03. Payments totalling $257 000 ($30 000) were met by the Commission and were recovered from the Department of the Premier and Cabinet.

In addition, accrued annual leave and long service leave entitlements amounting to $58 000 ($8 000) were paid to those employees who received a TVSP.

26. Related Party Information

(a) Directors

The following persons held office as a Director of the Board of the South Australian Tourism Commission during the year:

P Hoffman (Chair from 10 October 2002)
A Skipper (Deputy Chair from 10 October 2002)
R Davis
D Minear
M J Jeffreys
P Hurley
L Bowes
F Connor (from October 2002)
J James (from October 2002)
R Cook (Chair until 1 September 2002)
M Angelakis (until 1 September 2002)

(b) Transactions

There have been transactions with Board members which have been carried out under terms and conditions no more favourable than those which would have applied if the transactions were at arm's length.

27. Remuneration of Directors of the Board

The number of Directors whose total remuneration received or due and receivable fell within the following bands was:

	2003 Number of Directors	2002 Number of Directors
$0 - $10 000	**5**	4
$10 001 - $20 000	**5**	7
$20 001 - $30 000	**1**	-
$30 001 - $40 000	**-**	1

The total remuneration received, or due and receivable, by Directors was $130 000 ($152 000). The total remuneration includes board sitting fees, superannuation, non-monetary benefits including associated fringe benefits tax and sitting fees for representing the South Australian Tourism Commission on committees other than the South Australian Tourism Commission Board.

28. Remuneration of Employees

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

	2003 Number of Employees	2002* Number of Employees
$100 001 - $110 000	**3**	3
$110 001 - $120 000	**2**	-
$130 001 - $140 000	**-**	1
$140 001 - $150 000	**2**	1
$150 001 - $160 000	**-**	1
$160 001 - $170 000	**1**	-
$170 001 - $180 000	**1**	1
$220 001 - $230 000	**1**	1

The total remuneration received or due and receivable by employees whose remuneration exceeded $100 000 was $1 401 000 ($1 156 000). The remuneration includes salary, employer's superannuation costs, non-monetary benefits, and associated fringe benefits tax.

* Amended

29. Auditors' Remuneration

	2003 $'000	2002 $'000
Amounts received, or due and receivable by the Auditor-General's Department for auditing of the accounts	**55**	55

30. Consultants

Total expenditure on 2 (28) consultancies in 2002-03 amounted to $37 000 ($164 000)

	2003 Number of Consultants	**2003 $'000**
Less than $10 000	**1**	**3**
$10 000 - $50 000	**1**	**34**

Consultancies costing between $10 000 and $50 000 per Consultancy

Project	*Consultants*
Risk Management Planning	MQM

TREASURER; DEPUTY PREMIER; MINISTER FOR INFRASTRUCTURE; MINISTER FOR GAMBLING; MINISTER FOR ENERGY

PORTFOLIO – TREASURY AND FINANCE

INTRODUCTION

This 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:

- Treasurer
- Deputy Premier
- Minister for Infrastructure
- Minister for Gambling
- Minister for Energy

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

- Electricity Supply Industry
  - Distribution Lessor Corporation
  - Generation Lessor Corporation
  - Transmission Lessor Corporation
  - RESI Corporation
- Industrial and Commercial Premises Corporation
- Judges' Pensions Scheme
- Land Management Corporation
- Lotteries Commission of South Australia
- Motor Accident Commission
- National Wine Centre
- Parliamentary Superannuation Scheme
- Police Superannuation Scheme
- South Australian Asset Management Corporation
- South Australian Government Captive Insurance Corporation
- South Australian Government Financing Authority
- South Australian Superannuation Board
  - South Australian Superannuation Scheme
  - Southern State Superannuation Scheme
- Superannuation Funds Management Corporation of South Australia
- Treasury and Finance - Department of

SUPPLEMENTARY REPORT

There are bodies whose financial statements have not been finalised or the audit has not been completed in time for inclusion in this Report. The financial statements for, and commentary on the operations of, the Police Superannuation Scheme will be included in a Supplementary Report to be presented to Parliament later in this financial year.

ELECTRICITY SUPPLY INDUSTRY

OVERVIEW

STRUCTURE OF THIS SECTION OF THE REPORT

To provide an understanding, and to assist with readability, this section of the Report comments on the organisational arrangements operating in the 2002-03 financial year resulting from the disposal of the South Australian Government owned electricity assets.

Details of the major changes associated with the disposal process were provided in Part B of the Auditor-General's Report for the year ended 30 June 2001 in the section titled 'Electricity Supply Industry'.

OVERVIEW OF CHANGES TO AGENCY ORGANISATIONAL STRUCTURES

In February 1998 the former South Australian Government announced its intention to dispose of its electricity assets and, at the same time, proposed reforms for the South Australian electricity supply industry, including the restructure of the existing government-owned electricity businesses.

To facilitate both the completion of the reform process, and prepare the State's electricity supply industry assets for potential disposal, on 30 June 1998 the former Government announced plans for the restructure of the State's electricity supply industry. This included the 'disaggregation' of the electricity businesses, including:

- subdivision of the generation function into three competing businesses;
- creation of a company to manage the existing gas contracts and to trade in gas;
- establishing the transmission function as an autonomous trading entity;
- establishing the distribution and retail functions as separate subsidiary entities.

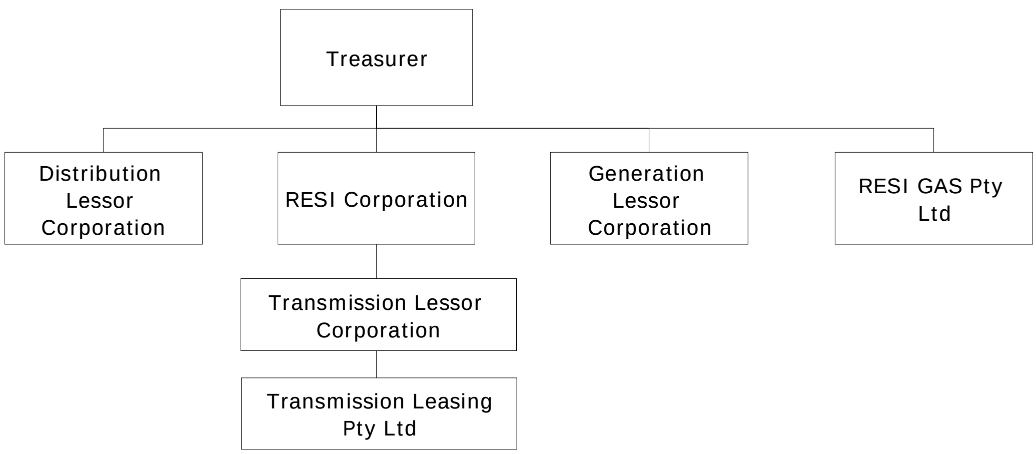
In June 1999, the *Electricity Corporations (Restructuring and Disposal) Act 1999* was passed by Parliament allowing for the long-term lease of the State's distribution, generation, retail and transmission assets.

The disposal process was completed during 2000-01.

To assist with the disposal process and to provide avenues to which residual assets and liabilities of the former electricity entities could be transferred pending settlement of assets and liabilities, a number of government-owned electricity entities were formed.

A number of the government-owned electricity entities previously formed having achieved their purpose were deregistered or dissolved in previous years.

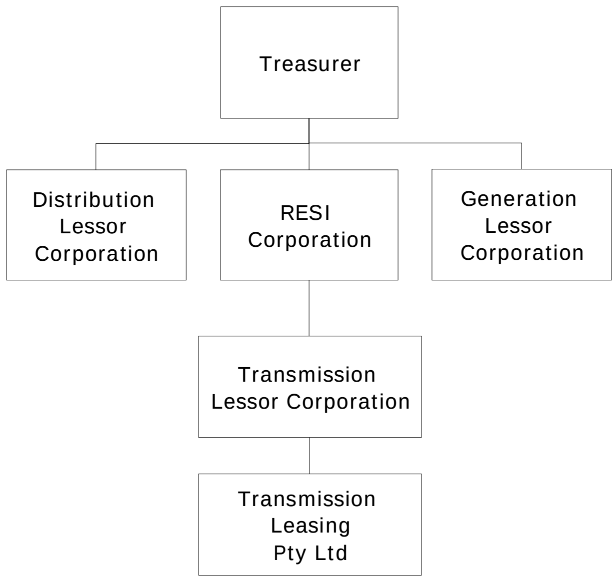
Thus, the structure of the government-owned electricity supply industry as at 30 June 2002 was as follows:



CHANGES TO ORGANISATIONAL STRUCTURE AND FUNCTIONS IN 2002-03

During 2002-03 the Government deregistered RESI GAS Pty Ltd as part of finalising the electricity disposal process. This completes the restructuring of residual electricity entities for the present.

Thus, the structure of the government-owned electricity supply industry as at 30 June 2003 is as follows:



Of the above government-owned residual electricity entities, Distribution Lessor Corporation, Transmission Lessor Corporation and Generation Lessor Corporation administer as lessor on behalf of the State, the various sale/lease agreements for the previously government owned and controlled (now leased) electricity businesses.

RESI Corporation has no lease responsibilities, but administers residual liabilities including workers compensation claims of former ETSA employees.

SPECIFIC COMMENTARY ON GOVERNMENT-OWNED RESIDUAL ELECTRICITY ENTITIES

Organisational Structure

All the above five government-owned residual electricity entities are administered and overseen by a Board of Directors. For the three Lessor Corporations, they employ no full time staff, however accounting and administrative support is provided by staff of the South Australian Government Financing Authority (SAFA) and a management fee is charged for the services provided. In relation to RESI Corporation, it is managed by a Chief Executive Officer part time with accounting and administrative support provided by staff of SAFA and a fee charged for the services provided.

Specific Commentary

Specific commentary and a summary of financial statements follow for the residual government-owned electricity entities in existence as at 30 June 2003, namely:

- Distribution Lessor Corporation
- Generation Lessor Corporation
- Transmission Lessor Corporation
- RESI Corporation

Specific commentary and a summary of financial statements is not presented within this Report for Transmission Leasing Pty Ltd as it did not undertake any trading activities. It is a participant in a cross border lease of transmission assets.

DISTRIBUTION LESSOR CORPORATION

FUNCTIONAL RESPONSIBILITY

Establishment

Distribution Lessor Corporation (DLC) was established as a subsidiary of the Treasurer in July 1999 pursuant to the Public Corporations (Distribution Lessor Corporation) Regulations 1999.

Functions

The principal activity of DLC is as lessor of the prescribed electricity assets consisting of the distribution network and the land on which it is located.

Details of Leases

On 28 January 2000, DLC leased the distribution network under a 200 year finance lease and the distribution network land under a 200 year operating lease to the South Australian Utilities Partnership comprising CKI Utilities Development Ltd, HEI Utilities Development Ltd, CKI Utilities Holdings Ltd, HEI Utilities Ltd and CKI/HEI Utilities Distribution Ltd. The leases are linked whereby default under one lease will result in a default in the other.

The lease proceeds corresponding to the lease of the distribution network assets under the 200 year finance lease were fully brought to account in a previous year and treated for accounting purposes as proceeds of an asset disposal. The lease proceeds for the network land being subject to an operating lease are amortised in the accounts of Distribution Lessor Corporation over the 200 year period of the lease.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

In accordance with section 31 of the *Public Finance and Audit Act 1987* and subclause 13(3) of the Schedule to the *Public Corporations Act 1993* the Auditor-General may at any time, and must in respect of each financial year, audit the accounts and financial statements of Distribution Lessor Corporation.

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 Distribution Lessor 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 was directed primarily towards obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal control.

During 2002-03 a specific area of audit attention included accounting for the lease of the prescribed electricity distribution assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of Distribution Lessor Corporation as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

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

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

- DLC made a loss of $67 000 ($129 000 loss).
- The net present value of the network land operating lease rentals of $276.2 million was fully prepaid or otherwise secured by a lump sum security payment by the lessee on 28 January 2000, which was received by the Treasurer. The major asset is lease rentals receivables (from the Treasurer) which is brought to account over the life of the lease with the major liability being unearned lease revenue. Annual lease rentals amortised comprise a significant portion of revenue from ordinary activities.
- The reduction in revenue from ordinary activities was due to the transfer of land (relating to a non-prescribed electricity asset) to the Minister for Emergency Services in the previous year which resulted in lease revenue decreasing by $232 000 in the current year.
- The reduction in expenses from ordinary activities was due to DLC writing off the balance of the Treasurer's Clearing Account last year which represented a receivable due from the Treasurer. This resulted in expenses of $271 000 for the 2002 financial year which did not reoccur.

ABRIDGED FINANCIAL STATEMENTS

The results of operations for the year ended 30 June 2003 for Distribution Lessor Corporation are set out below:

Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$000	$000
TOTAL REVENUE FROM ORDINARY ACTIVITIES	**108**	335
TOTAL EXPENSES FROM ORDINARY ACTIVITIES	**175**	464
NET PROFIT (LOSS)	**(67)**	(129)
CHANGES IN EQUITY	**(67)**	(129)

Statement of Financial Position as at 30 June 2003

	2003	2002
	$000	$000
Current Assets	**1 147**	1 216
Non-Current Assets	**302 912**	302 966
Total Assets	**304 059**	304 182
Current Liabilities	**65**	67
Non-Current Liabilities	**275 969**	276 023
Total Liabilities	**276 034**	276 090
NET ASSETS	**28 025**	28 092
TOTAL EQUITY	**28 025**	28 092

GENERATION LESSOR CORPORATION

FUNCTIONAL RESPONSIBILITY

Establishment

Generation Lessor Corporation (GLC) was established as a subsidiary of the Treasurer in July 1999 pursuant to the Public Corporations (Generation Lessor Corporation) Regulations 1999.

Functions

The principal activity of GLC is a lessor of the prescribed electricity assets which are in the nature of generation plant or the land upon which the generation plant is located, as well as certain other assets that are not prescribed electricity assets including land at Torrens Island and Port Augusta associated with generation operations at those locations and the Leigh Creek Township.

GLC is also the lessee of the Leigh Creek Railway and has granted a sub-lease of the Railway to the operator of the Port Augusta Power Station.

Details of Leases

On 6 June 2000, GLC leased the prescribed electricity assets consisting of generating plant comprising the Torrens Island Power Station (which had been transferred from RESI OE Pty Ltd) under two separate finance leases of 100 years each to TXU (South Australia) Pty Ltd. GLC entered into a separate 100 year finance lease with TXU (South Australia) Pty Ltd in respect of land on which the two generating plants are located.

On 6 June 2000, GLC leased the prescribed electricity assets consisting of generating plant comprising Port Lincoln, Snuggery, Dry Creek and Mintaro Power Stations (which had been transferred from RESI SYN Pty Ltd) under a finance lease of 100 years to National Power Synergen Pty Ltd. GLC entered into a separate 100 year finance lease with National Power Synergen Pty Ltd in respect of the land on which the generating plants are located.

On 8 September 2000, GLC leased the prescribed electricity assets consisting of generating plant comprising the Northern and Playford Powers Stations at Port Augusta (which had been transferred from RESI FP Pty Ltd) under two separate finance leases of 100 years each to the Flinders Power Partnership which comprises NRG Generating Holdings (No 2) GmbH, Flinders Power Labaun (No 1) Ltd and Flinders Labaun (No 2) Ltd. GLC entered into separate 100 year finance leases with the Flinders Power Partnership in respect of the land on which the generating plants are located.

GLC also entered into separate 20 year operating leases with the Flinders Power Partnership for the Leigh Creek Township and Railway assets transferred from RESI FP Pty Ltd.

The lease proceeds corresponding to leasing of the generating plant prescribed electricity assets under the various 100 year finance leases were fully brought to account in a previous year and treated for accounting purposes as proceeds of an asset disposal. The lease proceeds for the Leigh Creek Township and Railway assets being subject to operating leases are amortised in the accounts of Generation Lessor Corporation over the 20 year period of the leases.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

In accordance with section 31 of the *Public Finance and Audit Act 1987* and subclause 13(3) of the Schedule to the *Public Corporations Act 1993*, the Auditor-General may at any time, and must in respect of each financial year, audit the accounts and financial statements of Generation Lessor Corporation.

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 Generation Lessor 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 was directed primarily towards obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal control.

During 2002-03 a specific area of audit attention included accounting for the lease rentals amortised.

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 Generation Lessor Corporation as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

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

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

- GLC made a profit of $425 000 (loss of $2.6 million).

- The net present value of operating lease rentals, being $2.86 million for the Leigh Creek Township and $78.31 million for GLC's interest in the Leigh Creek Railway, were fully prepaid or otherwise secured by a lump sum security payment by the lessee on 8 September 2000, which was received by the Treasurer. The major asset is lease rentals receivables (from the Treasurer) which is brought to account over the life of the leases with the major liability being unearned lease revenue. Annual lease rentals are amortised on a net present value basis over the terms of the leases and comprise a significant portion of revenue from ordinary activities with the unearned amount forming the major portion of liabilities.
- Amortisation of prepaid lease rentals was $1.7 million ($1.5 million) and this forms the major portion of revenue from ordinary activities.

- Total expenses from ordinary activities decreased as last year Area 3 of Torrens Island was revalued down to $1.3 million resulting in a revaluation decrement of $3.1 million which formed the major portion of expenses from ordinary activities for the 2002 financial year.

- Property plant and equipment of $18.4 million forms part of non-current assets and mainly comprises the Leigh Creek Railway and Leigh Creek Township which is subject to operating leases. Depreciation of Leigh Creek Railway and Leigh Creek Township was $ 1 million ($1 million) and this forms a major portion of expenses from ordinary activities.

ABRIDGED FINANCIAL STATEMENTS

The results of operations for the year ended 30 June 2003 for Generation Lessor Corporation are set out below:

Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
TOTAL REVENUE FROM ORDINARY ACTIVITIES	**1 878**	1 991
TOTAL EXPENSES FROM ORDINARY ACTIVITIES	**1 453**	4 600
PROFIT(LOSS) FROM ORDINARY ACTIVITIES	**425**	(2 609)
NET PROFIT (LOSS)	**425**	(2 609)
CHANGES IN EQUITY	**425**	(2 609)

Statement of Financial Position as at 30 June 2003

	2003	2002
	$'000	$'000
Current Assets	**4 298**	2 551
Non-Current Assets	**93 143**	96 167
Total Assets	**97 441**	98 718
Current Liabilities	**1 889**	1 719
Non-Current Liabilities	**74 744**	76 616
Total Liabilities	**76 633**	78 335
NET ASSETS	**20 808**	20 383
TOTAL EQUITY	**20 808**	20 383

TRANSMISSION LESSOR CORPORATION

FUNCTIONAL RESPONSIBILITY

Establishment

ETSA Transmission Corporation was incorporated in 1995 by regulation under the *Public Corporations Act 1993* as a subsidiary of ETSA Corporation (now RESI Corporation). During 1999-2000 the name of ETSA Transmission Corporation was changed to Transmission Lessor Corporation (TLC) in readiness for leasing its prescribed transmission assets.

Although RESI Corporation is the ultimate holding Corporation in terms of the *Public Corporations Act 1993*, TLC was established as an autonomous trading entity, which in substance cannot be directed by RESI Corporation without the approval of the Treasurer.

TLC has a subsidiary titled Transmission Leasing Pty Ltd which is a participant in a cross border lease of transmission assets.

Functions

On 20 September 2000 the majority of the assets and liabilities of TLC were sold or leased and TLC ceased trading as a electricity transmission business effective from 31 October 2000.

From 1 November 2000 the principal activity of TLC is as lessor of the prescribed electricity assets consisting of the transmission network and the land on which it is located.

Details of Leases

As advised above with effect from 31 October 2000, TLC leased the transmission network prescribed electricity assets under a 200 year finance lease and the transmission network land prescribed electricity assets under a 200 year operating lease to Bluemint Pty Ltd. The leases are linked whereby default under one lease will result in a default in the other.

The lease proceeds corresponding to the leasing of the transmission network prescribed electricity assets under the 200 year finance lease were fully brought to account in a previous year and treated for accounting purposes as proceeds of an asset disposal. The lease proceeds for the transmission network land being subject to an operating lease are amortised in the accounts of Transmission Lessor Corporation over the 200 year period of the lease.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

In accordance with section 31 of the *Public Finance and Audit Act 1987* and subclause 13(3) of the Schedule to the *Public Corporations Act 1993* the Auditor-General may at any time, and must in respect of each financial year, audit the accounts and financial statements of Transmission Lessor Corporation.

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

During 2002-03 specific areas of audit attention included accounting for the lease of the prescribed electricity transmission assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of Transmission Lessor Corporation as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

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

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

- TLC made a loss of $100 000 (profit $919 000).
- The net present value of lease rentals for the network land of $156.1 million were fully prepaid or otherwise secured by a lump sum security payment by the lessee on 31 October 2000, which was received by the Treasurer. The major asset is lease rentals receivables (from the Treasurer) which is brought to account over the life of the leases with the major liability being unearned lease revenue. Annual lease rentals are amortised on a net present value basis over the terms of the leases and the annual amortisation amount does not become significant until the year 2100 with the unearned amount forming the major portion of liabilities.
- The decrease in total revenue from ordinary activities was due to TLC writing off the balance of the Treasurer's Clearing Account last year reflecting the reversal of a payable to the Treasurer. This resulted in revenue of $973 000 for the 2002 financial year which did not reoccur.

ABRIDGED FINANCIAL STATEMENTS

The results of operations for the year ended 30 June 2003 for Transmission Lessor Corporation are set out below:

Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
TOTAL REVENUE FROM ORDINARY ACTIVITIES	**103**	1 197
TOTAL EXPENSES FROM ORDINARY ACTIVITIES	**203**	278
(LOSS) PROFIT FROM ORDINARY ACTIVITIES	**(100)**	919
NET (LOSS) PROFIT	**(100)**	919
CHANGES IN EQUITY	**(100)**	919

Statement of Financial Position as at 30 June 2003

	2003	2002
	$'000	$'000
Current Assets	**6 808**	8 519
Non-Current Assets	**169 930**	169 930
Total Assets	**176 738**	178 449
Current Liabilities	**12**	15
Non-Current Liabilities	**162 038**	163 646
Total Liabilities	**162 050**	163 661
NET ASSETS	**14 688**	14 788
TOTAL EQUITY	**14 688**	14 788

RESI CORPORATION

FUNCTIONAL RESPONSIBILITY

Establishment

ETSA Corporation was established as a public corporation pursuant to the provisions of the *Electricity Corporations Act 1994*. In February 2000 the name of ETSA Corporation was changed to RESI Corporation.

Functions

The primary functional responsibilities of RESI Corporation, as set out in its charter, include the following:

- Manage and administer any residual assets and liabilities, which do not form part of the State's electricity privatisation process.
- Implement pass-through agreements as directed by the Treasurer.
- To, as directed, become and remain a party to a number of agreements including:
  - — US Cross Border Lease transaction over the electricity transmission assets,
  - — gas haulage and gas purchase agreements with Epic and the South Australian Cooper Basin Producers,
  - — power purchase and gas sale agreements with Osborne Cogeneration Pty Ltd.
- To act as the parent entity of a number of subsidiary entities until they are wound up, deregistered or dissolved.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

In accordance with subsection 32(4) of the *Public Corporations Act 1993*, the Auditor-General must audit the accounts of RESI Corporation (formerly ETSA Corporation) in each year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, provides for the Auditor-General to assess of the controls exercised by RESI 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 all major financial systems and was directed primarily towards obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal control.

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 RESI Corporation as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

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

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

- RESI Corporation made a profit of $1.2 million (loss of $2.1 million).
- The increase in revenues from ordinary activities was due to proceeds received of $2.7 million for the sale of RESI Corporation's only non-current asset comprising land at Kirton Point (Port Lincoln). This resulted in a profit on sale of land of $2.3 million and is the main reason for the turnaround in the Corporation's result (from loss to profit).
- The decrease in expenses from ordinary activities was due to a write-off in the previous year of a receivable due from the Treasurer to fund future public liability and workers compensation claims. The receivable was no longer required as RESI Corporation will fund those claims from its own resources. The write-off resulted in an expense of $2.05 million in the 2002 financial year which did not reoccur. This reduction in expenses from ordinary activities was offset by increases in expenses for outstanding claims of $1 million.
- The current assets consist mainly of cash and deposits and liabilities comprise mainly provision for outstanding claims for public liability and workers compensation.

ABRIDGED FINANCIAL STATEMENTS

The results of operations for the year ended 30 June 2003 for RESI Corporation are set out below:

Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
TOTAL REVENUES FROM ORDINARY ACTIVITIES	**3 092**	408
TOTAL EXPENSES FROM ORDINARY ACTIVITIES	**1 866**	2 549
PROFIT (LOSS)	**1 226**	(2 141)
CHANGES IN EQUITY	**1 226**	(2 141)

Statement of Financial Position for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Current Assets	**8 304**	7 378
Non-Current Assets	**-**	415
Total Assets	**8 304**	7 793
Current Liabilities	**2 174**	1 886
Non-Current Liabilities	**757**	1 760
Total Liabilities	**2 931**	3 646
NET ASSETS	**5 373**	4 147
TOTAL EQUITY	**5 373**	4 147

INDUSTRIAL AND COMMERCIAL PREMISES CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Industrial and Commercial Premises Corporation (the Corporation) is 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 is 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 have 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 operates in close collaboration with the Department for Business, Manufacturing and Trade, and Office for Economic Development.

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

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 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 of the Corporation was undertaken in conjunction with the audit of the Department for Administrative and Information Services.

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

During 2002-03 specific areas of audit attention included:

- review of construction in progress project developments
- expenditure of monies with respect to new developments
- borrowings and related interest expenses
- raising and recovery of monies due with respect to established properties
- administrative expenses charged to the Corporation.

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 Corporation's internal controls. Specific areas in which reliance was placed on internal audit work included facets of Project Management such as project engagement, procurement and project reporting.

Audit Communications to Management

There were no major matters raised with the Corporation during the year.

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 Corporation as at 30 June 2003, 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 Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Corporation have been conducted properly and in accordance with law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

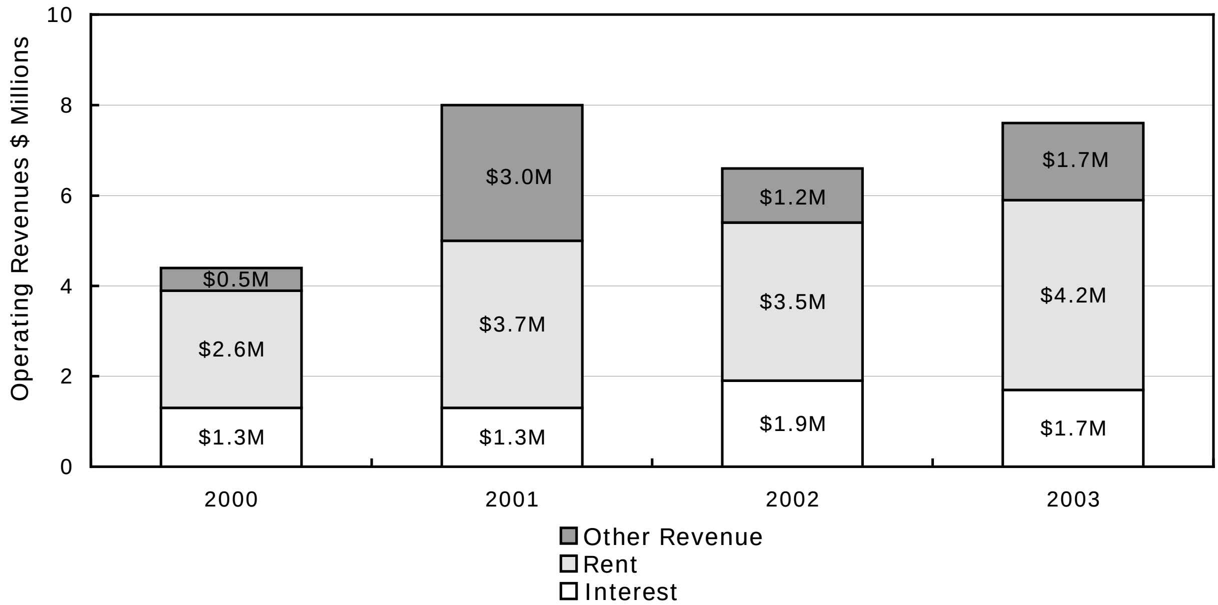
Highlights of Financial Statements

	2003 $'000	2002 $'000	Percentage Change
OPERATING REVENUE			
Interest Revenue	**1 709**	1 876	(8.9)
Rent	**4 118**	3 531	16.6
Other	**1 717**	1 189	44.4
Total Operating Revenue	**7 544**	6 596	14.4
OPERATING EXPENDITURE			
Interest	**4 769**	3 361	41.9
Revaluation Decrement	**7 144**	-	-
Other expenses	**2 639**	2 547	3.6
Total Operating Expenses	**14 552**	5 908	146.3
Surplus (Deficit)	**(7 008)**	688	
Net Cash Flows from Operations	**(6929)**	(24 295)	128.5
ASSETS			
Current assets	**8 054**	7 614	5.8
Non-current assets	**72 640**	58 475	24.2
Total Assets	**80 694**	66 089	22.1
LIABILITIES			
Current liabilities	**41 516**	28 646	44.9
Non-current liabilities	**46 219**	37 275	24.0
Total Liabilities	**87 735**	65 921	33.6
EQUITY	**(7 041)**	168	-

Statement of Financial Performance

Operating Revenues

For the four years to 2003 a structural analysis of operating revenues for the Corporation is presented in the following chart.

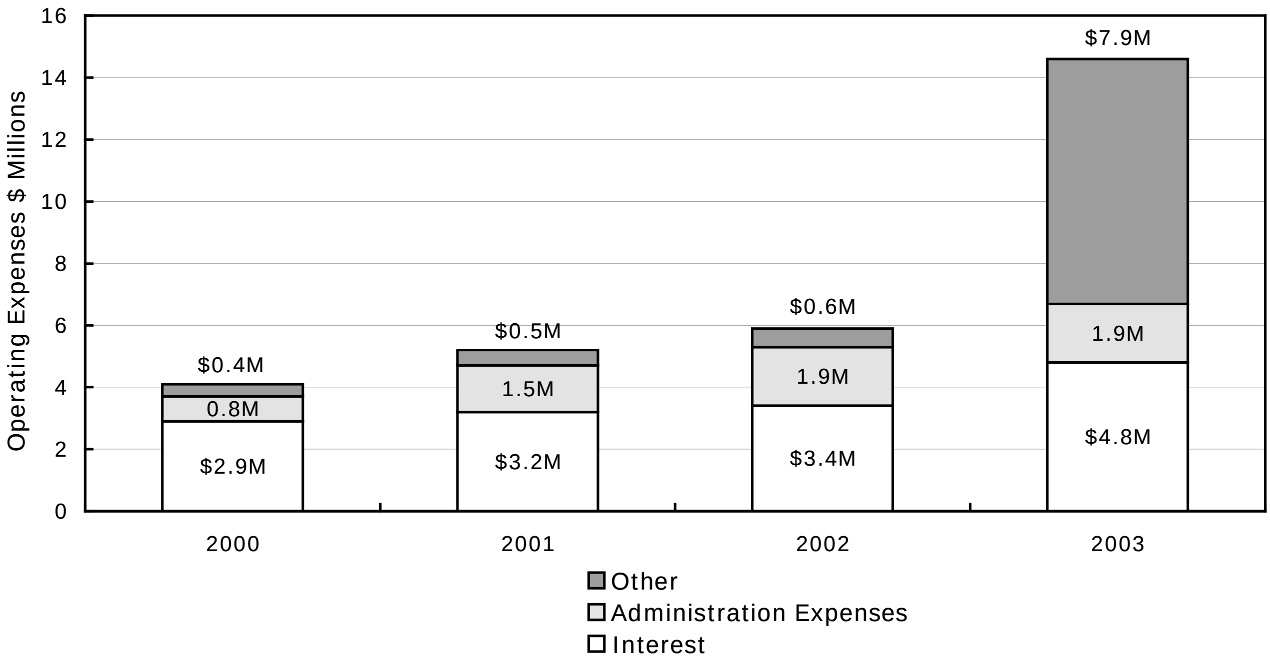


The Corporation has two main sources of revenue, being interest earned on Deferred Purchase finance arrangements and rent from properties it owns as landlord.

Over the four year period there has been a gradual increase in revenue from both of these areas reflecting a gradual increase in its construction activities over the period.

Operating Expenses

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

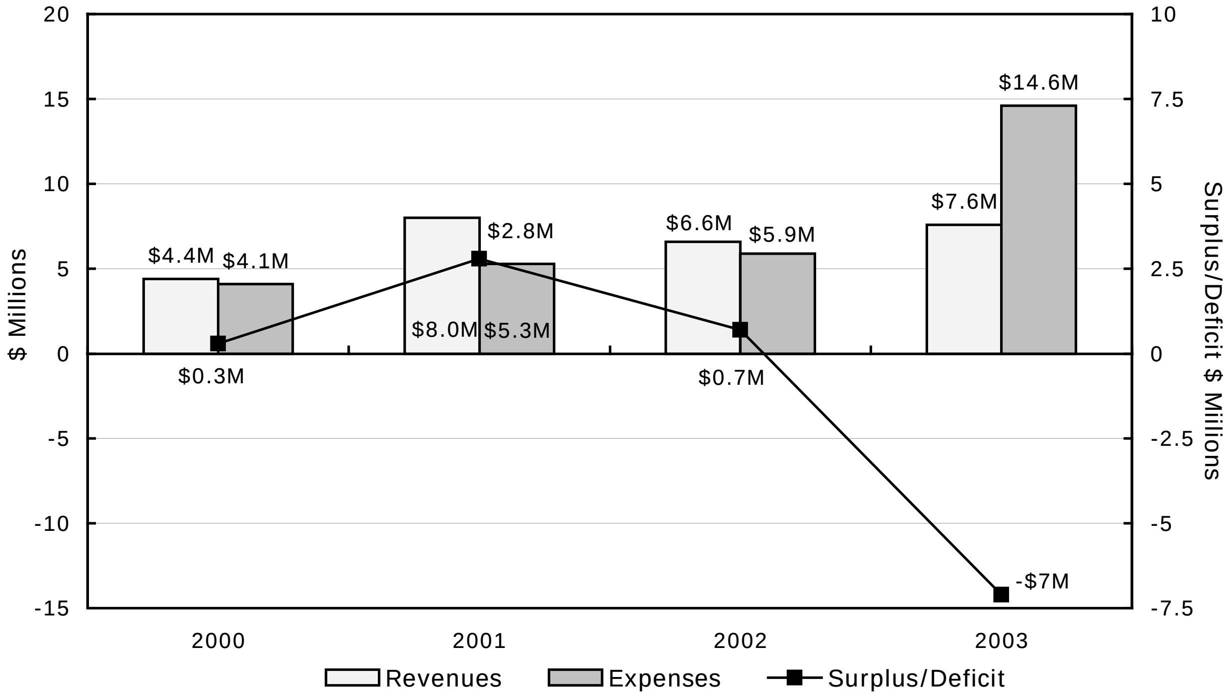


Interest expenditure has risen as a result of an increase in the level of borrowings from SAFA. Refer to Note 10 of the financial statements.

In 2003 the increase in other expenditure is a direct result of the recognition of the diminution of the value of a property owned by the Corporation. Note 2.3(b) to the financial statements provides further details.

Operating Result

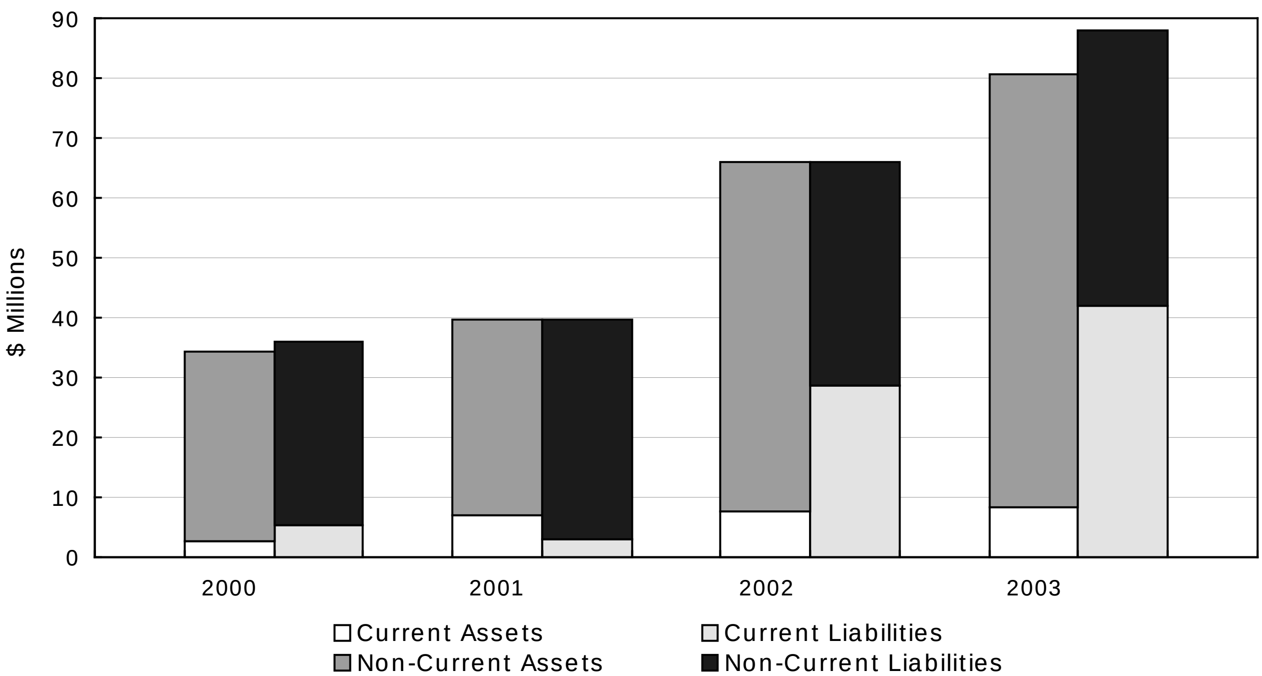
The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2003.



As previously mentioned, in 2003 the increase in expenditure is a direct result of the recognition of the diminution of the value of the property held under a lease arrangement. This impacted on the operating result for the year.

Statement of Financial Position

For the four years to 2003 a structural analysis of assets and liabilities is shown in the following chart.



The above chart highlights the growth in non-current assets of the Corporation over the four year period. This growth is mainly related to a steady increase in construction projects over the period. Construction projects in progress are recorded as such in the Statement of Financial Position, and once completed the projects are reclassified as either land and buildings or deferred purchase agreements, depending on the nature of the agreement with the private sector participant.

The proportional increase in total liabilities reflects the fact that the Corporation borrows money form SAFA to finance the construction projects.

The Corporation has a net liability position in 2003 due primarily to the revaluation downwards of property it owns.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 **$'million**	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**(6.9)**	(24.3)	1.0	(2.4)
Investing	**(16.6)**	(2.5)	0.3	0.7
Financing	**21.7**	26.9	2.8	1.1
Change in Cash	**(1.8)**	0.1	4.1	(0.6)
Cash at 30 June	**3.0**	4.8	4.7	0.6

The analysis of cash flows shows that the Corporation's surplus cash generated through financing activities is applied to fund its operating activities which include payments for land acquisition and construction projects in progress over the period of review. In addition, during 2003 a major purchase of land and building construction was undertaken, representing cash utilised through investing activities.

Statement of Financial Performance
for the year ended 30 June 2003

	Note	**2003**	2002
REVENUE FROM ORDINARY ACTIVITIES:		**$'000**	$'000
Interest		**1 709**	1 876
Rent		**4 118**	3 531
Recoveries and sundry income		**1 717**	1 189
Total Revenue		**7 544**	6 596
EXPENSES FROM ORDINARY ACTIVITIES:			
Interest		**4 769**	3 361
Administrative expenditure	3	**1 886**	1 944
Depreciation	2.3(b)	**753**	603
Revaluation Decrement	2.3(b)	**7 144**	-
Total Expenses		**14 552**	5 908
(LOSS) PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		**(7 008)**	688
Income tax expense relating to ordinary activities	4	**-**	206
(LOSS) PROFIT FROM ORDINARY ACTIVITIES AFTER RELATED INCOME TAX		**(7 008)**	482
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**(7 008)**	482

Statement of Financial Position
as at 30 June 2003

	Note	**2003**	2002
CURRENT ASSETS:		**$'000**	$'000
Cash	15	**3 007**	4 802
Receivables	8	**5 006**	2 793
Accruals and prepayments		**41**	19
Total Current Assets		**8 054**	7 614
NON-CURRENT ASSETS:			
Receivables	8	**12 843**	14 941
Construction projects in progress	2.3(c)	**28 198**	19 819
Less: Deposits received	2.3(d)	**(4 419)**	(3 536)
		23 779	16 283
Property, plant and equipment	2.3(b),9(b)	**36 018**	27 251
Total Non-Current Assets		**72 640**	58 475
Total Assets		**80 694**	66 089
CURRENT LIABILITIES:			
Creditors and borrowings	10	**40 908**	27 804
Provisions	11	**-**	111
Other accruals	12	**608**	731
Total Current Liabilities		**41 516**	28 646
NON-CURRENT LIABILITIES:			
Creditors and borrowings	10	**46 219**	37 275
Total Non-Current Liabilities		**46 219**	37 275
Total Liabilities		**87 735**	65 921
NET (LIABILITIES) ASSETS		**(7 041)**	168
EQUITY:			
Asset revaluation reserve	9,13	**114**	25
Accumulated (losses) profits	21	**(7 155)**	143
TOTAL EQUITY		**(7 041)**	168
Liability Obligations	6,22(a)(b)		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Rent received		**2 903**	3 282
Principal received from mortgage and agreement loans		**1 588**	2 288
Payments for land acquisition and construction projects in progress		**(7 717)**	(30 042)
Deposits received for construction projects		**333**	3 536
Recoveries and sundry receipts		**1 228**	1 124
Interest received		**1 549**	1 775
Servicing costs and payments to suppliers		**(1 535)**	(842)
Interest payments		**(4 770)**	(3 149)
Tax equivalent paid	4	**(508)**	(2 267)
Net Cash used in Operating Activities	14	**(6 929)**	(24 295)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of land and buildings	9	**(16 571)**	(2 473)
Net Cash used in Investing Activities		**(16 571)**	(2 473)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		**30 621**	29 289
Dividends paid	7	**(290)**	(246)
Repayment of borrowings		**(8 626)**	(2 160)
Net Cash provided by Financing Activities		**21 705**	26 883
NET (DECREASE) INCREASE IN CASH HELD		**(1 795)**	115
CASH AT 1 JULY		**4 802**	4 687
CASH AT 30 JUNE	15	**3 007**	4 802

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 four members appointed by the Minister (refer Note 16).

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.

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 2001 to 30 June 2002.

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 are 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. The remaining properties were subject to revaluations in previous years.

During 2002-03 the JP Morgan project was completed. The cost of completion was $19.04m for land and building. A valuation was made in January 2003 that valued JP Morgan land and building at $11.9m and as a consequence the Corporation has recognised a revaluation decrement of $7.14m.

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:

	2003	2002
	$'000	$'000
Tax equivalent paid	**508**	2 267
Provision for tax equivalent (refer Note 11)	**-**	206

Included in tax equivalent paid by the Corporation is an amount of $385 000 in relation to land tax for 2002-03 and $12 000 for Stamp Duty. These amounts were subsequently recovered from the Department for Business Manufacturing and Trade.

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.

		Fixed Interest Maturing				
	Floating Rate	1 year or less	Over 1 to 5 years	Over 5 years	**2003 Total**	2002 Total
Financial Assets:						
Cash	3 007	-	-	-	**3 007**	4 802
Receivables	2 855	150	1 770	14 075	**18 850**	18 734
	5 862	150	1 770	14 075	**21 857**	23 536
Weighted average interest rate percent	6.45	6.90	9.40	7.03		
Financial Liabilities:						
Trade creditors	52	-	-	-	**52**	-
SAFA Loans	43 869	20 066	18 481	4 776	**87 192**	65 079
	43 921	20 066	18 481	4 776	**87 244**	65 079
Weighted average interest rate percent	4.93	6.24	10.28	6.01		
Net Financial Assets (Liabilities)	(38 059)	(19 916)	(16 711)	9 299	**(65 387)**	(41 543)

Reconciliation of Net Financial Assets (Liabilities) to Net Liabilities	**2003 $'000**	2002 $'000
Net financial liabilities as above	**(65 387)**	(41 543)
Non-financial assets and (liabilities):		
Construction projects in progress	**23 779**	16 283
Property, plant and equipment	**36 018**	27 251
Prepaid borrowings	**116**	-
Other accruals	**(567)**	(712)
Other Provisions	**(1 000)**	(1 111)
Net (Liabilities) Assets as per Statement of Financial Position	**(7 041)**	168

(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:

	2003 Carrying Amount	2003 Net Fair Value
	$'000	**$'000**
Financial Assets:		
Cash	**3 007**	**3 007**
Trade debtors	**2 855**	**2 855**
Deferred purchase agreements	**15 995**	**18 521**
Provision for doubtful debts	**(1 000)**	**(1 000)**
	20 857	**23 383**
Financial Liabilities:		
Trade creditors	**52**	**-**
SAFA loans	**87 192**	**65 079**
Prepaid borrowings	**(116)**	**-**
SAFA Loans	**87 128**	**65 079**

(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 6.45 percent for the year ended 30 June 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 therefore 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. GST Liability and Deferred Purchase Agreements

The Corporation has long term contractual arrangements with several clients. In certain circumstances the Corporation will be liable to pay the GST to the Australian Tax Office in respect of properties settled after 30 June 2005 under Deferred Purchase Agreements where the Corporation does not currently have the opportunity to pass on the GST cost to its customers. The potential GST cost to the Corporation relating to these properties is approximately $1 259 000 which will not arise until after 30 June 2005 unless any of these agreements are determined prior to that date. Whilst there is an additional potential GST cost in respect of the interest component under these agreements, it is not practicable to make an estimate in this case as it is considered likely that the ATO will not require GST to be paid on the interest component. However, given that the Federal Treasurer has announced likely amendments to the GST to allow suppliers (such as the Corporation) to pass on the cost of the GST on property settled after 30 June 2005, the Directors do not envisage the total of these costs arising to the Corporation and accordingly no provision for this liability is considered necessary at this time.

7. 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 Treasury and Finance, the Corporation is committed to return to Treasury as dividends all interest subsidies received from the Department for Business, Manufacturing and Trade in respect of commercial interest margins foregone by the Corporation on new lending under the Industrial Premises Development Scheme. The amount paid to Treasury during the reporting period was $290 000.

8. Receivables

	2003	2002
	$'000	$'000
Current:		
Trade debtors and other receivables	2 854	747
	2 854	747
Mortgage and sale under agreement loans:		
Factories subject to:		
Deferred purchase agreements	2 152	2 046
	2 152	2 046
	5 006	2 793
Non-Current:		
Mortgage and sale under agreement loans:		
Factories subject to:		
Deferred purchase agreements	13 843	15 941
Less: Provision for doubtful debts	1 000	1 000
	12 843	14 941
Total Receivables	17 849	17 734

9. (a) *Property, Plant and Equipment*

	2003	2002
Land and Buildings:		
Industrial and commercial property:		
Freehold land at independent valuation 2003	3 270	-
Freehold land at independent valuation 2001	3 090	3 090
Freehold land at independent valuation 2000	-	325
Freehold land at cost	-	2 473
	6 360	5 888
Buildings at independent valuation 2003	9 700	-
Buildings at independent valuation 2001	21 410	21 410
Buildings at independent valuation 2000	-	700
	31 110	22 110
Less: Accumulated depreciation	1 452	747
	29 658	21 363
Total Industrial and Commercial Property	36 018	27 251

(b) *Property, Plant and Equipment, Movements in Carrying Amounts*

		2003	
	Buildings	Land	Total
	$'000	$'000	$'000
Carrying value at the beginning of year	21 363	5 888	27 251
Additions at cost	16 164	407	16 571
Depreciation	(753)		(753)
Revaluations - Telstra	28	65	93
- JP Morgan	(7 144)	-	(7 144)
	29 658	6 360	36 018

(c) *Other Income - Revaluation of Non-Current Assets*

In accordance with the Accounting Standard AASB 1041 'Revaluation of Non-Current Assets', net revaluation increments have been credited to the operating statement to the extent that the increments reverse revaluation decrements previously recognised as expenses in the operating statement.

10. Creditors and Borrowings

	2003	2002
Current:	**$'000**	$'000
Trade creditors and accruals	**52**	-
SAFA loans[a]	**40 856**	27 804
	40 908	27 804
Non-Current:		
SAFA loans[a]	**46 103**	37 275
Borrowings prepaid	**116**	-
	46 219	37 275
Total Creditors and Borrowings	**87 127**	65 079

(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)	**2 173**	7 442
Later than one year but not later than two years	**24 966**	3 744
Later than two years but not later than five years	**25 926**	38 197
Later than five years	**34 062**	15 696
	87 127	65 079

11. Provisions

Current:		
Income tax equivalent	**-**	206
Less: Income tax equivalent paid	**-**	95
Total Provisions	**-**	111

12. Other Accruals

Current Liabilities:		
Accrued interest on debt	**584**	713
Sundry accruals	**24**	18
	608	731

13. Asset Revaluation Reserve

Balance at 1 July	**114**	25
Closing Balance	**114**	25

14. Reconciliation of Net Cash (used in) provided by Operating Activities to Profit After Income Tax Equivalent

(Loss) Profit after income tax equivalent	**(7 008)**	482
Non-cash flows in profit after income tax equivalent:		
Depreciation	**753**	603
Revaluation decrement	**7 144**	-
Changes in assets and liabilities:		
(Increase) in receivables	**(117)**	(8 430)
(Increase) in construction projects in progress	**(7 497)**	(15 979)
Increase (Decrease) in trade creditors and accruals	**50**	(13)
(Decrease) in provisions	**(111)**	(1 156)
(Decrease) Increase in accruals and prepayments	**(143)**	198
Net Cash used in Operating Activities	**(6 929)**	(24 295)

15. 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	**3 007**	4 802
Total Cash	**3 007**	4 802

16. 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)
Mr J W Frogley
Ms P J Martin
Mr J Wright (20 August 2002)

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

17. Consultants

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

18. Auditors' Remuneration

	2003	2002
	$'000	$'000
Amounts received or due and receivable by the auditors for auditing the accounts	**17**	16

The auditors received no other benefits.

19. 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).

20. 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.

21. Movement in Accumulated (Losses) Profits

	2003	2002
Items relating to the net change in accumulated (losses) profits:	**$'000**	$'000
Opening accumulated profits (losses)	**143**	(94)
(Loss) Profit after tax	**(7 008)**	482
Dividends provided for or paid	**(290)**	(245)
Accumulated (Losses) Profits 30 June	**(7 155)**	143

22. *(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 in relation 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 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.

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 2002-03, specific areas of audit attention included:

- contributions from employers
- pension payments.

Audit Communications to Management

As no significant issues were identified as a result of the audit, a management letter was not prepared.

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' Pensions Scheme as at 30 June 2003, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

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

Significant Matters Raised with Agencies

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

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Employer contributions	**2.8**	2.7	3.7
Past service funding	**20.0**	-	-
Net investment earnings	**(0.7)**	(4.7)	85.1
Total Operating Revenue	**22.1**	(2.0)	-
OPERATING EXPENDITURE			
Benefits and other expenses	**14.4**	9.2	56.5
Total Operating Expenses	**14.4**	9.2	56.5
Operating Result	**7.8**	(11.2)	169.6
Net Cash Flows from Operations	**(1.0)**	(0.7)	42.9
ASSETS			
Investments	**100.9**	82.4	22.5
Other assets	**0.2**	0.2	-
Total Assets	**101.1**	82.6	22.4
LIABILITIES			
Liability for accrued benefits	**103.9**	93.3	11.4
Other liabilities	**0.8**	0.7	14.2
Total Liabilities	**104.7**	94	11.4
EXCESS OF LIABILITIES OVER NET ASSETS	**(3.6)**	(11.4)	68.4

Statement of Financial Performance

Operating Revenues

Investment activity for the year resulted in a negative return of $650 000 compared to a negative return of $4.7 million in the previous year. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

During the year the Government transferred $20 million into the Scheme to meet accrued superannuation liabilities. This accounts for the increase in employer contributions in 2002-03. As this was initially receipted into the 'South Australian Superannuation Scheme Contribution Account' a transfer of investments between the two schemes was undertaken by Funds SA, therefore there was no movement in the cash flow statement to reflect this transaction.

Operating Expenses

Benefits expense increased by $5.1 million to $14.3 million for the year. This is predominately due to an increase in the liability for accrued benefits.

Operating Result

The operating result for the year records a surplus of $7.8 million compared to a deficiency of $11.2 million last year. The year's result represents the excess of contributions (including past service liability funding) of $22.8 million over benefits expense of $14.3 million and negative net investment revenue of $650 000. Note 1(c) to the financial statements explains that the small size of the scheme, the nature of the way member benefits accrue and variations in investment performance means that deficiencies and surpluses will arise from year to year.

Statement of Financial Position

As at 30 June 2003, there was an excess of liabilities over net assets of $3.6 million ($11.4 million). The estimated liability for accrued benefits increased by $10.6 million to $103.9 million for which net assets of $100.3 million ($81.9 million) were available to pay benefits.

FURTHER COMMENTARY ON OPERATIONS

Members and Pensioners

As at 30 June 2003 there were 44 (45) members of the Scheme and 41 (38) pensioners.

Operating Statement
for the year ended 30 June 2003

	Note	**2003**	2002
INVESTMENT REVENUE:		**$'000**	$'000
Net investment revenue		**(653)**	(4 608)
INTEREST INCOME		**4**	7
EMPLOYER CONTRIBUTIONS	1c	**22 817**	2 666
ADMINISTRATION EXPENSE	3	**(44)**	(21)
ACTUARIAL EXPENSE	11	**(5)**	(2)
AUDIT EXPENSE	12	**(6)**	(8)
GST EXPENSE	13	**(1)**	(1)
BENEFITS EXPENSE	5	**(14 338)**	(9 225)
OPERATING RESULT FOR THE PERIOD		**7 774**	(11 192)

Statement of Financial Position
as at 30 June 2003

	Note	**2003**	2002
		$'000	$'000
INVESTMENTS:	2(b)		
Inflation linked securities		**12 580**	11 093
Property		**9 743**	8 616
Australian equities		**33 737**	28 647
International equities		**37 372**	27 079
Fixed interest		**5 345**	3 805
Cash		**2 090**	3 112
		100 867	82 352
FIXED ASSETS		**1**	2
OTHER ASSETS:			
Cash and deposits at Treasury		**145**	174
Cash and deposits at Treasury - Funds SA		**8**	21
Interest, dividends and rent due - Funds SA		**3**	4
Sundry debtors	9	**3**	11
Contributions receivable	9	**12**	11
		171	221
Total Assets		**101 039**	82 575
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		**33**	36
Sundry creditors and provisions	10	**179**	84
		212	120
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		**530**	532
Total Liabilities		**742**	652
NET ASSETS AVAILABLE TO PAY BENEFITS	4	**100 297**	81 923
Less: **LIABILITY FOR ACCRUED BENEFITS**	5	**103 900**	93 300
EXCESS OF LIABILITIES OVER NET ASSETS		**(3 603)**	(11 377)

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Contributions by employers		**2 816**	2 765
Interest received		**4**	7
Pensions paid and transfers	5	**(3 738)**	(3 425)
Administration expense		**(44)**	(21)
Actuarial expense		**(5)**	(2)
Audit expense		**(6)**	(8)
GST expense		**(6)**	4
Net Cash used in Operating Activities	8	**(979)**	(680)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from Funds SA		**2860**	1 590
Payments to Funds SA		**(1 910)**	(770)
Net Cash provided by Investing Activities		**950**	820
NET (DECREASE) INCREASE IN CASH HELD		**(29)**	140
CASH AT 1 JULY		**174**	34
CASH AT 30 JUNE		**145**	174

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 10 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' Pensions 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. The employer contributed $20 million during the year to assist in funding the scheme's past service liabilities.

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 Standard 25 'Financial Reporting by Superannuation Plans', other 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* except as provided below.

Assets and liabilities are recorded at net market value in the Statement of Financial Position as at the balance date, and realised and unrealised gains and losses are brought to account in the Operating Statement. The financial statements of Funds SA, although not recording the administration activities of the public sector superannuation funds, are prepared in accordance with the principals of the Australian Accounting Standards 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 statements of the relevant superannuation schemes associated with the public sector superannuation funds.

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

Funds SA operates a unitised investment portfolio utilising a number of asset class funds, each of which holds assets of a different category. The Scheme holds an interest in the asset class funds by way of notional 'units', as determined by Funds SA, rather than holding assets directly. As funds of the Scheme are regularly subscribed to and redeemed from the asset class funds, in line with the Scheme's cash flow requirements, it is not possible to accurately determine the separate contribution by realised and unrealised gains to the Scheme's income. For this reason, unrealised gains are not separately identified as required by AAS 25 and the Statement of Cash Flows only reflects a net result for cash flows from investing activities. In addition direct investment expenses and change in net market value of investments held at reporting date and realised during the reporting period are not reported. For information regarding the manner in which Funds SA operates its investment portfolio, and the contributions that realised and unrealised gains make to Funds SA's total investment returns, reference should be made to the financial statements of Funds SA.

(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 2003 was performed by an independent valuer, Macquarie Bank Limited.

(i) *Inflation Linked Securities*

- *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*
  Valuations of directly held properties have been carried out by independent licensed property valuers, other than as indicated in Note 8 of the financial statements of Funds SA. In addition, a secured short-term loan provided to a third party has been valued on the basis of principal outstanding at the balance date.

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

- *Externally managed unlisted property vehicles*
  Investments in externally managed unlisted property vehicles 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. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

- *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) guidelines. Internally managed assets have been valued by the Directors of Funds SA, 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 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 and other deposits of very short term duration have been valued on the basis of principal plus accrued interest. Bank bills have been valued using market rates applicable at the balance date.

(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 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.

3. 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' Pensions Scheme Account.

4. Net Assets Available to Pay Benefits

	2003	2002
	$'000	$'000
Funds held at 1 July	**81 923**	87 315
Add: Contributions by employers	**22 817**	2 666
Investment earnings	**(653)**	(4 608)
Interest income	**4**	7
	22 168	(1 935)
Less: Net benefits paid	**3 738**	3 425
Administration expense	**44**	21
Actuarial expense	**5**	2
Audit expense	**6**	8
GST expense	**1**	1
	3 794	3 457
Funds Held at 30 June	**100 297**	81 923

5. 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 1.0 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 4.0 percent per annum above the CPI.

The accrued superannuation liability as determined by the State Superannuation Office of the Department of Treasury and Finance is estimated at $103.9 million ($93.3 million) as at 30 June 2003.

	2003	2002
	$'000	$'000
Liability for accrued benefits at 1 July	**93 300**	87 500
Add: Benefits expense(i)	**14 338**	9 225
Less: Benefits paid and transfers to other schemes	**3 738**	3 425
Liability for Accrued Benefits at 30 June	**103 900**	93 300

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

6. 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 2003 is estimated at $70.7 million.

	2003	2002
	$'000	$'000
Vested benefits	**70 700**	63 000

7. Guaranteed Benefits

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

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

	2003	2002
Operating result	**7 774**	(11 192)
Benefits expense	**14 338**	9 225
Benefits paid	**(3 738)**	(3 425)
Employer Contributions	**(20 000)**	-
Decrease in GST refundable	**-**	5
(Increase) Decrease in contributions receivable	**(1)**	99
Decrease in sundry creditors	**(5)**	-
Investment earnings	**653**	4 608
Net Cash used in Operating Activities	**(979)**	(680)

		2003	2002
9.	**Sundry Debtors and Contributions Receivable**	**2003**	2002
(a)	***Sundry Debtors***	**$'000**	$'000
	GST refundable	**1**	1
	Sundry debtors - Funds SA	**2**	10
		3	11

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

(b)	***Contributions Receivable***	**12**	11

10.	**Sundry Creditors and Provisions**		
	Funds SA accruals	**179**	78
	GST payable	**-**	6
		179	84

11. Actuarial Fees

Actuarial fees for the 2002-03 financial year have been deducted from the Scheme. These fees relate to Superannuation Policy and Actuarial advice received.

12. Audit Fees

Audit fees charged by the Auditor General for the 2002-03 financial year have been deducted from the Scheme.

13. 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.

14. Additional Financial Instrument Disclosures

The specific disclosure requirements of Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the Financial Statements of Funds SA and have not been repeated in this financial report.

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.

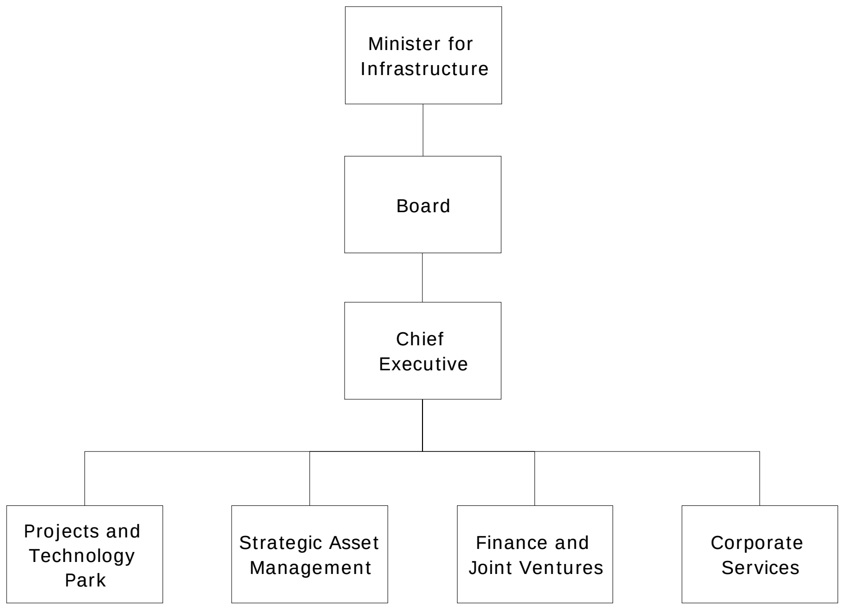
The Corporation was established on 24 December 1997 by regulations pursuant to the Act to undertake activities formerly controlled by the MFP Development Corporation, the MFP Projects Board and the then Minister for Government Enterprises.

Functions

The regulations establishing the Corporation, as amended, 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. These functions are to ensure the orderly development of land.

Structure

The organisational structure of the Corporation is represented as follows:



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 operates within the framework of an Audit Committee Charter with the primary function of assessing the quality of financial reporting and the effectiveness of internal controls, to maintain an effective and efficient audit, and to advise the full 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.

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 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 2002-03 specific areas of audit attention included:

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

Audit Communications to Management

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

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 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 2003, 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 Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Corporation have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Audit review of the systems and transactional processing of the Corporation revealed that general financial controls existed which support the completeness and accuracy of transaction processing. Notwithstanding this observation, Audit considered there were opportunities for improving some aspects of the Corporation's financial controls. Audit findings and commentary on these matters are detailed below.

Policies and Procedures

The audit revealed that there were areas where the Corporation could enhance the control environment through the development, approval and promulgation of policies and procedures relating to key areas such as contract management, project management and the engagement of probity auditors. Further, there were instances where the policies and procedures did not reflect current organisational structures and business practices.

The Corporation indicated that a policy and procedure would be developed to provide guidance on the management of contracts and other guidelines would be reviewed in light of Audit's suggestions.

Contract Authorisation

A review of a sample of contracts executed on behalf of the Corporation during the year revealed that in some instances they had not been executed in accordance with the regulations. The regulations require that a person who has been delegated the authority by the Board may execute documents on behalf of the Corporation and that the document is duly executed by the Corporation if the document is signed by a person with the appropriate authority.

The Corporation indicated that the Board, at its August 2003 meeting, approved an amendment to the delegations to ensure that authority to sign contracts and authorise documentation is restricted to the Chief Executive, a General Manager or Executive Director.

Contract Register

Audit recommended that the Corporation consider reviewing its contract register to enable it to be used as a management and reporting tool for both non-financial (assist in contract management) and financial information (commitment reporting).

The Corporation indicated that Audit's suggestions regarding the introduction of further information on contract commitments and regular review of information in the contracts register will be considered.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003	2002	Percentage
	$'million	$'million	Change
OPERATING REVENUE			
Sales less cost of sales	**9**	7	29
Revenues from Government	**9**	8	13
Other revenue	**16**	13	23
Total Operating Revenue	**34**	28	21
OPERATING EXPENDITURE			
Salaries and related payments	**5**	4	25
Other expenses	**27**	11	145
Total Operating Expenses	**32**	15	113
Surplus from Ordinary Activities before Income Tax Equivalent	**2**	13	(85)
Net Cash Flows from Operations	**20**	10	100

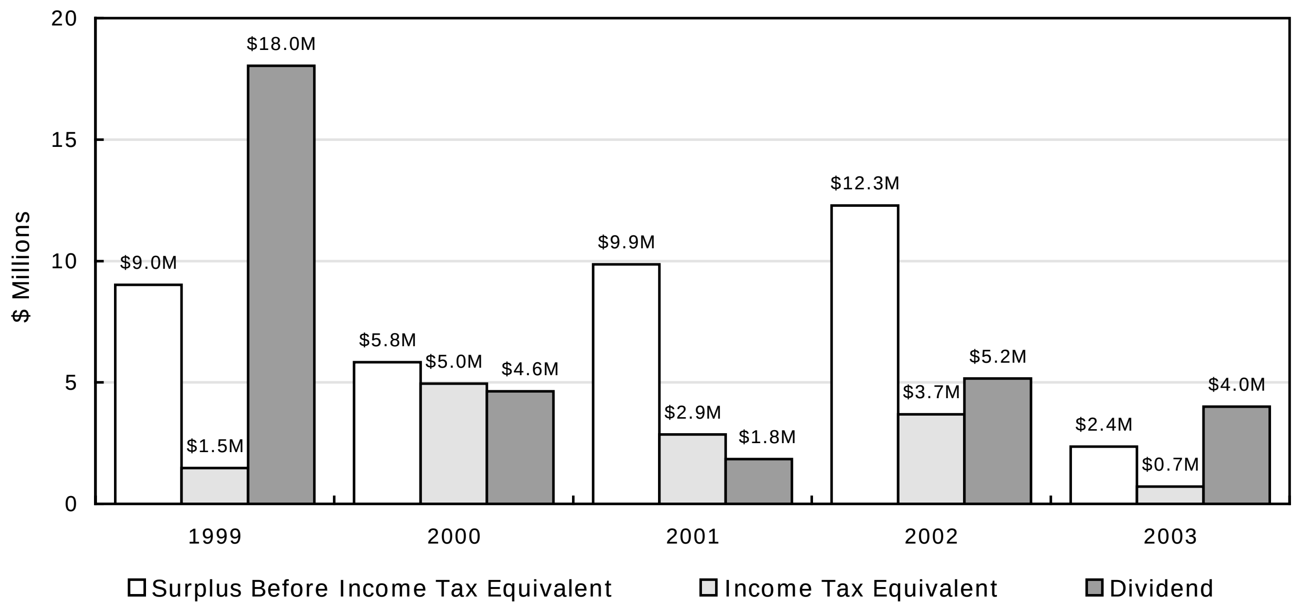
	2003 $'million	2002 $'million	Percentage Change
ASSETS			
Current assets	**67**	74	(9)
Non-current assets	**57**	41	39
Total Assets	**124**	115	8
LIABILITIES			
Current liabilities	**4**	8	(50)
Non-current liabilities	**11**	5	120
Total Liabilities	**15**	13	15
EQUITY	**109**	102	7

Statement of Financial Performance

Contributions to the Government

In 2002-03, the total contribution paid or payable to the Government was $4.71 million ($8.85 million) comprising a dividend payment and an income tax equivalent payment. Further, on 25 August 2003 the Board of the Corporation approved the payment of an additional dividend of $50 million to the Government which will significantly reduce the Corporation's cash reserves in 2003-04.

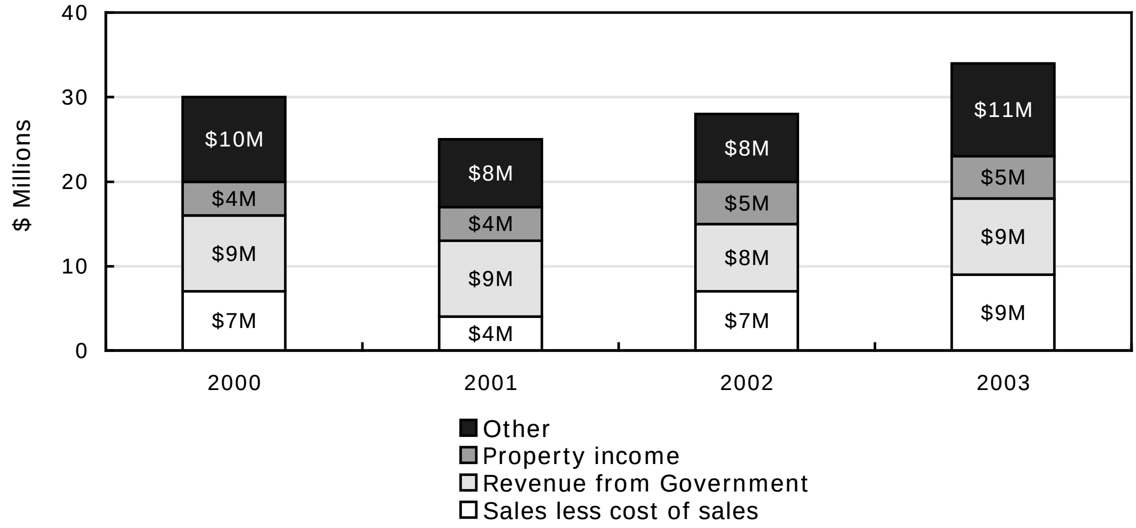
The following chart shows the contributions that have been made to the Government over the last five years.



The chart shows that for both 1999 and 2003, the dividend was paid from surpluses from prior periods. The dividend paid in 1999 of $18 million included a special dividend of $16.6 million. This amount was paid to the Treasurer on the transfer of responsibility for the maintenance of the North Haven Marina to the then Department for Transport, Urban Planning and the Arts.

Operating Revenues

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



The above chart shows that both revenue from Government and property income has been consistent over the period of review. Since 2001 operating revenues have steadily increased with an increase of $6.5 million in 2002-03. The factors having the most impact on this increase were:

Land Sales

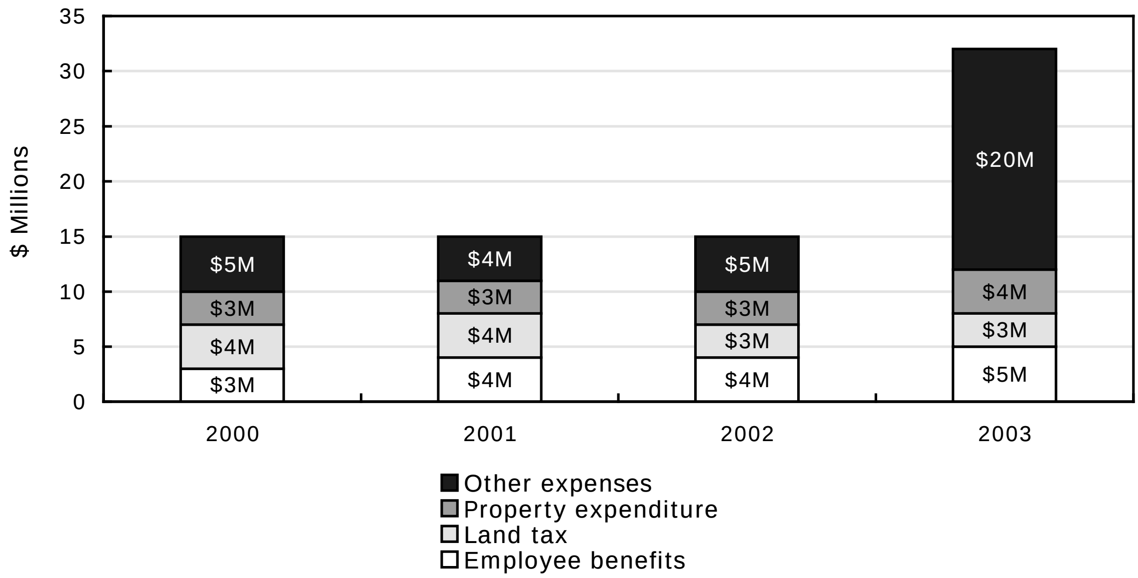
Sales of land comprising sales proceeds from joint venture entities to which the Corporation is a party and other land sales by the Corporation increased by $2 million from $9.9 million to $11.9 million. The Corporation's net profit on land sales increased by $1.8 million from $7.0 million to $8.8 million resulting in the Corporation's gross margin on land sales increasing from 71 percent to 74 percent.

Other Revenue

Other revenue includes, among other items, the Corporation's share of net profits of joint venture entities and interest on cash balances held with Treasury. During 2002-03, other revenue has increased by $4.2 million, due mainly to a one-off payment of $2.6 million regarding a settlement to release a contracted party from a long term lease and indemnity for remediation costs associated with the lease. In addition, the Corporation's share of net profits of joint ventures increased by $2 million as a result of increased land sales relating to the Mawson Lakes development.

Operating Expenses

For the four years to 2003, a structural analysis of the main operating expense items for the Corporation is shown in the following chart.

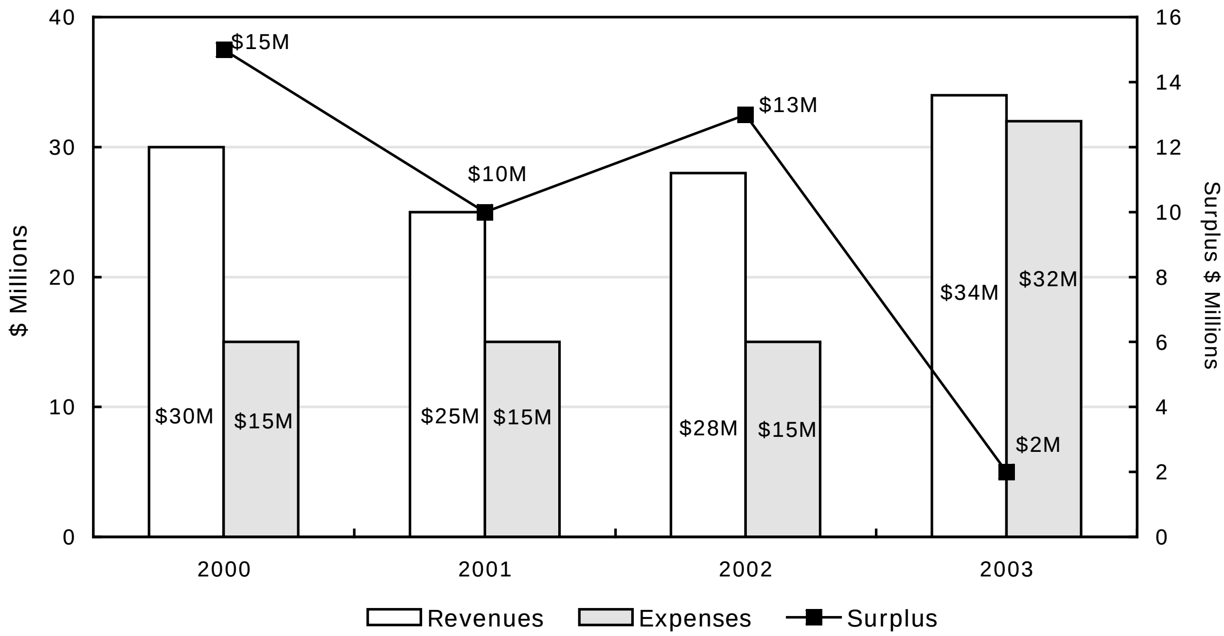


The chart highlights that the expenses of the Corporation have been consistent over the period, apart from 2002-03 where total operating expenses increased by $16.4 million to $32 million. This increase was due primarily to the change in accounting treatment of the administered items which resulted in a net expense of $8.9 million. This expense is a one-off for the 2002-03 year. In addition, a revaluation of the Corporation's inventory resulted in a write down of $4.1 million. Both these items are reflected in other expenses.

Operating Result

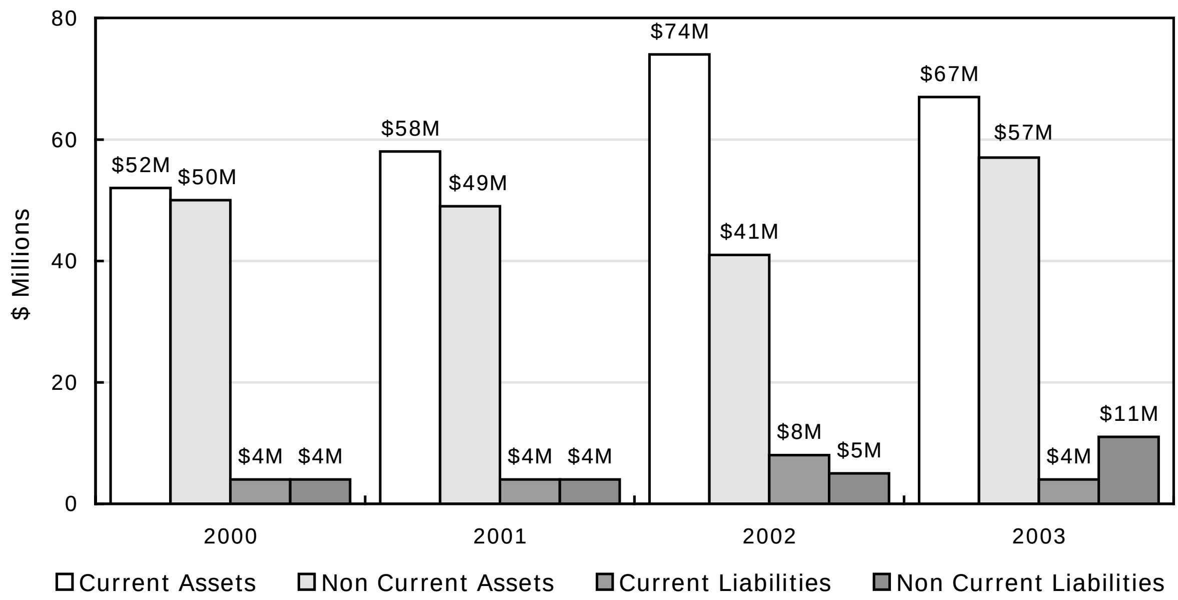
The surplus for 2002-03 has decreased significantly from previous years. The surplus represented 4.8 percent of total operating revenues and 2 percent of total equity. The significant change was due to an increase in operating expenses of 113 percent, offset by an increase in operating revenues of 21 percent. As previously explained, the increase in operating expenses was due to the change in accounting treatment of the administered items and a write down in inventory.

The following chart shows movements over the past four years in revenues, expenses and the surplus.



Statement of Financial Position

A structural analysis of assets and liabilities for the four years to 2003 is shown in the following chart.



Over the period, current assets have steadily increased due to an accumulation of cash assets. In 2002 the significant increase in current assets was also due to an amount of $5 million in receivables from joint ventures.

In 2003, non-current assets increased due mainly to a $4.1 million increase in the carrying amount of investment in joint venture entities and a revaluation of property, plant and equipment resulting in an increment of $9.6 million. Although not recognised in 2002-03, on 18 August 2003, Cabinet approved the transfer of a portion of the ex Ports Corporation land (which was outside the scope of the Ports Corporation divestment process) to the Corporation for consideration of $2.4 million, as disclosed in Note 2.9 to the financial statements.

Inventory

The value of the Corporation's land inventory at balance date increased by $0.3 million from $25.8 million to $26.1 million. Although inventory increased due to the take up of administered projects, this was offset by an increase in land sales and a write down based on a revaluation undertaken during 2002-03. A majority of inventory is classified as a non-current asset with an amount that is expected to be sold within 12 months treated as current.

Asset Valuations

Sales values are determined by market conditions at a point in time. In turn, the profit is also influenced by the carrying amount of assets. For the year ended 30 June 2003, the Corporation obtained an independent valuation of all land holdings held for resale which resulted in a net write down of $4.1 million.

This revaluation of land inventory recognised the net realisable value of the assets by determining the net present value of the estimated future cash flows from holding, developing and sale of the land inventories as part of a planned sales process. The cash flows were projected over an extended period, in some instances up to thirty years, and consequently involve significant uncertainty. The timing of the land sales, which has a direct impact on the timing of cash flows and consequent values, was based on projected demand for residential land. This is also inherently uncertain.

The discount rate used to determine net present values was a market rate of 8 percent reflecting the rate of return a private sector developer would require from investing in land inventory. The discount rate adopted was consistent with the requirements of the Department of Treasury and Finance Accounting Policy Statements.

Administered Transactions

In 2001-02 the Treasurer approved, effective 1 July 2002, that all administered items be accounted for as controlled items. Note 20 details the financial effect of this change in accounting treatment. The significant effect on the financial position of the Corporation as at 30 June 2003 was:

- an increase in interest bearing liabilities of $6.1 million (loan with respect to the Port Waterfront Redevelopment);

- a decrease in cash at bank of $10 million due to the repayment of the loan relating to the East End Redevelopment ($22.7 million) which was partly offset by the cash balances of the administered items ($12.7 million).

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**20.2**	9.6	3.3	6.0
Investing	**6.1**	1.3	5.0	12.5
Financing	**(28.9)**	(3.0)	(1.9)	(4.6)
Change in Cash	**(2.6)**	7.9	6.4	13.9
Cash at 30 June	**62.2**	64.7	56.8	50.4

The analysis of cash flows shows that the Corporation has maintained its cash reserves even after the repayment of the loan relating to the East End Redevelopment. This is a result of a significant increase in cash from administered items ($12.7 million), increase in land sales and capital repayments by joint venture entities. As previously mentioned, the Corporation's cash reserves will reduce significantly after the payment of an additional dividend of $50 million in 2003-04.

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 project commitment deed committed the State Government through a number of government agencies (ie Transport SA, Planning SA, Passenger Transport Board and the 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 project commitment deed is estimated at $10 million (in current dollars) over the next two years.

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

During the 2002-03 year, work continued in meeting the Government's obligations on Mawson Lakes infrastructure, and to date the Corporation has spent a total of $11.4 million.

Port Adelaide Waterfront Redevelopment

The Port Adelaide Waterfront Redevelopment Project represents a major urban renewal project of waterfront land at Port Adelaide for a proposed amount of $1.2 billion. 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 to proceed 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 the 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. At the time of this Report the Development Agreement was yet to be finalised.

Probity Audit

The Corporation engaged the services of a probity auditor to oversee the selection process. The probity auditor provided a verbal report advising that there were no issues that needed to be taken into account by the Board regarding the selection process. This was supported by a final report of the probity auditor dated October 2002.

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
REVENUES FROM ORDINARY ACTIVITIES:			
Sales	4	**11 923**	9 885
Less: Cost of sales		**3 143**	2 920
		8 780	6 965
Share of net profits of joint venture entities	5.1	**5 217**	3 246
Revenues from Government	6	**8 587**	8 015
Interest	4	**3 353**	2 822
Property income		**4 523**	4 648
Other income		**3 608**	1 861
Total Revenues		**34 068**	27 557
EXPENSES FROM ORDINARY ACTIVITIES:			
Land tax		**3 147**	2 960
Property expenditure		**4 264**	2 730
Contractors and consultants		**1 672**	2 190
Salaries and related payments		**4 738**	4 162
Accommodation		**431**	391
Borrowing costs	3	**1 232**	483
Depreciation	3	**437**	343
Other expenditure		**2 861**	2 011
Write down of land held for resale	2.7	**4 067**	-
Net expense from take up of administered projects	20	**8 866**	-
Total Expenses		**31 715**	15 270
SURPLUS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT		**2 353**	12 287
Income tax equivalent paid or payable to the State Government	8	**706**	3 686
SURPLUS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EQUIVALENT		**1 647**	8 601
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**1 647**	8 601

Statement of Financial Position
as at 30 June 2003

	Note	**2003** **$'000**	2002 $'000
ASSETS:			
CURRENT ASSETS:			
Cash assets	24	**62 162**	64 734
Inventories	11	**2 658**	3 150
Receivables	10	**1 728**	6 359
Other	12	**25**	20
Total Current Assets		**66 573**	74 263
NON-CURRENT ASSETS:			
Inventories	11	**23 430**	22 648
Property, plant and equipment	13	**25 044**	13 290
Investment in joint venture entities	5	**8 706**	4 615
Other	12	**14**	27
Total Non-Current Assets		**57 194**	40 580
Total Assets		**123 767**	114 843
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	14	**3 584**	3 633
Tax liabilities	8, 16	**-**	2 288
Provisions	17	**249**	2 363
Total Current Liabilities		**3 833**	8 284
NON-CURRENT LIABILITIES:			
Payables	14	**565**	555
Interest bearing liabilities	15	**9 983**	3 905
Provisions	17	**530**	497
Total Non-Current Liabilities		**11 078**	4 957
Total Liabilities		**14 911**	13 241
NET ASSETS		**108 856**	101 602
EQUITY:			
Accumulated surplus	19	**99 249**	101 602
Asset revaluation reserve	19	**9 607**	-
TOTAL EQUITY		**108 856**	101 602

Statement of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Government grants and subsidies received	6	**8 587**	8 015
Land tax paid		**(3 147)**	(2 960)
Receipts from sales		**11 875**	9 902
Receipts from tenants		**4 759**	4 520
Interest received		**3 391**	2 827
Recoveries and sundry receipts		**7 799**	6 980
Payments for salaries and related costs		**(4 650)**	(4 227)
Payments to suppliers		**(14 474)**	(13 287)
Payments for land purchase and development		**(2 680)**	(904)
Cash received from take up of administrative projects	20	**12 685**	-
Interest paid		**(1 330)**	(362)
GST receipts from taxation authority		**1 376**	2 402
GST payments to taxation authority		**(268)**	(285)
Income tax equivalent paid	8	**(3 722)**	(2 981)
Net Cash provided by Operating Activities	23	**20 201**	9 640
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital contributions to joint venture entities	5.1	**(5 375)**	(2 375)
Capital repayments by joint venture entities		**9 725**	2 902
Distributions of profit by joint venture entities		**1 726**	3 875
Proceeds from sale of property, plant and equipment		**483**	3
Purchase of property, plant and equipment		**(446)**	(3 144)
Net Cash provided by Investing Activities		**6 113**	1 261
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of borrowings		**(22 753)**	-
Dividends paid	9,17	**(6 133)**	(3 028)
Net Cash used in Financing Activities		**(28 886)**	(3 028)
NET (DECREASE) INCREASE IN CASH HELD		**(2 572)**	7 873
CASH AT 1 JULY		**64 734**	56 861
CASH AT 30 JUNE	24	**62 162**	64 734

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*. At that time a Board was appointed by the Minister to act as the Corporation's governing body. The regulations establishing the Corporation provide for it to undertake the following functions:

(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 generate 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 drawn up in accordance with the Treasurer's Instructions issued under 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 also been prepared on the accrual basis of accounting and in accordance with the historical cost convention (except for a minority of assets carried at independent valuation - refer Notes 2.9 and 13). The accounting policies have been consistently applied, unless otherwise stated.

2.2 Administered Transactions

During the previous financial year, the Corporation administered various projects on behalf of the State Government. Whilst classified as Administered, the revenues, expenses, assets and liabilities in respect of those projects were not recognised in the Statement of Financial Performance, Statement of Financial Position or Statement of Cash Flows of the Corporation, but separately disclosed at Note 20 as administered transactions.

Following a review of the appropriate accounting and Treasury classification, the Treasurer approved that, effective 1 July 2002, all administered assets and liabilities be brought to account as controlled items and the values as recorded in the ledgers at that date be the appropriate transfer values. This change in accounting treatment reflects clarification of ownership and control and is consistent with current and future responsibilities of the Corporation in respect of the stage and remaining tasks of each project. The financial impact of this change in accounting treatment is disclosed at Note 20.

2.3 Project Expenditure

Expenditure on projects is charged to surplus from ordinary activities before income tax equivalent as incurred, or capitalised where it is expected that future benefits will be derived by the Corporation so as to recover those capitalised costs.

2.4 Employee Benefits

Provision has been made in the financial report for the Corporation's liability for employee benefits arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees have been included in the determination of the liability. However, in accordance with the Treasurer's Accounting Policy Statements 'Employee Benefits', the on-cost component is included in payables. The aggregate of employee benefits is disclosed at Note 18.

(i) Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision has been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. A salary inflation of 4 percent has been applied to employee benefits which are expected to be settled in the next 12 months.

(ii) Sick Leave

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

(iii) *Long Service Leave*
Provision has been made for the Corporation's liability for long service leave at balance date on a basis which is consistent with measurement techniques outlined in Australian Accounting Standard AASB 1028 'Accounting for Employee Entitlements'. The short-hand method of determining long service leave entitlements has been adopted and provision has been made for all employees with seven or more years of service, being the benchmark number of years as determined by the Department of Treasury and Finance. The prior period's provision was based on a benchmark of eight years.

(iv) *Superannuation*
Salaries and related payments include superannuation contributions paid by the Corporation under the following categories:-

(a) During the reporting period, the Corporation paid $182 000 ($173 000) to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of the Corporation's employees; and

(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 $260 000 ($223 000) including amounts to cover the Commonwealth Government's Superannuation Guarantee legislation.

2.5 Revenue Recognition and Cost of Sales

The determination of sales revenue (and consequent profit recognition) in respect of land made available for joint venture development (refer Note 5) is dependent on the method of land payment prescribed by the joint venture agreements. Sales revenue from the Golden Grove joint venture is brought to account when each land stage is made available for development in accordance with the pre-determined price specified by the Joint Venture Agreement. Sales revenue for 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 respective Joint Venture Agreement.

The Corporation has adopted a policy with respect to all other land sales of recognising sales revenue when settlement are completed and legal title has transferred to purchasers. Sales have been recognised prior to settlement where contract for sale satisfy all revenue recognition criteria in accordance with Australian Accounting Standards.

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

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 income in the item Share of Net Profits of Joint Venture Entities in the Statement of Financial Performance. Details of the Corporation's interests in joint venture entities are shown in Note 5.

2.7 Inventories

Inventories (land held for resale) are 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 inventory. All inventory is classified as a non-current asset unless its value is anticipated to be realised through sale within 12 months.

At the establishment of the Corporation (refer Note 1) 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.

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. Interest is taken up as income on an accrual basis as incurred.

2.9 Property, Plant and Equipment

Property, plant and equipment are brought to account at cost or independent valuation, less, where applicable, any accumulated depreciation or amortisation. The depreciable amounts of all fixed assets including buildings, but 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

2.9 Property, Plant and Equipment (continued)

Pursuant to revised Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets', items of property, plant and equipment were revalued on a fair value basis as at 30 June 2003. 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 has been credited direct to the asset revaluation reserve (refer Note 19.2).

During the previous reporting period, the Corporation assumed responsibility for the administration of surplus Ports Corp land. This land has not been recognised in the accounts as the due diligence phase was in progress and values were still to be determined as at 30 June 2003. On 18 August 2003, Cabinet approved the transfer of the land to the Corporation for consideration of $2 405 000 plus costs (refer Note 26).

2.10 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 14). Interest, when charged by the lender, is recognised as an expense on an accrual basis.

2.11 Borrowing Costs

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

2.12 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.

2.13 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.

3. Surplus from Ordinary Activities

Surplus from ordinary activities before income tax equivalent has been determined after:	**2003 $'000**	2002 $'000
(a) Charging as Expenses		
Borrowing costs	**1 232**	483
Depreciation of:		
Buildings	**293**	253
Plant and equipment	**144**	90
Bad and doubtful debts	**13**	64
Rental expense on operating leases	**537**	524
Transfer to provisions for:		
Employee entitlements	**132**	7
(b) Crediting as Income		
Interest received or receivable from:		
Other persons	**3 353**	2 822
Net gain on disposal of property, plant and equipment	**94**	1

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:	**2003**	2002
Land sales to:	**$'000**	$'000
Joint ventures	**2 315**	1 979
Other	**9 608**	7 906
Total Sales Revenue	**11 923**	9 885

(b) Other Revenue from Ordinary Activities

Other revenue from ordinary activities comprises:		
Interest received	**3 353**	2 822
Rent and other property income received	**4 763**	4 648
Share of net profit of joint venture entities (refer Note 5)	**5 217**	3 246
Revenues from Government (refer Note 6)	**8 587**	8 015
Proceeds on disposal of property, plant and equipment	**483**	3
Recoveries and sundry income	**3 514**	1 860
	25 917	20 594
Less: Written down value of property, plant and equipment disposals	**389**	2
Total Other Revenue from Ordinary Activities	**25 528**	20 592

5. Joint Venture Entities

5.1 Joint Venture Summary

Income from joint venture entities of $5 217 000 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:

5.1 Joint Venture Summary (continued)

	2003 $'000	2002 $'000
Revenues	**18 909**	24 269
Expenses	**13 692**	21 023
Profit from ordinary activities	**5 217**	3 246

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

	2003	2002
Capital contributions and acquisition of additional interest:		
Balance at 1 July	**-**	6 011
Add: Contributions during the reporting period	**5 375**	2 375
Less: Repayments during the reporting period [(a)]	**(5 375)**	(7 242)
Less: Transfer to share of accumulated profits (accumulated loss on joint venture termination)	**-**	(1 144)
Balance at 30 June	**-**	-
Share of accumulated profits:		
Balance at 1 July	**4 615**	4 714
Add: Profit for the reporting period	**5 217**	3 246
Less: Distribution of profit to the Corporation during the reporting period[(a)]	**(1 126)**	(4 489)
Add: Transfer from capital contributions (accumulated loss on joint venture termination)	**-**	1 144
Balance at 30 June	**8 706**	4 615
Total Carrying Amount of Investment in Joint Venture Entities	**8 706**	4 615

(a) Capital repayments and distribution of profit for 2001-02 include a total of $4 953 000 included in Receivables (refer Note 10).

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

	2003 $'000	2002 $'000
Current Assets:		
Cash	**1 650**	3 996
Receivables	**931**	1 417
Inventories	**4 096**	3 326
Prepayments	**38**	39
	6 715	8 778
Non-Current Assets:		
Inventories	**5 766**	2 769
Property, plant and equipment	**551**	135
	6 317	2 904
Total Assets	**13 032**	11 682
Current Liabilities:		
Creditors and borrowings	**1 496**	4 501
Provisions	**2 575**	2 561
	4 071	7 062
Non-Current Liabilities:		
Creditors and borrowings	**-**	5
Provisions	**255**	-
	255	5
Total Liabilities	**4 326**	7 067
Net Assets	**8 706**	4 615

5.2 Golden Grove Joint Ventures

Golden Grove Development - Joint Venture with Delfin

The Corporation has 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 operates under the Indenture and associated joint venture and management agreements. Land remains in the ownership of the Corporation and is made available in stages to the joint venture. The Corporation progressively receives an agreed payment for the land (as specified in the Joint Venture Agreement) and shares profits and losses equally with Delfin Lend Lease Ltd. Settlement of sale of the final allotment is scheduled to occur by 31 August 2003, and this will trigger termination of the joint venture under the Project Completion Arrangements Deed which was expected on 7 August 2003.

Para Scarp Joint Venture

The project was concluded during the 2001-02 financial year. The Corporation had a 50 percent interest in a joint venture with Delfin Lend Lease Ltd (formerly Delfin Property Group Limited) to develop 52 hectares of land contained in seven parcels adjacent to the western boundary of the Golden Grove Development area. Under the terms of the joint venture agreement, Delfin Lend Lease Ltd purchased a half interest in the land and shared development costs and profits equally with the Corporation.

5.3 Seaford Joint Venture

With all remaining land sold and settled, the joint venture was terminated effective 28 September 2001. The joint venture involved the development of land at Seaford in joint co-operation between the Corporation, the South Australian Housing Trust (SAHT) and the private sector. The land was owned jointly by the Corporation and SAHT as tenants in common. The voting power held by the Corporation was 25 percent. The participating interests were:

Land Management Corporation (LMC)	41.67 percent (five twelfths)
SAHT	25.00 percent (three twelfths)
Southern Horizons Pty Ltd	33.33 percent (four twelfths)

5.4 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 re City of Salisbury, University of South Australia, the Government of South Australia and Telstra Corporation.

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.

6. Revenues from Government

	2003	2002
Government grants and subsidies received during the reporting period were sourced as follows:	**$'000**	$'000
State Government subsidy for land tax expense	**3 150**	2 960
State Government recurrent grants (including electricity supplementation)	**2 945**	3 095
State Government capital grants	**2 483**	1 960
State Government grants - other	**9**	-
	8 587	8 015

7. Bad and Doubtful Debts

Bad debts written off:		
Trade debtors	**1**	32
Transfer to provision for doubtful debts:		
Trade debtors	**12**	32
Total Bad and Doubtful Debts Expense	**13**	64

8. Tax Equivalents

In accordance with Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*, 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 $706 000 including a refund due of $728 000. In addition, the amount of $2 288 000 provided in the previous reporting period was paid to the Treasurer. The comparative amounts recognised in the Statement of Financial Performance are summarised in the following table:

	2003	2002
	$'000	$'000
Income tax equivalent paid in respect of the surplus for the reporting period	**1 434**	1 398
Provision for income tax equivalent in respect of the surplus for the reporting period (Refer Note 16)	**-**	2 288
Less: Refund due for income tax equivalent overpaid in respect of the surplus for the period (refer Note 10)	**(728)**	-
Total Income Tax Equivalent paid or payable per the Statement of Financial Performance	**706**	3 686
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	**1 434**	1 398
Balance of income tax equivalent paid in respect of the previous reporting period	**2 288**	1 583
Total Income Tax Equivalent paid per the Statement of Cash Flows	**3 722**	2 981

9. Dividends

Pursuant to Regulations under the *Public Corporations Act 1993*, the Corporation may be required to pay dividends to the Treasurer. Current Government policy on distributions from Government businesses provides for an indicative dividend benchmark of 60 percent of after tax profit. Following a recommendation by the Board, and after consultation with the Minister, the Treasurer determined that an interim dividend of $4 000 000 ($3 028 000) be paid in respect of the reporting period. No final dividend will be declared as the amount of the interim payment exceeds the Government benchmark. Consequently there is no provision for final dividend at year end (refer Note 17).

The Treasury budget for 2003-04 provides for a special dividend from the Corporation of $50 000 000 as part repatriation of retained earnings to Government. On 25 August 2003 the Corporation's Board approved the payment of this dividend by the end of September 2003.

10. Receivables

	2003	2002
	$'000	$'000
Current:		
Trade and other debtors [(a)]	**1 060**	6 399
Income tax equivalent overpaid	**728**	
Less: Provision for doubtful debts	**(60)**	40
Total Receivables	**1 728**	6 359

(a) In the previous reporting period, trade and other debtors included $4 953 000 receivable from joint ventures in respect of capital repayments and profit distributions applicable to the reporting period but not received by the Corporation at balance date (refer Note 5).

11. Inventories

	2003	2002
Current	**$'000**	$'000
Cost of acquisition	**2 296**	3 117
Development cost capitalised	**362**	33
	2 658	3 150
Non-Current:		
Cost of acquisition	**20 468**	21 673
Development cost capitalised	**2 962**	975
	23 430	22 648
Total Inventories	**26 088**	25 798

12. Other Assets

Current:		
Prepayments	**25**	20
Non-Current:		
Prepayments	**14**	27
Total Other Assets	**39**	47

13. Property, Plant and Equipment

Land and Buildings:		
Freehold land:		
At cost	**-**	1 650
At independent valuation - 2003	**10 423**	95
	10 423	1 745
Buildings:		
At cost	**-**	12 004
At independent valuation - 2003	**14 701**	-
	14 701	12 004
Less: Accumulated depreciation	**-**	958
	14 071	11 046
Total Land and Buildings	**24 494**	12 791
Plant and Equipment:		
At cost	**2 146**	2 080
Less: Accumulated depreciation	**1 596**	1 581
Total Plant and Equipment	**550**	499
Total Property, Plant and Equipment	**25 044**	13 290

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	**1 745**	1 745
Transfer from administered projects	**2 816**	-
Disposals	**(110)**	-
Reclassifications to inventory	**(95)**	-
Revaluation increment	**6 067**	-
Carrying amount at 30 June	**10 423**	1 745
Buildings:		
Carrying amount at 1 July	**11 046**	8 313
Additions	**57**	2 986
Disposals	**(279)**	-
Depreciation	**(293)**	(253)
Revaluation increment	**3 540**	-
Carrying amount 30 June	**14 071**	11 046
Plant and Equipment:		
Carrying amount at 1 July	**499**	238
Additions	**195**	353
Disposals	**-**	(2)
Depreciation	**(144)**	(90)
Carrying amount at 30 June	**550**	499
Total Carrying Amount at 30 June	**25 044**	13 290

14. Payables

	2003	2002
Current:	**$'000**	$'000
Trade creditors	**1 941**	2 261
Sundry creditors and accrued expenses	**1 643**	1 372
	3 584	3 633
Non-Current:		
Non-interest bearing loan - Department of Business, Manufacturing and Trade	**500**	500
Sundry creditors and accrued expenses	**65**	55
	565	555
Total Payables	**4 149**	4 188

15. Interest-Bearing Liabilities

	2003	2002
Non-Current:		
Loan - Department of Treasury and Finance	**9 983**	3 905
Total Interest-Bearing Liabilities	**9 983**	3 905

16. Tax Liabilities

	2003	2002
Current:		
Income tax equivalent	**-**	2 288
Total Tax Liabilities	**-**	2 288

17. Provisions

	2003	2002
Current:		
Dividend	**-**	2 133
Annual leave	**209**	200
Long service leave	**40**	30
	249	2 363
Non-Current:		
Long service leave	**530**	497
Total Provisions	**779**	2 860

18. Employee Benefits

	2003	2002
Accrued salaries and wages	**16**	-
Annual leave - Current		
Provision for employee benefits (refer Note 17)	**209**	200
On-costs included in payables (refer Note 14)	**21**	19
	230	219
Long service leave - Current		
Provision for employee benefits (refer Note 17)	**40**	30
On-costs included in payables (refer Note 14)	**4**	3
	44	33
Long service leave - Non-current		
Provision for employee benefits (refer Note 17)	**530**	497
On-costs included in payables (refer Note 14)	**59**	55
	589	552
Aggregate Employee Benefits and Related On-Costs	**879**	804

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

	2003	2002
Balance at 1 July	**101 602**	98 162
Surplus from ordinary activities for the year after income tax equivalent	**1 647**	8 601
Dividend paid or payable to the Treasurer (refer Note 9)	**(4 000)**	(5 161)
Accumulated Surplus at 30 June	**99 249**	101 602

19.2 Asset Revaluation Reserve

	2003	2002
Balance at 1 July	**-**	-
Revaluation increment - land and buildings (refer Note 2.9)	**9 607**	-
Balance at 30 June	**9 607**	-

20. Administered Transactions

20.1 Summary of Former Administered Projects

During the previous reporting period the Corporation administered various projects on behalf of the State Government. Following a review of the appropriate accounting and Treasury classification for administered transactions (refer Note 2.2), the Treasurer approved that, effective 1 July 2002, all administered assets and liabilities be brought to account as controlled items and the values as recorded in the ledgers at that date be the appropriate transfer values. The financial effect of this change was to recognise an expense of $8 866 000 in the Statement of Financial Performance for the reporting period ended 30 June 2003. The financial effect in the Statement of Financial Position was to recognise an increase of $20 396 000 in assets and an increase of $29 262 000 in liabilities as at the beginning of the reporting period. The assets and liabilities taken on by the Corporation are detailed below, following a description of each project.

(a) *Inner Western Program*
The Inner Western Program involves the remediation of environmentally degraded land in Bowden, Brompton and West Hindmarsh to achieve urban renewal outcomes. It is intended that the program will be funded by way of a development agreement with the Angas Consortium. At balance date this agreement was being finalised.

(b) *Mile End Railyards Redevelopment*
The Corporation's role in respect of the redevelopment of the site and the transfer of the land from Australian National to the State is complete with only ongoing groundwater monitoring a remaining function, charged on a fee for service basis.

(c) *East End Redevelopment*
The East End redevelopment is a State Government initiative involving a prominent site steeped in the early history of the city. Other parties involved in the redevelopment are Mancorp (The Rundle East Company Pty Ltd) and the Liberman Group. The Liberman component of the redevelopment involves the construction of approximately 300 units/apartments and commercial and retail premises and the restoration of heritage units along the perimeter of the site. This component is now substantially complete. The Mancorp component of the redevelopment involves refurbishment of existing commercial/retail space facing Rundle Street. In regard to the Mancorp site, completion is anticipated to occur by 2004-05, contingent upon sale conditions being fulfilled and the Corporation's 25 percent share being satisfactorily negotiated.

(d) *Port Waterfront Redevelopment*
The Port Waterfront redevelopment represents a major urban renewal project involving the redevelopment of waterfront land at Port Adelaide. The opportunity arises from the utilisation of various government owned surplus waterfront properties and facilities, resulting from the decline of the Inner Harbour as an economically viable industrial port. Registration of Interest submissions from companies and consortia has resulted in the selection of a preferred party to participate in the joint development of the land as a major ongoing project. Over the coming year, a detailed redevelopment proposal will be finalised and submitted to Cabinet for due consideration.

(e) *Islington Redevelopment*
The Corporation's role in respect of the Islington project was to manage the remediation of a derelict and contaminated rail workshop site on behalf of the Department for Transport, Urban Planning and the Arts. Site works were completed during a previous reporting period and this project has now concluded.

(f) *Mawson Lakes Government Infrastructure*
Under the terms of the joint venture arrangements for the Mawson Lakes Economic Development Project (refer Note 5.4), the State Government has obligations for various infrastructure works. The Corporation receives State grants in respect of the obligations relating to its component of the infrastructure works and oversees payments for these works.

(g) *Sports Park Infrastructure*
Sports Park is located 10 km north of Adelaide on a 120 hectare site. Infrastructure works to upgrade stormwater management and internal roads and services were completed in the previous financial year. The Corporation's role is now only in respect of management of the works in kind agreement with the Croatian Sports Centre and maintenance of the undeveloped eastern portion of the site.

20.2 Schedule of Administered Assets and Liabilities as at 1 July 2002

	Note	Inner West	Mile End	East End	Port Water-front	Islington	Mawson Lakes Infra-structure	Sports Park Infra-structure	2002 Total
Administered Assets:		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash assets		2 622	701	(330)	(1 856)	25	11 374	149	12 685
Receivables		8	2	-	2	2	35	-	49
Inventories:									
Land held for resale		-	101	-	4 445	-	-	-	4 546
Property, plant and equipment:									
Land and buildings		-	-	2 186	300	-	-	-	3 116
Total Administered Assets		2 630	804	2 486	2 891	27	11 409	149	20 396
Administered Liabilities:									
Payables		25	4	304	43	-	56	-	432
Loans from the Treasurer	(a)	-	-	22 740	6 090	-	-	-	28 830
Total Administered Liabilities		25	4	23 044	6 133	-	56	-	29 262

Schedule Notes

(a) Loans from the Treasurer

East End Redevelopment

The loan was in the name of the Minister for Government Enterprises (formerly Minister for Housing and Urban Development). Agreement between the Treasurer and the Minister was reached wherein the debt was fully repaid from the Corporation's cash reserves during the reporting period ended 30 June 2003.

Port Waterfront Redevelopment

The loan is in the name of the Minister for Government Enterprises (formerly Minister for Housing and Urban Development). The Corporation has included repayment of the debt in the financial assessment of submissions received pursuant to the Registration of Interest process, wherein a preferred consortia was announced by the Premier on 29 July 2002.

20.3 Funds Currently Administered

During the reporting period the Corporation received $1 250 000 from the Department of Education and Children's Services as its contribution to the construction of the Mawson Centre at Mawson Lakes. These funds are held in trust pending payment to the University of South Australia in the 2003-04 financial year in accordance with the intention of a proposed Memorandum of Understanding.

21. Commitments

Capital Expenditure Commitments

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

	2003	2002
	$'000	$'000
Payable not later than one year	**7 958**	-
Payable later than one year but not later than five years	**2 657**	-
Payable later than five years	**-**	-
	10 615	-

The majority of these commitments comprises the State Government's remaining commitment for the Corporation's component of the infrastructure works at Mawson Lakes (refer Note 5.4), estimated to be $9 168 000.
Additional capital expenditure commitments, unquantified at balance date, may arise in respect of the Corporation's share of the funding of future development works under the terms of various joint venture arrangements currently in place (refer Note 5).

Other Expenditure Commitments

Other expenditure commitments at balance date were $757 000 payable within 12 months ($1 066 000).

Operating Lease Commitments

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

	2003	2002
	$'000	$'000
Payable not later than one year	**443**	330
Payable later than one year but not later than five years	**1 348**	1 111
Payable later than five years	**624**	796
	2 415	2 237

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.

22. Contingent Liabilities

	2003	2002
Golden Grove Development (refer Note 5.2)	**$'000**	$'000
Indemnity for bank guarantees in favour of Local and State Government Authorities.		
The maximum limit available at balance date to the joint venture is $2 350 000 ($3 600 000).		
The maximum liability amounts to $1 315 000 ($2 440 000).		
The Corporation's contingent liability in respect of this amount is 50 percent.	**658**	1 220
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 $15 640 000 ($7 885 000).		
The Corporation's contingent liability in respect of this amount is 50 percent.	**7 820**	3 943

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

	2003 $'000	2002 $'000
Surplus from Ordinary Activities after Income Tax Equivalent	**1 647**	8 601
Non-cash flows in Surplus from Ordinary Activities after Income Tax Equivalent:		
Share of net profit of joint venture entities	**(5 217)**	(3 246)
Net gain on disposal of property, plant and equipment	**(94)**	(1)
Depreciation	**437**	343
Movement in income tax equivalent payable	**(3 016)**	705
Provision for long service leave	**43**	13
Provision for annual leave	**9**	(6)
Provision for doubtful debts	**12**	32
Net expenses from take up of administrative projects	**8 866**	-
Changes in assets and liabilities:		
Cash received from take up of administered projects	**12 685**	-
(Increase) decrease in receivables	**448**	(532)
Decrease in prepayments	**8**	25
Decrease (increase) in inventories	**4 651**	2 055
(Decrease) increase in payables	**(278)**	1 651
Net Cash provided by Operating Activities	**20 201**	9 640

24. Cash Assets

	2003	2002
Cash at Treasury	**61 957**	64 313
Cash in trust, at bank and on hand	**205**	421
Cash shown in the Statement of Financial Position and Statement of Cash Flows	**62 162**	64 734

25. Additional Financial Instruments Disclosure

25.1 Interest Rate Risk

The Corporation has certainty with respect to the interest expense arising from the fixed rate loan from the Treasurer which comprises a significant part of its debt. 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:

	2003					
	Weighted Average Effective Interest Rate	**Floating Interest Rate**	**Fixed Interest Rate**	**Non-Interest Bearing**	**Total**	2002 Total
Financial Assets:	**Percent**	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Cash assets	**4.74**	**63 410**	**-**	**2**	**63 412**	64 734
Receivables		**-**	**-**	**1 728**	**1 728**	6 359
		63 410	**-**	**1 730**	**65 140**	71 093
Financial Liabilities:						
Payables		**-**	**-**	**5 399**	**5 399**	4 188
Interest-bearing liabilities[(a)]	**8.63**	**6 090**	**3 893**	**-**	**9 983**	3 905
		6 090	**3 893**	**5 399**	**15 382**	8 093

(a) The fixed interest rate loan matures in April 2017.

25.2 Credit Risk

The Corporation is exposed to credit risk associated with the amounts due to it from tenants and others for rent and sundry charges. The credit risk on financial assets recognised in the Statement of Financial Position is the carrying amount, net of any provision for doubtful debts. Credit risk is ameliorated by the fact that amounts due from individual tenants are relatively small although the credit performance of tenants as a whole may be expected to be influenced by common factors.

25.3 Net Fair Value of Financial Instruments

The net fair value of term debtors (where applicable) is determined by discounting the cash flows to their present values at market interest rates. The net fair value of borrowings is determined by discounting the cash flows to their present values at market interest rates of similar borrowings. For other assets and other liabilities the net fair value approximates their carrying value. Analysis of the net fair value of financial instruments as at 30 June is detailed below:

	2003		2002	
	Carrying Amount	**Net Fair Value**	Carrying Amount	Net Fair Value
Financial Assets:	**$'000**	**$'000**	$'000	$'000
Cash assets	**63 412**	**63 412**	64 734	64 734
Receivables	**1 728**	**1 728**	6 359	6 359
Total Financial Assets	**65 140**	**65 140**	71 093	71 093
Financial Liabilities:				
Payables	**5 399**	**5 399**	4 188	4 188
Interest-bearing liabilities	**9 983**	**11 901**	3 905	5 978
Total Financial Liabilities	**15 382**	**17 300**	8 093	10 166
Net Financial Assets	**49 758**	**47 840**	63 000	60 927

26. Events Subsequent to Reporting Date

On 18 August 2003 State Cabinet approved that the retained land held by the Minister for Infrastructure in respect of the former South Australian Ports Corporation be transferred to the Land Management Corporation (LMC) by Memorandum of Transfer, to take effect on 1 October 2003, with LMC paying $2 405 000 from its cash reserves for the land, in addition to incurring the costs for stamp duty and registration.

27. Directors' Remuneration

The number of Directors of the Board whose remuneration from the Corporation was within the following bands were:	**2003 Number of Directors**	2002 Number of Directors
$Nil	**1**	1
$1 - $10 000	**-**	1
$10 001 - $20 000	**-**	3
$20 001 - $30 000	**3**	2
$60 001 - $70 000	**1**	1

Total income received or due and receivable by all Directors of the Corporation for the period they held office was $144 000 ($162 000), 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 2002 was 5 (5).

28. 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:	**2003 Number of Employees**	2002 Number of Employees
$100 001 - $110 000	**3**	4
$110 001 - $120 000	**3**	3
$120 001 - $130 000	**1**	-
$130 001 - $140 000	**1**	-
$140 001 - $150 000	**2**	1
$200 001 - $210 000	**-**	1
$210 001 - $220 000	**1**	-

Total income received or due and receivable by the above employees for the period they held office was $1.44 million ($1.11 million).

The number of employees at the reporting date was 64.1 (54.1).

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 $119 000. In addition to this, accrued annual leave and long service leave entitlements amounting to $81 000 were paid to that employee. These payments are included in salaries and related payments.

29. Auditors' Remuneration

	2003 $'000	2002 $'000
Amounts received or due and receivable by the principal auditors for auditing the accounts	**58**	60
Total Auditors' Remuneration	**58**	60

30. External Consultants

Fees and expenses incurred during the reporting period as a result of engaging consultants were:		
Recognised in the Statement of Financial Performance	**420**	388
Capitalised in the Statement of Financial Position	**255**	179
Charged against Administered Project Funds (refer Note 20)	**-**	11
Total	**675**	578

31. 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
A L Ashby
S M Day
D H Edwards
P J Martin
W L Stokes

Details of the Directors' remuneration are set out in Note 27.

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, a Board Member of North Western Adelaide Health Service and a Board Member of the Adelaide Entertainment Corporation (until February 2003).

Directors (continued)
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 P. J. Martin was Director, Commercial Advice, Department of the Premier and Cabinet, a Board Member of the Industrial and Commercial Premises Corporation and the South Australian Film Corporation 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 2003.

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.

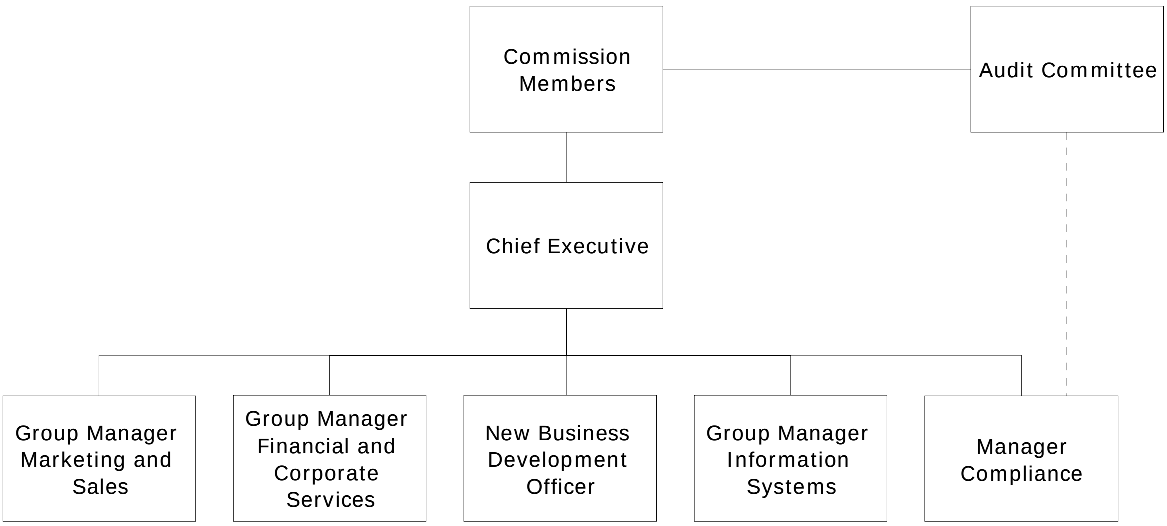
Functions

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 and
- Instant scratchies.

Structure

The structure of the Commission 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 Commission for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the 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. 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 2002-03, specific areas of audit attention included:

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

The work performed 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
- internet vulnerability testing
- change controls - online gaming system
- draw operations and dividend calculations.

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 considered to be satisfactory. Major matters raised with the Commission and the related responses are considered in Audit Findings and Comments.

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 2003, 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 is 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.

Significant Matters Raised with the Commission

The main issues arising from the audit related to a lapse in certain controls due to employees taking extended leave and the post implementation review of a new financial system (Navision) being conducted by employees involved in the implementation of the system.

The response from the Commission on these issues was to update procedures to ensure controls are performed when employees take extended leave and to ensure that a suitably qualified external consultant undertakes the post implementation review.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003	2002	Percentage
	$'million	$'million	Change
OPERATING REVENUE			
Sales	**336**	314	7
Less cost of sales	**(282)**	(262)	8
Other revenue	**10**	6	67
Total Operating Revenue	**64**	58	10
OPERATING EXPENDITURE			
Services and supplies	**15**	13	15
Goods and Services Tax	**12**	12	-
Employment expenses	**7**	7	-
Other expenses	**5**	2	-
Total Operating Expenses	**39**	34	15
Surplus from Ordinary Activities after Income Tax Equivalent	**18**	16	13
Net Cash Flows from Operations	**84**	78	8
ASSETS			
Current assets	**49**	50	(2)
Non-current assets	**19**	24	(21)
Total Assets	**68**	74	(8)
LIABILITIES			
Current liabilities	**29**	31	(6)
Non-current liabilities	**14**	16	(13)
Total Liabilities	**43**	47	(9)
EQUITY	**25**	27	(7)

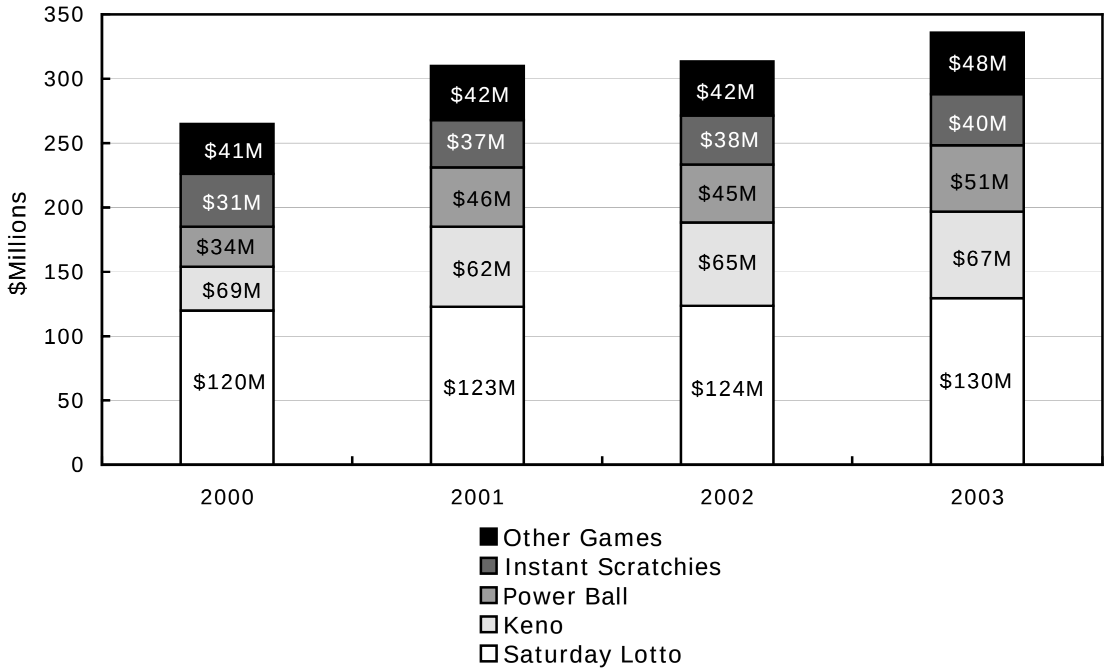
Statement of Financial Performance

Sales Revenue

A structural analysis of sales revenue generated by the lottery products provided by the Commission in the four years to 2003 is presented in the following chart.

Notably, in 2003 Saturday Lotto sales were $130 million and Keno sales were $67 million, representing 39 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. The main factors contributing to the increases in 2003 are marketing and promotions, price increases and the instances of jackpots creating very large prize pools.

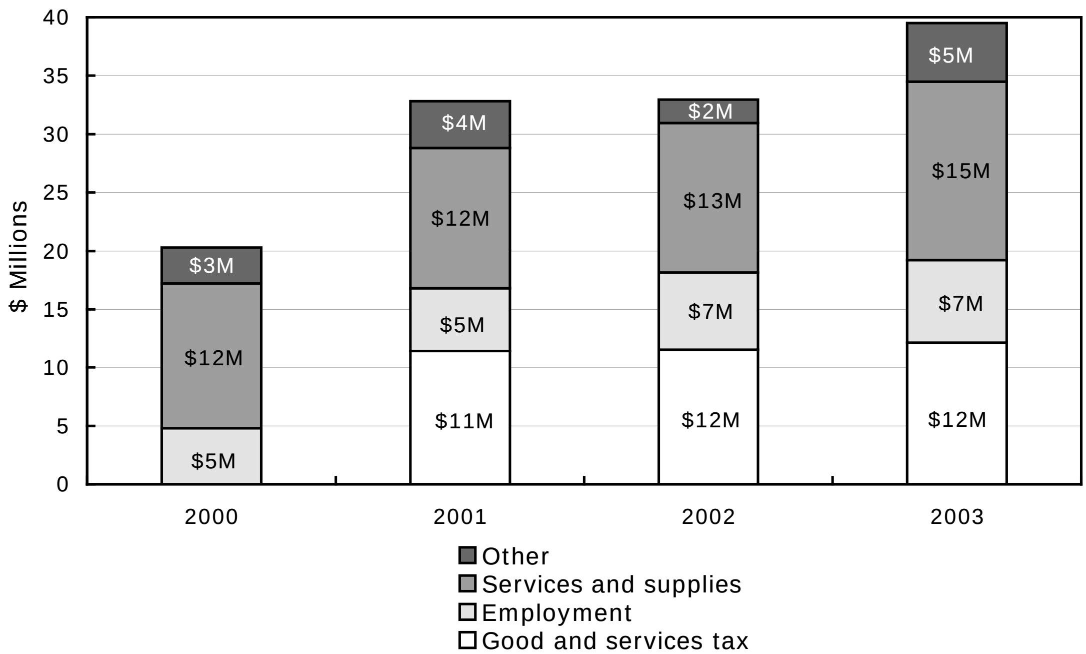


Operating Expenses

A structural analysis of the main operating expense items for the Commission is shown in the following chart. The total operating expenses increased in 2001 as a result of changed taxation arrangements and the introduction of the Goods and Services Tax.

The increase in employment expenses from 2001 to 2002 was due mainly to the cessation of a superannuation contribution holiday and an increase in staff numbers.

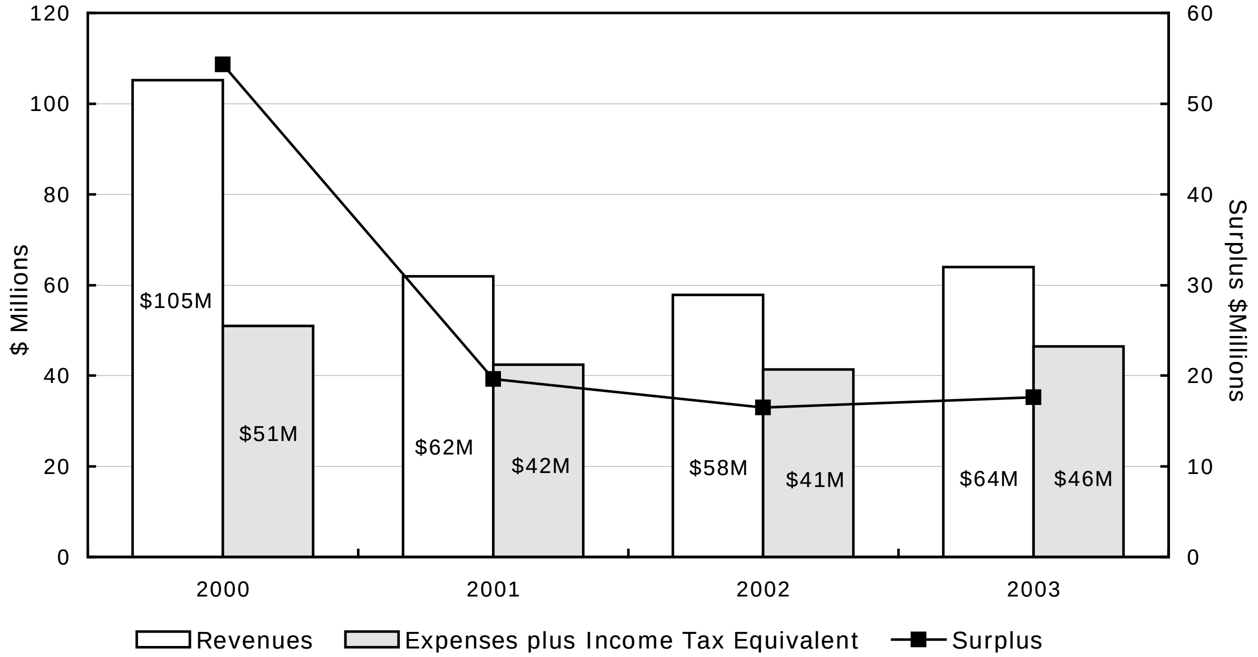
Services and supplies increased by $2 million in 2003 due mainly to the one-off expense of the Commission hosting the World Lottery Association Congress in Adelaide in November 2002. The increase in other expenses was due to an increase in depreciation expense following a revaluation of the on-line lotteries system in 2002.



Operating Result

There were significant changes in arrangements following the introduction of the taxation reform in 2001. For the three years to 2003 it is evident the Commission's performance has been relatively stable, but in 2003 there was an improvement over the 2002 result.

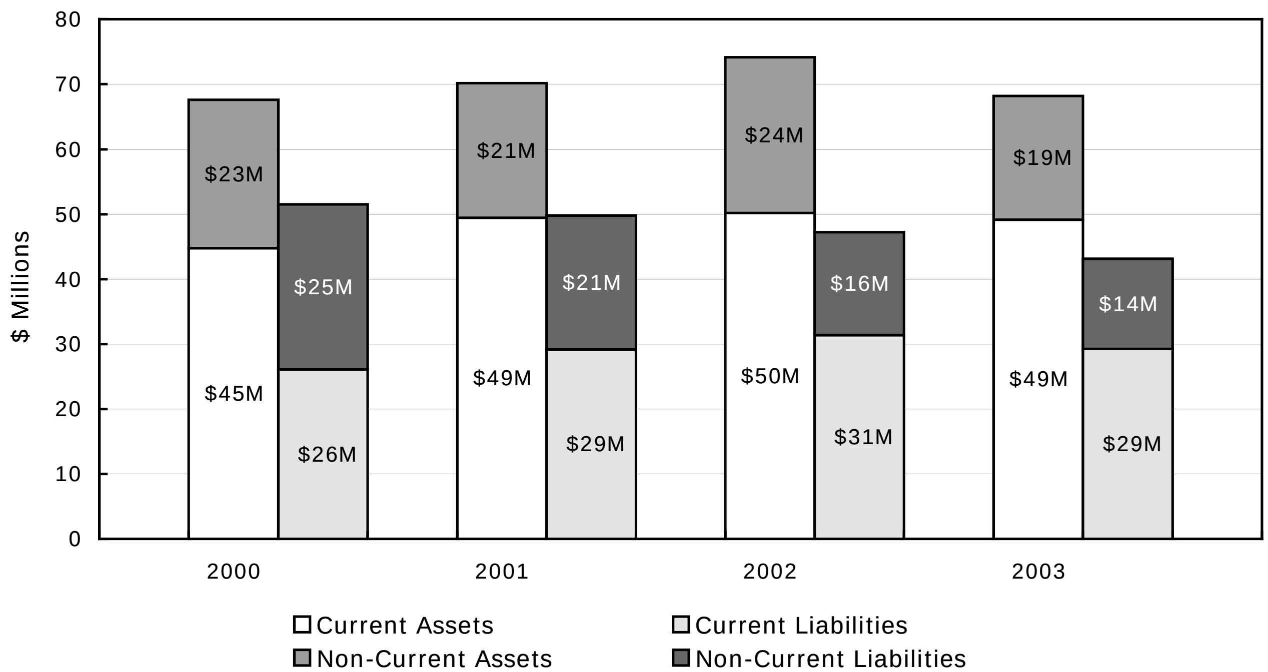
The following chart shows the operating revenues, operating expenses plus income tax equivalent and surpluses for the four years to 2003.



Statement of Financial Position

For the four years to 2003 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 2003 is due mainly to the downwards revaluation of the on-line lotteries system ($1.8 million).



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**84**	79	84	90
Investing	**(1)**	(1)	(2)	(5)
Financing	**(84)**	(76)	(80)	(82)
Change in Cash	**(1)**	2	2	3
Cash at 30 June	**45**	46	44	42

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 and distributions owed to the Government. The financing cash flows represent the amount being distributed to the Government, $83 million in 2003, and the repayment of borrowings, $1.4 million in 2003. The increase in investing cash flows in 2000 was due to purchases for the on-line lotteries system.

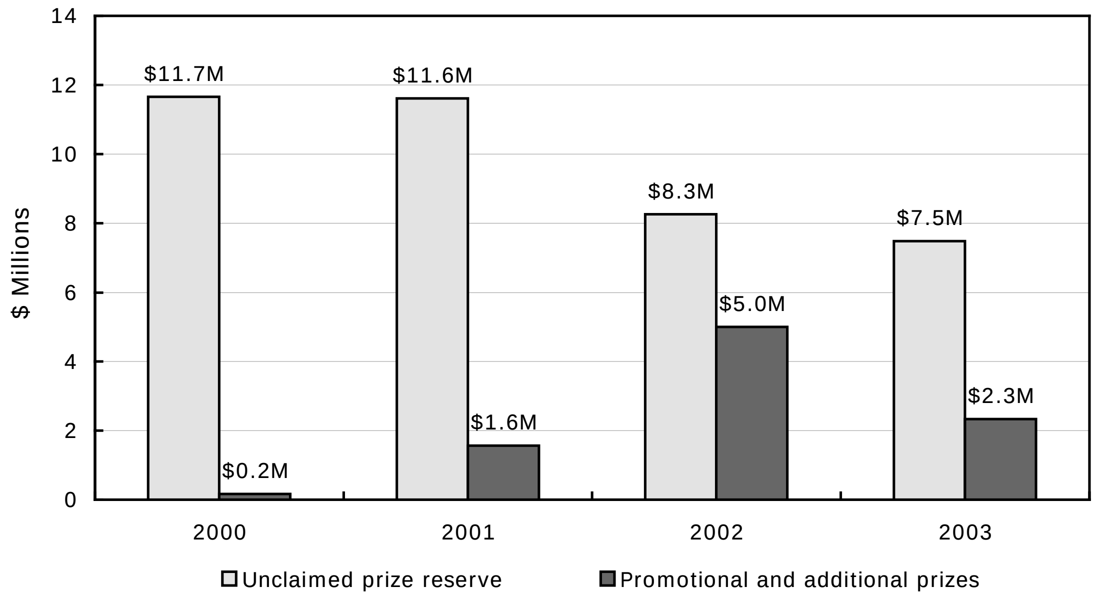
FURTHER COMMENTARY ON OPERATIONS

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 and promotional and additional prizes over the past four years is shown in the following chart.

The analysis shows that there has been an increase in the amount of monies paid out to players from the unclaimed prize reserve in promotional and additional prizes over the past four years. Of the $2.3 million expended from the reserve in 2003, $ 1.5 million ($3.4 million) related to promotional tickets, recorded as sales in the Statement of Financial Performance, and $ 0.8 million ($1.6 million) for additional prizes.



Statement of Financial Performance for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
REVENUES FROM ORDINARY ACTIVITIES:			
Sales revenue	2	**335 911**	313 856
Less cost of sales	3	**281 796**	262 239
Trading Surplus		**54 115**	51 617
Other revenues	4	**9 846**	6 204
Total Revenues		**63 961**	57 821
EXPENSES FROM ORDINARY ACTIVITIES:			
Services and supplies	5	**15 297**	12 804
Goods and Services Tax		**12 143**	11 513
Employee expenses		**7 063**	6 627
Depreciation	6	**3 801**	2 714
Borrowing costs		**518**	611
Total Expenses		**38 822**	34 269
SURPLUS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT		**25 139**	23 552
Income tax equivalent expense relating to ordinary activities	17	**7 542**	7 066
SURPLUS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EQUIVALENT	16	**17 597**	16 486
(Decrease) Increase in asset revaluation reserve	15(i)	**(1 814)**	5 402
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**15 783**	21 888

Statement of Financial Position
as at 30 June 2003

	Note	**2003 $'000**	2002 $'000
CURRENT ASSETS:			
Cash assets		**44 816**	45 510
Receivables	7	**3 820**	3 827
Inventories	8	**397**	225
Prepayments		**126**	607
Total Current Assets		**49 159**	50 169
NON-CURRENT ASSETS:			
Property, plant and equipment	9	**19 010**	23 972
Total Non-Current Assets		**19 010**	23 972
Total Assets		**68 169**	74 141
CURRENT LIABILITIES:			
Payables	10	**19 353**	21 605
Interest-bearing liabilities		**1 452**	1 368
Provision for employee benefits	11	**319**	300
Other	12	**8 133**	7 945
Total Current Liabilities		**29 257**	31 218
NON-CURRENT LIABILITIES:			
Payables	10	**208**	191
Interest-bearing liabilities		**5 429**	6 882
Provision for employee benefits	11	**776**	684
Unclaimed prizes reserve	13	**7 489**	8 266
Total Non-Current Liabilities		**13 902**	16 023
Total Liabilities		**43 159**	47 241
NET ASSETS		**25 010**	26 900
EQUITY:			
Funds retained for capital purposes	14	**2 976**	2 976
Reserves	15	**22 034**	23 924
Retained surplus	16	**-**	-
TOTAL EQUITY		**25 010**	26 900
Commitments	26		

Statement of Cash Flows for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**317 973**	292 172
Prizes paid		**(201 117)**	(184 277)
Payments to suppliers and employees (excluding GST)		**(22 061)**	(19 447)
GST payments to taxation authority		**(8 986)**	(8 242)
GST payments on purchases		**(3 954)**	(3 516)
GST receipts on sales		**624**	399
Interest received		**2 209**	2 004
Borrowing costs paid		**(553)**	(633)
Net Cash provided by Operating Activities	27(ii)	**84 135**	78 460
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property, plant and equipment		**(405)**	(553)
Proceeds on disposal of non-current assets		**1**	-
Net Cash used in Investing Activities		**(404)**	(553)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		**(1 368)**	(1 289)
Distribution to the Hospitals Fund and Recreation and Sport Fund for gambling tax	17	**(55 577)**	(50 744)
Distribution to the Hospitals Fund for income tax equivalent	17	**(7 787)**	(8 153)
Distribution to the Hospitals Fund and Recreation and Sport Fund:			
After tax surplus	17	**(18 232)**	(14 343)
Unclaimed prizes	17	**(1 461)**	(1 652)
Net Cash used in Financing Activities		**(84 425)**	(76 181)
NET (DECREASE) INCREASE IN CASH HELD		**(694)**	1 726
CASH AT 1 JULY		**45 510**	43 784
CASH AT 30 JUNE	27(i)	**44 816**	45 510

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. 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,* as amended, and the Lottery 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) Change in Accounting Policy

In accordance with Accounting Standard AASB 1028 'Employee Benefits', on 1 July 2002 the Commission changed its policy for recognising its liability for salaries and wages and annual leave. Under the new policy the amount of the liability is calculated using the remuneration rate that is expected to apply at the time of settlement rather than the remuneration rate that applies at reporting date.

This change in accounting policy had no material impact on the results for the period.

(c) 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

(d) Valuation of Non-Current Assets

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

(i) Property and plant is at historical cost.

(ii) Independent valuations for freehold land and buildings were obtained in May 2001 from Simon Hickin BAppSc (Val), AAPI, ASIA, Certified Practicing Valuer of Jones Lang LaSalle and was determined on the basis of open market values for existing use.

(iii) 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.

(e) 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 when tickets are sold. 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.

(f) Inventories

Inventories are carried at actual cost.

(g) 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.

(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 1.326 percent is paid to the WorkCover Corporation to cover any claims.

(h) Building Maintenance Reserve

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

(i) 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.

(j) 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.

(k) Receivables

Debtors

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

Prizes Receivable from Blocs

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 13 days after the date of draw.

(l) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and short 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 is 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.

(m) 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 inter-jurisdictional 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 13 days after the date of the draws in accordance with the Lottery 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 13 days after the date of draw.

(n) 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.

(o) 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 increased prizes in subsequent lotteries, providing prizes in promotional lotteries or making ex-gratia prize payments.

The *State Lotteries Act 1966*, provides for ex-gratia payments 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 Lottery Rules.

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

(p) 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.

(p) Tax Equivalent Regime (continued)

The tax equivalent regime has been applied in a manner that is consistent with the requirement of the Commission, pursuant to subsection 16(3) of the *State Lotteries Act 1966*, to pay surplus funds to the Hospitals Fund.

The Commission is obliged to adopt the accounting surplus method of tax effect accounting with respect to income tax whereby income tax expense is calculated on the accounting surplus. Permanent and timing differences do not arise. Tax due but not paid at balance date is recognised as a current liability.

(q) 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. 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 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.

(r) 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 1(p), 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 surplus method), recorded as an expense item in the Statement of Financial Performance;
(iii) an after tax surplus distribution payment, recorded as a surplus distributed;
(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 17.

(s) 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 the interest charged at the lender's benchmark rate. The carrying amount for borrowings therefore approximates fair value.

(t) Segment Information

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 products within the economic environment of South Australia.

(u) Leases

The Commission has an operating lease agreement for accommodation for a remote computer site at Kidman Park where the lessor effectively retains all risks and benefits incidental to ownership. Operating lease payments are representative of the pattern of benefits derived from the leased asset and are charged to the Statement of Financial Performance in the period in which they occur.

2. Sales Revenue

	2003	2002
	$'000	$'000
Lotto	**129 603**	123 632
SA Lotto	**28 931**	23 380
Oz Lotto	**16 575**	17 127
Powerball	**51 379**	44 526
Keno	**67 155**	64 838
Instant Scratchies	**39 864**	37 920
Super 66	**1 662**	1 828
The Pools	**742**	605
	335 911	313 856

Sales revenue includes agents' commission.

		2003	2002
3.	**Cost of Sales**	**$'000**	$'000
	Prizes	**202 336**	187 217
	Gambling Tax	**54 766**	51 922
	Agents' commission*	**24 694**	23 100
		281 796	262 239

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

4.	**Other Revenues**		
	Agents' fees and charges	**3 539**	3 217
	Interest	**2 211**	2 010
	Commission on Head Office sales	**406**	388
	Easiplay Club service fee	**323**	290
	Sundry	**399**	299
	WLA Congress *	**2 968**	-
		9 846	6 204

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

5.	**Services and Supplies**		
	Advertising and marketing	**5 398**	5 021
	Computer operations	**3 447**	3 764
	Printing of tickets	**1 543**	1 337
	Other	**2 562**	2 409
	Operating lease	**75**	84
	Bad debts	**8**	3
	WLA Congress*	**2 264**	186
		15 297	12 804

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

6.	**Depreciation**		
	Buildings	**81**	81
	Plant and equipment	**275**	243
	On-line lotteries system	**3 445**	2 390
		3 801	2 714
7.	**Receivables**		
	Debtor - agents	**1 972**	2 652
	Prize money due from Blocs	**1 139**	403
	Sundry	**709**	772
		3 820	3 827
8.	**Inventories**		
	Ticket stock	**397**	225

Ticket stock includes Instant Scratchies tickets, on-line coupons, ticket rolls and ribbons.

9.	**Property, Plant and Equipment**		
	Freehold Land and Buildings:		
	Buildings at independent valuation	**2 490**	2 490
	Accumulated depreciation	**(169)**	(88)
		2 321	2 402
	Land at independent valuation	**3 310**	3 310
		5 631	5 712
	Plant and Equipment:		
	Plant and equipment at historical cost	**4 873**	4 584
	Accumulated depreciation	**(3 729)**	(3 643)
		1 144	941
	On-line Lotteries System:		
	On-line lotteries system at independent valuation	**12 235**	17 319
	Total Property, Plant and Equipment	**19 010**	23 972

Reconciliations
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	2003 $'000	2002 $'000
Freehold Land:		
Carrying amount 30 June	**3 310**	3 310
Buildings:		
Carrying amount 1 July	**2 402**	2 483
Depreciation expense	**(81)**	(81)
Carrying amount 30 June	**2 321**	2 402
Plant and Equipment:		
Carrying amount 1 July	**941**	659
Additions	**478**	525
Depreciation expense	**(275)**	(243)
Carrying amount 30 June	**1 144**	941
On-Line Lotteries System:		
Carrying amount 1 July	**17 319**	14 286
Depreciation expense	**(3 445)**	(2 390)
Revaluation increment	**-**	5 402
Revaluation decrement	**(1 814)**	-
Additions	**181**	21
Disposals	**(6)**	-
Carrying amount 30 June	**12 235**	17 319

10. Payables

	2003	2002
Current:		
Creditors	**3 288**	3 328
Prizes payable	**9 494**	10 181
Undistributed funds (refer to Note 17)	**6 571**	8 096
	19 353	21 605
Non-Current:		
Creditors	**208**	191
	19 561	21 796

11. Employee Benefits

	2003	2002
Current:		
Provision for employee benefits:		
Annual Leave	**266**	252
Long service leave	**53**	48
On-costs (accounted for in payables)	**59**	56
	378	356
Non-Current:		
Provision for employee benefits:		
Long service leave	**776**	684
On-costs (accounted for in payables)	**208**	191
	984	875
Aggregate Employee Benefits and Related On-Cost Liabilities	**1 362**	1 231

12. Other Liabilities

	2003	2002
Prize fund[(i)]	**7 092**	6 814
Sales in advance	**1 041**	1 131
	8 133	7 945
(i) Prize fund:		
Balance at 1 July	**6 814**	6 091
Allocated to prize fund	**9 182**	8 595
	15 996	14 686
Applied to prizes	**(8 904)**	(7 872)
Balance at 30 June	**7 092**	6 814

The prize 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 prize money in the respective games.

13. Unclaimed Prizes Reserve

	2003	2002
	$'000	$'000
Balance at 1 July	**8 266**	11 612
Unclaimed monies forfeited	**3 102**	3 313
	11 368	14 925
Monies provided for distribution to the Hospitals Fund	**(1 550)**	(1 656)
Monies provided for distribution to the Recreation and Sport Fund	**(1)**	(2)
Promotional tickets	**(1 527)**	(3 400)
Additional prizes	**(801)**	(1 601)
Balance at 30 June	**7 489**	8 266

14. 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.

15. Reserves

	2003	2002
Asset revaluation(i)	**6 599**	8 413
Building maintenance(ii)	**94**	94
Capital asset(iii)	**13 628**	12 567
Keno prize(iv)	**1 713**	2 850
	22 034	23 924
(i) Asset Revaluation		
Balance at 1 July	**8 413**	3 011
Transferred to reserve	**-**	5 402
	8413	8 413
Transferred from reserve	**1 814**	-
Balance at 30 June	**6 599**	8 413
(ii) Building Maintenance		
Balance at 30 June	**94**	94
(iii) Capital Asset:		
Balance at 1 July	**12 567**	11 450
Transfer to reserve	**2 000**	2 000
Transfer to retained surplus	**(939)**	(883)
Net transfer to reserve	**1 061**	1 117
Balance at 30 June	**13 628**	12 567
Capital asset comprises the:		
Capital Fund account	**9 757**	8 415
Capital Fund assets (at amortised value)*	**3 871**	4 152
	13 628	12 567
Capital Fund Account:		
Balance at 1 July	**8 415**	6 961
Transfer to reserve	**2 000**	2 000
Assets financed	**(658)**	(546)
Balance at 30 June	**9 757**	8 415
Capital Fund Assets:		
Amortised value at 1 July	**4 152**	4 489
Assets financed	**658**	546
Depreciation	**(939)**	(883)
Amortised value at 30 June	**3 871**	4 152
* Assets financed from the capital fund:		
Balance at 1 July	**7 927**	7 423
Assets financed	**658**	546
	8 585	7 969
Assets disposed	**(6)**	(42)
Balance at 30 June	**8 579**	7 927
Accumulated depreciation write-down	**(4 708)**	(3 775)
Capital Fund assets (at amortised value)	**3 871**	4 152
(iv) Keno Prize:		
Balance at 1 July	**2 850**	2 850
Transfer from reserve	**(1 137)**	-
Balance at 30 June	**1 713**	2 850

16. Retained Surplus

	2003	2002
	$'000	$'000
Retained surplus at 1 July	**-**	-
Transfer to capital asset reserve	**(2 000)**	(2 000)
Transfer from Keno prize reserve	**1 137**	-
Transfer from capital asset reserve	**939**	883
Surplus for the year (after income tax equivalent)	**17 597**	16 486
	17 673	15 369
Surplus distributed	**17 673**	15 369
Retained Surplus at 30 June	**-**	-

17. Distribution of Funds to Government

	Balance 1.7.02 $'000	Distribution Provided $'000	Distribution Paid $'000	**Balance 30.6.03 $'000**
Gambling tax	5 611	54 766	55 577	**4 800**
Income tax equivalent	743	7 542	7 787	**498**
Surplus distributed	1 637	17 673	18 232	**1 078**
Unclaimed prizes	105	1 551	1 461	**195**
	8 096	81 532	83 057	**6 571**
Comprising:				
Distribution to Hospitals Fund:				
Gambling tax	5 603	54 603	55 425	**4 781**
Income tax equivalent	743	7 542	7 787	**498**
Surplus distributed	1 630	17 563	18 129	**1 064**
Unclaimed prizes	105	1 550	1 460	**195**
	8 081	81 258	82 801	**6 538**
Distribution to Recreation and Sport Fund:				
Gambling tax	8	163	152	**19**
Surplus distributed	7	110	103	**14**
Unclaimed prizes	-	1	1	**-**
	15	274	256	**33**
Total 2002-03	8 096	81 532	83 057	**6 571**
Total 2001-02	6 975	76 013	74 892	**8 096**

18. Commission Members' Fees

The number of Commission members whose fees were within the following bands:

	2003 Number of Members	2002 Number of Members
$1 - $9 999	**-**	2
$10 000 - $19 999	**-**	2
$20 000 - $29 999	**4**	2
$40 000 - $49 999	**1**	-
Total fee received, or due and receivable, by Commission members	**135**	104

19. Remuneration of Employees

The number of employees whose remuneration paid or payable was within the following bands:

	2003 Number of Employees	2002 Number of Employees
$100 000 - $109 999	**1**	-
$110 000 - $119 999	**1**	-
$130 000 - $139 999	**1**	-
$140 000 - $149 999	**1**	1
$160 000 - $169 999	**-**	1
$240 000 - $249 999	**1**	-
$250 000 - $259 999	**-**	1

There were five full-time employee positions (five) whose remuneration was greater than $100 000. Employees that were employed for part of the year, whose remuneration was less than $100 000, have not been included. Remuneration paid to these employees includes salary, fringe benefit and superannuation payments made to or on behalf of employees.

	2003 $'000	2002 $'000
The total remuneration paid or payable on behalf of employees whose remuneration was $100 000 or more	**747**	559

20. Number of Employees

	2003 Number of Employees	2002 Number of Employees
Number of employees at 30 June	**97**	99
Number of full time equivalent at 30 June	**93.1**	94.1

21. Remuneration of Auditors

	2003 $'000	2002 $'000
Amounts received, or due and receivable, by the auditors for auditing the accounts	**130**	127

22. External Consultants

The external consultants used by the Commission and the expenditure has been grouped under the following ranges:

	2003 $'000	2002 $'000
Below $10 000	**50**	70
$10 000 - $50 000:	**232**	208
Adelaide Research and Innovation Pty Ltd - Game statistical Analysis		
Department for Administrative and Information Services - Occupancy project		
Executive People Solutions - Staff recruitment		
Hender Consulting - Staff recruitment		
McGregor Tan Research - Market research		
PricewaterhouseCoopers - New business system project		
Speakman & Associates Pty Ltd - Staff recruitment		
The Marketing Centre - Mystery shopping		
Above $50 000:	**147**	312
Moore Stephens Hughes Fincher - Game audits		
KPMG - Internal audit		
Total Expenditure on Consultancies	**429**	590

	2003 Number of Consultancies	2002 Number of Consultancies
The number of consultancies engaged below $10 000	**14**	15

23. 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 subject to a triennial review and is externally managed. The last full actuarial investigation was conducted as at 30 June 2000 by Allan Archer, BSc, FIA, FIAA, Superannuation Actuary. The report was dated 31 January 2001.

Information from the last actuarial report:	$'000
Accrued benefits as at 1 July 2000 - The last measurement date	5 891
Net market value of assets as at 1 July 2000	6 792
Net market value of assets as at 1 July 2000 in excess of accrued benefits	901

Information from the last audited annual accounts:	
Vested benefits as at 30 June 2000	5 696
Net market value of assets as at 30 June 2000	6 792

Funds are invested in a 'Mercer Growth' strategy in the scheme known as Mercer Super Trust - Lotteries Commission of South Australia Superannuation Plan.

As at 30 June 2003 the Policy Committee for the scheme 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 costs of benefits being provided. Contribution to the defined benefits plan during the year was $431 000 ($489 000).

For accumulation benefit members, the Commission pays either 14.5 percent for members who have transferred from the defined benefit plan or 9 percent under the Commonwealth Superannuation Guarantee legislation. The contribution by the Commission for the accumulation members of the plan during the year was $164 000 ($117 000). These contributions are mainly invested in a 'Mercer Growth' strategy under the Mercer Super Trust.

(b) The Commission contributed $3 000 ($8 000) for superannuation on behalf of employees who are members of private funds.

(c) The Commission contributed $19 000 ($13 000) to the State Pension Scheme on behalf of an employee who is a member of that scheme.

24. Financial Instruments

(a) Interest Rate Risk

With the exception of cash assets and interest bearing liabilities, all other financial assets and financial liabilities are non-interest bearing. The Commission's exposure to interest rate risks and the effective interest rates of financial assets and liabilities at balance date are as follows:

	2003			
	Floating Interest Rate	**Fixed Interest Rate**	**Non-Interest Bearing**	**Total**
Financial Assets:	**$'000**	**$'000**	**$'000**	**$'000**
Cash assets	**44 691**	**-**	**125**	**44 816**
Receivables	**-**	**-**	**3 820**	**3 820**
Total financial assets 30 June 2003	**44 691**	**-**	**3 945**	**48 636**
Weighted average interest rate (percent)	**4.84**			
Total financial assets 30 June 2002	45 385	-	3 952	49 337
Weighted average interest rate (percent)	4.54			
Financial Liabilities:				
Interest Bearing Liabilities	**-**	**6 881**	**-**	**6 881**
Payables	**-**	**-**	**19 561**	**19 561**
Total financial liabilities 30 June 2003	**-**	**6 881**	**19 561**	**26 442**
Weighted average interest rate (percent)		**6.84**		
Total financial liabilities 30 June 2002	-	8 250	21 796	30 046
Weighted average interest rate (percent)		7.13		

(b) 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.

	Weighted Average Rate			
	2003	2002	**2003**	2002
Buying US Dollars:			**$'000**	$'000
Not longer than one year	**0.59**	-	**341**	-
			341	-

(c) 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.

(d) Net Fair Values

The Commission's accounting policies used to determine the net fair value of financial assets and liabilities are disclosed in Note 1. 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.

25. Related Party Disclosures

Commission Members

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

Presiding member, Mr H J Ohff, BA (Hons), FIEAust, CPEng;
Mr D P LeMessurier, Ass Dip (BM), FAICD, SAI (Aff), ADA1 (ASX), MSDIA, MBA; and
Ms S J Mackenzie, BComm (Accounting), LLB (Hons).

For the period 1 September 2002 to 30 June 2003, the following persons held the position of Member of the Lotteries Commission of South Australia:

Mr S K Shirley, BEc, CA, CPA, FTIA,; and
Ms C M Crago, Ass Dip (BM), BBus (Mktg), Real Estate Certificate.

Details of Commission Members' Fees are set out in Note 18.

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.

26. Commitments for Expenditure

	2003 $'000	2002 $'000
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	**183**	393
	183	393
Lease Commitments		
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	**87**	83
Later than one year and not later than five years	**186**	273
	273	356

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 five percent per annum.

	2003 $'000	2002 $'000
Other Commitments		
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	**1 999**	4 753
Later than one year and not later than five years	**1 434**	3 038
	3 433	7 791

27. Statement of Cash Flows

(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:

	2003 $'000	2002 $'000
Cash	**44 816**	45 510

(ii) Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities before Income Tax Equivalent

	2003 $'000	2002 $'000
Surplus from ordinary activities before income tax equivalent	**25 139**	23 552
Gambling tax	**54 766**	51 922
Depreciation	**3 801**	2 714
Provision for employees benefits	**110**	(3)
Prepayments, inventory and debtors	**316**	996
Unclaimed prizes reserve	**774**	(1 689)
Prize fund	**278**	723
Sale of equipment	**4**	-
Creditors	**(277)**	530
Prizes payable	**(686)**	(403)
Sales in advance	**(90)**	118
Net Cash provided by Operating Activities	**84 135**	78 460

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 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.

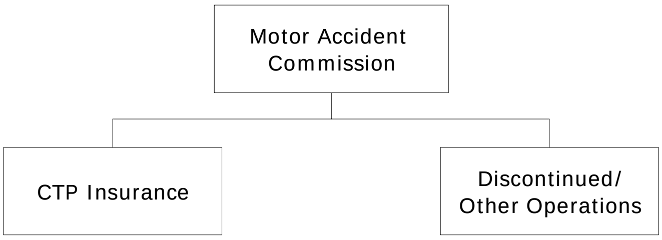
The Commission's Charter specifies that the Commission is empowered to undertake the following classes of insurance:

- 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 Commission is illustrated in the following organisation chart.



Includes:

- CTP Claims
- CTP Investments

Includes:

- Inwards Re-insurance
- Mortgage Guarantee
- Other Investments
- Old Act Workers Compensation Fund

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 for 2002-03 was contracted to SGIC General Insurance Limited. Investments are managed by a number of external fund managers with the exception of the property portfolio which is managed 'in-house'.

Changes to Functions and Structure

Until 30 June 2003, the Commission was responsible for the management and finalisation of the 'Old Act, Workers Compensation Fund', which was transferred to the Commission in accordance with the *SGIC (Sale) Act 1995*. This Fund relates to unresolved claims from workers compensation policies issued under subsection 118(g) of the *Workers Compensation Act 1971* (now repealed). From 1 July 2003 responsibility for the management of this Fund rests with the South Australian Asset Management Corporation.

Amendments to Legislation

On 29 August 2002 Parliament passed a number of amendments to the *Motor Accident Commission Act 1992*. These amendments were a result of the scoping review and National Competition Policy review of the Commission's operations and give effect to the decision that the Commission should not be privatised and should remain the sole provider of CTP insurance in South Australia. Key aspects of the legislative changes include:

- the introduction of a requirement for the Commission to seek to achieve and maintain sufficient solvency;
- a provision allowing CTP compensation to be paid by way of lifetime periodic payments (to facilitate the payment of 'structured settlements') instead of as a lump sum; and
- the removal of the Commission from the state tax equivalent regime.

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 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. 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 2002-03, specific areas of audit attention included:

- investment assets
- investment income
- claims payable
- premiums
- management agreements (CTP) including transition to new CTP managers
- actuarial assessments
- provisions for outstanding claims
- accounts payable
- receivables
- reinsurance and other recoveries.

Audit Communications to Management

The audit of the Commission proved to be satisfactory. No significant issues arose during the audit and other matters arising were satisfactorily resolved with management.

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 2003 and their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 27 to the financial statements, the Motor Accident Commission has as one of its principal objectives, the objective of achieving and maintaining a Sufficient Level of Solvency in the Compulsory Third Party Fund as determined by a set formula. The Statement of Financial Position for the Compulsory Third Party Fund as at 30 June 2003 discloses net assets of $4.2 million, or 2.6 percent of the target level of sufficient solvency as calculated by the formula. The accounts for the Motor Accident Commission are prepared on a going concern basis after consideration of the following issues:

- The Fund reports positive net assets as at 30 June 2003.

- The Fund's investment strategy ensures adequate liquidity to meet liabilities as and when they fall due.

- The Motor Accident Commission has developed a strategy to work towards the achievement of a Sufficient Level of Solvency over a five year time period.

- The Motor Accident Commission is supported by a Government guarantee pursuant to subsection 21 (1) of the *Motor Accident Commission Act 1992.*

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 is sufficient to provide reasonable assurance that the financial transactions of the Motor Accident Commission have been conducted properly and in accordance with law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Consolidated Financial Statements

	2003 $'million	2002 $'million	Percentage Change
UNDERWRITING RESULT			
Net premium revenue	**305**	267	14
Net claims	**(314)**	(281)	12
Other underwriting expenses	**(59)**	(53)	11
Underwriting Loss	**(68)**	(67)	1
INVESTMENT RESULT			
Net investment revenue	**66**	61	8
Investment market value movements	**(33)**	(46)	(28)
Profit on Investment Activities	**33**	15	120
Net Loss	**(35)**	(56)	(37)
Net Cash Flows from Operations	**(30)**	30	-
ASSETS			
Current assets	**448**	325	38
Non-current assets	**859**	949	(9)
Total Assets	**1 307**	1 274	3
LIABILITIES			
Current liabilities	**432**	421	3
Non-current liabilities	**865**	807	7
Total Liabilities	**1 297**	1 228	6
EQUITY	**10**	46	(78)

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.

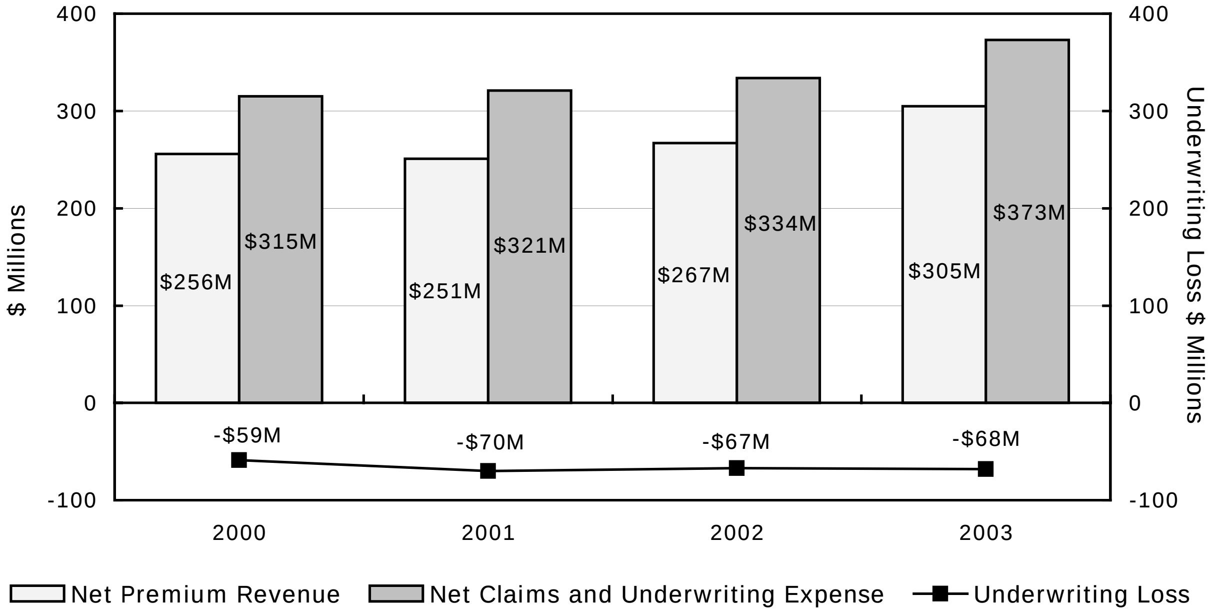
- Investment result — Investment operations is an integral part of any insurance business as the estimated return on invested funds is a significant component of the pricing strategy employed by the business. Australian Accounting Standards Board AASB 1023 'Financial Reporting of General Insurance Activities' 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 gains or losses recognised in the Commission's financial statements as a result of market fluctuations 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

Net premium revenue increased in 2003 by $38 million or 14 percent which is in line with the 15.5 percent increase in premiums approved by the Treasurer effective from 1 July 2002. Net premium revenue has increased steadily since 2001. Net claims and underwriting expenses have increased steadily over the same period and the underwriting loss increased from $59 million in 2000 to $69 million in 2001 where it has remained relatively stable for the three years to June 2003.

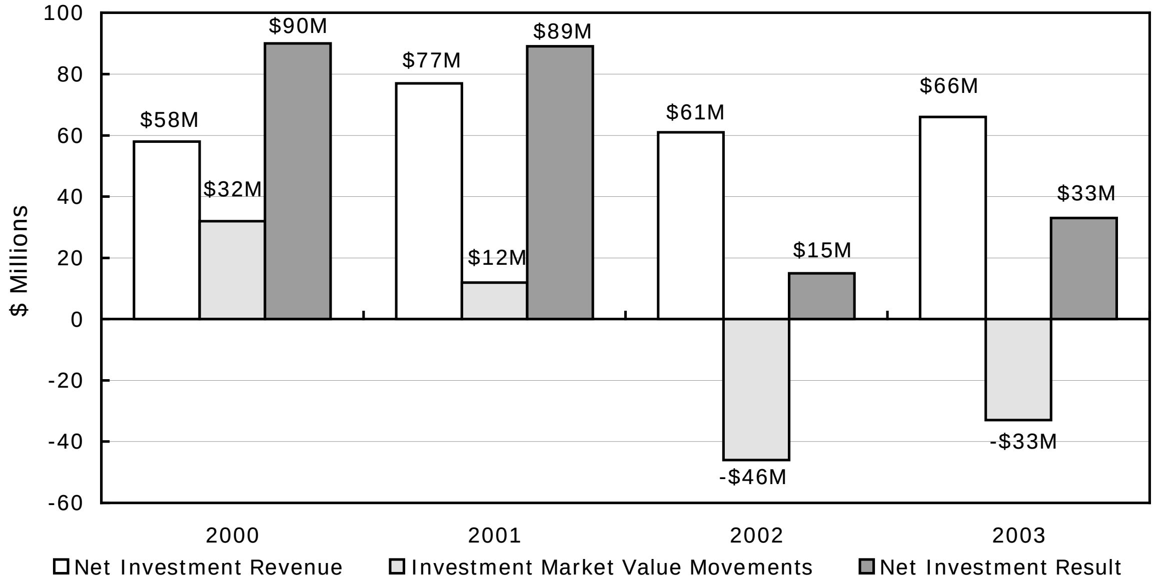
An analysis of the underwriting result for the Commission for the four years to 2003 is presented in the following chart.



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 $5 million increase in 2003. The market value of investments decreased by $46 million and $33 million for the 2002 and 2003 years respectively which is reflective of the world wide downturn in investment markets over this period. As a result of this negative movement in investment values the overall investment result has declined from $92 million in 2000 to $33 million in 2003.

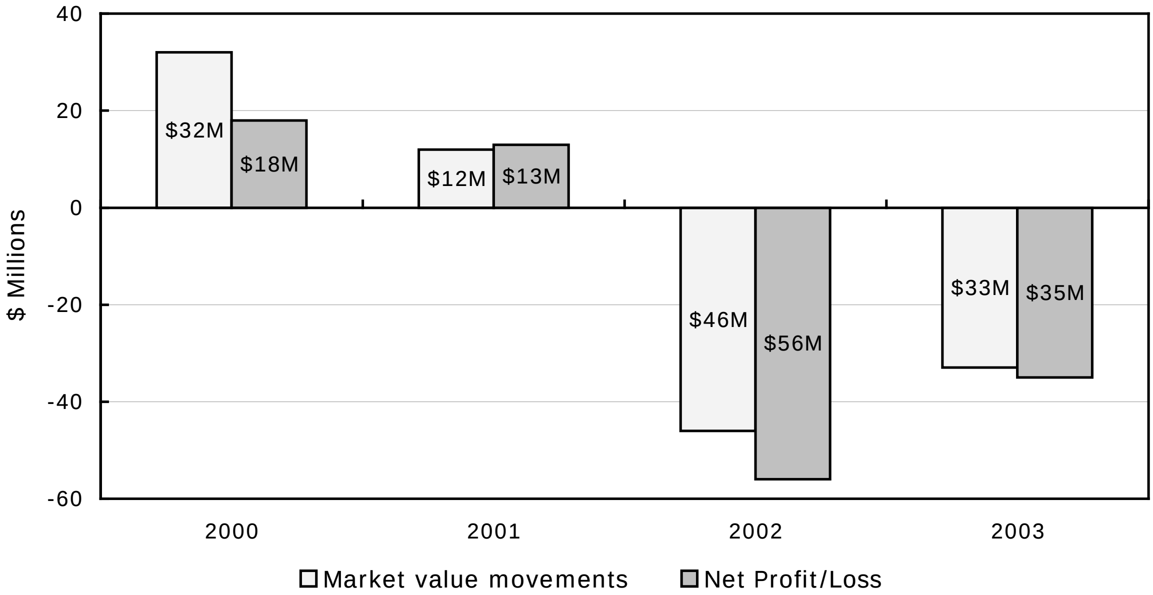
An analysis of the investment result for the Commission for the four years to 2003 is shown in the following chart.



Operating Result

The Commission has incurred an operating loss for the last two years after posting small profits for the preceding two years. The turnaround in operating result is due mainly to the effects of the negative movement in the market value of investments together with an increased 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 2003 and highlights the recent significance of market value movements notwithstanding other factors that influence costs and revenues of the Commission.

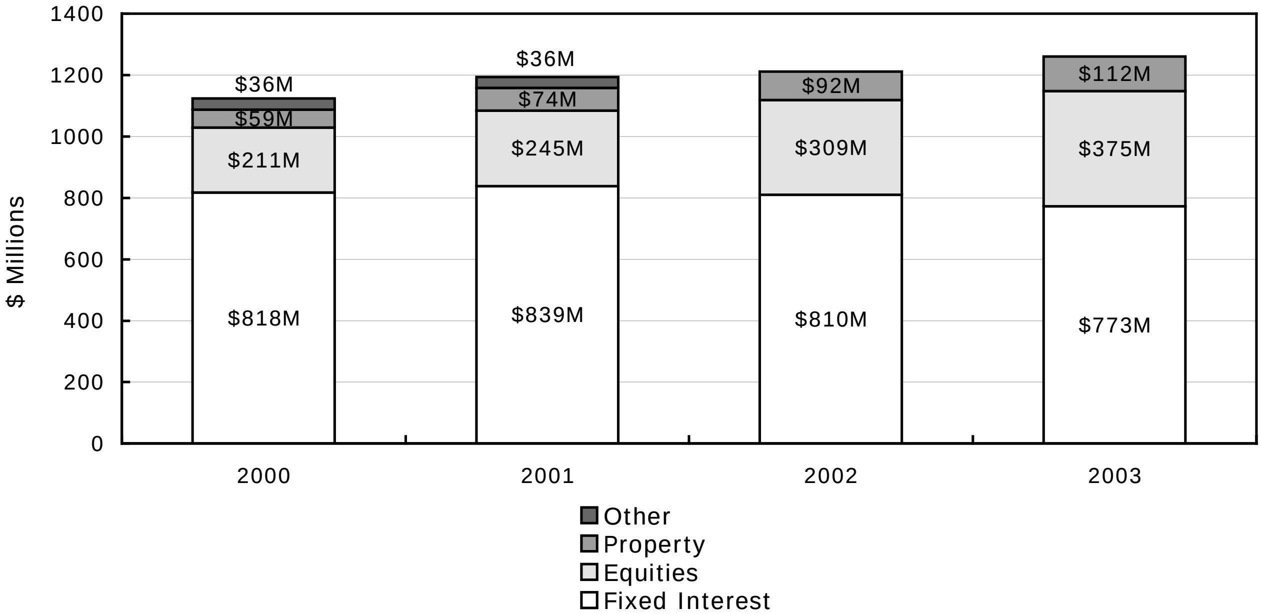


Statement of Financial Position

Investments

The total value of investment assets has increased by $124 million over the four years to 2003 with investments totalling $1.3 billion as at 30 June 2003. The portfolio mix has seen a shift away from fixed interest investment since 2001 with an increase in equity and property investments. As at 30 June 2003 fixed interest investments accounted for 61 percent, equity 30 percent and property 9 percent of the investment portfolio.

For the four years to 2003 a structural analysis of investment assets is shown in the following chart.



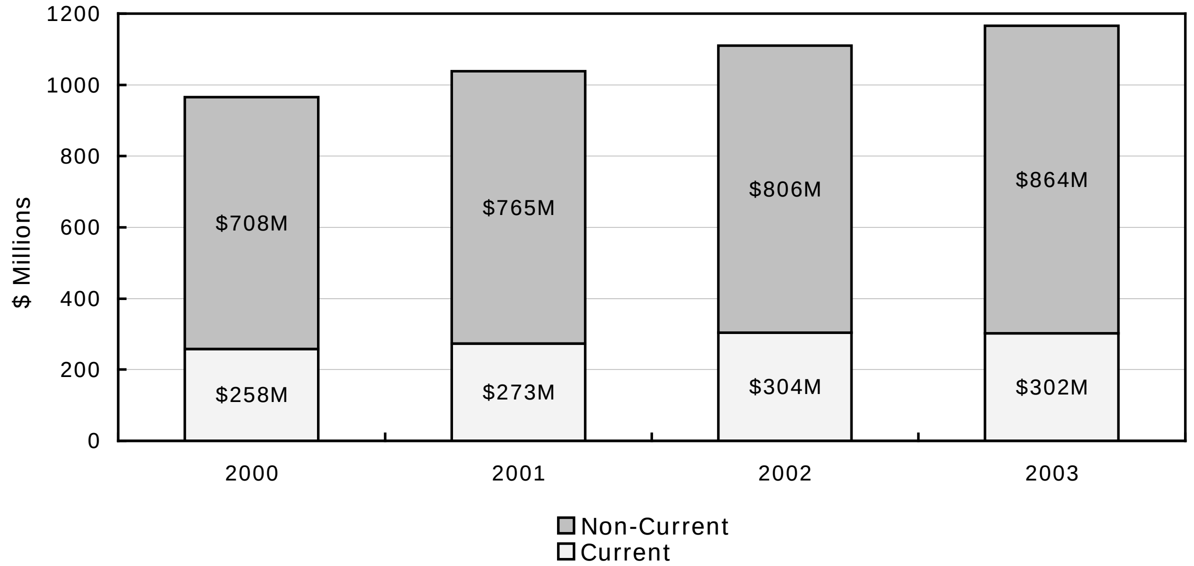
Outstanding Claims

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.

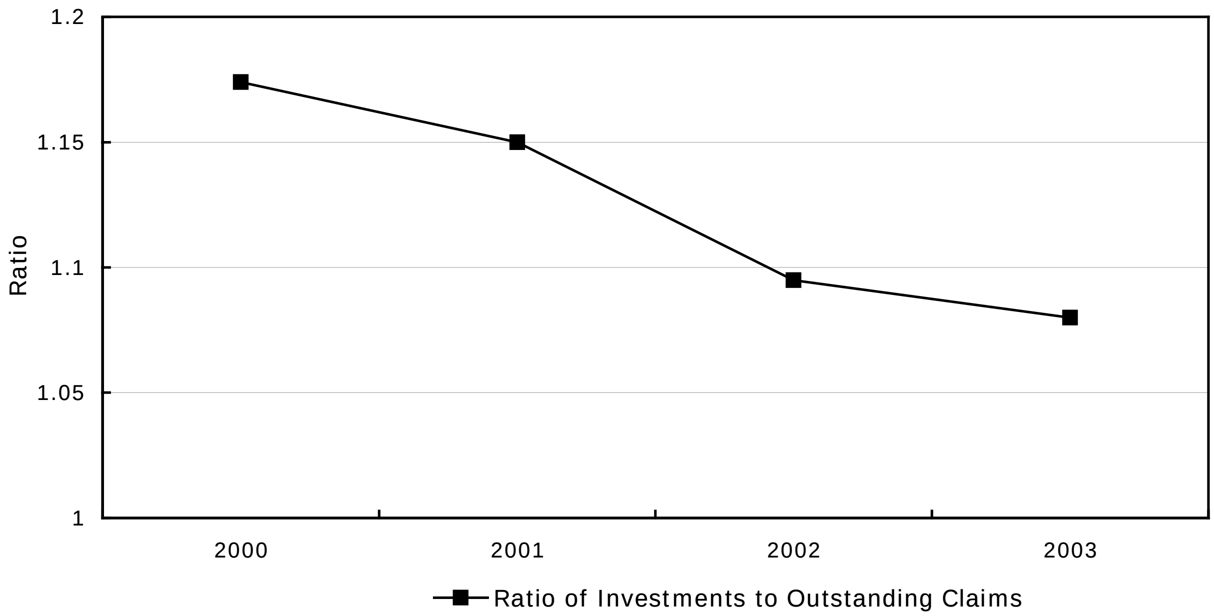
Calculation of the liability is an estimation process and a range of factors, including economic assumptions, affect the calculation. There is therefore a need for professional actuaries to undertake the calculation and for detailed disclosure of a range of the assumptions made in the calculation to 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 15 to the financial statements.

The following chart sets out details of the liability for the four years to 2003. The value of outstanding claims has been increasing over the period.



The ratio of investments to outstanding claims liability is shown in the following chart. The downward trend of the ratio highlights the increase in outstanding claims liability while investment assets have remained relatively stable over the period.



Solvency Level

One of the amendments to the *Motor Accident Commission Act 1992* proclaimed during the year 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 2003 the target level of reserves, as determined by application of the formula, was $163.9 million. The net assets of the CTP fund as at that date was $4.2 million or 2.6 percent of the target level of reserves, a shortfall of $159.7 million.

To achieve the target level of reserves required by the Government the Commission has 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:

	2003	2002	2001	2000
TPPC:	Percent	Percent	Percent	Percent
Recommended rise (effective for the financial year)	**21.7**	13.6	7.8	10.8
Actual rise	**15.5**	4.7	2.6	2.6
Difference	**6.2**	8.9	5.2	8.2

	2003	2002	2001	2000
	$'million	$'million	$'million	$'million
Estimated value of additional premiums had full TPPC rise been applied*	**17**	22	13	19

* Based on previous year's premium income, no allowance for growth or other variations.

As can be seen from the foregoing table, over the four years to 2003 there has been considerable difference between the premium recommended by the TPPC and the amount approved by the Treasurer. The actual rise in 2003, while below the TPPC recommendation, was greater by many times than the previous three years. Clearly, had a premium increase of the order of the previous three years been adopted, the Commission would have had a negative net assets position at 30 June 2003. Had the full increase recommended by the TPPC been implemented over that four year period there would have been estimated additional premium revenue of $71 million available to the Commission which would have resulted in an improved solvency level.

The amendments to the Act include a provision 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. For premium increases effective from 1 July 2003 the TPPC recommended an increase of 16.4 percent. The Treasurer approved this increase for certain classes of vehicles while the approved increase for other classes was 9 percent.

Other statutory amendments made in 2002 that may benefit the Commission's solvency level are the Commission's removal from the tax equivalent regime and clarification of powers to offer structured settlements.

While the position of the fund as at 30 June 2003 is not strong, 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 2003.

	2003 $'000	2002 $'000	2001 $'000	2000 $'000
Net Cash Flows				
Operations	**(30 212)**	29 508	35 989	(99 075)
Investing	**(33)**	270	373	3 186
Financing	**(10 000)**	-	(10 000)	(1 351)
Change in Cash	**(40 245)**	29 778	26 362	(97 240)
Cash at 30 June	**68 660**	108 905	79 127	52 765

The analysis of cash flows shows that the Commission's cash position has declined in 2003 primarily as a result of cash used in operating activities. This mainly related to an net increase in cash used in the purchase of investments.

MOTOR ACCIDENT COMMISSION AND CONTROLLED ENTITIES

Statement of Financial Performance for the year ended 30 June 2003

		CTP		Consolidated		MAC	
		2003	2002	**2003**	2002	**2003**	2002
	Note	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Premium revenue	4	**307 241**	268 566	**307 241**	268 566	**307 241**	268 566
Outwards reinsurance expense		**(2 459)**	(1 908)	**(2 459)**	(1 908)	**(2 459)**	(1 908)
NET PREMIUM		**304 782**	266 658	**304 782**	266 658	**304 782**	266 658
Claims expense	5	**(317 099)**	(285 883)	**(317 314)**	(285 267)	**(317 314)**	(285 267)
Reinsurance and other recoveries	4	**2 865**	3 897	**2 871**	4 637	**2 871**	4 637
NET CLAIMS	18	**(314 234)**	(281 986)	**(314 443)**	(280 630)	**(314 443)**	(280 630)
Other underwriting expenses	6	**(58 685)**	(53 019)	**(58 914)**	(53 338)	**(58 914)**	(53 338)
UNDERWRITING LOSS		**(68 137)**	(68 347)	**(68 575)**	(67 310)	**(68 575)**	(67 310)
Investment revenue	4	**67 332**	63 014	**68 279**	63 748	**68 279**	63 748
Other revenue	4	**2**	1	**7**	(9)	**7**	(9)
Investment management fee		**(1 953)**	(2 470)	**(1 953)**	(2 470)	**(1 953)**	(2 470)
NET INVESTMENT REVENUE		**65 381**	60 545	**66 333**	61 269	**66 333**	61 269
Contribution from non-insurance controlled entities		**-**	-	**(11)**	(31)	**-**	-
LOSS FROM ORDINARY ACTIVITIES BEFORE MARKET VALUE MOVEMENTS		**(2 756)**	(7 802)	**(2 253)**	(6 072)	**(2 242)**	(6 041)
Investment market value movements (AASB 1023)	4	**(33 203)**	(46 442)	**(33 203)**	(46 430)	**(33 203)**	(46 430)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		**(35 959)**	(54 244)	**(35 456)**	(52 502)	**(35 445)**	(52 471)
Income tax expense relating to ordinary activities	7	**-**	(3 548)	**-**	(4 019)	**-**	(4 019)
NET LOSS		**(35 959)**	(57 792)	**(35 456)**	(56 521)	**(35 445)**	(56 490)

Statement of Financial Position
as at 30 June 2003

		CTP		Consolidated		MAC	
		2003	2002	**2003**	2002	**2003**	2002
CURRENT ASSETS:	Note	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Cash		**7 063**	7 803	**12 585**	28 887	**12 445**	28 747
Receivables	8	**7 585**	8 901	**7 643**	7 729	**7 763**	7 840
Reinsurance and other recoveries receivable	9	**2 837**	2 758	**2 837**	2 758	**2 837**	2 758
Other financial assets	10	**412 145**	274 764	**412 219**	274 952	**412 339**	275 072
Other	11	**12 701**	10 846	**12 701**	10 846	**12 701**	10 846
Total Current Assets		**442 331**	305 072	**447 985**	325 172	**448 085**	325 263
NON-CURRENT ASSETS:							
Reinsurance and other recoveries receivable	9	**12 015**	12 190	**12 015**	12 190	**12 015**	12 190
Other financial assets	10	**847 253**	936 035	**847 253**	936 232	**847 273**	936 252
Property, plant and equipment	12	**-**	-	**228**	212	**228**	212
Total Non-Current Assets		**859 268**	948 225	**859 496**	948 634	**859 516**	948 654
Total Assets		**1 301 599**	1 253 297	**1 307 481**	1 273 806	**1 307 601**	1 273 917
CURRENT LIABILITIES:							
Payables	13	**12 119**	7 290	**11 524**	6 797	**11 521**	6 796
Unearned income	14	**118 166**	100 485	**118 166**	100 485	**118 166**	100 485
Outstanding claims	15	**302 139**	303 593	**302 141**	304 046	**302 141**	304 046
Provisions	16	**-**	-	**86**	10 088	**86**	10 088
Total Current Liabilities		**432 424**	411 368	**431 917**	421 416	**431 914**	421 415
NON-CURRENT LIABILITIES:							
Unearned income	14	**625**	-	**625**	-	**625**	-
Outstanding claims	15	**864 347**	801 767	**864 442**	806 470	**864 442**	806 470
Provisions	16	**-**	-	**65**	32	**65**	32
Total Non-Current Liabilities		**864 972**	801 767	**865 132**	806 502	**865 132**	806 502
Total Liabilities		**1 297 396**	1 213 135	**1 297 049**	1 227 918	**1 297 046**	1 227 917
NET ASSETS		**4 203**	40 162	**10 432**	45 888	**10 555**	46 000
EQUITY:							
Retained profit	26	**4 203**	40 162	**10 432**	45 888	**10 555**	46 000
TOTAL EQUITY		**4 203**	40 162	**10 432**	45 888	**10 555**	46 000
Commitments	19						
Contingent liabilities	28						

Statement of Cash Flows
for the year ended 30 June 2003

		CTP		Consolidated		MAC	
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Cash receipts in the course of operations		**356 496**	302 047	**355 227**	305 021	**355 227**	305 012
Cash payments in the course of operations		**(332 680)**	(277 578)	**(338 209)**	(278 217)	**(338 202)**	(278 197)
Proceeds from sale of investments		**1 841 336**	1 667 684	**1 841 655**	1 668 439	**1 841 655**	1 668 439
Payment for investments		**(1 932 605)**	(1 709 374)	**(1 932 605)**	(1 709 374)	**(1 932 605)**	(1 709 374)
Taxes paid		**(15 497)**	(16 859)	**(15 542)**	(16 931)	**(15 542)**	(16 930)
Dividends received		**6 112**	5 286	**6 114**	5 351	**6 114**	5 351
Interest and other investment income		**52 155**	53 891	**53 148**	55 219	**53 141**	55 213
Net Cash provided by (used in) Operating Activities	25	**(24 683)**	25 097	**(30 212)**	29 508	**(30 212)**	29 514
CASH FLOWS FROM INVESTING ACTIVITIES:							
Repayment of loans by other persons		**-**	-	**-**	287	**-**	287
Payment for property, plant and equipment		**-**	-	**(33)**	(17)	**(33)**	(17)
Net Cash provided by (used in) Investing Activities		**-**	-	**(33)**	270	**(33)**	270
CASH FLOWS FROM FINANCING ACTIVITIES:							
Dividends paid		**-**	-	**(10 000)**	-	**(10 000)**	-
Net Cash used in Financing Activities		**-**	-	**(10 000)**	-	**(10 000)**	-
NET INCREASE (DECREASE) IN CASH HELD		**(24 683)**	25 097	**(40 245)**	29 778	**(40 245)**	29 784
CASH AT 1 JULY		**87 821**	62 724	**108 905**	79 127	**108 765**	78 981
CASH AT 30 JUNE	1(s),25	**63 138**	87 821	**68 660**	108 905	**68 520**	108 765

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. During the year, MAC finalised its activities as a Workers Compensation Insurance underwriter.

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 2003.

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 20.

(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 collectibility 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 2003. All independent valuations have been prepared in accordance with guidelines issued by 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 2003.

(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 Entitlements

A liability for employee benefits has been accrued at 30 June 2003.

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 2003 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 twelve 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*.

For financial years up to and including the year ended 30 June 2001, the entity was liable to pay to the Treasurer, for the credit of the Consolidated Account, such amounts as the Treasurer from time to time determined to be equivalent to income tax and any other taxes or imposts that the entity did not pay to the Commonwealth but would have been liable to pay under the law of the Commonwealth if it was constituted and organised in such manner as a public company or group of public companies. To give effect to this requirement, tax effect accounting procedures were followed whereby the income tax expense in the Statements of Financial Performance was matched with the accounting profit (after allowing for permanent differences).

On 12 September 2002, legislative amendments to the *Motor Accident Commission Act 1992* received Royal Assent which, among other things, removed MAC from the tax equivalent regime detailed above. These amendments were approved with an effective date of 1 July 2001. Reflecting this, adjustments were made in 2001-02 to remove any tax assets and liabilities existing as at 1 July 2001 and no further tax effect accounting entries have been processed.

(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	20.0
Building fitout	2.5
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

(a) Employee Benefits

The consolidated entity has applied the revised Accounting Standard AASB 1028 'Employee Benefits' for the first time from 1 July 2002.

The liability for wages and salaries and annual leave is now calculated using the remuneration rates the company expects to pay as at each reporting date, not wage and salary rates current at reporting date.

This change in accounting policy had no material impact on results for the period.

(b) Provisions

The consolidated entity has applied AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' for the first time from 1 July 2002. Dividends are now recognised at the time they are declared, determined or publicly recommended.

The adjustments to the consolidated entities financial reports as at 1 July 2002 are:

- $10.0 million increase in opening retained profits
- $10.0 million decrease in provision for dividend

3. Profit from Ordinary Activities

Profit from ordinary activities before income tax is arrived at after crediting and charging the following specific items:

	CTP 2003 $'000	CTP 2002 $'000	Consolidated 2003 $'000	Consolidated 2002 $'000	MAC 2003 $'000	MAC 2002 $'000
Credits:						
Interest received/receivable:						
Other persons and/or corporations	**50 330**	52 374	**51 273**	53 633	**51 273**	53 633
Dividends received/receivable:						
Other persons and/or corporations	**7 609**	7 857	**7 611**	7 922	**7 611**	7 922
Charges:						
Amounts set aside to provide for:						
Employee entitlements	**-**	-	**52**	(5)	**52**	(5)
Bad and doubtful debts	**(19)**	102	**(19)**	102	**(19)**	102
Depreciation of plant and equipment	**-**	-	**13**	17	**13**	17

4. Revenue from Ordinary Activities

	CTP 2003 $'000	CTP 2002 $'000	Consolidated 2003 $'000	Consolidated 2002 $'000	MAC 2003 $'000	MAC 2002 $'000
Premium Revenue:						
Direct	**307 241**	268 566	**307 241**	268 566	**307 241**	268 566
	307 241	268 566	**307 241**	268 566	**307 241**	268 566
Reinsurance and Other Recoveries:						
Reinsurance	**(923)**	(687)	**(923)**	(687)	**(923)**	(687)
Other	**3 788**	4 584	**3 794**	5 324	**3 794**	5 324
	2 865	3 897	**2 871**	4 637	**2 871**	4 637
Investment Revenue:						
Dividends	**7 609**	7 857	**7 611**	7 922	**7 611**	7 922
Interest	**50 330**	52 374	**51 273**	53 633	**51 273**	53 633
Rentals	**6 554**	4 718	**6 554**	4 718	**6 554**	4 718
Profit (Loss) - Investments realised	**2 839**	(1 935)	**2 841**	(2 525)	**2 841**	(2 525)
	67 332	63 014	**68 279**	63 748	**68 279**	63 748
Investment Market Value Movements - Unrealised gains (losses) (AASB 1023):						
Fixed interest	**6 091**	613	**6 091**	613	**6 091**	613
Equities	**(41 270)**	(47 770)	**(41 270)**	(47 758)	**(41 270)**	(47 758)
Properties	**1 976**	715	**1 976**	715	**1 976**	715
	(33 203)	(46 442)	**(33 203)**	(46 430)	**(33 203)**	(46 430)
Other Revenue:						
Foreign exchange gains (losses)	**2**	1	**6**	(15)	**6**	(15)
Other revenue	**-**	-	**1**	6	**1**	6
	2	1	**7**	(9)	**7**	(9)
Total Revenue from Ordinary Activities	**344 237**	289 036	**345 195**	290 512	**345 195**	290 512

5. Claims Expense

	CTP 2003 $'000	CTP 2002 $'000	Consolidated 2003 $'000	Consolidated 2002 $'000	MAC 2003 $'000	MAC 2002 $'000
Direct	**317 099**	285 883	**317 314**	285 415	**317 314**	285 415
Inwards reinsurance	**-**	-	**-**	(148)	**-**	(148)
	317 099	285 883	**317 314**	285 267	**317 314**	285 267

6. Other Underwriting Expenses

	CTP 2003 $'000	CTP 2002 $'000	Consolidated 2003 $'000	Consolidated 2002 $'000	MAC 2003 $'000	MAC 2002 $'000
Management expenses	**20 527**	19 852	**20 756**	20 171	**20 756**	20 171
Levies and charges	**33 162**	28 988	**33 162**	28 988	**33 162**	28 988
Collection charges	**4 996**	4 179	**4 996**	4 179	**4 996**	4 179
	58 685	53 019	**58 914**	53 338	**58 914**	53 338

7. Income Tax

Until 30 June 2001, MAC was taxed by the State Government as if it were a public company. During September 2002, legislative changes which provided that, effective 1 July 2001, MAC was exempted from the state tax equivalent regime received Royal Assent. As a result, tax assets and liabilities recognised as at 30 June 2001 have been written off and no further taxation obligations have been accrued (refer Note 1(p)).

Income Tax Expense	CTP 2003 $'000	CTP 2002 $'000	Consolidated 2003 $'000	Consolidated 2002 $'000	MAC 2003 $'000	MAC 2002 $'000
Write-off of net deferred tax asset due to change in taxation status	**-**	3 548	**-**	4 019	**-**	4 019
Income Tax Expense on Profit from Ordinary Activities	**-**	3 548	**-**	4 019	**-**	4 019

8. Receivables

	CTP		Consolidated		MAC	
	2003	2002	**2003**	**2003**	2002	**2003**
Current:	**$'000**	$'000	**$'000**	**$'000**	$'000	**$'000**
Trade debtors	**3 487**	3 491	**3 509**	3 514	**3 500**	3 506
Investment debtors	**4 306**	4 329	**4 342**	4 409	**4 342**	4 409
Less: Allowance for doubtful debts	**213**	232	**213**	232	**213**	232
	4 093	4 097	**4 129**	4 177	**4 129**	4 177
Other debtors	**5**	1 313	**5**	38	**134**	157
	7 585	8 901	**7 643**	7 729	**7 763**	7 840

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.

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

9. Reinsurance and Other Recoveries Receivable

	CTP		Consolidated		MAC	
	2003	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Expected future recoveries (undiscounted)	**17 618**	18 275	**17 618**	18 275	**17 618**	18 275
Discount to present value*	**(2 766)**	(3 327)	**(2 766)**	(3 327)	**(2 766)**	(3 327)
Reinsurance and other recoveries receivable	**14 852**	14 948	**14 852**	14 948	**14 852**	14 948
Reinsurance and other recoveries receivable:						
Current	**2 837**	2 758	**2 837**	2 758	**2 837**	2 758
Non-Current	**12 015**	12 190	**12 015**	12 190	**12 015**	12 190
	14 852	14 948	**14 852**	14 948	**14 852**	14 948

* Refer to Note 15(b) for details of the inflation and discount rates used in the determination of this discounting adjustment.

10. Other Financial Assets

Current:						
Fixed Interest:						
Deposits at call	**56 075**	80 018	**56 075**	80 018	**56 075**	80 018
Bank bills	**119 295**	107 585	**119 295**	107 585	**119 295**	107 585
Foreign currency	**-**	-	**74**	188	**74**	188
Floating rate notes	**30 135**	-	**30 135**	-	**30 135**	-
Government securities	**119 369**	16 064	**119 369**	16 064	**119 369**	16 064
Corporate debentures	**87 271**	71 097	**87 271**	71 097	**87 271**	71 097
Loans to controlled entities	**-**	-	**-**	-	**120**	120
Total Current Investments	**412 145**	274 764	**412 219**	274 952	**412 339**	275 072
Non-Current:						
Fixed Interest:						
Government securities	**117 648**	242 340	**117 648**	242 340	**117 648**	242 340
Corporate debentures	**152 823**	176 250	**152 823**	176 250	**152 823**	176 250
Commercial mortgages	**4 656**	4 601	**4 656**	4 601	**4 656**	4 601
Floating rate notes	**20 240**	50 402	**20 240**	50 402	**20 240**	50 402
Capital indexed bonds	**64 942**	61 829	**64 942**	61 829	**64 942**	61 829
Equities:						
Listed on stock exchanges	**225 495**	199 216	**225 495**	199 216	**225 495**	199 216
Unlisted	**-**	-	**-**	197	**20**	217
International equities	**149 303**	109 778	**149 303**	109 778	**149 303**	109 778
Property:						
Independent valuation/certificate	**78 888**	59 294	**78 888**	59 294	**78 888**	59 294
Domestic listed property trusts	**33 258**	32 325	**33 258**	32 325	**33 258**	32 325
Total Non-Current Investments	**847 253**	936 035	**847 253**	936 232	**847 273**	936 252
Total Investments	**1 259 398**	1 210 799	**1 259 472**	1 211 184	**1 259 612**	1 211 324

Property Valuations

Independent valuations as at 30 June 2003 were determined by:

Mark Smallhorn	Certified Practising Valuer, FAPI
Alex Smithson	Certified Practising Valuer, FAPI
John Dillon	Certified Practising Valuer, AAPI
Geoff Rose	Certified Practising Valuer, AAPI
Andrew Purton	Certified Practising Valuer, AAPI

11. Other Current Assets

Prepayments	**12 701**	10 846	**12 701**	10 846	**12 701**	10 846

12. Property, Plant and Equipment

	CTP 2003 $'000	CTP 2002 $'000	Consolidated 2003 $'000	Consolidated 2002 $'000	MAC 2003 $'000	MAC 2002 $'000
Furniture and fittings, office equipment and other assets	**-**	-	**199**	200	**199**	200
Less: Accumulated depreciation	**-**	-	**(27)**	(23)	**(27)**	(23)
	-	-	**172**	177	**172**	177
Plant and equipment	**-**	-	**61**	32	**61**	32
Less: Accumulated depreciation	**-**	-	**(18)**	(15)	**(18)**	(15)
	-	-	**43**	17	**43**	17
Computing equipment	**-**	-	**52**	52	**52**	52
Less: Accumulated depreciation	**-**	-	**(39)**	(34)	**(39)**	(34)
	-	-	**13**	18	**13**	18
Total Property, Plant and Equipment	**-**	-	**228**	212	**228**	212
Furniture and fittings, office equipment and other assets:						
Carrying amount at beginning of year	**-**	-	**177**	183	**177**	183
Additions	**-**	-	**-**	-	**-**	-
Disposals	**-**	-	**-**	-	**-**	-
Depreciation	**-**	-	**(5)**	(6)	**(5)**	(6)
Carrying amount at end of year	**-**	-	**172**	177	**172**	177
Plant and equipment:						
Carrying amount at beginning of year	**-**	-	**17**	9	**17**	9
Additions	**-**	-	**31**	10	**31**	10
Disposals	**-**	-	**(2)**	-	**(2)**	-
Depreciation	**-**	-	**(3)**	(2)	**(3)**	(2)
Carrying amount at end of year	**-**	-	**43**	17	**43**	17
Computing equipment:						
Carrying amount at beginning of year	**-**	-	**18**	20	**18**	20
Additions	**-**	-	**3**	8	**3**	8
Disposals	**-**	-	**(3)**	(1)	**(3)**	(1)
Depreciation	**-**	-	**(5)**	(9)	**(5)**	(9)
Carrying amount at end of year	**-**	-	**13**	18	**13**	18

13. Payables

	CTP 2003	CTP 2002	Consolidated 2003	Consolidated 2002	MAC 2003	MAC 2002
Current:						
Trade creditors	**-**	-	**140**	171	**137**	170
Investment creditors	**4 054**	527	**4 054**	527	**4 054**	527
Other creditors and accruals	**7 330**	6 099	**7 330**	6 099	**7 330**	6 099
Due to related parties	**735**	664	**-**	-	**-**	-
	12 119	7 290	**11 524**	6 797	**11 521**	6 796

14. Unearned Income

	CTP 2003	CTP 2002	Consolidated 2003	Consolidated 2002	MAC 2003	MAC 2002
Current:						
Unearned premium	**117 668**	100 485	**117 668**	100 485	**117 668**	100 485
Unearned rental income	**498**	-	**498**	-	**498**	-
	118 166	100 485	**118 166**	100 485	**118 166**	100 485
Non-Current:						
Unearned rental income	**625**	-	**625**	-	**625**	-
	625	-	**625**	-	**625**	-
	118 791	100 485	**118 791**	100 485	**118 791**	100 485

15. Outstanding Claims

	CTP 2003	CTP 2002	Consolidated 2003	Consolidated 2002	MAC 2003	MAC 2002
(a) Expected future claims payments (undiscounted)	**1 347 129**	1 289 698	**1 347 226**	1 295 016	**1 347 226**	1 295 016
Discount to present value	**(180 643)**	(184 338)	**(180 643)**	(184 500)	**(180 643)**	(184 500)
Liability for Outstanding Claims	**1 166 486**	1 105 360	**1 166 583**	1 110 516	**1 166 583**	1 110 516
Current	**302 139**	303 593	**302 141**	304 046	**302 141**	304 046
Non-Current	**864 347**	801 767	**864 442**	806 470	**864 442**	806 470
	1 166 486	1 105 360	**1 166 583**	1 110 516	**1 166 583**	1 110 516

Reconciliations	**CTP 2003 $'000**	**Consolidated 2003 $'000**	**MAC 2003 $'000**
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**

15. Outstanding Claims (continued)

	2003		
	CTP	**Consolidated**	**MAC**
Outstanding claims - Non-current	**$'000**	**$'000**	**$'000**
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	
	2003	2002	**2003**	2002	**2003**	2002
For the succeeding year:	**Percent**	Percent	**Percent**	Percent	**Percent**	Percent
Inflation rate	**6.25**	6.5	**6.25**	6.5	**6.25**	6.5
Discount rate	**4.6**	5.5	**4.6**	5.5	**4.6**	5.5
For subsequent years:						
Inflation rate	**6.25**	6.5	**6.25**	6.5	**6.25**	6.5
Discount rate	**4.6**	5.5	**4.6**	5.5	**4.6**	5.5

	2003	2002	**2003**	2002	**2003**	2002
(c) The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be:	**Years**	Years	**Years**	Years	**Years**	Years
	3.4	2.9	**3.4**	2.9	**3.4**	2.9

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

The claims provision as at 30 June 2003 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.

16. Provisions

	CTP		Consolidated		MAC	
	2003	2002	**2003**	2002	**2003**	2002
Current:	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Provision for dividend payable (1)	**-**	-	**-**	10 000	**-**	10 000
Employee benefits	**-**	-	**86**	76	**86**	76
Provisions - Other (2)	**-**	-	**-**	12	**-**	12
	-	-	**86**	10 088	**86**	10 088
Non-Current:						
Employee benefits	**-**	-	**65**	32	**65**	32
	-	-	**65**	32	**65**	32

	2003		
Reconciliations	**CTP**	**Consolidated**	**MAC**
Provision for dividend payable:	**$'000**	**$'000**	**$'000**
Carrying amount at beginning of year	**-**	**10 000**	**10 000**
Adjustment on adoption of *AASB1044 Provisions, Contingent Liabilities and Contingent Assets*	**-**	**(10 000)**	**(10 000)**
Provisions made during the year	**-**	**10 000**	**10 000**
Payments made during the year	**-**	**(10 000)**	**(10 000)**
Carrying amount at end of year	**-**	**-**	**-**
Provisions - other			
Carrying amount at beginning of year	**-**	**12**	**12**
Provisions made during the year	**-**	**(12)**	**(12)**
Carrying amount at end of year	**-**	**-**	**-**

(1) Provision for dividend payable reflects a dividend payable to the South Australian Government in accordance with a requirement of the Treasurer under Section 26 of the *Motor Accident Commission Act 1992*.

(2) Provisions - Other relates to an amount provided for state taxes which was written off during the period.

17. 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 2003, 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:

	Consolidated*					
	Floating	Fixed Interest Rate Maturities			Non-	
30 June 2003	Interest Rate	Less than 1 year	1-5 years	Over 5 years	Interest Bearing	**2003 Total**
Financial Assets:	$'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.

	Consolidated*					
	Floating	Fixed Interest Rate Maturities			Non-	
30 June 2002	Interest Rate	1 year or less	1-5 years	Over 5 years	Interest Bearing	2002 Total
Financial Assets:	$'000	$'000	$'000	$'000	$'000	$'000
Cash	108 905	-	-	-	-	108 905
Debtors	-	-	-	-	7 729	7 729
Bonds	-	16 064	237 500	4 840	-	258 404
Corporate bonds	-	71 097	176 250	-	-	247 347
Floating rate notes	50 402	-	-	-	-	50 402
Indexed annuities	-	-	-	4 601	-	4 601
Capital indexed bonds	-	-	7 045	54 784	-	61 829
Non-callable deposits and promissory notes	-	107 585	-	-	-	107 585
Foreign currency	-	188	-	-	-	188
Shares and other equity instruments	-	-	-	-	341 516	341 516
Total Financial Assets	159 307	194 934	420 795	64 225	349 245	1 188 506
Weighted average interest rate percent	4.47	5.31	5.97	3.83	-	
Financial Liabilities:						
Creditors	-	-	-	-	6 797	6 797
Total Financial Liabilities	-	-	-	-	6 797	6 797
Net Financial Assets	159 307	194 934	420 795	64 225	342 448	1 181 709

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

(3) *Interest Rate Risk (continued)*

Reconciliation of Net Financial Assets	2003 $'000	2002 $'000
Net Financial Assets	**1 189 288**	1 181 709
Add:		
Reinsurance and other recoveries receivable	**14 852**	14 948
Prepayments	**12 701**	10 846
Investments - Property assets	**78 888**	59 294
Property, plant and equipment	**228**	212
Less:		
Unearned premium	**118 791**	100 485
Outstanding claims	**1 166 583**	1 110 516
Provisions	**151**	10 120
Net Assets as per Statement of Financial Position	**10 432**	45 888

(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 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.

18. 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.

	2003								
	CTP			Consolidated			MAC		
Direct Business	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 - Undiscounted	(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 - Gross claims incurred	(44 906)	48 602	**3 696**	(44 906)	48 602	**3 696**	(44 906)	48 602	**3 696**
Discount and discount movement - Reinsurance and other recoveries	694	(1 256)	**(562)**	694	(1 256)	**(562)**	694	(1 256)	**(562)**
Net Discount Movement	(44 212)	47 346	**3 134**	(44 212)	47 346	**3 134**	(44 212)	47 346	**3 134**
NET CLAIMS INCURRED - DISCOUNTED	292 393	21 841	**314 234**	292 393	22 050	**314 443**	292 393	22 050	**314 443**

18. Net Claims Incurred (continued)

Inwards Reinsurance Business	CTP Current Year $'000	CTP Prior Years $'000	CTP **Total $'000**	2003 Consolidated Current Year $'000	2003 Consolidated Prior Years $'000	2003 Consolidated **Total $'000**	MAC Current Year $'000	MAC Prior Years $'000	MAC **Total $'000**
Gross claims incurred and related expenses - Undiscounted	-	-	**-**	-	-	**-**	-	-	**-**
Reinsurance and other recoveries - Undiscounted	-	-	**-**	-	-	**-**	-	-	**-**
Net Claims Incurred - Undiscounted	-	-	**-**				-	-	**-**
Discount and discount movement - Gross claims incurred	-	-	**-**	-	-	**-**	-	-	**-**
Discount and discount movement - Reinsurance and other recoveries	-	-	**-**	-	-	**-**	-	-	**-**
Net Discount Movement	-	-	**-**	-	-	**-**	-	-	**-**
NET CLAIMS INCURRED - DISCOUNTED	-	-	**-**	-	-	**-**	-	-	**-**
Total									
Direct business	292 393	21 841	**314 234**	292 393	22 050	**314 443**	292 393	22 050	**314 443**
Inwards reinsurance business	-	-	-	-	-	**-**	-	-	**-**
NET CLAIMS INCURRED	292 393	21 841	**314 234**	292 393	22 050	**314 443**	292 393	22 050	**314 443**

Direct Business	CTP Current Year $'000	CTP Prior Years $'000	CTP Total $'000	2002 Consolidated Current Year $'000	2002 Consolidated Prior Years $'000	2002 Consolidated Total $'000	MAC Current Year $'000	MAC Prior Years $'000	MAC Total $'000
Gross claims incurred and related expenses - Undiscounted	342 726	(41 412)	301 314	342 726	(42 218)	300 508	342 726	(42 218)	300 508
Reinsurance and other recoveries - Undiscounted	(4 065)	(673)	(4 738)	(4 065)	(1 413)	(5 478)	(4 065)	(1 413)	(5 478)
Net Claims Incurred - Undiscounted	338 661	(42 085)	296 576	338 661	(43 631)	295 030	338 661	(43 631)	295 030
Discount and discount movement - Gross claims incurred	(50 574)	35 143	(15 431)	(50 574)	35 481	(15 093)	(50 574)	35 481	(15 093)
Discount and discount movement - Reinsurance and other recoveries	802	39	841	802	39	841	802	39	841
Net Discount Movement	(49 772)	35 182	(14 590)	(49 772)	35 520	(14 252)	(49 772)	35 520	(14 252)
NET CLAIMS INCURRED - DISCOUNTED	288 889	(6 903)	281 986	288 889	(8 111)	280 778	288 889	(8 111)	280 778
Inwards Reinsurance Business									
Gross claims incurred and related expenses - Undiscounted	-	-	-	-	(148)	(148)	-	(148)	(148)
Reinsurance and other recoveries - Undiscounted	-	-	-	-	-	-	-	-	-
Net Claims Incurred - Undiscounted	-	-	-	-	(148)	(148)	-	(148)	(148)
Discount and discount movement - Gross claims incurred	-	-	-	-	-	-	-	-	-
Discount and discount movement - Reinsurance and other recoveries	-	-	-	-	-	-	-	-	-
Net Discount Movement	-	-	-	-	-	-	-	-	-
NET CLAIMS INCURRED - DISCOUNTED	-	-	-	-	(148)	(148)	-	(148)	(148)
Total									
Direct business	288 889	(6 903)	281 986	288 889	(8 111)	280 778	288 889	(8 111)	280 778
Inwards reinsurance business	-	-	-	-	(148)	(148)	-	(148)	(148)
NET CLAIMS INCURRED	288 889	(6 903)	281 986	288 889	(8 259)	280 630	288 889	(8 259)	280 630

19. Commitments

	CTP		Consolidated		MAC	
Capital Expenditure Commitments	**2003**	2002	**2003**	2002	**2003**	2002
Building upgrade expenditure	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Contracted but not provided for and payable:						
Within one year	**-**	113	**-**	113	**-**	113
	-	113	**-**	113	**-**	113
Operational Expenditure Commitments						
Sponsorship expenditure						
Contracted but not provided for and payable:						
Within one year	**500**	-	**500**	-	**500**	-
One year or later and no later than five years	**2 000**	-	**2 000**	-	**2 000**	-
Later than five years	**2 000**	-	**2 000**	-	**2 000**	-
	4 500	-	**4 500**	-	**4 500**	-

Management Agreements

Pursuant to a Claims Management Agreement, MAC contracted Allianz Australia Insurance Limited (AAL) to manage the claims management operations of the Fund for a period of 5 ½ 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.

20. Investment in Controlled Entities

	Principal Activity	Entity Interest 2003 Percent	Entity Interest 2002 Percent	Investment of MAC at Cost 2003 $'000	Investment of MAC at Cost 2002 $'000	Contribution to Consolidated Profit 2003 $'000	Contribution to Consolidated Profit 2002 $'000
MAC						**(35 445)**	(56 490)
Controlled Entities:							
Southern Group Insurance Corporation Limited	Trustee	**100**	100	**20**	20	**(11)**	(31)
Consolidated after Tax Loss						**(35 456)**	(56 521)

The controlled entity is incorporated in Australia.

21. Investment in Associated Entities

Material investments as at 30 June 2003 in associated entities are as follows:

Name of Company	Principal Activity	Entity Interest 2003 Percent	Entity Interest 2002 Percent	Carrying Amounts[(a)] 2003 $'000	Carrying Amounts[(a)] 2002 $'000	Contribution to Entity[(b)] 2003 $'000	Contribution to Entity[(b)] 2002 $'000
Unlisted:							
Macquarie Investment Trust	Investments	**-**	-	**-**	-	**-**	(587)
Macquarie Holdings Trust	Investments	**-**	-	**-**	-	**-**	(3)
SBC Warburg Dillon Read Capital Partners Trust	Investments	**-**	18.1	**-**	197	**2**	12
SBC Warburg Dillon Read Mezzanine Fund	Investments	**-**	17.7	**-**	-	**2**	65

(a) Carrying amounts include ordinary shares, convertible notes and preference shares valued at market value at balance date.
(b) Contribution to entity includes interest, dividends received and movements in market value.

22. Segment Information

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

23. Auditors' Remuneration

	CTP		Consolidated		MAC	
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:	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Auditor-General's Department	**93**	76	**104**	102	**103**	101

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

24. Employee Benefits

	CTP		Consolidated		MAC	
Aggregate liability for employee benefits including oncosts:	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Current:						
Other creditors and accruals						
Employee benefits provision	**-**	-	**25**	17	**25**	17
Annual leave	**-**	-	**86**	76	**86**	76
	-	-	**111**	93	**111**	93
Non-Current						
Employee benefits provision						
Long service leave	**-**	-	**65**	32	**65**	32
	-	-	**65**	32	**65**	32
	-	-	**176**	125	**176**	125

25. Reconciliation of Net Loss to Net Cash provided by Operating Activities

(1) Reconciliation of Cash

	CTP 2003	CTP 2002	Consolidated 2003	Consolidated 2002	MAC 2003	MAC 2002
Cash	**7 063**	7 803	**12 585**	28 887	**12 445**	28 747
Deposits at call	**56 075**	80 018	**56 075**	80 018	**56 075**	80 018
	63 138	87 821	**68 660**	108 905	**68 520**	108 765

(2) Reconciliation of Net Loss to Net Cash Provided by Operating Activities

	CTP 2003	CTP 2002	Consolidated 2003	Consolidated 2002	MAC 2003	MAC 2002
Net loss	**(35 959)**	(57 792)	**(35 456)**	(56 521)	**(35 445)**	(56 490)
Add (Less) Non-cash items:						
Depreciation	**-**	-	**17**	17	**17**	17
Amounts set aside to provisions	**(19)**	5	**(19)**	5	**(19)**	5
(Profit) loss on sale and revaluation to market value of investments	**30 364**	48 377	**30 364**	48 950	**30 364**	48 950
Net foreign exchange loss	**2**	-	**(12)**	16	**(12)**	16
Increase (Decrease) in deferred taxes payable and provisions	**-**	3 294	**12**	3 695	**12**	3 695
Net cash used in operating activities before changes in assets and liabilities	**(5 612)**	(6 116)	**(5 094)**	(3 838)	**(5 083)**	(3 807)
Change in assets and liabilities:						
(Increase) Decrease in investments	**(98 202)**	(47 760)	**(97 877)**	(44 774)	**(97 877)**	(44 774)
(Increase) Decrease in receivables	**(2 527)**	(1 578)	**(3 839)**	(168)	**(3 837)**	(176)
Increase (Decrease) in payables and provisions	**3 253**	1 223	**3 252**	(121)	**3 239**	(138)
Increase (Decrease) in outstanding claims	**61 222**	71 895	**56 163**	70 976	**56 163**	70 976
Increase (Decrease) in unearned premium	**17 183**	7 433	**17 183**	7 433	**17 183**	7 433
Net Cash provided by (used in) Operating Activities	**(24 683)**	25 097	**(30 212)**	29 508	**(30 212)**	29 514

26. Retained Profit

	CTP 2003	CTP 2002	Consolidated 2003	Consolidated 2002	MAC 2003	MAC 2002
Retained profit at 1 July	**40 162**	97 954	**45 888**	112 409	**46 000**	112 490
Initial adoption of AASB 1044 ' Provisions, Contingent Liabilities and Contingent Assets'	**-**	-	**10 000**	-	**10 000**	-
Net loss	**(35 959)**	(57 792)	**(35 456)**	(56 521)	**(35 445)**	(56 490)
Total Available for Appropriation	**4 203**	40 162	**20 432**	55 888	**20 555**	56 000
Dividend payable to the South Australian Government	**-**	-	**(10 000)**	(10 000)	**(10 000)**	(10 000)
Retained Profit at 30 June	**4 203**	40 162	**10 432**	45 888	**10 555**	46 000

27. Sufficient Level of Solvency

Section 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.

27. Sufficient Level of Solvency (continued)

The Statement of Financial Position for the CTP Fund as at 30 June 2003 discloses net assets $4.2 million, or 2.6 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 2003;
- 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 Section 21(1) of the MAC Act.

28. 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 control entity.

29. External Consultants used during the Financial Year

	Consolidated		MAC	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Total income received, or due and receivable by external consultants from MAC and the economic entity during the financial year:	**703**	401	**703**	400
The number and value of consultancies were:	**Number of Consult-ancies**	Number of Consult-ancies	**Number of Consult-ancies**	Number of Consult-ancies
$0 - $9 999	**13**	15	**13**	14
$10 000 - $19 999	**1**	6	**1**	6
$20 000 - $29 999	**3**	3	**3**	3
$30 000 - $39 999	**4**	2	**4**	2
$40 000 - $49 999	**1**	-	**1**	-
$50 000 - $59 999	**5**	1	**5**	1
$60 000 - $69 999	**1**	1	**1**	1
$100 000 - $109 999	**1**	-	**1**	-

30. Directors' Remuneration

Directors' Income	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Total income paid or payable, or otherwise made available, to all directors of the entity from the entity or any related party:	**-**	-	**244**	266
Total income paid or payable, or otherwise made available, to all directors of each entity in the economic entity from the entity or any related party:	**244**	266	**-**	-
The number of directors of the entity whose income from the entity or any related party falls within the following bands:	**Number of Directors**	Number of Directors	**Number of Directors**	Number of Directors
$0 - $9 999	**1**	1	**1**	1
$10 000 - $19 999	**1**	-	**1**	-
$30 000 - $39 999	**3**	5	**3**	5
$40 000 - $49 999	**2**	2	**2**	2
$50 000 - $59 999	**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 $22 000 ($20 000).

31. Executives' Remuneration

	Consolidated	
	2003	2002
	$'000	$'000
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:	**518**	311
	2003	2002
The number of MAC executive officers whose remuneration from MAC or related parties falls within the following bands:	**Number of Executive Officers**	Number of Executive Officers
$100 000 - $109 999	**3**	-
$110 000 - $119 999	**-**	1
$190 000 - $199 999	**1**	1

32. 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 30.

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.

	Consolidated	
	2003	2002
	Number	Number
Southern Group Insurance Corporation Limited:	**Held**	Held
$1 Ordinary shares	**2**	1

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 20.

MAC provides management services to its controlled entity, Southern Group Insurance Corporation Limited, which was charged an amount of $9 000 for the 2002-03 financial year ($16 000). This amount was outstanding at balance date.

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

Balances with Entities within the Wholly-Owned Group	MAC	
The aggregate amounts receivable from, and payable to, wholly-owned	**2003**	2002
controlled entities by the entity at balance date:	**$'000**	$'000
Receivables		
Current:		
Receivables	**129**	119
Loans from the entity	**120**	120

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 21.

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*.

NATIONAL WINE CENTRE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The National Wine Centre (the Centre) was established as a body corporate pursuant to the *National Wine Centre Act 1997* (the Act). Under the Act a Board was established to govern the Centre and was subject to the control of the responsible Minister. On 14 March 2002, the Treasurer became the responsible Minister.

Repeal of the Act and Dissolution of the Centre

On 21 August 2003 the *National Wine Centre (Restructuring and Leasing Arrangements) Act 2002* (the Restructuring Act) was proclaimed as coming into operation on that day. Schedule 2 to the Restructuring Act provides that the *National Wine Centre Act 1997* is repealed, while section 4 specifies that the body corporate know as the National Wine Centre under the repealed Act is dissolved and all of its assets and liabilities are vested in the Minister. Therefore, as of 21 August 2003 the Centre ceased to exist.

The following provides further details regarding the events and processes leading up to the proclamation of the Restructuring Act and arrangements entered into between the Treasurer and the University of Adelaide.

Restructuring of Management Arrangements

The Centre experienced financial difficulties from commencement of operations necessitating government funding commitment beyond that initially envisaged at the time of enactment of the Act. As a result the Government, in the latter part of 2001-02, looked to restructure the operational and financial arrangements of the Centre with a view to the wine industry having a more direct role in the operation of the centre.

As part of the restructuring process the Board of the Centre resigned on 3 July 2002 and on 4 July 2002 was formally dissolved by the Governor under section 9 of the Act. Further, under section 19 of the Act, the Treasurer became the governing authority and delegated all his powers to an entity under the control of the Winemakers Federation of Australia (the Federation).

To facilitate the transfer of the management and operation of the Centre by the Federation the *National Wine Centre (Restructuring and Leasing Arrangements) Act 2002* was assented to in August 2002, to come into operation on a day to be fixed by proclamation.

On 1 October 2002, the Treasurer withdrew his delegation to the Winemakers Federation of Australia after the Federation advised, in September 2002, that the Centre could not be made to operate profitably under revised financial arrangements between the Government and the Federation. The Treasurer also appointed two partners of a chartered accounting firm to take responsibility for the management and operation of the Centre, analyse and review those operations, and make recommendations on possible strategies and alternatives for the Centre.

Asset Sale and Lease Agreements with the University of Adelaide

In February 2003, the Government gave in principle approval to a proposal from the University of Adelaide (the University) to use the National Wine Centre as a base for education and research in grape growing and wine making as well as wine appreciation and marketing.

In July 2003 an Asset Sale Agreement was executed between the Treasurer and the University. This Agreement is subject to a number of conditions precedent, including the execution of a lease agreement (the University Lease) between the Treasurer and the University granting the University a 40 year lease of the National Wine Centre for a consideration of $1 million.

The Asset Sale Agreement also specifies that in consideration for the University agreeing to enter into the University lease the Treasurer will sell the Assets to the University. The Assets are defined as; Plant and Equipment; Stock; Contracts; Intellectual Property; Existing Leases; and Goodwill.

National Wine Centre (Restructuring and Leasing Arrangements) (University of Adelaide) Amendment Act 2003

As mentioned, the *National Wine Centre (Restructuring and Leasing Arrangements) Act 2002* (the Restructuring Act) repealed the *National Wine Centre Act 1997* (the Act) and dissolved the body corporate known as the National Wine Centre.

In addition, the Restructuring Act was amended by the *National Wine Centre (Restructuring and Leasing Arrangements) (University of Adelaide) Amendment Act 2003*, which was proclaimed to come into operation immediately after the Restructuring Act. This amendment Act was required to facilitate the operation of the National Wine Centre within the context of the University's activities (ie; in terms of the dedication of Centre land an additional purpose was inserted: as a facility for tertiary education programs, and scientific or other research, relating to wine). The amendment Act also provided for a lease term of 40 years (consistent with the University Lease) instead of the existing 25 years.

Functional Operations During 2002-03

The Centre operated throughout 2002-03 with a small staffing complement. Its major items of operational expenditure and revenue related to food and beverage operations. The section below titled Interpretation and Analysis of Financial Statements provides further details regarding key financial indicators.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 23(2) of the *National Wine Centre Act 1997* specifically provides for the Auditor-General to audit the accounts of the Centre and the annual statements of account.

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 Centre 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. 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 2002-03, specific areas of audit attention included:

- revenue
- expenditure
- inventory
- non-current assets
- financial accounting and management reporting
- financial statement verification.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the partners of the chartered accounting firm appointed to manage and operate the Centre. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Centre and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The following is an extract from the 2003 Independent Audit Report, which details the qualification to the Centre's financial report.

> ***Qualification***
>
> *During the reporting period the Centre did not maintain a reliable Asset Register of plant and equipment items. As a result I was unable to form an opinion as to the value of plant and*

equipment (written down value of $782 000) as disclosed in Note 9 to the financial statements.

Further, property, plant and equipment has not been appropriately disaggregated in all instances into specific asset classifications to enable depreciation charges to be accurately determined in recognition of their estimated useful lives.

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraph, 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 National Wine Centre as at 30 June 2003, 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 Centre 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 outlined under 'Significant Matters Raised with Agencies' is sufficient to provide reasonable assurance that the financial transactions of the Centre have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

The audit revealed that there was a general lack of internal controls over the Centre's revenues and assets, due primarily to inadequate segregation of duties. Audit also observed that some recording and reconciliation processes had not been completed at the time of the audit. Matters observed during the visit included:

Cash

There was a lack of segregation of duties as one of the two officers who performed bankings over the period also performed the bank reconciliations and recorded transactions in the general ledger. In addition, bank reconciliations were not being performed on a timely basis.

Fixed Assets

A fixed assets register was not maintained. Consequently, assets were not appropriately classified to enable accurate depreciation charges in accordance with the useful lives of the assets.

Inventory

There was a lack of segregation of duties as one officer was charged with the responsibility for placing orders, receiving goods, maintaining the inventory system and performing stock counts. Audit also noted that, in late June 2003, the storeman was dismissed for misappropriating stock. Audit noted that the storeman was replaced, however at the time of the audit, there had been no change to the control environment over stock.

Recording of Revenue

Audit noted inconsistencies in data produced by the Centre's revenue systems. Revenue summary reports generated from the Centre's revenue system (Centaman), which are used to agree banking amounts and cost details to the general ledger, did not reconcile and remained unexplained.

A response was received regarding the above matters. The response indicated that the cash controls had been remedied. The response also noted that, given the pending transfer of the Centre's operations to the University, it was not considered feasible to address some of the control issues.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

The Centre operated in a climate of uncertainty in 2002-03 regarding its future operations. During the year there were some significant changes to staffing levels and scope of its operations.

Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Food and beverage revenue	**2.5**	2.2	13.6
Other revenue	**0.7**	2.0	(65.0)
Total Operating Revenue	**3.2**	4.2	(23.8)
OPERATING EXPENDITURE			
Employment expenses	**2.0**	2.8	(28.6)
Food and beverage	**0.8**	0.9	(11.1)
Consultants and contractors	**0.1**	0.7	(92.9)
Marketing and advertising	**0.1**	1.3	(92.3)
Centenary of Federation Project	**-**	1.0	(100)
Other expenses	**2.2**	2.4	(33.3)
Total Operating Expenses	**5.2**	9.1	(49.0)
Net Cost before Revenues from Government	**(2.0)**	(4.9)	59.2
Net Cash Flows from Operations	**0.5**	(0.3)	66.7
ASSETS			
Current assets	**0.7**	0.7	-
Non-current assets	**28.8**	29.7	(3.0)
Total Assets	**29.5**	30.4	(3.0)
LIABILITIES			
Current liabilities	**0.6**	1.2	(50.0)
Non-current liabilities	**0.2**	0.2	-
Total Liabilities	**0.8**	1.4	(42.9)
EQUITY	**28.7**	29.0	(1.0)

Statement of Financial Performance

Operating Revenues

The major component of operating revenue is the food and beverage revenue raised through the banquet functions. Revenues raised from food and beverage totalled $2.5 million, an increase of $345 000 from the previous year, which is due primarily to an increase in functions held during the year.

Revenues from the Government towards the support for operations totalled $1.6 million, a decrease of $2.8 million. This is a direct result of the reduction in funding from the Government as a consequence of the restructure of the operational and financial arrangements of the Centre.

Operating Expenses

Expenses decreased by $3.9 million. This was attributable mainly to a decrease in:

- employment expenses of $ 768 000. This reduction was a result of the resignation of the executive employees during the year that were not subsequently replaced and the reduction in the numbers of catering staff;
- consultants and contractors of $631 000.
- marketing and advertising costs of $1.2 million.
- the Centenary of Federation project expenditure, completed in 2001-02, of $950 000.

Statement of Financial Position

The Centre has two dominant items in its Statement of Financial Position, being Land and Buildings, amounting to $28 million. This represents 98 percent of the net assets of the Centre.

Statement of Financial Performance
for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee costs		**2 012**	2 780
Board fees	15	**-**	112
Accommodation and services costs		**868**	879
Depreciation		**885**	706
Interest expense		**-**	43
Other expenses from ordinary activities	3	**1 395**	4 566
Total Expenses		**5 160**	9 086
REVENUES FROM ORDINARY ACTIVITIES:			
Operating revenue	4	**2 819**	2 586
Interest income		**15**	85
Other revenue from ordinary activities	5	**359**	1 533
Total Revenues		**3 193**	4 204
NET (COST) OF SERVICES BEFORE REVENUES FROM GOVERNMENT		**(1 967)**	(4 882)
REVENUES FROM GOVERNMENT:			
Appropriation	6	**1 625**	4 440
Total Revenues from Government		**1 625**	4 440
NET (COST) OF SERVICES AFTER REVENUES FROM GOVERNMENT		**(342)**	(442)
CONTRIBUTED ASSETS FROM GOVERNMENT RECOGNISED FOR THE FIRST TIME	2.2	**-**	25 487
NET (DEFICIT) SURPLUS AFTER CONTRIBUTED ASSETS		**(342)**	25 045
TOTAL CHANGES IN EQUITY		**(342)**	25 045

Statement of Financial Position
as at 30 June 2003

	Note	**2003** **$'000**	2002 $'000
CURRENT ASSETS:			
Cash	2.1	**385**	-
Trading stock		**151**	300
Receivables	7	**159**	344
Accrued revenue		**-**	42
Total Current Assets		**695**	686
NON-CURRENT ASSETS:			
Property, plant and equipment		**25 180**	26 056
Land		**3 600**	3 600
Total Non-Current Assets	9	**28 780**	29 656
Total Assets		**29 475**	30 342
CURRENT LIABILITIES:			
Cash overdraft	2.1	**-**	65
Payables	8	**595**	929
Unearned revenue		**30**	105
Provision for employee entitlements	10	**11**	62
Total Current Liabilities		**636**	1 161
NON-CURRENT LIABILITIES:			
Borrowings	2.4	**175**	175
Total Non-Current Liabilities		**175**	175
Total Liabilities		**811**	1 336
NET ASSETS		**28 664**	29 006
EQUITY:			
Retained surplus	11	**28 664**	29 006
TOTAL EQUITY		**28 664**	29 006

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
OUTFLOWS:			
Employee costs		**(2 205)**	(2 734)
Interest payments		**-**	(43)
Other payments for ordinary activities		**(2 285)**	(5 152)
GST payments for ordinary activities		**(183)**	(605)
GST payments to the Australian Taxation Office		**(105)**	(9)
Total Outflows		**(4 778)**	(8 543)
INFLOWS:			
Operating revenue		**2 745**	2 691
Interest income		**15**	88
Other receipts from ordinary activities		**537**	1 425
Revenues from government		**1 625**	3 475
GST receipts from ordinary activities		**315**	500
GST receipts from Australian Taxation Office		**-**	86
Total Inflows		**5 237**	8 265
Net Cash provided by (used in) Operating Activities	12	**459**	(278)
CASH FLOWS FROM INVESTING ACTIVITIES:			
OUTFLOWS:			
Purchase of plant and equipment		**(9)**	(1 156)
Total Outflows		**(9)**	(1 156)
INFLOWS:			
Revenue from government		**-**	965
Total Inflows		**-**	965
Net Cash used in Investing Activities		**(9)**	(191)
NET INCREASE (DECREASE) IN CASH HELD		**450**	(469)
CASH AT 1 JULY		**(65)**	404
CASH AT 30 JUNE		**385**	(65)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Establishment and Operations

1.1 Establishment

The National Wine Centre (Centre) was established as a statutory authority under the *National Wine Centre Act 1997* (the Act) with a range of functions associated with the promotion and development of the Australian wine industry and management of a wine exhibition.

In early 2001-02 the Centre was substantially completed at a cost of $26.6 million. It opened for business in October 2001.

Under the Act a Board was established to govern the Centre and was subject to the control of the responsible Minister. On 14 March 2002, the Treasurer became the responsible Minister. Prior to this the Premier was the responsible Minister.

1.2 Financial Difficulties

The Centre experienced financial difficulties from the commencement of operations necessitating government funding commitment beyond that initially envisaged at the time of the execution of the Act.

In the latter part of 2001-02, the Government, in conjunction with the wine industry, looked to restructure the operational and financial arrangements of the Centre, with the view to the wine industry having a more direct role in the operations of the Centre and the Government limiting its financial exposure.

The Board of the Centre resigned on 3 July 2002. On 4 July 2002, the Governor formally dissolved the Centre Board in accordance with section 9 of the Act. Under section 19 of the Act, the Treasurer became the governing authority and delegated all his powers to an entity under the control of the Winemakers Federation of Australia.

In September 2002, the Winemakers Federation of Australia informed the Treasurer that the Centre could not be made to operate profitably under revised financial arrangements between the Government and the Winemakers Federation of Australia.

On 1 October 2002, the Treasurer withdrew his delegation to the Winemakers Federation of Australia. On the same date, the Treasurer engaged Mr Bruce Carter and Mr Martin Lewis of Ferrier Hodgson Chartered Accountants, to take responsibility for the day-to-day management of the Centre's operations and to report by the end of October 2002 with recommendations concerning potential strategies and/or alternatives for the Centre. The costs associated with this engagement have been met by the Treasurer.

A Report, dated 31 October 2002, on the Centre's financial position and recommended strategies for the Centre, was submitted by Mr Carter and Mr Lewis to the Treasurer.

1.3 Post Balance Date Events

On July 11 2003 certain Agreements were executed between the Treasurer and the University of Adelaide. The University was granted a 40 year lease of the Centre for a consideration of $1 million with an anticipated commencement date of 1 September 2003. Due to conditions precedent within the agreement not being finalised at 1 September 2003, the commencement date was delayed until 9 September 2003.

As part of the Agreements, the University will also acquire the loose plant and equipment, stock in trade, intellectual property, existing leases and goodwill of the Centre. The Agreements are also subject to a number of conditions precedent, which have been agreed between the two parties.

On 21 August 2003, the *National Wine Centre (Restructuring and Leasing Arrangements) Act 2002* (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.

2. Summary of Significant Accounting Policies

The accounts have been prepared in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and applicable Urgent Issues Group Consensus Views.

2.1 Cash

For the purposes of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management on a day to day basis.

The interest received on the cash balance is based on the Common Public Sector Interest Rate.

2.2 Non-Current Assets

All non-current assets controlled by the National Wine Centre 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 National Wine Centre. 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 and revenues 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.

Land
Upon creation of the Centre a section of land bordered by Hackney Road and Plane Tree Drive within the City of Adelaide was dedicated for the purposes of the Centre under the care, control and management of the Centre. The land originally designated has been subject to change as a result of an amendment to the *National Wine Centre Act 1997*, assented to in April 1998. The Amendment Act was proclaimed on 30 September 1999. The land has been valued as at 30 June 2000 by the Valuer-General, and was brought to account in the 1999-2000 financial reporting period. Section 5(a) of the *National Wine Centre Act 1997* specifically provides that the land is dedicated for the purposes of the National Wine Centre.

Centre's Facilities
Construction of the Centre facilities was substantially completed in early 2001-02. The Centre opened for business on 6 October 2001. The total cost of the building of the facility was recognised in the Statement of Financial Position for the first time in 2001-02. In addition Yarrabee House was also recognised as a contributed asset.

The facility is regarded as a contributed asset from the Government being a non-reciprocal transfer and the asset facility was recognised as revenue in the Statement of Financial Performance when the Centre gained control of the asset.

2.3 *Depreciation of Non-Current Assets*
Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset. Estimates of remaining useful lives are made on an annual basis for all such assets.

2.4 *Financial Instruments Disclosure*
Trade accounts receivable generally settled within 60 days are carried at amounts due.

A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

Trade accounts payable, including accruals not yet billed, are recognised when the Centre becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

A long-term loan of $175 000 was secured in July 2000 from the Minister for Industry and Trade. The loan is for a period of seven years at an interest rate of 5 percent per annum. At maturity it is expected that all interest and principal would be repaid.

Actual values carried in the Statement of Financial Position for all financial instruments are at fair values.

2.5 *Employee Benefits*
Wages, Salaries and Annual Leave
Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

Long Service Leave
A liability for long service leave has not been recorded as, at the reporting date, no employees were entitled to the benefit.

Superannuation
Contributions are made by the National Wine Centre to several superannuation schemes operated by both the State Government and the private sector. These contributions are treated as an expense when they occur. There is no liability in the financial statements to beneficiaries as these are the responsibility of the superannuation funds. The only liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes.

Employment On-Costs
The liability for employment on-costs includes superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages and annual leave. These amounts are classified under payables.

2.6 *Revenue*
Appropriations
Appropriations from Government are recognised as revenue when the Centre obtains control over the assets comprising the contributions. Control over appropriation is normally obtained upon their receipt.

Trading Revenue
Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to customers.

Rental Revenue
Rental revenue is recognised as it accrues.

2.7 *Rounding*
All values expressed in the financial report are rounded to the nearest thousand dollars unless otherwise specified.

2.8 *Goods and Services Tax*
Revenues, expenses and assets are recognised net of the amount of 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 an item of expense.

Receivables and payables are recognised with the amount of GST included. The net amount of GST receivable from and payable to the ATO is included as a current asset or liability in the Statement of Financial Position.

		2003	2002
3.	**Other Expenses from Ordinary Activities**	**2003**	2002
		$'000	$'000
	General operating expenses	**320**	614
	Food and beverage	**839**	893
	Travel and accommodation	**22**	102
	Consultants and contractors	**54**	685
	Doubtful debts	**20**	20
	Marketing and advertising	**140**	1 302
	Centenary of Federation project	**-**	950
		1 395	4 566
4.	**Operating Revenue**		
	Food and beverage	**2 514**	2 169
	Exhibition admissions	**199**	340
	Other	**106**	77
		2 819	2 586
5.	**Other Revenue from Ordinary Activities**		
	Centenary of Federation Project	**-**	950
	Sponsorship and donations	**7**	109
	Rental income	**352**	474
		359	1 533
6.	**Appropriation**		
	Support for operations	**1 625**	3 475
	Support for capital acquisitions	**-**	965
		1 625	4 440
7.	**Receivables**		
	Trade debtors	**184**	364
	Provision for doubtful debts	**(25)**	(20)
		159	344
8.	**Payables**		
	Current:		
	Creditors	**403**	578
	Employee costs	**20**	162
	Accruals	**172**	189
		595	929

9. Property, Plant and Equipment

	Valuation at Current Cost		Accumulated Depreciation		Written Down Value	
	2003	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Buildings	**25 487**	25 487	**1 089**	463	**24 398**	25 024
Plant and equipment	**1 321**	1 312	**539**	280	**782**	1 032
Land	**3 600**	3 600	**-**	-	**3 600**	3 600
	30 408	30 399	**1 628**	743	**28 780**	29 656

2003	Buildings	Plant & Equipt	Land	Total
Valuation at Current Cost:	$'000	$'000	$'000	$'000
Balance at 1 July	25 487	1 312	3 600	30 399
Additions	-	9	-	9
Balance at 30 June	25 487	1 321	3 600	30 408
Accumulated Depreciation:				
Balance at 1 July	(463)	(280)	-	(743)
Depreciation expense	(626)	(259)	-	(885)
Balance at 30 June	(1 089)	(539)	-	(1 628)
Net Book Value:				
As at 1 July	25 024	1 032	3 600	29 656
As at 30 June	24 398	782	3 600	28 780

10.	**Employee Benefits**	**2003**	2002
	Current:	**$'000**	$'000
	Annual leave	**11**	62

11. Retained Surplus

	2003 $'000	2002 $'000
Balance at 1 July	**29 006**	3 961
(Decrease) Increase in net assets resulting from operations	**(342)**	25 045
Balance at 30 June	**28 664**	29 006

12. Reconciliation of Net Cash used in Operating Activities to Net Surplus after Contributed Assets

	2003	2002
Net cash provided by (used in) operating activities	**459**	(278)
Non-Operating Activities and Non-Cash Items:		
Depreciation expense	**(885)**	(706)
Assets recognised for the first time	**-**	25 487
Government revenue received for investing activities	**-**	965
Change in operating assets and liabilities:		
(Decrease) Increase in receivables	**(185)**	45
(Decrease) Increase in operating assets	**(190)**	342
Decrease (Increase) in payables	**333**	(698)
Decrease (Increase) in unearned revenue	**75**	(105)
Decrease (Increase) in employee entitlements	**51**	(7)
Net (Deficit) Surplus after Contributed Assets	**(342)**	25 045

13. Auditors' Remuneration

	2003	2002
Amounts paid or payable to the Auditor-General's Department	**24**	35

14. Remuneration of Employees

The number of employees whose remuneration for the year equal or exceed $100 000 fell within the following band:

	2003 Number of Employees	2002 Number of Employees
$110 000 - $119 999	**-**	2
Total employees with remuneration over $100 000	**-**	2

For the year ending 30 June 2003 the amount paid to employees whose remuneration packages for the year was equal to or exceeded $100 000 totalled $nil ($235 000).

The above remuneration excludes termination payments as per Accounting Policy Statement APS 13 'Form and Content of General Purpose Financial Reports'.

15. Remuneration of Board Members

The Board was dissolved on 3 July 2002 (refer Note 1.2)

Remuneration fell within the following bands:	2003 Number of Members	2002 Number of Members
$0 - $9 999	**-**	12
$10 000 - $19 999	**-**	5
$120 000 - $129 999	**-**	1
	-	18

For the year ended 30 June 2003 the amount paid to board members totalled $nil ($112 000).

16. Related Party Disclosures

The following persons held the position of Member of the Board during the financial year prior to dissolution:

Brian Croser AO
John Harvey
Chris Pfeiffer
Anabel Sherars-Carter
Dianne Davidson
Ian Sutton
Christopher Barnes
Robin Day
Bruce McDougall
William Taylor

There were no amounts paid for travelling and accommodation for Board members to attend board meetings for the period ended 30 June 2003 ($27 217).

Related party transactions with the Centre were undertaken on normal commercial terms and conditions.

17. Expenses Incurred for Consultants

Expenditure fell within the following bands:	2003 Number of Consultancies	2002 Number of Consultancies
$0 - $10 000	**2**	7
$10 001 - $50 000	**1**	2
$50 001 - $100 000	**-**	1
$100 001 - $150 000	**-**	1
$200 001 - $250 000	**-**	1
	3	12

Total expenditure for consultants for the year ended 30 June 2003 was $31 000 ($532 000).

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 in relation 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 Board 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. 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 2002-03, specific areas of audit attention included:

- contributions from members and employers;
- pension payments.

Audit Communications to Management

As no significant issues were identified as a result of the audit, a management letter was not prepared.

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 2003, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

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

Significant Matters Raised with Agencies

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

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Contributions	**3.6**	3.5	2.9
Past service funding	**30.0**	-	-
Net investment earnings	**(0.8)**	(5.4)	85.2
Total Operating Revenue	**32.8**	(1.9)	1 826.3
OPERATING EXPENDITURE			
Benefits and other expenses	**13.6**	19.2	(29.2)
Total Operating Expenses	**13.6**	19.2	(29.2)
Surplus (Deficit)	**19.2**	(21.1)	191.0
Net Cash Flows from Operations	**(0.01)**	(0.01)	-
ASSETS			
Investments	**122.9**	94.9	28.0
Other assets	**0.4**	0.5	(20.0)
Total Assets	**123.3**	95.4	29.2
LIABILITIES			
Liability for accrued benefits	**121.5**	113.0	7.5
Other liabilities	**0.9**	0.8	12.5
Total Liabilities	**122.4**	113.8	7.6
EXCESS OF NET ASSETS OVER LIABILITIES (LIABILITIES OVER NET ASSETS)	**0.9**	(18.3)	104.9

Statement of Financial Performance

Operating Revenues

Investment activity for the year resulted in a negative return of $770 000 compared to a negative return of $5.4 million in the previous year. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

During the year the Government transferred $30 million into the Scheme to meet accrued superannuation liabilities. This accounts for the increase in employer contributions in 2002-03. As this was initially receipted into the 'South Australian Superannuation Scheme Contribution Account' a transfer of investments between the two schemes was undertaken by Funds SA, therefore there was no movement in the cash flow statement to reflect this transaction.

Operating Expenses

Benefits expense decreased by $5.5 million to $13.5 million for the year.

Operating Result

The operating result for the year records a surplus of $19.2 million compared to a deficiency of $21.1 million last year. The year's result represents the excess of contributions (including past service liability funding) of $33.6 million over benefits expense of $13.5 million and negative net investment revenue of $770 000. Note 1(d) to the financial statements explains that the small size of the scheme, the nature of the way member benefits accrue and variations in investment performance means that deficiencies and surpluses will arise from year to year.

Statement of Financial Position

As at 30 June 2003, there was an excess of net assets over liabilities of $855 000 compared to a net asset deficiency of $18.3 million in 2002. The estimated liability for accrued benefits increased by $8.5 million to $121.5 million for which net assets of $122.4 million ($94.7 million) were available to pay benefits.

FURTHER COMMENTARY ON OPERATIONS

Members and Pensioners

As at 30 June 2003 there were 69 (69) contributors to the Scheme and 103 (104) pensioners.

Operating Statement
for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
INVESTMENT REVENUE:			
Net investment revenue		**(772)**	(5 371)
INTEREST INCOME		**5**	13
CONTRIBUTIONS:			
Contributions by members	1 (d)	**957**	897
Contributions by employers	1 (d)	**32 653**	2 566
		33 610	3 463
ADMINISTRATION EXPENSE	4	**(95)**	(125)
ACTUARIAL EXPENSE	12	**(5)**	(2)
AUDIT EXPENSE	13	**(12)**	(12)
GST EXPENSE	14	**(3)**	(3)
BENEFITS EXPENSE	6	**(13 539)**	(19 047)
OPERATING RESULT FOR THE PERIOD		**19 189**	(21 084)

Statement of Financial Position as at 30 June 2003

	Note	**2003 $'000**	2002 $'000
INVESTMENTS:	2 (b)		
Inflation linked securities		**15 329**	12 786
Property		**11 872**	9 932
Australian equities		**41 109**	33 020
International equities		**45 538**	31 213
Fixed interest		**6 512**	4 386
Cash		**2 547**	3 586
		122 907	94 923
FIXED ASSETS		**1**	2
OTHER ASSETS:			
Cash and deposits at Treasury		**112**	123
Cash and deposits at Treasury – Funds SA		**9**	24
Interest, dividends and rent due – Funds SA		**3**	4
Sundry debtors	10	**5**	21
Contributions receivable	3	**223**	339
		352	511
Total Assets		**123 260**	95 436
CURRENT LIABILITIES:			
Rend paid in advance – Funds SA		**40**	41
Tax Payable for Pensions		**-**	11
Sundry creditors and provisions	11	**219**	104
		259	156
NON-CURRENT LIABILITIES:			
Loan and finance facilities – Funds SA		**646**	614
Total Liabilities		**905**	770
NET ASSETS AVAILABLE TO PAY BENEFITS	5	**122 355**	94 666
Less: **LIABILITY FOR ACCRUED BENEFITS**	6	**121 500**	113 000
EXCESS OF NET ASSETS OVER LIABILITIES (LIABILITIES OVER NET ASSETS)	6	**855**	(18 334)

Statement of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CONTRIBUTIONS RECEIVED:			
Contributions by members		**962**	899
Contributions by employers		**2 765**	2 601
		3 727	3 500
INTEREST RECEIVED		**5**	13
BENEFITS PAID:			
Pensions		**(5 018)**	(4 671)
Commutation of pension benefits		**(25)**	(4 530)
		(5 043)	(9 201)
Administration expense		**(95)**	(125)
Actuarial expense		**(5)**	(2)
Audit expense		**(12)**	(12)
GST expense		**(18)**	7
Net Cash used in Operating Activities	9	**(1 441)**	(5 820)
CASH FLOWS FROM INVESTING ACTIVITIES:	2(a)		
Receipts from Funds SA		**4 220**	7 650
Payments to Funds SA		**(2 790)**	(1 840)
Net Cash provided by Investing Activities		**1 430**	5 810
NET DECREASE IN CASH HELD		**(11)**	(10)
CASH AT 1 JULY		**123**	133
CASH AT 30 JUNE		**112**	123

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 2003 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 $957 000 ($897 000) being credited during the year ended 30 June 2003.

The Government as the employer has paid $30 million into the Parliamentary Superannuation Fund during the year ended 30 June 2003, to meet accrued past service liabilities.

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

The Financial Statements are general purpose statements and have been prepared on an accrual basis in accordance with Australian Accounting Standard 25 'Financial Reporting by Superannuation Plans', other 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* except as provided below.

Assets and liabilities are recorded at net market value in the Statement of Financial Position as at the balance date, and realised and unrealised gains and losses are brought to account in the Operating Statement. The financial statements of Funds SA, although not recording the administration activities of the public sector superannuation funds, are prepared in accordance with the principals of the Australian Accounting Standards 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 statements of the relevant superannuation schemes associated with the public sector superannuation funds.

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

Funds SA operates a unitised investment portfolio utilising a number of asset class funds, each of which holds assets of a different category. The Scheme holds an interest in the asset class funds by way of notional 'units', as determined by Funds SA, rather than holding assets directly. As funds of the Scheme are regularly subscribed to and redeemed from the asset class funds, in line with the Scheme's cash flow requirements, it is not possible to accurately determine the separate contribution by realised and unrealised gains to the Scheme's income. For this reason, unrealised gains are not separately identified as required by AAS 25 and the Statement of Cash Flows only reflects a net result for cash flows from investing activities. In addition direct investment expenses and change in net market value of investments held at reporting date and realised during the reporting period are not reported. For information regarding the manner in which Funds SA operates its investment portfolio, and the contributions that realised and unrealised gains make to Funds SA's total investment returns, reference should be made to the financial statements of Funds SA.

(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 2003 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*
  Valuations of directly held properties have been carried out by independent licensed property valuers, other than as indicated in Note 8 of the financial statements of Funds SA.

  In addition, a secured short-term loan provided to a 3rd party has been valued on the basis of principal outstanding at the balance date.

- *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 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 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 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 and other deposits of very short term duration 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. 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 the 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 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.

3. Contributions Receivable

	2003	2002
Contributions receivable from:	**$'000**	$'000
Members	**55**	60
Employers	**168**	279
	223	339

4. Administration

Costs of administering the Scheme comprise those costs incurred by Funds SA in administering the investment activities (deducted from investment revenue i.e. 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.

5. Net Assets Available to Pay Benefits

	2003	2002
	$'000	$'000
Funds held at 1 July	**94 666**	105 750
Add:		
Contributions by members	**957**	897
Contributions by employers	**32 653**	2 566
Investment earnings(i)	**(772)**	(5 371)
Other income	**5**	13
	32 843	(1 895)
Less:		
Net benefits paid	**5 039**	9 047
Administration expense	**95**	125
Actuarial expense	**5**	2
Audit expense	**12**	12
GST expense	**3**	3
	5 154	9 189
Funds held at 30 June	**122 355**	94 666

(i) Shown net of direct investment expenses.

6. Accrued Superannuation Liability 30 June 2003

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 1.0 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 4.0 percent per annum above the CPI.

The accrued superannuation liability as determined by State Superannuation Office of the Department of Treasury and Finance is estimated at $121.5 million ($113 million) as at 30 June 2003. The vested superannuation liability as at 30 June 2003 is estimated at $132 million.

6. Accrued Superannuation Liability 30 June 2003

	2003	2002
	$'000	$'000
Liability for accrued benefits at 1 July	**113 000**	103 000
Add: Benefits expense(i)	**13 539**	19 047
Less: Benefits paid	**5 039**	9 047
Liability for Accrued Benefits at 30 June	**121 500**	113 000

(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 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.

	2003	2002
	$'000	$'000
Vested benefits	**132 000**	129 000

8. Guaranteed Benefits

The entitlements of members are specified by the *Parliamentary Superannuation Act 1974*.

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

Operating result	**19 189**	(21 084)
Benefits expense	**13 539**	19 047
Benefits paid	**(5 039)**	(9 047)
Employer Contributions	**(30 000)**	-
Decrease in benefits payable	**-**	(156)
Decrease in sundry debtors	**7**	3
Decrease in contributions receivable	**116**	36
Decrease in sundry creditors	**(14)**	(1)
(Decrease) Increase in Tax Payable	**(11)**	11
Investment earnings	**772**	5 371
Net Cash used in Operating Activities	**(1 441)**	(5 820)

10. Sundry Debtors

Other sundry debtors	**-**	8
Funds SA accruals	**3**	12
GST refundable	**2**	1
	5	21

11. Sundry Creditors and Provisions

Funds SA accrual	**219**	90
GST payable	**-**	14
	219	104

12. Actuarial Fees

Actuarial fees for the 2002-03 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 2002-03 financial year have been 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.

15. Additional Financial Instrument Disclosures

The specific disclosure requirements of Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the Financial Statements of Funds SA and have not been repeated in this financial report.

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 South Australian 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.

Status of Financial Statements

The Board was unable to finalise the financial statements of the Scheme for the year ended 30 June 2003 in sufficient time to enable the audit to be completed at the date of finalisation of this Report.

The audited financial statements of the Scheme for the year ended 30 June 2003 will be included in a Supplementary Audit Report to Parliament.

SOUTH AUSTRALIAN ASSET MANAGEMENT CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

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

SAAMC and its controlled entities (ie former subsidiary and associated entities of the former State Bank of South Australia) commenced operations on 1 July 1994 with consolidated assets and liabilities of $8.3 billion and $8.2 billion respectively. At 30 June 2003 assets and liabilities of SAAMC stood at $935 million and $767 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 2003 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 23(2a) of the *State Bank of South Australia Act 1983* provides for the Auditor-General to audit the accounts of SAAMC 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 SAAMC in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

Consistent with the approach taken in prior years the 2002-03 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. 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'.

The auditable areas of coverage for 2002-03 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
- internal audit
- financial statements verification.

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.

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 2003 and of its performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Assessment of Controls

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

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.

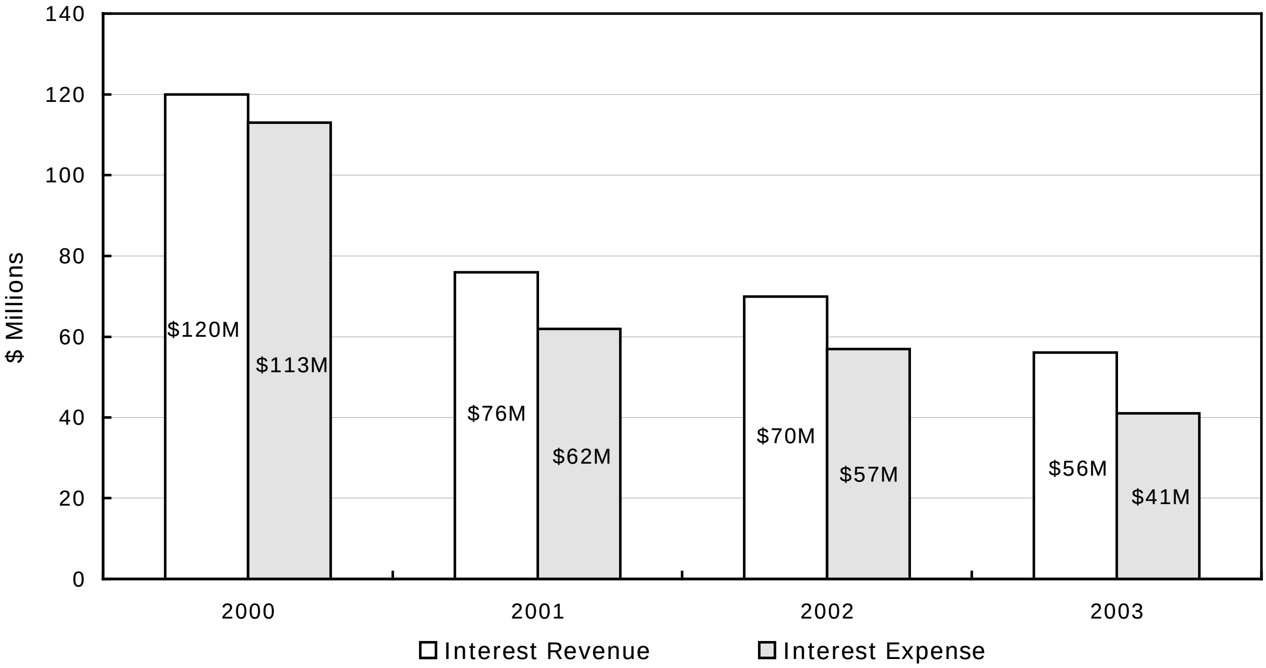
Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
REVENUE			
Interest revenue	**56**	70	(20)
Non-interest income	**9**	8	12
Recoveries of debts	**5**	13	(62)
Total Revenue and Recoveries	**70**	91	(23)
EXPENDITURE			
Interest expense	**41**	57	(28)
Other expenses	**1**	2	(50)
Total Expenses	**42**	59	(29)
Net Profit	**28**	32	(12)
Net Cash Flows from Operations	**33**	34	(3)
ASSETS	**935**	1 431	(35)
LIABILITIES	**767**	1 065	(28)
EQUITY	**168**	366	(54)

Statement of Financial Performance

Revenues and Expenses

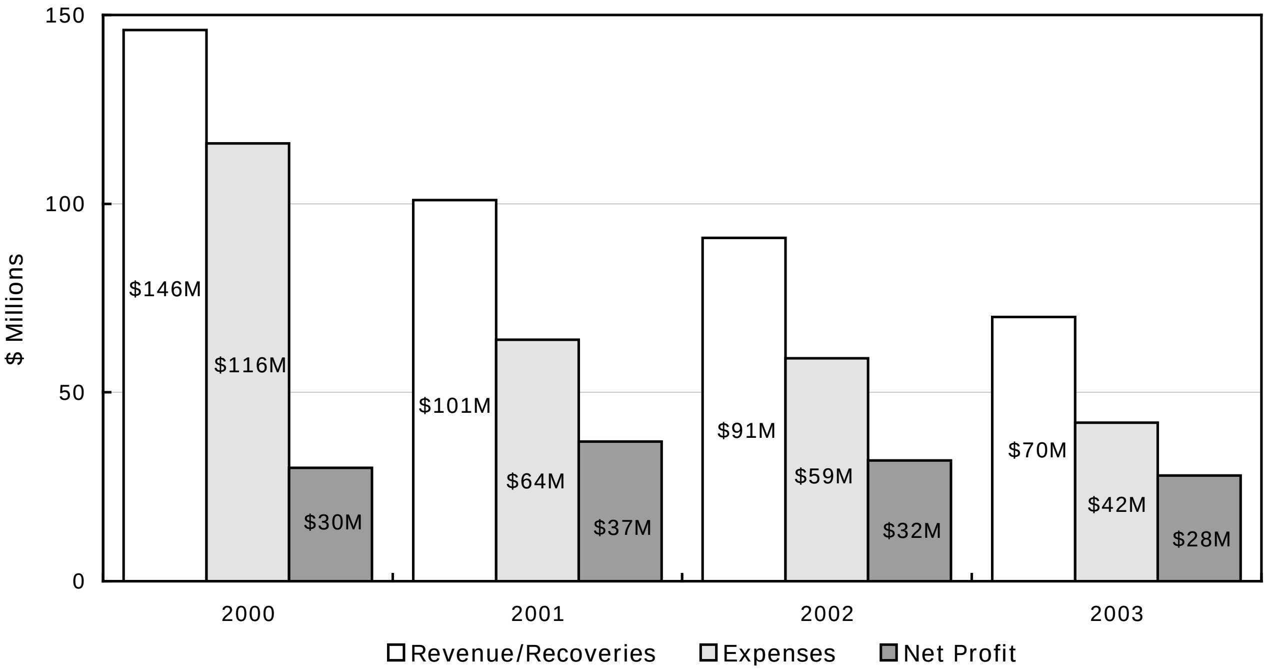
Interest revenue and interest expense constitute the main components of SAAMC's annual revenue and expense flows. The chart below compares the interest income and expense flows over the four years to 2003. The trend downwards in both flows since 2000 reflects the continuation in the downsizing of SAAMC's balance sheet, involving the realisation of income earning assets and subsequent discharging of interest incurring liabilities.



In 2003 the principal non-interest income item related to a mark-to-market gain of $7 million ($6.5 million) (refer to Note 3). The main expense item other than interest expense in 2003 was the service fee of $512 000 ($718 000) payable to SAFA for management of the SAAMC Treasury portfolio (refer to Note 4(b)).

Operating Result

The following chart shows the revenues/recoveries, expenses and net profits for the four years to 2003. Net profits achieved over the four year period have ranged between $28 million in 2003 and $37 million in 2001.



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 2003. The table shows a trend reduction in assets and liabilities. Over the four year period assets have reduced by 56 percent and liabilities by 58 percent.

It can also be seen that SAAMC over the four year period, has been in a highly liquid position. Fund receipts from liquid and trading securities have been applied to the discharge of obligations associated with SAAMC's interest bearing liabilities. In 2003 fund receipts were also used towards payment of a dividend of $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 2003 retained profits of SAAMC stood at $106 million.

	2003	2002	2001	2000
	$'million	$'million	$'million	$'million
ASSETS				
Liquid and Trading Securities	**765**	1 189	1 396	1 905
Other	**170**	242	115	234
Total Assets	**935**	1 431	1 511	2 139
LIABILITIES				
Interest bearing liabilities	**758**	1 060	1 171	1 835
Other	**9**	5	6	7
Total Liabilities	**767**	1 065	1 177	1 842
EQUITY				
Retained Profits	**106**	310	279	243
Other	**62**	56	55	54
TOTAL EQUITY	**168**	366	334	297

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003	2002	2001	2000
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**33**	34	20	11
Investing	**483**	198	487	(18)
Financing	**(517)**	(233)	(514)	(64)
Change in Cash	**(1)**	(1)	(7)	(71)
Cash at 30 June	**4**	5	6	13

Cash flows predominately result from investing and financing activities. The cash flows from SAAMC's investing activities result mainly from receipts from liquid and trading 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 $230 million was made to the Consolidated Account in the current year.

Statement of Financial Performance for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
Interest revenue	3	**56 012**	69 599
Interest expense	4(a)	**(40 554)**	(57 059)
Net Interest Revenue		**15 458**	12 540
Non-interest income	3	**8 542**	8 500
(Charge) credit for bad and doubtful debts	5	**5 189**	12 651
Other expenses from ordinary activities	4(b)	**(1 409)**	(2 168)
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EXPENSE		**27 780**	31 523
Income tax expense relating to ordinary activities	6	**-**	-
NET PROFIT		**27 780**	31 523
NON-OWNER TRANSACTION CHANGES IN EQUITY			
Increase in asset revaluation reserve - fair value adjustment	16	**3 855**	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**31 635**	31 523

Statement of Financial Position
as at 30 June 2003

	Note	**2003 $'000**	2002 $'000
ASSETS:			
Cash on hand and at bank		**4 060**	4 656
Loans, advances and receivables	8	**35 365**	83 747
Liquid and trading securities	9	**765 362**	1 189 110
Property, plant and equipment	10	**11 000**	6 620
Other assets	11	**118 957**	146 828
Total Assets		**934 744**	1 430 961
LIABILITIES:			
Interest bearing liabilities	12	**757 653**	1 059 588
Payables	14	**4 776**	5 427
Provisions	13	**4 740**	6
Total Liabilities		**767 169**	1 065 021
NET ASSETS		**167 575**	365 940
SHAREHOLDERS' EQUITY:			
Share capital	15	**52 716**	52 716
Reserves	16	**8 917**	3 700
Retained profits	17	**105 942**	309 524
TOTAL SHAREHOLDERS' EQUITY		**167 575**	365 940
Commitments	19		
Contingent Liabilities	20		

Statements of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		**72 472**	82 241
Interest paid		**(55 541)**	(65 305)
Other income received		**12 546**	7 377
Recovery of bad debts written off in previous years		**5 051**	11 969
Payments to trade creditors, other creditors and employees		**(1 222)**	(2 619)
Net Cash Flows provided by Operating Activities	22(b)	**33 306**	33 663
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net receipts (advances) from/to loans, advances and receivables		**42 230**	1 966
Net (payments) receipts for property, plant and equipment		**(531)**	(8)
Net (payments) receipts from trading securities		**441 347**	196 068
Net Cash Flows provided by Investing Activities		**483 046**	198 026
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid		**(230 000)**	-
Net receipts from (repayments of) borrowings		**(276 513)**	(169 208)
Net receipts from (repayments of) deposits		**(10 435)**	(63 509)
Net Cash Flows used in Financing Activities		**(516 948)**	(232 717)
NET DECREASE IN CASH HELD		**(596)**	(1 028)
CASH AT 1 JULY		**4 656**	5 684
CASH AT 30 JUNE	22(a)	**4 060**	4 656

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 Australian 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 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.

All assets of the Corporation are marked-to-market and treated as current with the exception of an office building purchased in October 1999. Certain liabilities of the Corporation extend beyond 30 June 2003 and are detailed with their due dates in Note 12, Interest Bearing Liabilities.

(b) *Asset Valuation Basis*

The assets of the Corporation as they appear on the financial statements are mainly financial assets and as such 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 balance sheet 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 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.

Specific Provisions (continued)
Where a loan, advance, receivable or security has been impaired and requiring 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 liquid and trading securities constitute more than 99.8 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, all the significant Treasury exposures were retained by the Corporation. 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 balance sheet. 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 on a monthly tenancy basis. The property, which was purchased in October 1999 is covered by a long term lease 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 was matched to the accounting profit after permanent differences between taxable and accounting income, irrespective of when the income tax is 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 and Sick 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 Australia 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 owns land and a building at 30 Wakefield Street in Adelaide, South Australia. This asset was previously recorded in the Corporation's books at cost at 30 June 2002. Following an independent valuation undertaken by FPDSavills (SA) Pty Ltd, an accredited valuer company, as at 30 June 2003 the Corporation has elected to change its basis of valuation and will now adopt the fair value basis for land and buildings going forward. The difference between the market value and the historical cost value resulted in an increase of $3.86 million. This increase was booked as an increase in assets with a corresponding increase in the asset revaluation reserve of the Corporation.

(l) Rounding
Unless otherwise indicated, all amounts have been rounded to the nearest thousand dollars.

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 $230 million ($nil) be paid into the Consolidated Account from the Corporation's 2002 accumulated retained profits of $309.5. The payment was made on 30 June 2003.

In accordance with the approval of the Treasurer, pursuant to Section 19(1) of the *State Bank of South Australia Act 1983* (as amended), dated 15 April 2003, and by proclamation pursuant to Section 30 of the *SGIC (Sale) Act 1995*, dated 19 June 2003, $4.7 million of residual assets and liabilities were transferred from the Motor Accident Commission (MAC) to SAAMC. The transfer related to mortgage guarantee and workers compensation policy and claims business of the former SGIC.

3. Revenue from Ordinary Activities

	2003	2002
Profit from Ordinary Activities before related income tax expense has been determined after crediting as revenue	**$'000**	$'000
Interest Income:		
South Australian Government Financing Authority	**1 790**	1 636
Other interest income	**54 222**	67 963
Total Interest Income	**56 012**	69 599
Non-interest Income:		
Rental	**1 675**	2 002
Foreign exchange income	**(220)**	31
Mark-to-market gain	**7 080**	6 465
Other sundry income	**7**	2
Total Non-Interest Income	**8 542**	8 500

4. *(a) Interest Expense*

Profit from Ordinary Activities before related income tax expense has been determined after debiting as expense		
Interest expense	**40 554**	57 059
Total Interest Expense	**40 554**	57 059

(b) Other Expenses from Ordinary Activities

Profit from Ordinary Activities before related income tax expense has been determined after charging as expense the following:		
Staff Costs:		
Fringe benefits tax	**5**	-
Payroll tax	**-**	(8)
Salaries and wages	**159**	189
Superannuation and retiring allowances	**22**	21
Other staff expenses	**38**	2
Staff Costs	**224**	204
Occupancy Costs:		
Rates and taxes	**-**	(12)
Repairs and maintenance	**45**	1
Occupancy Costs	**45**	(11)

		2003	2002
(b)	***Other Expenses from Ordinary Activities***	**$'000**	$'000
	Administration and General Costs:		
	Amounts due or received for audit services by:		
	Auditor-General of South Australia	**45**	65
	Insurance	**10**	8
	Management and service fees paid to SAFA	**512**	718
	Legal fees	**310**	896
	Other professional fees (European Banking Clearing)	**152**	153
	Consultancies	**-**	27
	Telephones	**3**	4
	Travel	**6**	3
	Other expenses	**102**	101
	Administration and General Costs	**1 140**	1 975
	Total Other Expenses	**1 409**	2 168

5. Bad and Doubtful Debts

	2003	2002
Profit from Ordinary Activities before related income tax expense has been determined after charging as an expense (Note 1d):		
Net charge (credit) for bad debts written off:		
Recoveries net of recovery costs	**(5 051)**	11 955
Net recoveries received	**(5 051)**	(11 955)
Charge for provision for doubtful debts:		
Specific provision for doubtful debts (Note 9)	**(138)**	(696)
Charge (credit) for provision for doubtful debts	**(138)**	(696)
Charge (Credit) for Bad and Doubtful Debts	**(5 189)**	(12 651)

6. Income Tax

	2003	2002
The amount provided in respect of income tax differs from the amount prima facie payable on operating profit:		
Prima facie income tax expense (benefit) calculated at 30 percent (30 percent) on profit	**8 334**	9 457
Decrease in income tax expense (benefit) due to non-tax assessable items:		
Tax exempt income - SAAMC	**8 334**	9 457
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

	2003	2002
Revenue:		
Australia	**64 554**	78 099
Total Revenue	**64 554**	78 099
Profit after Tax:		
Australia	**27 780**	31 523
Total Profit After Tax	**27 780**	31 523
Total Assets:		
Australia	**934 744**	1 430 961
Total Assets	**934 744**	1 430 961

Industry segments

The Corporation has operated predominantly in the financial services industry during the course of the year comprising investing, recovery of outstanding debts and management of treasury risks.

8. Loans, Advances and Receivables

	2003	2002
South Australian Government Financing Authority	**4 633**	34 627
Other term lending	**30 732**	49 120
Total Loans, Advances and Receivables (Gross)	**35 365**	83 747
Less: Specific provision for doubtful debts	**-**	-
Total Loans, Advances and Receivables (Net)	**35 365**	83 747

9. Liquid and Trading Securities

	2003	2002
Unlisted:	**$'000**	$'000
Interbank, corporate and other securities (Gross)	**765 562**	1 195 589
Less: Specific provision for doubtful debts	**(200)**	(6 479)
Total Unlisted (Net)	**765 362**	1 189 110
Total Liquid and Trading Securities	**765 362**	1 189 110

Specific Provision:		
Balance at 1 July	**6 479**	12 175
Charged (credited) against profit (Notes 1d, 5)	**(138)**	(696)
Loss crystallized	**(6 141)**	(5 000)
Specific Provision at 30 June	**200**	6 479

10. Property, Plant and Equipment

Land and building (investment property):		
At cost	**-**	6 620
At fair value	**11 000**	-
Total Land and Building	**11 000**	6 620

The independent valuation of the Corporation's freehold land and building 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, resulted in a valuation of land $2 050 000 and a valuation of buildings of $8 950 000. The valuation has been brought to account with the difference between the cost and market values recorded in the asset revaluation reserve.

Reconciliation	**2003**	2002
	$'000	$'000
Opening written down value	**6 620**	6 620
Additions	**525**	-
Revaluation	**3 855**	-
Closing written down value	**11 000**	6 620

11. Other Assets

Receivables on swap or hedge transactions	**118 957**	146 828
Total Other Assets	**118 957**	146 828

12. Interest Bearing Liabilities

Deposits	**137 171**	156 448
Capital markets raisings	**620 482**	903 140
Total Borrowings	**757 653**	1 059 588

Capital market raisings represent private note placements by the Corporation. The major placements were:

Currency	**Original Face Value**	**Description**		
JPY	10 billion	8.35% notes due 2004	**125 230**	148 415
JPY	20 billion	8.125% notes due 2005	**250 460**	296 830
JPY	15 billion	9.375% notes due 2005	**187 844**	222 623

Exchange Rates	**2003**	2002
The Australian dollar values of the above note issues were determined using the following exchange rates:		
Australian Dollars (AUD)	**1.00000**	1.00000
Japanese Yen (JPY)	**79.85314**	67.37859

13. Provisions

	2003	2002
	$'000	$'000
Mortgage guarantee insurance and workers compensation claims provision	**4 704**	-
Employee entitlements, including on-costs (Note 18)	**36**	6
Total Provisions	**4 740**	6

14. Payables

Sundry creditors and accruals	**4 776**	5 427
Total Other Liabilities	**4 776**	5 427

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

	2003	2002
Property:	**$'000**	$'000
Balance at 1 July	**3 700**	2 335
Transferred from retained profits	**1 362**	1 365
Balance at 30 June	**5 062**	3 700
Asset revaluation reserve:		
Balance at 1 July	**-**	-
Net effect of initial adoption of AASB 1041 (Revaluation of non-current assets)	**3 855**	-
Balance at 30 June	**3 855**	-
Total Reserves	**8 917**	3 700

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 will 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.

17. Retained Profits

	Note	2003	2002
		$'000	$'000
Retained profits at 1 July		**309 524**	279 366
Net profit attributable to the Corporation		**27 780**	31 523
Transfer to property reserve	16	**(1 362)**	(1 365)
Dividend paid	2	**(230 000)**	-
Retained Profits at 30 June		**105 942**	309 524

18. Employee Entitlements

	Note	2003	2002
Aggregate employee entitlements, including on-costs:			
Current	13	**36**	6

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	2003	2002
Concurrent leases payable or contracted for at balance date but not provided for in the financial statements:	**$'000**	$'000
Not later than one year	**5 089**	5 768
Later than one year but not later than five years	**23 887**	24 350
Later than five years	**-**	9 651
	28 976	39 769

These commitments are offset by lease payments to be received, which are estimated to be $28 959 000. The 2002 estimate for recoveries was $40 572 000 as compared to commitments of $39 769 000. 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.

Set Off and Extinguishment of Debt
The Corporation entered into a transaction in 1990 and maturing in 2005 for financial assets and liabilities with face values of $542 million. These assets and liabilities are not recognised in the financial statements because the Corporation:

(a) has a legally recognised right to set off the asset and liability;
(b) intends to realise the asset and settle the liability simultaneously.

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 that $39.5 million is considered low on the basis of an assessment of the property by FPDSavills on 30 June 2003.

21. Financial Instruments

	2003	2002
	$'000	$'000
Foreign exchange, interest rate and other market related transactions	**2 629 441**	3 162 142

These are transactions in which SAAMC and other parties agreed to exchange a stream of cash flows based on notional principal amounts totalling $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 one 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 2003, 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.

	2003	2002
	$'000	$'000
Interest rate swaps and forward rate agreements	**1 631 102**	1 888 065
Cross-currency swaps	**998 339**	1 274 077
	2 629 441	3 162 142

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 the marking of both the exchange rate and the interest rates to market 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.

	2003	2002
	$'000	$'000
Interest rate swaps	**1 631 102**	1 838 065

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.

		2003					
		Floating	**Fixed Interest Maturing In**			**Non-**	
		Interest Rate	**One Year or Less**	**Over 1 year to 5 Years**	**More than 5 Years**	**Interest Bearing**	**Total**
Financial Assets:	Note	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash		**4 060**	**-**	**-**	**-**	**-**	**4 060**
Loans, advances and receivables	8	**33 013**	**2 352**	**-**	**-**	**-**	**35 365**
Liquid and trading 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:	Note						
Borrowings:							
Deposits	12	**137 171**	**-**	**-**	**-**	**-**	**137 171**
Capital market raisings	12	**620 482**	**-**	**-**	**-**	**-**	**620 482**
Other financial liabilities	14	**-**	**-**	**-**	**-**	**9 480**	**9 480**
		757 653	**-**	**-**	**-**	**9 480**	**767 133**
Weighted average interest rate percent		**4.84**					

		2002					
		Floating	Fixed Interest Maturing In			Non-	
		Interest Rate	One Year or Less	Over 1 year to 5 Years	More than 5 Years	Interest Bearing	Total
Financial Assets:	Note	$'000	$'000	$'000	$'000	$'000	$'000
Cash		4 656	-	-	-	-	4 656
Loans, advances and receivables	8	80 669	3 078	-	-	-	83 747
Liquid and trading securities	9	1 189 110	-	-	-	-	1 189 110
Other financial assets:							
Net swap receivables	11	-	-	-	-	146 828	146 828
		1 274 435	3 078	-	-	146 828	1 424 341
Weighted average interest rate percent		5.32	5.40				
Financial Liabilities:	Note						
Borrowings:							
Deposits	12	156 448	-	-	-	-	156 448
Capital market raisings	12	903 140	-	-	-	-	903 140
Other financial liabilities	14	-	-	-	-	5 427	5 427
		1 059 588	-	-	-	5 427	1 065 015
Weighted average interest rate percent		5.05					

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.

	2003	2002
	$'000	$'000
Cross-currency swaps	**998 339**	1 274 077

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)	**563 534**	667 868

Liquidity Risk

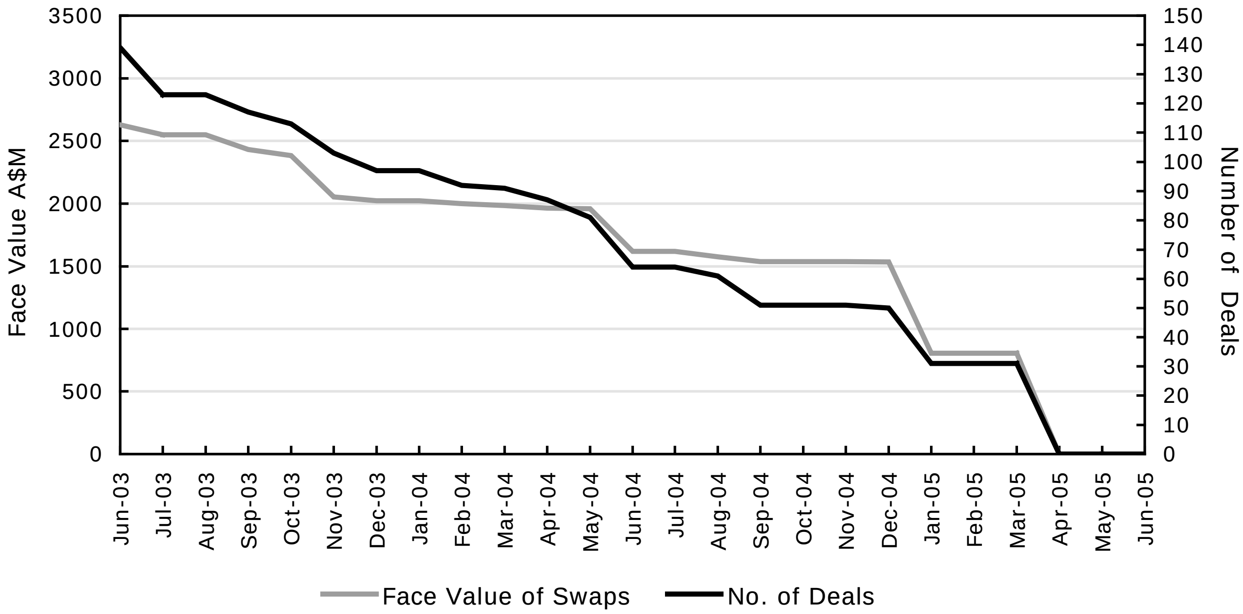
Liquidity risk arises from the possibility that the Corporation could, theoretically some time in the future either be forced to sell a derivative position at a value that is below its underlying worth, or that it may be unable to exit the position at all. The Corporation however manages the risks on 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 62 percent (60 percent) of notional principal outstanding as at 30 June 2003 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 (98.5 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.

Maturity Profile of Swaps as at 30 June 2003



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 2003.

		2003	2002
22.	**Notes to the Statements of Cash Flows**	**2003**	2002
(a)	***Reconciliation of Cash***	**$'000**	$'000
	Cash as at 30 June as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheet as follows:		
	Cash on hand and at bank	**4 060**	4 656
	Cash at 30 June in the Statement of Cash Flows	**4 060**	4 656
(b)	***Reconciliation of Net Cash Flows from Operating Activities to Profit after Income Tax***		
	Net profit	**27 780**	31 523
	Add (Less): Non-cash items:		
	Bad debts charge (credit)	**(138)**	(696)
	Non-cash effect of mark-to-market adjustments	**-**	(1 141)
	Net Cash provided by Operating Activities before change in Assets and Liabilities	**27 642**	29 686
	Changes in assets and liabilities		
	(Increase) Decrease in other sundry debtors	**-**	18
	(Decrease) Increase in net interest accrued	**1 473**	4 448
	(Decrease) Increase in sundry creditors and accruals	**4 161**	(489)
	(Decrease) Increase in employee entitlements	**30**	-
	Net Cash Flows provided by Operating Activities	**33 306**	33 663

23.	**Directors' Remuneration**	**2003**	2002
	Directors' Income	**Number of Directors**	Number of Directors
	The number of directors on the Corporation's board whose income (including superannuation but excluding redundancy payments and other employee entitlements)from the Corporation falls within the following bands:		
	$80 000 - $89 999	**1**	1

	2003	2002
Directors' Income (continued)		
Total income paid or payable, or otherwise made available to all Directors of the Corporation from the Corporation.	**$'000**	$'000
	83	84

24. Executives' Remuneration

	2003	2002
The number of Executive Officers of the Corporation whose income (including superannuation, but excluding redundancy payments, long service leave and annual leave accrued and paid out) from the Corporation falls within the following bands:	**Number of Executives**	Number of Executives
$80 000 - $89 999	**1**	1

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 2003 are as follows:

Mr Joseph J Ullianich
Mr John T Hill (retired 9 April 2003)
Mr Terence C Evans
Ms Kathryn A Moore
Mr Andrew G Anastasiades
Mr Brett G Rowse (appointed 10 April 2003)

Directors related entity transaction

As disclosed in Note 2, Directions of the Treasurer, $4.7 million of residual assets and liabilities were transferred from Motor Accident Commission (MAC) to SAAMC. Mr Rowse was a member of the Board of Directors of MAC at the time of the transfer.

Directors' Other Transactions

No other transaction 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, Operating Income 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.

Treasurer of South Australia

Related party transactions with the Treasurer of South Australia are disclosed in Note 2 and Note 17, Retained Profits.

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 (SAICORP)

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

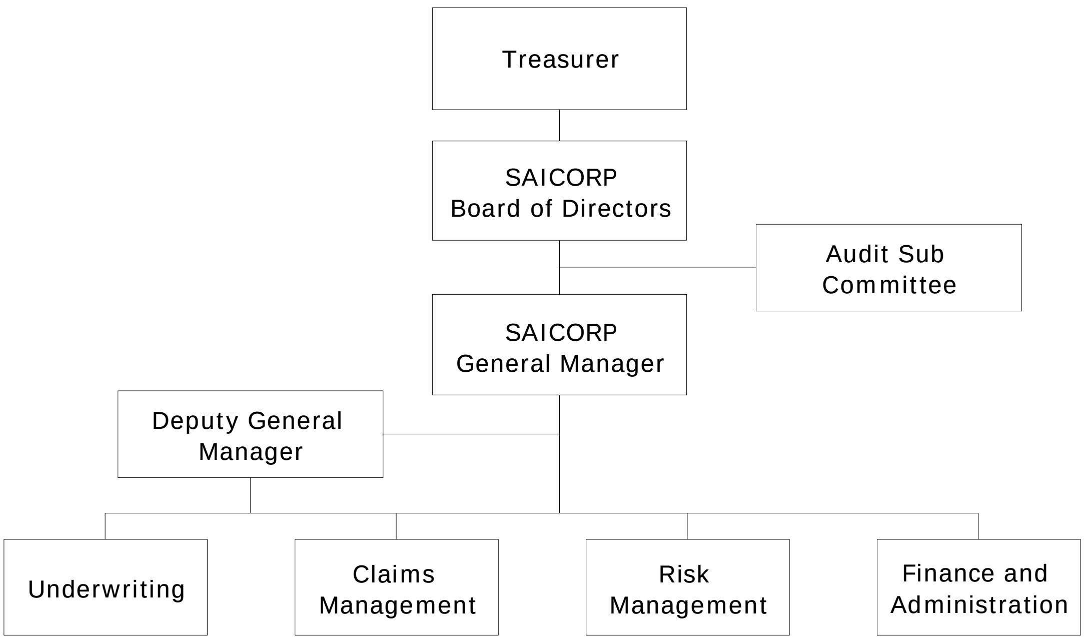
The functions of SAICORP are as follows:

- 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.



To enhance the management of claims, an 'Out posted Legal Unit' of the Crown Solicitor's Office has also been established within SAICORP to enable the in-house management of medical malpractice and other litigious claims.

South Australian Government Insurance and Risk Management Fund

The South Australian Government Insurance and Risk Management Fund (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 ($48 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 the SAICORP 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. 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 2002-03, specific areas of audit attention included:

- corporate governance arrangements
- premium revenue - premium setting, invoicing, receipting and receivables
- outstanding claims management and settlement
- key general ledger reconciliations and maintenance
- internal management reporting
- investment monitoring

There were no investigations done throughout the year by the internal auditor of the Department of Treasury and Finance.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the General Manager. Responses to the management letters were generally considered to be satisfactory. Major matters raised with SAICORP and the related responses are considered in Audit Findings and Comments.

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 South Australia Government Captive Insurance Corporation as at 30 June 2003, 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 is sufficient to provide reasonable assurance that the financial transactions of the SAICORP have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Corporate Governance Arrangements

Audit noted that certain governance arrangements and practices at SAICORP vary from other Corporations and subsidiaries, subject to audit by the Auditor-General. This may reflect the close relationship with the Department of Treasury and Finance (DTF), through SAICORP administratively being a branch of DTF.

For example, the role of the Board is currently not documented in either a charter or statement of terms of reference. From Audit's observation, there also does not appear to be 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 its meeting its statutory responsibilities through regular monitoring of compliance with such a charter.

It was also considered timely to review the existing governance structure of SAICORP to ensure it properly reflects SAICORP's operating practices and ensures clarity in responsibility and accountability. Audit noted that a review of SAICORP's governance arrangements is planned, and Audit support the undertaking of this review.

A number of less significant issues were also raised relating to:

- the opportunity to enhance internal reporting to the Board on financial information and non-financial information, such as performance targets;
- reviewing the investment strategy of SAICORP to ensure it maintains its pertinence;
- security and business continuity planning issues facing the Corporation.

Agency Response

At a recent meeting, the SAICORP Board endorsed the audit recommendation for the production of a Board charter.

A satisfactory response was received to the other issues raised in the management letter.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

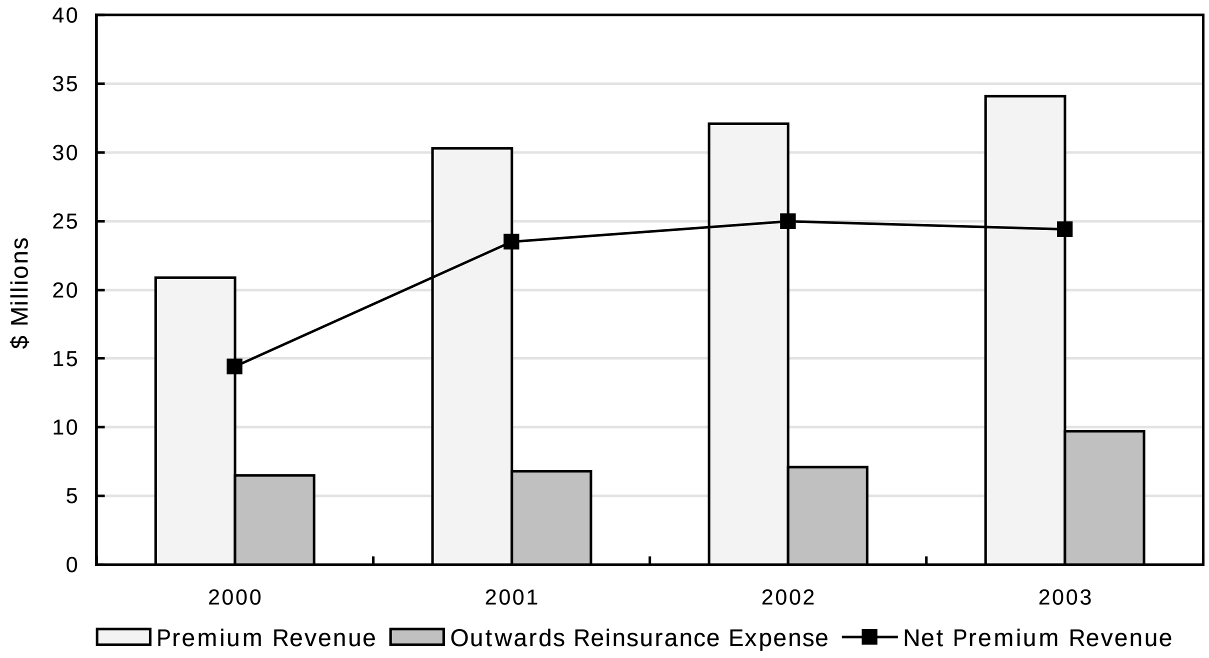
	2003 $'million	2002 $'million	Percentage Change
UNDERWRITING RESULT			
Premium revenue	**34**	32	6
Outwards reinsurance expense	**(10)**	(7)	36
Net claims incurred	**(16)**	(16)	0
Net underwriting expenses	**(4)**	(4)	-
Underwriting profit	**4**	5	(11)
INVESTMENT RESULT			
Investment revenue and distributions	**3**	2	-
Investment market value movements	**(3)**	(9)	-
Profit on investment activities	**0**	(7)	-
Operating Profit / (Loss) before income tax	**4**	(2)	-
Net Cash Flows from Operations	**5**	8	(33)
ASSETS			
Current assets	**82**	79	4
Non-current assets	**75**	75	0
Total Assets	**157**	154	3
LIABILITIES			
Current liabilities	**20**	26	(24)
Non-current liabilities	**87**	80	9
Total Liabilities	**107**	106	1
EQUITY	**50**	48	5

Statement of Financial Performance

Net Premium Revenue

Premiums charged to agencies are SAICORP's major source of funds for the activities associated with the operation of the Government's insurance and risk management arrangements.

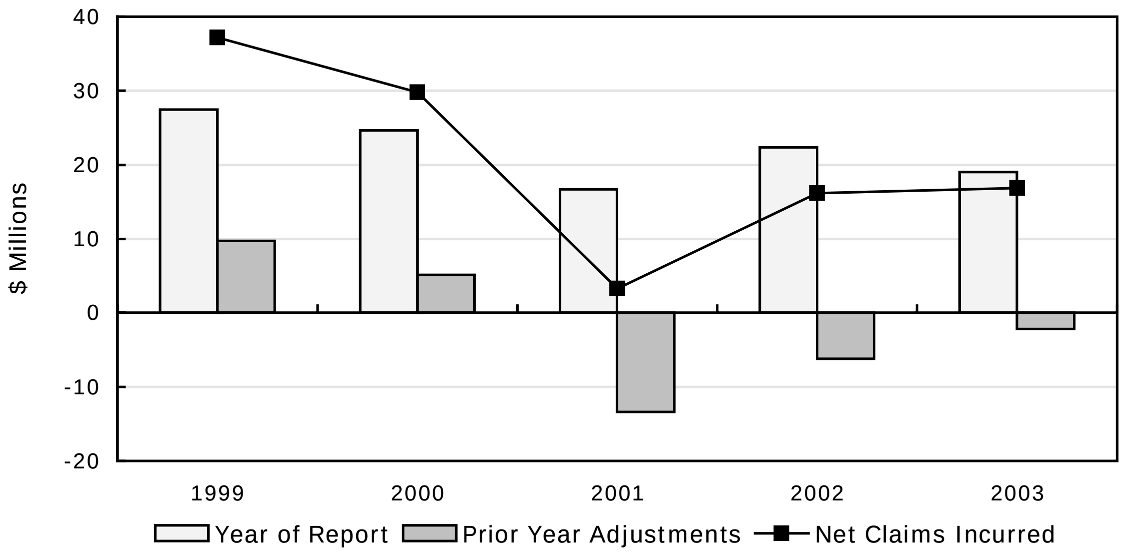
Net premium revenue is premium revenue less the cost of the outwards reinsurance program (catastrophe reinsurance program). A structural analysis of operating revenues for the four years to 2003 is presented in the following chart, which shows that the rise in premiums is being negated by the increase in premium costs of the reinsurance program reflecting difficult conditions experienced by the global insurance industry.



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 stable over the past two years, due in part to the reduction of prior years' outstanding claims estimates.

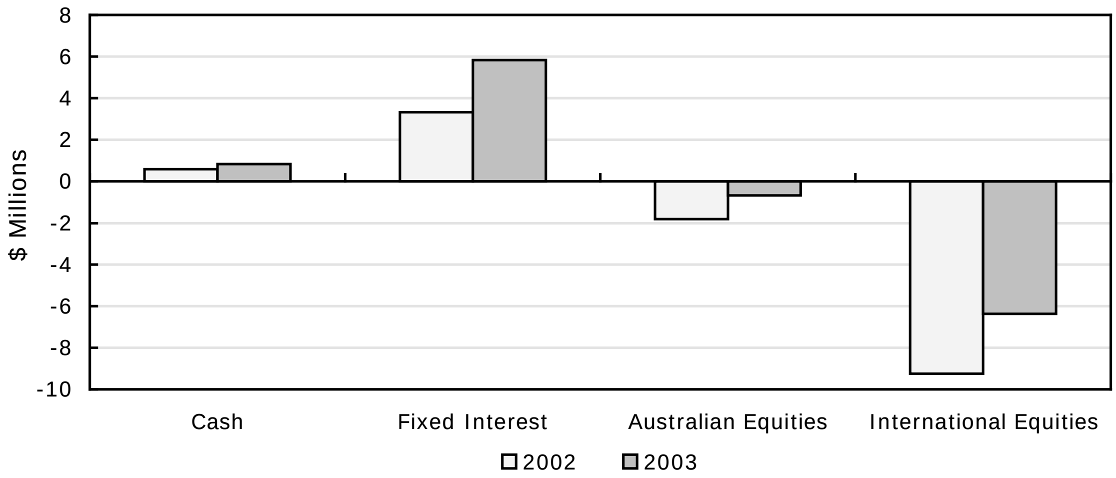


Investment Revenue/Expenses

The performance on investments by SAICORP's fund managers over the past financial year is as follows:

Investment Class	Balance at 30 June 2003 ($'000)	2003 Investment Performance (Percent p.a.)
Cash Management Fund	**7 966**	**4.8**
Fixed Interest Securities	**63 426**	**10.1**
Australian Equities	**41 575**	**(5.7)**
International Equities	**33 241**	**(18.3)**

As a consequence of the above investment results, SAICORP incurred an overall investment expense for the second consecutive year. The impact that returns on individual investment classes have had on investment expenses over the previous two years are as follows:



The chart shows that investment losses were heavily influenced by the poor performance of Australian and particularly international equity markets. With the appreciation of the Australian dollar against most currencies during the year, this has compounded the losses as SAICORP do not hedge their international equity investments.

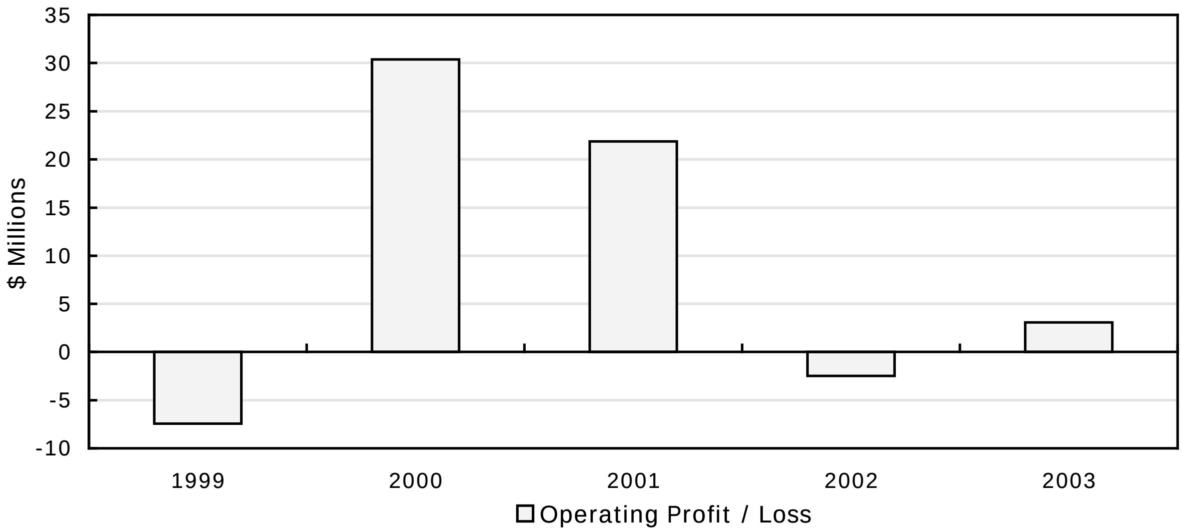
Over the 2002-03 year, two thirds of the international equities fund losses in Australian dollars can be contributed to adverse foreign exchange movements.

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

Operating Profit Before Income Tax

SAICORP's operating profit before income tax of $3.1 million has increased in comparison to the loss of $2.5 million sustained in 2002. This increase is due primarily to reduced losses on investments.

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



Statement of Financial Position

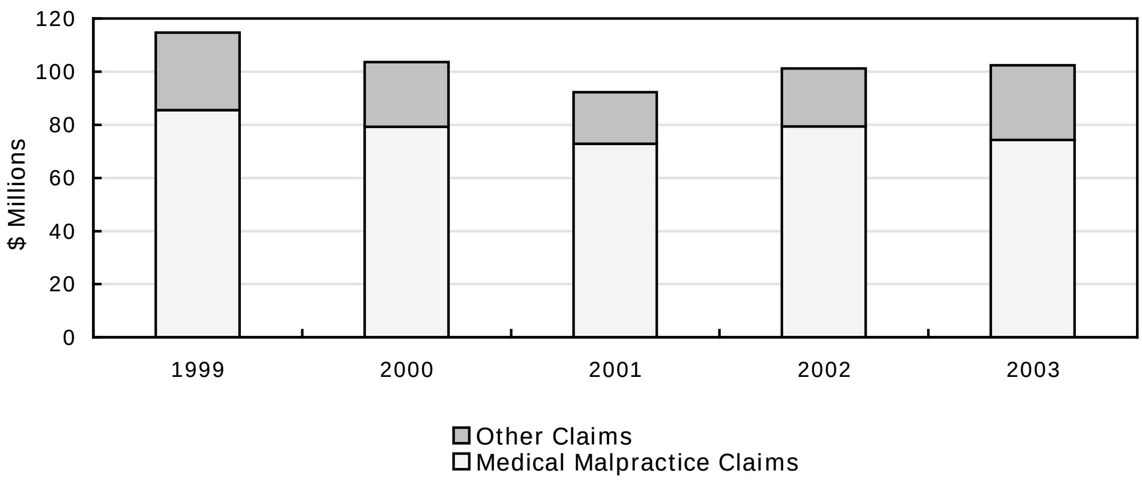
Outstanding Claims

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 $102.4 million as at 30 June 2003 was made up as follows:

	2003	2002
	$'000	$'000
Reported claims by case estimation	**48 447**	51 167
IBNR claims (including IBNER claims)	**28 572**	25 443
Adjustment for present value allowing for inflation and discounting	**4 254**	3 488
Provision for administration expenses	**3 799**	3 703
Prudential margin	**17 282**	17 382
	102 354	101 151

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 marginal increase in outstanding claims in 2003 is due to the net effect of changes in the assumed inflation rate (decrease of 0.25 percent), and the assumed discount rates (decrease of 0.9 percent for medical malpractice claims and 0.7 percent for other claims) used for calculating the value of the liabilities. Medical malpractice claims continue to dominate the claims liabilities.



Investments

In 1999-2000 an investment strategy was endorsed by SAICORP's Board and approved by the Treasurer which balanced SAICORP's risk-return tolerance and approximated the duration profile of the underlying claims liabilities. Since then funds have been placed with SAFA (for cash and fixed interest securities) and external fund managers (for equities strategies).

As at 30 June 2003 SAICORP had $146.2 million in investments, an increase of $6.1 million in comparison to its year opening balance of $140.1 million. This increase is attributable to the appreciation in value of SAICORP's fixed interest investment.

Statement of Cash Flows

The following table summarises the net cash flows for the current year and the preceding three years.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**5**	8	5	10
Investing	**(9)**	-	(9)	(121)
Change in Cash	**(4)**	8	(4)	(111)
Cash at 30 June	**10**	14	6	10

This analysis shows that SAICORP has made consistent net cash flows on its operations over the periods reviewed. This indicates that sufficient cash reserves are available to be accessed should large claim payments need to be made. Investing payments relate to purchases of equity and fixed interest investments.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS (SECTION 2)

Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Total Revenue (cost)	**7**	9	(21)
Claims expense (benefit)	**(8)**	(2)	-
Change in net assets (liabilities) from operations	**15**	11	33
Net Cash Flows from Operations	**4**	1	-
ASSETS			
Current assets	**9**	5	92
Non-current assets	**3**	3	-
Total Assets	**12**	8	42
LIABILITIES			
Current liabilities	**27**	30	(10)
Non-current liabilities	**33**	41	(19)
Total Liabilities	**60**	71	(16)
EQUITY	**(48)**	(63)	(23)

Statement of Financial Position

Change in Net Assets

A downward revision to the outstanding claims liability of $11 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'.

Cash balances of Section 2 have also increased as the recurrent appropriation amount exceeded claim payments for the year.

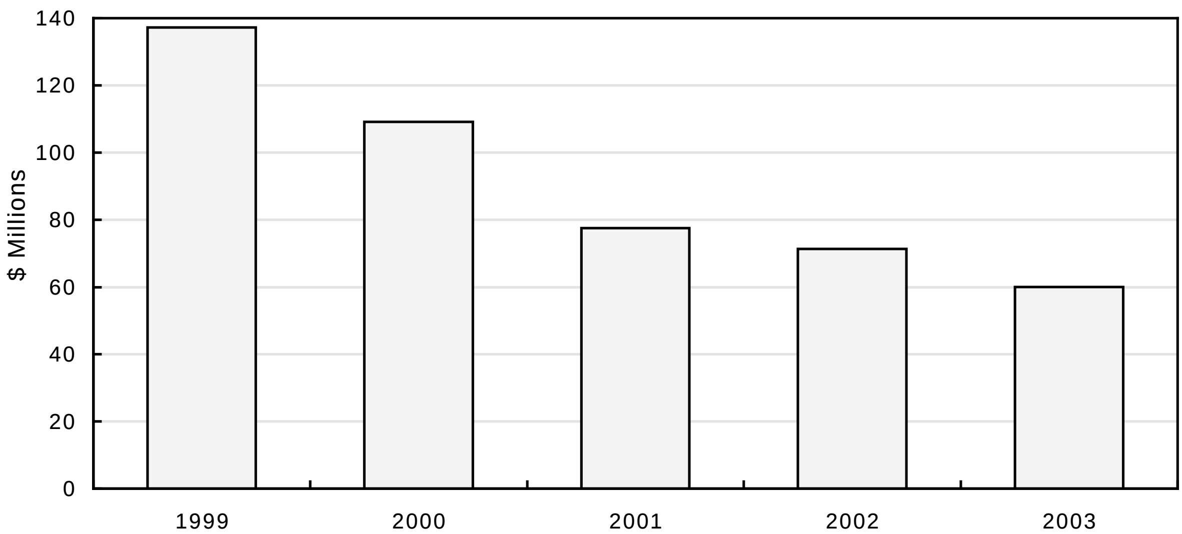
Outstanding Claims

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

The outstanding claim liability of $60.1 million is made up as follows:

	2003 $'000	2002 $'000
Reported claims by case estimation	**43 884**	54 417
IBNR claims (including IBNER claims)	**-**	-
Adjustment for present value allowing for inflation and discounting	**3 400**	1 985
Provision for administration expenses	**2 235**	2 651
Prudential margin	**10 547**	12 312
	60 066	71 365

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 accrued 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.

The negative claim expense shown on the statement of financial performance is a result of this decrease in the liability and claim disbursements 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 2002-03 financial year was $9.7 million ($7.1 million).

While the level of reinsurance cover that SAICORP have 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:

	Industrial Special Risk	Aviation Liability	Public &Products Liability	Professional Indemnity and Directors and Officers Liability	Medical Malpractice	Forestry Growing Timber
Catastrophe Program Cover (Reinsurance)	$600M (2)	$500M	$350M	$150M (3)	$150M	$100M
Aggregate Annual Retention (SAICORP(1))	$15M		$15M	$15M		$15M
Each & Every Event Retention (Agency and/or SAICORP)	$1M	$5,000	$3M/$1M	$3M/$1M	$16M	$1M

(1) Except Forestry Growing Timber, where the retention is held by Forestry SA
(2) A proportion of these layers have been retained by SAICORP due to difficulties in finding acceptable cover in the commercial market. The total additional exposure is less than $21 million with respect to each of the classes involved.
(3) A proportion of the primary layers of this part of the program has been retained by SAICORP due to the collapse of HIH and difficulties finding an acceptable replacement in the commercial market. The total additional exposure is $20 million.

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 2002-03 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 2003

	Note	**2003 $'000**	2002 $'000
Premium revenue	1(b)	**34 107**	32 145
Outwards reinsurance expense	1(c)	**(9 688)**	(7 106)
Net Premium Revenue		**24 419**	25 039
Claims expense	2	**(17 187)**	(16 799)
Reinsurance and other recoveries		**300**	998
Doubtful debts		**23**	(361)
Net Claims Incurred		**(16 864)**	(16 162)
Brokerage and lead reinsurance fee revenue		**678**	532
Underwriting expenses	3	**(3 995)**	(3 993)
Underwriting Result		**4 238**	5 416
Investment revenue	14(b)	**(365)**	(7 129)
General and administration expenses		**(818)**	(772)
OPERATING PROFIT (LOSS) BEFORE INCOME TAX		**3 055**	(2 485)
Income tax benefit (expense)	4	**(917)**	746
OPERATING PROFIT (LOSS) AFTER INCOME TAX		**2 138**	(1 739)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**2 138**	(1 739)

Statement of Financial Position as at 30 June 2003

	Note	**2003 $'000**	2002 $'000
CURRENT ASSETS:			
Cash	1(i)	**10 467**	14 112
Receivables	5	**331**	952
Reinsurance and other recoveries receivable	6	**327**	302
Investments	7	**63 426**	57 592
Other	8	**7 143**	5 841
Total Current Assets		**81 694**	78 799
NON-CURRENT ASSETS:			
Future income tax benefit	4	**-**	746
Reinsurance and other recoveries receivable	6	**4 962**	5 744
Provision for doubtful debts	19	**(4 340)**	(4 362)
Investments	7	**74 816**	72 955
Total Non-Current Assets		**75 438**	75 083
Total Assets		**157 132**	153 882
CURRENT LIABILITIES:			
Payables	9	**30**	159
Unearned premium		**4 033**	4 111
Outstanding claims	11	**15 200**	21 456
Provision for income tax	4	**171**	-
Other	10	**157**	213
Total Current Liabilities		**19 591**	25 939
NON-CURRENT LIABILITIES:			
Outstanding claims	11	**87 155**	79 695
Total Non-Current Liabilities		**87 155**	79 695
Total Liabilities		**106 746**	105 635
NET ASSETS		**50 386**	48 248
EQUITY:			
Retained surplus		**48 248**	49 987
Operating result for the period		**2 138**	(1 739)
TOTAL EQUITY		**50 386**	48 248
Contingent Liabilities	20		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received	22	**34 900**	32 321
Commercial insurance placements received		**2 870**	3 240
Claim recoveries received		**357**	668
Brokerage revenue and lead reinsurer fee received		**622**	229
Interest received		**855**	576
GST paid to the Taxation Authorities		**(3 438)**	(2 782)
GST received from the Taxation Authorities		**1 404**	790
GST received on receivables		**3 431**	3 215
GST paid on services used		**(1 404)**	(790)
Outwards reinsurance paid		**(9 779)**	(7 296)
Commercial insurance placements paid		**(2 873)**	(2 871)
Claims paid		**(15 946)**	(7 519)
Amounts paid in lieu of income tax		**-**	(7 440)
Other underwriting and general administration expenses paid		**(5 644)**	(4 370)
Net Cash provided by Operating Activities		**5 355**	7 971
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchase of equity fund investments		**(9 000)**	-
Net Cash used in Investing Activities		**(9 000)**	-
NET (DECREASE) INCREASE IN CASH HELD		**(3 645)**	7 971
CASH AT 1 JULY		**14 112**	6 141
CASH AT 30 JUNE		**10 467**	14 112

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Statements of Significant Accounting Policies

The significant policies that have been adopted in the preparation of this financial report are:

(a) Objectives, Funding and Basis of Accounting

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 the risks of the Crown;
- provide advice on the management of risks of the Crown.

This financial report encompasses all activities transacted through Section 1 of the interest bearing Special Deposit Account entitled 'South Australian Government Insurance and Risk Management Fund' (the SAGIRM Fund).

Section 1 of the SAGIRM Fund reflects the normal commercial insurance activities of SAICORP, established to carry on the business of insuring, reinsuring and/or co-insuring the risks of the Crown. 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.

The 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 issued under the *Public Finance and Audit Act 1987*, and other mandatory professional requirements. 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.

The historical cost convention has been adopted and, unless otherwise stated, the amounts presented in the statement of financial position do not reflect realisable values of assets and liabilities or changes in the purchasing power of money.

(b) Premium Revenue

The earned portion of premiums received and receivable is recognised as revenue. Premium is treated as earned from the date of attachment of risk 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 a government agency to insure 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 does not accept any inward reinsurance premiums.

(c) Outward Reinsurance

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

An amount of \$9.688 million (\$7.106 million) was expensed for cover provided under the government's catastrophe reinsurance program. This program has been devised 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.

(d) Claims

Claims expense and liabilities for outstanding claims are recognised in respect of incidents incurred. 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 2002).

The claims liabilities are measured as the present values of the expected future payments. An inflation rate (normal and superimposed) of 6.25 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 5.0 percent per annum for Medical Malpractice and 4.5 percent per annum for all other classes (5.9 percent per annum for Medical Malpractice and 5.2 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.

(d) Claims (continued)

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. Brett & Watson Pty Ltd -Consulting Actuaries were engaged to consider the continued appropriateness of the above methodologies and to recommend appropriate discount and inflation rates and prudential margins to be used for the 2002-03 financial year. Their recommendations were adopted.

(e) 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.

(f) Stamp Duties

Amounts collected for stamp duties are included in premiums and on-paid to Revenue SA. A liability for these payments is recognised on business written to the reporting date.

(g) Investments

Investment Strategy

SAICORP has an investment strategy for Section 1 of the SAGIRM Fund that was implemented for the first time in 1999-2000 and comprises a mix of cash, Australian fixed interest, Australian equities and overseas equities. The cash and fixed interest investments are managed by the South Australian Government Financing Authority, while external fund managers are used to manage the Australian and overseas equity investments.

Valuation of Investments

SAICORP's investments are essential to its insurance activities. In accordance with Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' investments are reported at market value, net of material expected costs of disposal.

Investment Revenue

Investment revenue is bought to account on an accrual basis and includes unrealised gains/(losses) arising from movements in market values of the underlying investments.

(h) Income Tax and Other Taxes

Pursuant to Section 12 of the Schedule to the *Public Corporations Act 1993*, the Corporation is liable to pay to the Treasurer, for the credit of the Consolidated Account, such amounts as the Treasurer from time to time determines to be equivalent to income tax and any other taxes or imposts that the Corporation does not pay to the Commonwealth but would be liable to pay under the law of the Commonwealth if it were constituted and organised in such a manner as a public company or group of public companies carrying on the business carried on by the subsidiary.

Effective 1 July 1995, pursuant to Treasurer's Instruction 22, 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.

(i) Cash

All day to day operating activities are transacted through the SAGIRM Fund. These funds are invested with the SAFA, and currently earn an interest rate determined by reference to the SAFA overnight borrowing rate (less a 0.5 percent banking fee).

For the purposes of the Statement of Cash Flows, cash includes deposits which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis. This includes both the SAGIRM Fund and the cash management component of the investment strategy, which is invested in the SAFA Cash Management Fund.

(j) 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 2003 for Section 1 was $1.637 million ($1.255 million).

(k) 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, the CBA paid to the Corporation an annual premium of $4.598 million, including $418 000 GST, ($3.968 million), of which $3.596 million was unearned as at 30 June 2003.

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 2003, Fleet SA recorded expenses of $3.022 million ($4.073 million). For the purposes of this financial statement, $3.650 million ($4.073 million) has been recognised as an expense and $4.262 million ($3.732 million) has been recognised as a prepayment.

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

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

	2003	2002
Direct:	**$'000**	$'000
Liability	**9 377**	12 518
Property	**7 290**	4 061
Other	**520**	220
	17 187	16 799

3. Underwriting Expenses

Management expenses	**455**	431
Acquisition costs	**247**	258
Stamp duty	**3 293**	3 077
Net direct insurance placement	**1**	227
	3 995	3 993

4. Income Tax

Effective 1 July 1995 a tax equivalent regime applies to the normal commercial operations of SAICORP (refer Note 1(h))

(a) Income Tax Expense

Income tax (expense) benefit is at 30 percent (30 percent) on the operating profit (loss)	**(917)**	746
Total Income Tax Expense Attributable to the Operating Profit / (loss)	**(917)**	746
Income tax expense attributable to the operating profit (loss) is Made up of:		
Provision for current income tax	**171**	-
Future income tax benefit	**-**	(746)

(b) Provision for Current Income Tax

Movements during the year were as follows:		
Balance at 1 July	**-**	7 440
Payment	**-**	(7 440)
Realisation of FITB	**(746)**	-
Current year's income tax expense on operating profit/(loss)	**917**	-
Balance at 30 June	**171**	-

5. Receivables

Current:		
Premium debtors	**322**	931
Investment debtors	**9**	21
	331	952

6. Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not reported 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 and are recognised as assets.

	2003	2002
	$'000	$'000
Expected future recoveries (undiscounted)	**7 984**	8 460
Discount to present value	**(2 695)**	(2 414)
Reinsurance and other recoveries receivable (before provision for doubtful debts)	**5 289**	6 046
Current:		
Reinsurance and other recoveries receivable	**327**	302
	327	302
Non-Current:		
Reinsurance and other recoveries receivable	**4 962**	5 744
Less: Provision for doubtful debts, refer Note 18	**(4 340)**	(4 362)
	622	1 382

7. Investments

	2003	2002
Current:	**$'000**	$'000
Cash		
Section 1 of SAGIRM Fund	**2 501**	4 592
Cash Management Fund	**7 966**	9 520
Fixed interest	**63 426**	57 592
	73 893	71 704
Non-Current:		
Australian equities	**41 575**	42 342
Overseas equities	**33 241**	30 613
	74 816	72 955

8. Other Assets

Prepayments:		
Fleet insurance expense (refer Note 1(k))	**4 262**	3 732
Catastrophe reinsurance expense	**2 641**	1 869
Prepaid consultancy	**240**	240
Total Current Other Assets	**7 143**	5 841

9. Payables

Current:		
Other creditors and accruals	**30**	160

10. Other Liabilities

Current:		
Risk management fee	**118**	213
Unearned brokerage revenue	**39**	-
	157	213

11. Outstanding Claims

(a)

Expected future claims payments (undiscounted)	**150 068**	166 430
Discount to present value	**(47 713)**	(65 279)
Liability for Outstanding Claims	**102 355**	101 151
Current:		
Liability	**10 866**	19 793
Property	**4 334**	1 663
Other	**-**	-
	15 200	21 456
Non-Current:		
Liability	**84 378**	77 579
Property	**2 673**	1 987
Other	**104**	129
	87 155	79 695

(b)

The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:	**2003 Percent**	2002 Percent
For the succeeding year:		
Inflation rate (which includes superimposed inflation)	**6.25**	6.5
Discount rate - Medical malpractice	**5**	5.9
Discount rate - Other classes	**4.5**	5.2
For subsequent years:		
Inflation rate (which includes superimposed inflation)	**6.25**	6.5
Discount rate - Medical malpractice	**5**	5.9
Discount rate - Other classes	**4.5**	5.2

(c)

The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be:	**2003 Years**	2002 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

12. Financing Arrangements

The Treasurer of South Australia has agreed to indemnify 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.

13. 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.

	2003 In Respect of Current Year $'000	**2003 In Respect of Prior Years $'000**	**2003 Total $'000**	2002 In Respect of Current Year $'000	2002 In Respect of Prior Years $'000	2002 Total $'000
Gross claims incurred and related expenses - Undiscounted	**25 334**	**(25 711)**	**(377)**	30 435	(4 221)	26 214
Reinsurance and other recoveries- Undiscounted	**-**	**(603)**	**(603)**	-	(622)	(622)
Net Claims Incurred - Undiscounted	**25 334**	**(26 314)**	**(980)**	30 435	(4 843)	25 592
Discount and discount movement - Gross claims incurred	**(6 285)**	**23 848**	**17 563**	(8 061)	(1 355)	(9 416)
Discount and discount movement - Reinsurance and other recoveries	**-**	**281**	**281**	-	(14)	(14)
Net Discount Movement	**(6 285)**	**24 129**	**17 844**	(8 061)	(1 369)	(9 430)
Net Claims Incurred	**19 049**	**(2 185)**	**16 864**	22 374	(6 212)	16 162

14. Additional Financial Instrument Disclosures

(a) Interest Rate Risk

The Corporation'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:

2003	**Weighted Average Interest Rate Percent**	**Floating Interest Rate $'000**	**Contracted to Mature or Reprice Within One Year $'000**	**Non-Interest Bearing $'000**	**2003 Total $'000**
Financial Assets:					
Cash	**4.77**	**10 467**	**-**	**-**	**10 467**
Composite indexed bonds		**-**	**63 426**	**-**	**63 426**
Australian equities			**-**	**41 575**	**41 575**
Overseas equities		**-**	**-**	**33 241**	**33 241**
Receivables		**9**	**-**	**322**	**331**
Total Financial Assets		**10 476**	**63 426**	**75 138**	**149 040**
Financial Liabilities:					
Payables		**-**	**-**	**(30)**	**(30)**
Total Financial Liabilities		**-**	**-**	**(30)**	**(30)**
Net Financial Assets		**10 476**	**63 426**	**75 108**	**149 010**

2002	Weighted Average Interest Rate Percent	Floating Interest Rate $'000	Contracted to Mature or Reprice Within One Year $'000	Non-Interest Bearing $'000	2002 Total $'000
Financial Assets:					
Cash	4.58	14 113	-	-	14 113
Composite indexed bonds		-	57 592	-	57 592
Australian equities		-	-	42 342	42 342
Overseas equities		-	-	30 613	30 613
Receivables		21	-	931	952
Total Financial Assets		14 134	57 592	73 886	145 612
Financial Liabilities:					
Payables		-	-	(160)	(160)
Total Financial Liabilities		-	-	(160)	(160)
Net Financial Assets		14 134	57 592	73 726	145 452

(b) Investment Revenue	**2003 $'000**	2002 $'000
Interest	**843**	591
Unrealised gains (losses) on investments	**(3 466)**	(9 438)
Distributions - Equity investments	**2 258**	1 718
	(365)	(7 129)

(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 Australian equities investment is in the Macquarie Australian Enhanced Equities Fund which mirrors the ASX 300, while the overseas equities investment is in Barclays Global Investors World ex-Australia Equity Fund which mirrors the MSCI World ex-Australia Equity 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) *Net Fair Values of Financial Assets and Liabilities*

Valuation Approach

Net fair values of financial assets and liabilities are determined by the Corporation on the following bases:

On-Balance-Sheet Financial Instruments

Investments in fixed interest and equity funds are measured at market values using market prices at balance date, as advised by the fund manager. The carrying amounts of short-term money market deposits, accounts receivable and accounts payable approximate their fair values.

Off-Balance-Sheet Financial Instruments

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

(e) *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:

	2003	2002
	$'000	$'000
Canada	**864**	698
France	**1 333**	1 270
Germany	**871**	940
Japan	**2 633**	2 896
Netherlands	**711**	793
Switzerland	**1 120**	1 074
UK	**3 806**	3 521
US	**19 339**	17 220
Other	**2 563**	2 201
	33 241	30 613

15. Auditors' Remuneration

Auditor-General's Department	**36**	35

16. External Consultants used during the Financial Year

Total amounts paid or payable to external consultants during the financial year	**10**	27

	2003	2002
The number and value of consultancies:	**Number of Consultants**	Number of Consultants
$0 - $9 999	**-**	2
$10 000 - $19 999	**1**	1

17. Directors' Remuneration

	2003	2002
Directors' Income	**Number of Directors**	Number of Directors
Number of directors of the Corporation whose income from the Corporation falls within the following bands:		
$0 - $9 999	**5**	6

	2003	2002
Total income paid or payable, or otherwise made available, to all directors of the Corporation from the Corporation	**$'000**	$'000
	23	25

Directors of the Corporation receive income 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.

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.

18. Related Parties

Directors

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

Mr B G Rowse (Chairman)
Mr J T Hill (Former Chairman)
Ms R J Batt
Mr J L Potter (term expired)
Ms C J Marjoribanks
Mr L R Foster
Mr L C Holmes

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.

Directors' Transactions with the Corporation

There were no transactions during the year with directors or director-related entities.

19. Provision for Doubtful Debts

During some preceding years, the lead reinsurer for Modbury Hospital medical malpractice claims was HIH Insurance Ltd, with a co reinsurer liable for 30 percent of these claims. It has been deemed prudent to provide a doubtful debt for the HIH Insurance Ltd expected recoveries in relation to this reinsurance.

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 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.

21. Segment Information

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

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

			2003			
	Industrial Special Risks and Business Interruption $'000	**Public and Products Liability $'000**	**Medical Malpractice $'000**	**Professional Indemnity & Directors & Officers Liability $'000**	**Other $'000**	**2003 Total $'000**
Premium	**7 147**	**5 449**	**12 765**	**1 716**	**7 030**	**34 107**
Outwards reinsurance	**(4 923)**	**(887)**	**(2 056)**	**-**	**(1 822)**	**(9 688)**
Net Premium Revenue	**2 224**	**4 562**	**10 709**	**1 716**	**5 208**	**24 419**
Claims	**(3 493)**	**(5 098)**	**(2 909)**	**(1 265)**	**(4 422)**	**(17 187)**
Reinsurance and other recoveries	**481**	**13**	**(430)**	**5**	**231**	**300**
Provision for doubtful debts	**-**	**-**	**23**	**-**	**-**	**23**
Net Claims Incurred	**(3 012)**	**(5 085)**	**(3 316)**	**(1 260)**	**(4 191)**	**(16 864)**
Brokerage and lead reinsurance fee revenue	**126**	**335**	**9**	**-**	**208**	**678**
Underwriting expenses	**(769)**	**(579)**	**(1 378)**	**(185)**	**(1 084)**	**(3 995)**
Underwriting Result	**(1 431)**	**(767)**	**6 024**	**271**	**141**	**4 238**
Outstanding claims	**4 603**	**15 594**	**74 384**	**4 911**	**2 862**	**102 354**

21. Segment Information (continued)

	2002					
	Industrial Special Risks and Business Interruption $'000	Public and Products Liability $'000	Medical Malpractice $'000	Professional Indemnity & Directors & Officers Liability $'000	Other $'000	2001 Total $'000
Premium revenue	6 386	4 628	12 986	1 509	6 636	32 145
Outwards reinsurance expense	(2 797)	(911)	(1 871)	-	(1 527)	(7 106)
Net Premium Revenue	3 589	3 717	11 115	1 509	5 109	25 039
Claims expense	469	(4 998)	(6 908)	(491)	(4 871)	(16 799)
Reinsurance and other recoveries	-	2	28	608	360	998
Provision for doubtful debts	-	-	(361)	-	-	(361)
Net Claims Incurred	469	(4 996)	(7 241)	117	(4 511)	(16 162)
Brokerage and lead reinsurance revenue	87	55	86	6	298	532
Underwriting expenses	(689)	(499)	(1 402)	(163)	(1 240)	(3 993)
Underwriting Result	3 456	(1 723)	2 558	1 469	(344)	5 416
Outstanding claims	1 330	12 334	79 384	5 420	2 683	101 151

22. Notes to the Statement of Cash Flows

	2003	2002
Reconciliation of Cash:	**$'000**	$'000
Cash balances held in Special Deposit Account	**2 501**	4 592
Cash Management Fund held with SAFA	**7 966**	9 520
	10 467	14 112
Reconciliation of Operating Result After Income Tax to Net Cash provided by Operating Activities:		
Operating result after income tax	**2 138**	(1 739)
Non-cash items:		
Change in the market value of investments	**1 305**	7 805
Increase (Decrease) in income tax payable	**171**	(7 440)
Decrease (Increase) in future income tax benefit	**746**	(746)
Net Cash (used in) provided by operating activities before changes in assets and liabilities	**4 360**	(2 120)
Change in assets and liabilities:		
Decrease (Increase) in receivables	**621**	5 307
Decrease (Increase) in other assets	**(1 302)**	276
Decrease (Increase) in reinsurance recoveries	**757**	(330)
Increase (Decrease) in provision for doubtful debts	**(22)**	361
Increase (Decrease) in payables	**(129)**	76
Increase (Decrease) in outstanding claims	**1 203**	8 817
Increase (Decrease) in unearned premium	**(77)**	(4 111)
Increase (Decrease) in other liabilities	**(56)**	(305)
Net Cash provided by Operating Activities	**5 355**	7 971

SOUTH AUSTRALIAN GOVERNMENT
INSURANCE AND RISK MANAGEMENT FUND — SECTION 2

Statement of Financial Performance
for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
OPERATING EXPENSES:			
Administration expense		**188**	194
Claims expense	2	**(8 133)**	(2 617)
Total Operating Expenses (Benefit)		**(7 945)**	(2 423)
OPERATING REVENUES:			
Interest		**422**	288
Claims recoveries		**(588)**	1 368
Total Operating Revenues		**(166)**	1 656
NET BENEFIT OF SERVICES		**(7 779)**	(4 079)
REVENUES FROM GOVERNMENT:			
Recurrent appropriation		**7 000**	7 000
Total Revenues from Government		**7 000**	7 000
CHANGE IN NET ASSETS FROM OPERATIONS		**14 779**	11 079
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		**14 779**	11 079

Statement of Financial Position
as at 30 June 2003

	Note	**2003 $'000**	2002 $'000
CURRENT ASSETS:			
Cash		**9 056**	4 834
Receivables	3	**268**	17
Total Current Assets		**9 324**	4 851
NON-CURRENT ASSETS:			
Recoveries receivable	4	**2 374**	3 369
Total Non-Current Assets		**2 374**	3 369
Total Assets		**11 698**	8 220
CURRENT LIABILITIES:			
Payables	5	**-**	2
Outstanding claims	6	**26 615**	29 724
Total Current Liabilities		**26 615**	29 726
NON-CURRENT LIABILITIES:			
Outstanding claims	6	**33 451**	41 641
Total Non-Current Liabilities		**33 451**	41 641
Total Liabilities		**60 066**	71 367
NET ASSETS (DEFICIENCY)*		**(48 368)**	(63 147)
EQUITY:			
Retained surplus (deficit)		**(63 147)**	(74 226)
Operating result for the period		**14 779**	11 079
TOTAL EQUITY		**(48 368)**	(63 147)
Contingent Liabilities	9		

Statement of Cash Flows
for the year ended 30 June 2003

		2003 Inflows (Outflows)	2002 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	**$'000**	$'000
Claim recoveries received		**203**	160
Interest received		**404**	285
Deductibles collected		**195**	20
GST paid to the Taxation Authority		**-**	(2)
GST received from the Taxation Authority		**134**	164
GST received on receivables		**-**	2
GST paid on services used		**(134)**	(164)
Claims paid		**(3 392)**	(5 809)
Administration costs paid		**(188)**	(225)
CASH FLOWS FROM GOVERNMENT:			
Recurrent appropriation		**7 000**	7 000
Net Cash provided by Operating Activities	10	**4 222**	1 431
NET INCREASE IN CASH HELD		**4 222**	1 431
CASH AT 1 JULY		**4 834**	3 403
CASH AT 30 JUNE		**9 056**	4 834

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Statements of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Objectives, Funding and Basis of Accounting

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

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

SAICORP's objectives are to:

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

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

SAICORP is responsible for the administration of Section 2 of the SAGIRM Fund from which are met 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.

Section 2 of the SAGIRM Fund is funded by drawdowns from the Consolidated Account of the South Australian Government. Given the different funding and governance arrangements of Section 1 and Section 2, 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.

The 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 (Urgent Issues Group Consensus Views).

The financial statements have been prepared on the basis of historical costs, and except where stated, do not take into account changing money values or current valuations of non-current assets.

(b) Appropriations

Recurrent and additional appropriations are recognised as revenues in the period in which SAICORP gains control of the appropriated funds. They are credited to the SAGIRM Fund from the Treasurer's Other Payments line entitled 'Fire Damage & Insurance Costs'.

(c) Claims

Claims expense and liabilities for outstanding claims are recognised in respect of incidents arising. The liabilities include claims incurred and reported but not paid and the anticipated costs of settling those claims. In addition, SAICORP has recognised a prudential margin of 25 percent of its outstanding medical malpractice claims liabilities, a margin of 20 percent in respect to the outstanding long and medium tail claims and 10 percent in respect to the outstanding short tail claims (25 percent for medical malpractice and 10 percent for other classes).

The claims liabilities are measured as the present values of the expected future claim payments. In the calculation of present values, a discount rate of 5 percent per annum for medical malpractice (5.9 percent) and 4.5 percent per annum for all other classes (5.2 percent) and an inflation rate (normal and superimposed) of 6.25 percent per annum (6.5 percent) have been assumed.

Claims incurred and reported but not paid and claim settlement costs that can be directly attributed to particular claims are assessed by reviewing individual claim files.

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 of the outstanding claims liabilities (5 percent).

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. Brett & Watson Pty Ltd - Consulting Actuaries were engaged to consider the continued appropriateness of the above methodologies and to recommend appropriate discount and inflation rates as well as prudential margins and indirect claim settlement cost percentages to be used. Their recommendations have been accepted.

(d) Cash

Funds in Section 2 of the SAGIRM Fund are invested with the South Australian Government Financing Authority (SAFA), 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 2003.

(e) Accounting for Income Tax and the Goods and Services Tax (GST)

Considering 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.

(e) Accounting for Income Tax and the Goods and Services Tax (GST) (continued)

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 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.

(f) 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 2003 for Section 2 was $0.178 million ($0.389 million).

2. Claims Expense

	2003	2002
	$'000	$'000
Direct:		
Liability	**(8 546)**	3 219
Property	**413**	(602)
	(8 133)	2 617

3. Receivables

Current:		
Investment debtors	**35**	17
Reinsurance and cost recovery debtors	**233**	-
	268	17

4. Recoveries Receivables

Recoveries receivable on paid claims and reported claims not yet paid 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 and are recognised as assets.

	2003	2002
	$'000	$'000
Expected future recoveries (undiscounted)	**5 025**	6 677
Discount to present value	**(2 447)**	(3 308)
Recoveries receivable	**2 578**	3 369
Current:		
Recoveries receivable	**204**	-
Non-Current:		
Recoveries receivable	**2 374**	3 369

5. Payables

Current:		
Trade creditors	**-**	2

6. Outstanding Claims

(a) Expected future claims payable (undiscounted)	**85 516**	108 081
Present value adjustment	**(19 450)**	(36 716)
Liability for Outstanding Claims	**66 066**	71 365
Current:		
Liability	**26 070**	29 284
Property	**545**	440
	26 615	29 724
Non-Current:		
Liability	**28 257**	41 513
Property	**5 194**	128
	33 451	41 641

(b) The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:	2003 Percent	2002 Percent
For the succeeding year:		
Inflation rate (which includes superimposed inflation)	**6.25**	6.5
Discount rate - Medical malpractice	**5.0**	5.9
Discount rate - Other classes	**4.5**	5.2
For the subsequent years:		
Inflation rate (which includes superimposed inflation)	**6.25**	6.5
Discount rate - Medical malpractice	**5.0**	5.9
Discount rate - Other classes	**4.5**	5.2

		2003	2002
(c)	The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be:	**Years**	Years
	Medical malpractice	**9.5**	9.5
	Liability (other than Medical Malpractice)	**2.5**	2.5
	Property	**1.5**	1.5

7. Additional Financial Instrument Disclosures

(a) 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:

	Weighted Average Interest Rate Percent	2003 Floating Interest Rate $'000	Non-Interest Bearing $'000	2003 Total $'000
Financial Assets:				
Cash	**4.59**	**9 056**	**-**	**9 056**
Receivables		**35**	**233**	**268**
Total Financial Assets		**9 091**	**233**	**9 324**
Financial Liabilities:				
Payables		**-**	**-**	**-**
Total Financial Liabilities		**-**	**-**	**-**
Net Financial Assets		**9 091**	**233**	**9 324**

	Weighted Average Interest Rate Percent	2002 Floating Interest Rate $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets:				
Cash	4.17	4 834	-	4 834
Receivables		17	-	17
Total Financial Assets		4 851	-	4 851
Financial Liabilities:				
Payables		-	2	2
Total Financial Liabilities		-	2	2
Net Financial Assets		4 851	(2)	4 849

On-Balance-Sheet Financial Instruments

The credit risk on financial assets of Section 2 of the SAGIRM Fund, which has been recognised on the Statement of Financial Position, is the carrying amount.

The majority of the financial assets for Section 2 of the SAGIRM Fund relate to deposits with the Treasurer of South Australia, for which there is negligible credit risk.

There were no off-balance-sheet financial instruments in existence at the reporting date.

(b) Net Fair Values of Financial Assets and Liabilities

Valuation Approach

Net fair values of financial assets and liabilities are determined by SAICORP on the following bases:

On-Balance-Sheet Financial Instruments

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows.

Off-Balance-Sheet Financial Instruments

There were no off-balance-sheet financial instruments in existence at the reporting date.

Net Fair Values

On-Balance-Sheet Financial Instruments

The carrying amounts as disclosed in the balance sheet and accompanying notes to the financial statements approximate net fair values.

8. External Consultants used during the Financial Year

	2003 $'000	2002 $'000
Total amounts paid or payable to external consultants during the financial year	**10**	11

	Number of Consultants	Number of Consultants
The number and value of consultancies:		
$0 - $19 999	**1**	2

9. 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. 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.

9. Contingent Liabilities (continued)

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 SGIC that were not previously transferred on the sale of the general insurance business formerly conducted by SGIC. Specific details of these policies are not available and hence no liability has been recognised in relation to them. Liabilities will be brought to account if and when valid claims are made by the policy owners.

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 in nearby streets and inundation of the properties. The Government has established an urgent investigation into the cause of the flooding. The Government also implemented plans to immediately compensate residents and businesses affected by the floods. Payment of compensation is contingent upon victims making application for compensation and subjugation of rights of recovery to SAICORP. The compensation monies will be paid in the first instance by SAICORP. Recovery will be sought as appropriate from third parties considered to have liability for the incident or liability for payment of compensation.

10. Notes to the Statement of Cash Flows

	2003	2002
Reconciliation of cash:	**$'000**	$'000
Cash balances held in deposit account	**9 056**	4 834
Reconciliation of net costs of services to net cash used in operating activities:		
Net cost of services	**7 779**	4 079
Other revenues from government	**7 000**	7 000
Net Cash provided by Operating Activities before Changes in Assets and Liabilities	**14 779**	11 079
Change in assets and liabilities:		
(Increase) Decrease in receivables	**744**	(1 211)
Increase (Decrease) in payables	**(2)**	(31)
Increase (Decrease) in outstanding claims	**(11 299)**	(8 406)
Net Cash provided by Operating Activities	**4 222**	1 431

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.

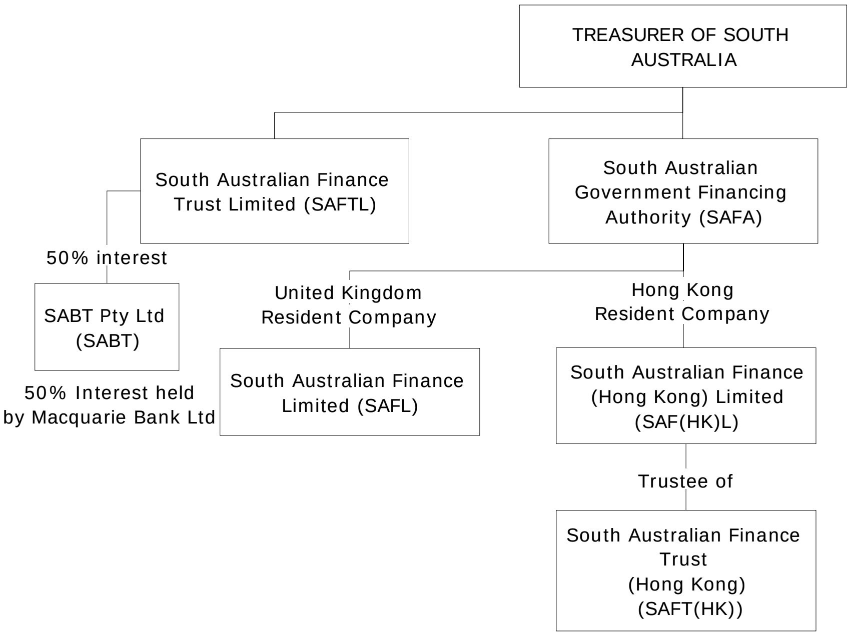
The Advisory Board comprises up to six members one of whom is the Under Treasurer, who is also Presiding Member.

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 2003.



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 dissolved in 2003-04.
- Transactions in the Hong Kong entities mature by 30 June 2004, and it is expected that these companies will be wound up by 2004-05.
- SAFL was dissolved on 3 July 2003, after a final distribution to SAFA in 2002-03.

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 2002-03.

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.

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 2002-03, 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;
- 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
- investment and cash management funds that SAFA offer public sector organisations;
- fiduciary activities, including management of South Australian Asset Management Corporation (SAAMC) portfolio and South Australian Water Corporation (SA Water) debt portfolio.

The work done by the internal auditor and compliance officer was considered in designing the audit programs. Reliance was placed on the work of internal audit in assessing the effectiveness of the South Australian Government Financing Authority's internal controls. Specific areas in which reliance was placed on internal audit work included the:

- monthly findings of the compliance officer's review of operations;
- half yearly review for the period ending 31 December 2002.

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 the Authority and the related responses are considered in Audit Findings and Comments.

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 Government Financing Authority as at 30 June 2003, 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 Government Financing Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is 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.

Significant Matters Raised with the Agency

Funding of Zero Coupon Bond Repayments

During the course of the audit it was noted that SAFA management was assessing an emerging issue for the public finances in relation to the impact of zero coupon bond maturing in 2015 on future interest costs to the Treasurer.

The key feature of a zero coupon bond is that interest is compounded during the term of the borrowing at its interest rate and is payable on maturity. There are no actual interest payments to the investor over the term of the bond, instead interest is charged on interest and not paid but rather reinvested.

Audit noted that as part of the Treasurer's portfolio, the zero coupon bond has the potential to have a large impact on the CPSIR rate in future years because the bond was issued when market interest rates were much higher. This results in a compounding interest expense in future years that will need to be funded by the Treasurer.

If no action was taken, the impact of these bonds on future interest payments by the Treasurer had been estimated by SAFA to increase rapidly from $320 000 in 2003-04 up to $18 million per annum in 2015, with the major impact being on the last few years prior to maturing.

Given the current fiscal environment, Audit believed that it was important that the Government was advised of the issue, and any recommended strategy for dealing with it, as soon as possible to enable its impact to be factored into the budget process.

Agency Response

A satisfactory response was received from SAFA management indicating that approval has been obtained from the Treasurer to create a sinking fund, which included a payment of $23 million resulting from an overcharge of CPSIR in previous years, to offset the future impact of the zero coupon bond.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
Interest income	**952.8**	838.1	14
Interest expense	**925.7**	814.7	14
Net Interest Revenue	**27.1**	23.4	16
Other revenue	**5.6**	7.7	(27)
Other expenses	**6.5**	6.7	(3)
Profit from ordinary activities before tax expense	**26.2**	24.4	7
Tax expense	**7.7**	7.2	7
Profit from ordinary activities after tax expense	**18.5**	17.2	8
Net Cash Flows from Operations	**26**	50	(48)

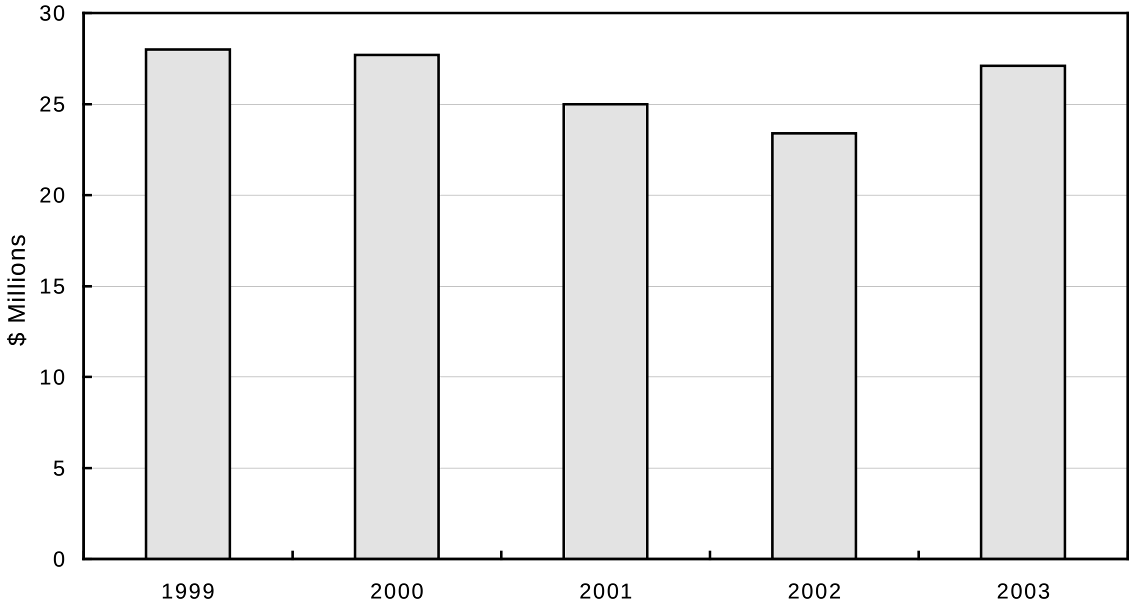
	2003 $'million	2002 $'million	Percentage Change
ASSETS			
Cash, short term assets and investments	**2 106**	1 380	53
Loans to SA Government entities	**5 644**	5 981	(6)
Other assets	**556**	942	(41)
Total Assets	**8 306**	8 303	-
LIABILITIES			
Deposits and short term borrowings	**3 018**	2 319	30
Long term borrowings	**4 529**	4 734	(4)
Other liabilities	**567**	989	(43)
Total Liabilities	**8 114**	8 042	1
EQUITY	**192**	261	(26)

Statement of Financial Performance

Net Interest Revenue

Interest revenue has increased by $114.7 million or 13.7 percent primarily as a result of a net unrealised gain of $148.3 million arising from movements in market yields. This has been associated with a corresponding rise in interest expenses of $111 million due primarily to unrealised losses of $145.5 million during the year.

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

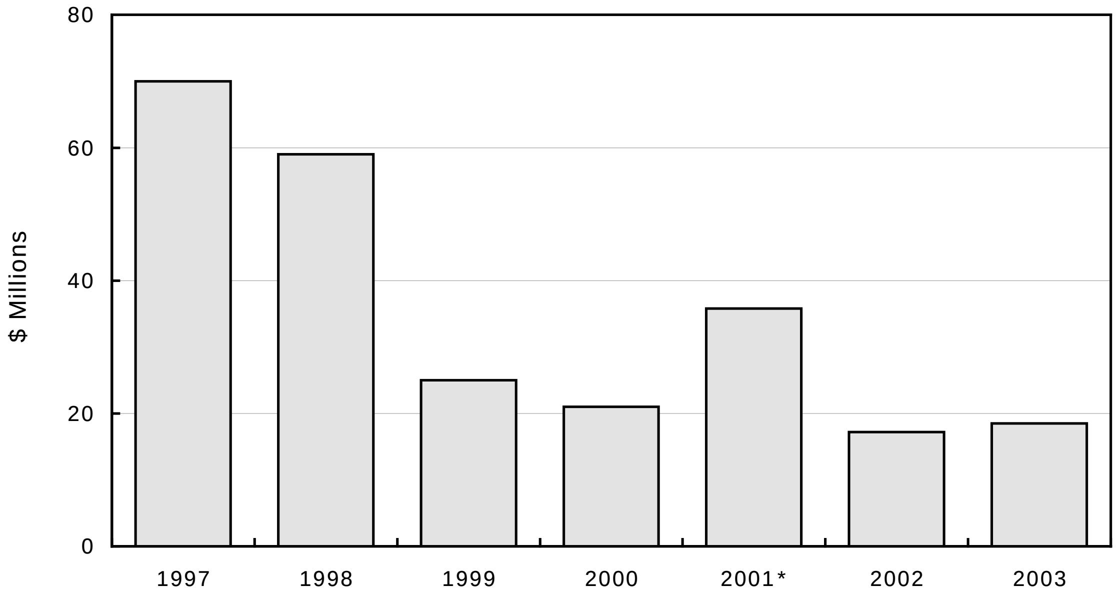


The slight increase in net interest revenue in 2003 resulted from higher levels of gross interest revenues and expenses, with the net interest margin remaining constant from 2002.

Operating Surplus

SAFA's operations in 2002-03 included an operating surplus before income tax of $26.2 million ($24.4 million). This represents a small increase from 2001-02 but a decrease of $20.3 million from 2000-01 results, attributable mainly to dividends received from subsidiary operations in 2000-01.

The trend in SAFA's operating surplus has been for the continued decline since return of capital in 1998. This is demonstrated in the following chart.



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

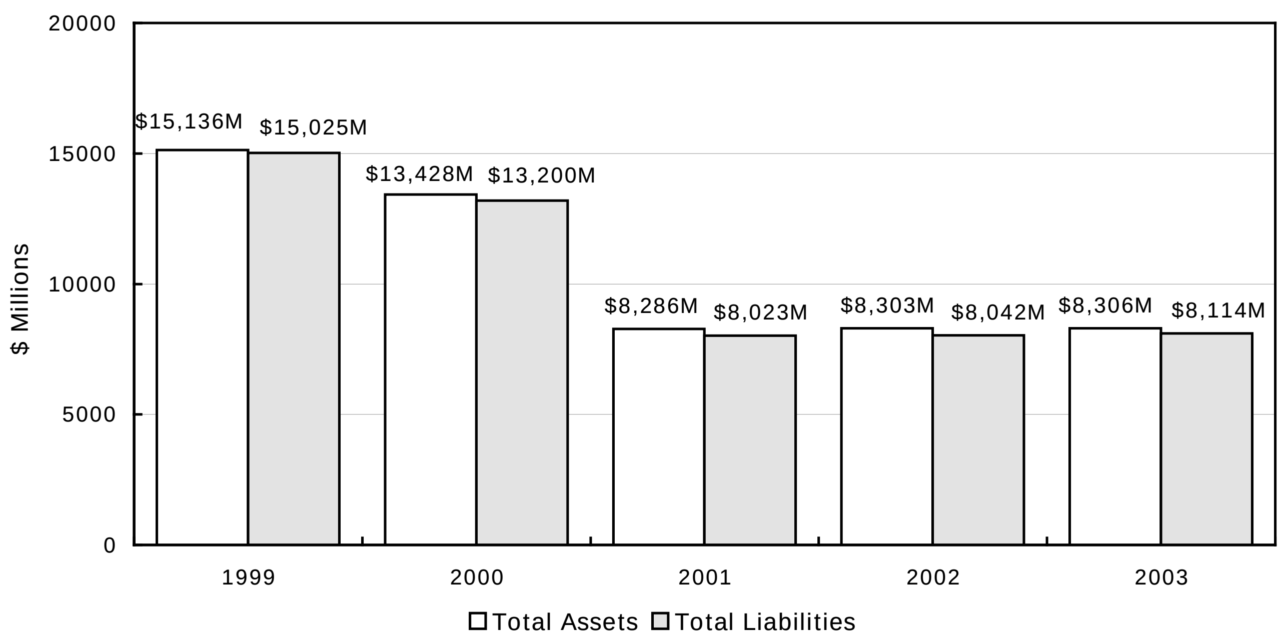
Another significant impact on the operating surplus is the level of retained surpluses, which are effectively invested by SAFA. During 2002-03 a distribution of $86.8 million was made to the Treasurer, reducing the retained surplus to $192.2 million. All other things being equal, the distribution for 2002-03 will reduce the 2003-04 surplus by an amount in the order of $5-6 million.

The operating surplus will continue 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 five years to 2003 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.



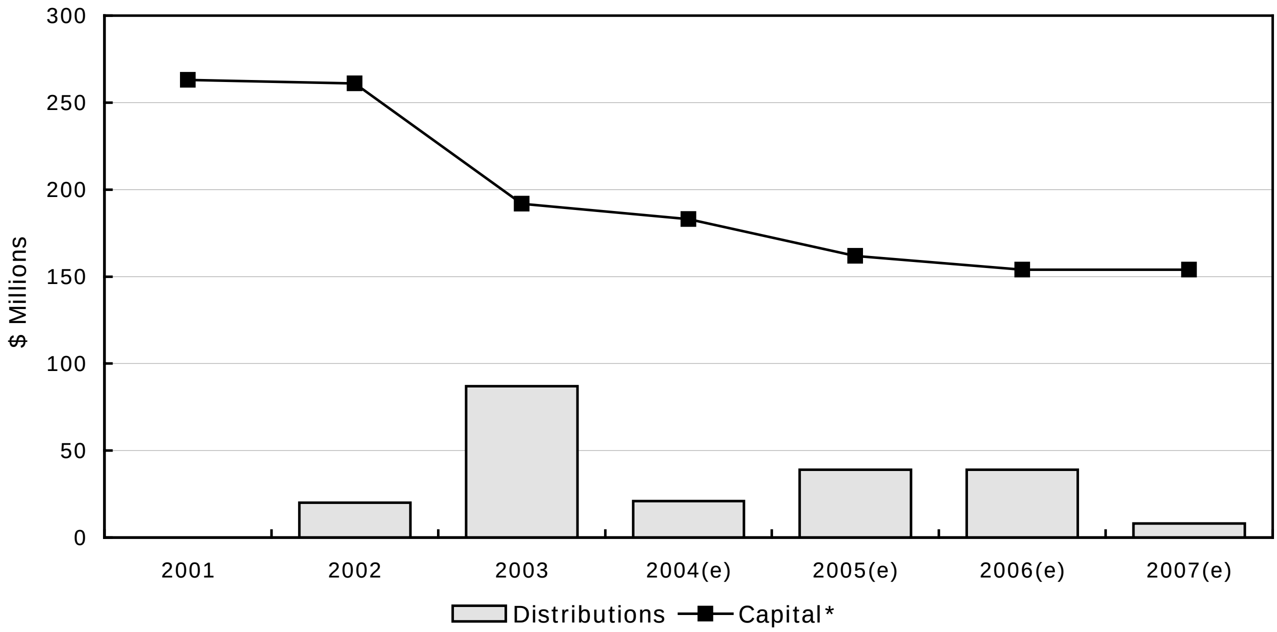
Capital and Distributions

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 2003, SAFA's capital reserves were represented solely by its Retained Surplus, which stood at $192 million ($261 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 $87 million was made to the Treasurer from SAFA this financial year, and the 2003-04 State Budget includes anticipated returns of capital of approximately $114 million over the next four years.

The following chart sets out the level of capital and distributions to Government since the 2000-01 financial year, including future amounts reflected in the 2003-04 Budget Papers.



* Future Capital levels have been calculated based on implied surpluses and distributions outlined in the 2003-04 Budget Papers

As indicated previously, however, 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 2003.

	2003	2002	2001	2000
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**26**	50	174	246
Investing	**(677)**	157	3 920	1 503
Financing	**716**	(293)	(4 370)	(1 489)
Change in Cash	**66**	(86)	(276)	260
Cash at 30 June	**134**	68	154	429

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

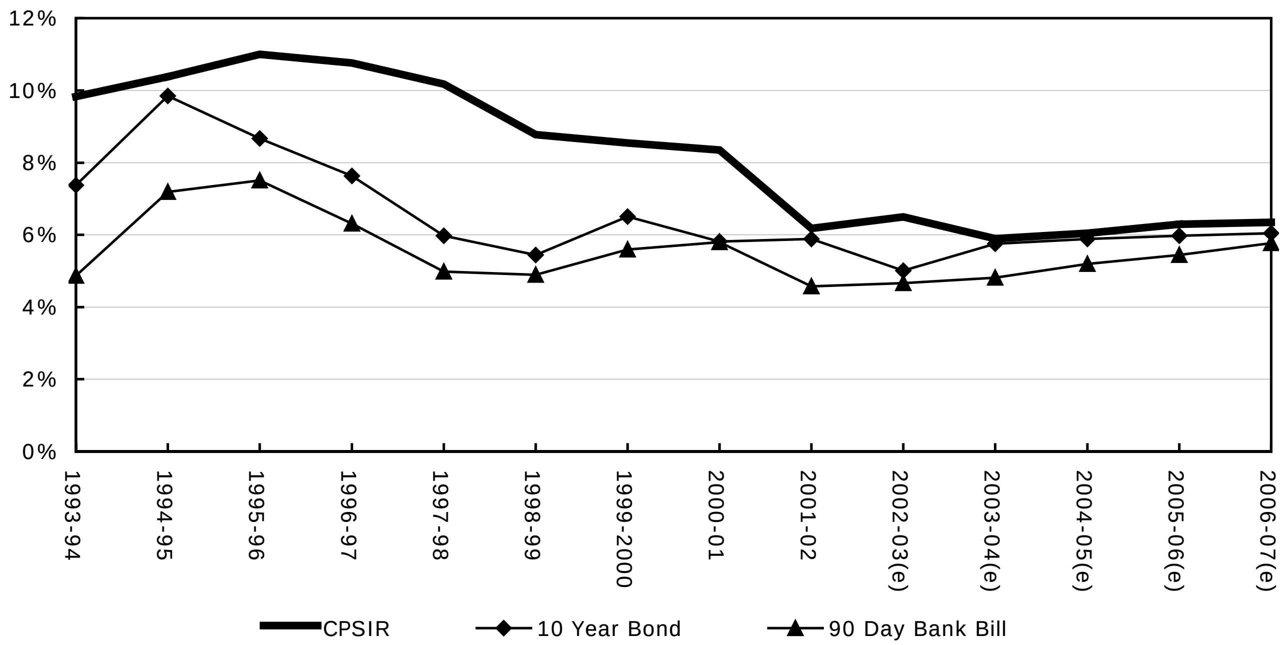
The CPSIR rate is calculated based on historical cost principles, and hence tends to be slow to react to changes in market rates as the 'CPSIR pool' consists of a large number of transactions at differing interest rates and maturities (ie changes to CPSIR should occur when transactions mature or are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

The average annual CPSIR for 2002-03 was approximately 6.5 percent (6.18 percent).

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

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

Interest Rate Comparison



(e) Estimated Amount.

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; and
- 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 $4.0 billion at 30 June 2003) 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), duration and interest rate sensitivity measures.

The passive portfolio ($1.9 billion at 30 June 2003) 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 $6.37 billion at 30 June 2003) 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 2003

	Note	SAFA 2003 $'million	2002 $'million
Interest revenue	17	**952.8**	838.1
Less: Interest expense	17	**925.7**	814.7
Net Interest Revenue		**27.1**	23.4
Dividends	18	**0.5**	0.3
Other non-interest revenue	19	**5.1**	7.4
Less: Non-interest Expenses	20	**6.5**	6.7
OPERATING SURPLUS BEFORE INCOME TAX		**26.2**	24.4
Income Tax (TER) Attributable To Operating Surplus		**7.7**	7.2
NET PROFIT AFTER INCOME TAX		**18.5**	17.2
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNERS		**18.5**	17.2

Statement of Financial Position
as at 30 June 2003

		SAFA	
		2003	2002
ASSETS:	Note	**$'million**	$'million
Cash and short-term assets	2	**980**	708
Investments	3	**1 126**	672
Loans to the South Australian Government	4	**3 643**	4 021
Loans to semi-government authorities	5	**1 261**	1 175
Loans to public sector financial institutions	6	**740**	785
Capital investments	27	**-**	-
Derivatives - Receivables	7	**410**	764
Other assets	8	**146**	178
TOTAL ASSETS		**8 306**	8 303
LIABILITIES:			
Deposits and short-term borrowings	9	**3 018**	2 319
Bonds, notes and debentures	10	**3 821**	4 091
Obligations to Commonwealth Government	11	**708**	643
Derivatives - Payable	12	**435**	751
Other liabilities	13	**132**	238
Total Liabilities		**8 114**	8 042
CAPITAL AND RESERVES:			
Retained surplus	14	**192**	261
Total Capital and Reserves		**192**	261
TOTAL CAPITAL, RESERVES AND LIABILITIES		**8 306**	8 303
Contingent Assets	15		
Contingent Liabilities	15		

Statement of Cash Flows
for the year ended 30 June 2003

		SAFA	
		2003	2002
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	**$'million**	$'million
Interest received on loans to clients		**373**	362
Interest received on investments		**136**	94
Dividend received		**1**	-
Other income		**(13)**	12
GST received		**-**	1
Interest paid on borrowings		**(431)**	(413)
Administration fees paid		**(5)**	(7)
GST paid		**(1)**	(1)
Net Interest received (paid) on Derivatives		**(26)**	10
TER income tax paid		**(8)**	(8)
Net Cash provided by Operating Activities	21(b)	**26**	50
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds from payments for loans to clients		**(119)**	43
Purchase of investments		**(19 971)**	(7 627)
Proceeds from investments		**19 413**	7 741
Net Cash (used in) provided by Investing Activities		**(677)**	157
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of obligations to Commonwealth Government		**(13)**	(54)
Repayment of borrowings		**816**	(215)
Net proceeds from payments for Derivatives		**-**	(4)
Distribution of SAFA surplus		**(87)**	(20)
Net Cash provided by (used in) Financing Activities		**716**	(293)
NET INCREASE (DECREASE) IN CASH HELD		**66**	(86)
CASH AT 1 JULY		**68**	154
EFFECT OF EXCHANGE RATE CHANGES		**-**	-
CASH AT 30 JUNE	21(a)	**134**	68

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 27 includes details of the entities.

The Finance 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*.

(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 17, 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 2003. 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 2003. 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 17.

(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 22). 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 for 2002-03 (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 receivable 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 cost 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 2003.

(n) *Repurchase Agreements*

Securities sold under an agreement to repurchase are retained within the investment category. The obligation to repurchase is recorded as a Commitment to repurchase. The difference between the sale and repurchase price represents the interest income/expense and is recognised in the Statement of Financial Performance over the term of the repurchase agreement.

(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 movement 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 2003, 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 2003.

(s) *Average Balances*

The average balances presented in Note 17 refer to average month end balances and reflect the market value of the assets and liabilities. 2001-02 comparative numbers have been calculated using the average of the opening and closing balances for the year. 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. Zero represents balances less than $500 000.

2. Cash and Short-Term Assets

	SAFA 2003 $'million	SAFA 2002 $'million
Cash at bank	**3.8**	7.8
Short-term money market deposits	**130.4**	60.7
Negotiable discount securities	**845.4**	639.0
	979.6	707.5

3. Investments

	2003	2002
Semi-government securities	**149.7**	184.6
Commonwealth Government guaranteed securities	**-**	213.8
Local government securities	**30.2**	34.0
Indexed securities	**82.2**	102.0
Mortgage backed securities	**30.8**	47.4
Bank and Corporate securities	**833.2**	90.5
	1 126.1	672.3

4. Loans to the South Australian Government

	SAFA	
	2003	2002
	$'million	$'million
Loans to SA Government at CPSIR	**3 544.7**	3 912.7
Loans to SA Government at market	**98.5**	107.8
	3 643.2	4 020.5

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 22) 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.

		SAFA	
5.	**Loans to Semi-Government Authorities**	**2003**	2002
		$'million	$'million
	Forestry SA	**2.0**	-
	Minister for Primary Industries	**10.6**	14.0
	Minister for Transport	**5.1**	6.1
	Industrial and Commercial Premises Corporation	**92.7**	67.6
	South Australian Water Corporation	**1 150.2**	1 087.3
		1 260.6	1 175.0
6.	**Loans to Public Sector Financial Institutions**		
	Local Government Financing Authority	**19.9**	27.4
	HomeStart Finance	**593.4**	642.2
	South Australian Community Housing Authority	**126.8**	115.7
		740.1	785.3
7.	**Derivatives - Receivable**		
	Currency swaps	**382.2**	521.4
	Foreign exchange swaps	**18.9**	279.6
	Forward Rate Agreements	**-**	(0.2)
	Interest Rate Swaps	**8.8**	(36.7)
		409.9	764.1
8.	**Other Assets**		
	Accrued interest	**143.9**	177.7
	Sundry debtors	**1.9**	0.4
		145.8	178.1
9.	**Deposits and Short-term Borrowings**		
	Deposits	**113.7**	54.3
	Deposits from the Treasurer of South Australia	**1 489.8**	1 259.0
	Deposits from semi-government authorities	**523.9**	482.6
	South Australian Asset Management Corporation	**-**	33.2
	Commercial Paper	**876.0**	198.5
	European Commercial Paper	**15.0**	291.5
		3 018.4	2 319.1
10.	**Bonds, Notes and Debentures**		
	Inscribed stock	**2 594.6**	2 365.0
	Inflation linked bonds and annuities	**375.3**	567.8
	Debentures	**-**	2.1
	Eurobonds	**231.5**	511.7
	Samurai bonds	**204.1**	325.5
	Medium term notes	**415.6**	319.3
		3 821.1	4 091.4
11.	**Obligations to Commonwealth Government**		
	Obligations to the Commonwealth Government	**707.8**	643.3
12.	**Derivatives - Payable**		
	Currency swaps	**415.7**	464.9
	Foreign exchange swaps	**18.8**	285.6
		434.5	750.5
13.	**Other Liabilities**		
	Accrued interest	**108.0**	214.3
	Sundry creditors	**23.6**	24.0
		131.6	238.3

14. Retained Surplus

	SAFA 2003 $'million	2002 $'million
Balance at 1 July	**260.5**	263.3
Add: Transfer from Statement of Financial Performance	**18.5**	17.2
Less: Distribution as determined by the Treasurer of South Australia	**86.8**	20.0
Balance at 30 June	**192.2**	260.5

The Treasurer of South Australia determined that there would be a distribution of $86.8 million from SAFA for 2002-03.

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 guaranteed the financial obligations of its subsidiary entities in the United Kingdom (UK) and Hong Kong. The guarantees have been given in consideration for guarantee fees and in each instance SAFA has secured a first charge over the assets of those companies which comprise high credit status securities. As of 1 June 2001, the UK subsidiary was placed into voluntary liquidation.

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 November 2000, SAFTL has only had cash at bank and has paid administrative expenses. It is expected that SAFTL will be wound up in 2003-04 without any further activity. 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

In the past, SAFA has issued guarantees in favour of South Australian agencies with respect to certain offshore funding transactions. As at 30 June 2003, one transaction remains where there is any exposure to SAFA. Management considers that there is little chance of the guarantee being called.

Unused Loan Facilities

As of 30 June 2003, SAFA had extended loan facilities that were unutilised totalling $269 million.

16. Commitments

Repurchase Agreements

As of 30 June 2003, SAFA had sold $733.8 million of Semi-Government and Commonwealth Government Guaranteed Securities through repurchase agreements. Under the terms of the repurchase agreements, SAFA will repurchase the investments within 1 month.

	0-3 Months $'million	**Total $'million**
Repurchase Agreements	733.8	**733.8**

17. Interest Revenue and Expense

SAFA	Interest $'million	Net Unrealised Gains (losses) $'million	Net Realised Gains (losses) $'million	**2003 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	61.6	41.7	9.1	**112.4**	852	7.23
Loans to SA Government	253.7	71.1	14.8	**339.6**	4 018	6.31
Loans to semi-government authorities	75.0	28.1	5.4	**108.5**	1 212	6.19
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*
	795.7	148.3	8.8	**952.8**	8 760	6.06
Expense:						
Deposits and short-term borrowings	(141.3)	(1.5)	(4.1)	**(146.9)**	(3 045)	4.64
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*
	(770.0)	(145.5)	(10.2)	**(925.7)**	(8 505)	5.80
NET	25.7	2.8	(1.4)	**27.1**		

17. Interest Revenue and Expense (continued)

SAFA	2002 Interest $'million	Net Unrealised Gains (losses) $'million	Net Realised Gains (losses) $'million	2002 Total $'million	Average Balance $'million	Average Rate Percent
Revenue:						
Cash and short-term assets	47.1	(3.0)	-	44.1	1 037	4.54
Investments	40.7	(130.9)	0.9	(89.3)	583	6.98
Loans to SA Government	255.6	150.4	6.0	412.0	3 977	6.43
Loans to semi-government authorities	78.8	15.3	-	94.1	1 172	6.72
Loans to public sector financial institutions	41.6	2.8	5.9	50.3	813	5.12
Derivatives - Receivable	341.8	(13.9)	(1.0)	326.9	802	N/A*
	805.6	20.7	11.8	838.1	8 384	6.12
Expense:						
Deposits and short-term borrowings	(104.7)	(17.8)	(0.4)	(122.9)	(2 253)	4.65
Bonds, notes and debentures	(293.3)	(152.3)	(11.4)	(457.0)	(4 309)	6.81
Obligations to Commonwealth Government	(38.2)	148.5	-	110.3	(662)	5.77
Derivatives - Payable	(345.1)	-	-	(345.1)	(752)	N/A*
	(781.3)	(21.6)	(11.8)	(814.7)	(7 976)	6.04
NET	24.3	(0.9)	-	23.4		

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).)

18. Dividends

	SAFA **2003** **$'million**	 2002 $'million
Dividends from South Australian Finance Ltd (UK)	**0.5**	0.3
	0.5	0.3

19. Other Non-Interest Revenues

Debt redemption assistance from Commonwealth Government	**3.9**	5.5
Fees	**1.1**	0.8
Foreign currency translation movement(1)	**-**	0.1
Other	**0.1**	1.0
	5.1	7.4

(1) Reflects the translation of foreign currency retained surpluses.

20. Non-Interest Expenses

Service Level Agreement with Treasury	**5.5**	4.5
Program and debt management fees	**0.6**	1.0
Legal fees	**0.1**	0.7
Other	**0.3**	0.5
	6.5	6.7

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. Other includes external audit and Advisory Board costs.

21. Cash Flow Information

	SAFA **2003** **$'million**	 2002 $'million
(a) Reconciliation of Cash		
Includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts	**134**	68
(b) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus after Income Tax		
Operating surplus after income tax	**18**	17
Non cash flows in operating surplus		
Net unrealised (gain) loss on market revaluations	**(3)**	-
Changes in assets and liabilities		
Accrued interest income (Increase) Decrease	**34**	4
Accrued interest expense Increase (Decrease)	**(106)**	(8)
Amortisations	**84**	49
Debtors (Increase) Decrease	**(1)**	-
Creditors Increase (Decrease)	**-**	(11)
FX movement	**-**	(1)
Net Cash provided by Operating Activities	**26**	50

(c) *Non-Cash Financing and Investing Activities*

During 2002-03, $14.8 million was adjusted against the Treasurer's debt for book gains and losses arising from debt management activity.

22. 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 compose the CPSIR loan to the Treasurer. Effectively, the CPSIR loan mirrors the other assets and liabilities in that portfolio.

The Principal Portfolios are managed 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 2003, open interest rate futures positions represented a total notional principal of $673.7 million.

The mark to market movement in futures contracts is taken to the Statement of Financial Performance where if it was undertaken as part of the Treasurer's Portfolios 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 2003, the notional value of interest rate swaps totalled $5 357.1 million.

All interest rate swaps, except those undertaken on behalf of clients, were part of the Treasurer's Portfolios and are captured in the CPSIR recharge to the Treasurer.

(iii) Swaptions/Exchange Traded 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 2003, there were no outstanding exchange traded interest rate option contracts, but SAFA has the right to sell various floating rate notes totalling USD 25 million. Additionally, SAFA did have 2 pairs of offsetting swaptions, $25 million as at 30 June 2003. The exercise dates are 15 and 17 September 2003.

(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 2003 is $525 million.

The settled amount for FRAs is recognised immediately in the Statement of Financial Performance, where, if it was undertaken as part of the Treasurer's Portfolios it is passed onto the Treasurer as an adjustment to his debt level. During 2002-03, all FRAs entered into were as part of the Treasurer's Portfolios.

(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 2003, SAFA had entered into forward starting interest rate swaps totalling $424 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*
Repricing Analysis of Monetary Assets and Liabilities.

	Weighted Average Effective Interest Rate	Repricing Period as at 30 June 2003					**2003**
Assets:		At Call	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total**
Cash and short-term assets	4.76	134	795	46	-	-	**975**
Investments	6.26	-	579	92	232	242	**1 145**
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	5 838	613	745	812	**8 214**
Liabilities:							
Deposits and short-term borrowings	4.92	1 804	1 104	20	72	-	**3 000**
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		1 804	1 591	528	2 257	1 855	**8 035**
NET		**(1 598)**	**4 247**	**85**	**(1 512)**	**(1 043)**	**179**
Off-Balance Sheet:							
Interest rate swaps	0.68	-	(723)	(53)	962	(155)	**31**

	Weighted Average Effective Interest Rate	Repricing period as at 30 June 2002					2002
Assets:		At Call	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Cash and short-term assets	4.80	68	614	25	-	-	707
Investments	7.28	-	165	44	316	220	745
Loans to SA Government	6.33	-	3 938	7	28	69	4 042
Loans to semi-government authorities	6.53	24	212	94	427	434	1 191
Loans to public sector financial institutions	5.24	13	681	18	21	57	790
Currency Swaps – Receivable	4.91	-	323	78	411	-	812
Total Assets		105	5 933	266	1 203	780	8 273
Liabilities:							
Deposits and short-term borrowings	4.76	1 723	553	2	67	-	2 345
Bonds, notes and debentures	7.83	-	249	1 050	1 522	1 407	4 228
Obligations to Commonwealth Government	4.73	-	-	-	64	580	644
Currency Swaps - Payable	5.15	-	634	80	67	-	781
Total Liabilities		1 723	1 436	1 132	1 720	1 987	7 998
NET		(1 618)	4 497	(866)	(517)	(1 207)	289
Off-Balance Sheet:							
Interest rate swaps	0.20	-	(652)	27	717	(93)	(1.0)

SAFA's exposure to interest rate risk, repricing maturities and effective interest rates on financial instruments as at 30 June 2003 consolidated into Australian dollars is detailed below. The market value of the assets and liabilities have been used as have the respective historic yield.

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 $37.3 million in face value as at 30 June 2003.

(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	JPY A$'million	EUR A$'million	CAD A$'million
Less than one year:					
Net foreign currency assets	(14.9)	1.7	(207.4)	0.1	(102.4)
Net Derivatives	15.1	-	207.4	-	102.4
NET	0.2	1.7	-	0.1	-
Greater than one year:					
Net foreign currency assets	-	(0.9)	-	-	-
Net Derivatives	-	-	-	-	-
NET	-	(0.9)	-	-	-
TOTAL NET	0.2	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 2003 is detailed below.

NR represents loans within the South Australian Government which are not classified under a particular rating.

2003

Rating

Asset Class	AAA $'million	AA+ $'million	AA $'million	AA- $'million	A+ $'million	A $'million	A- $'million	NR $'million	**Total $'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**

2002

Rating

Asset Class	AAA $'million	AA+ $'million	AA $'million	AA- $'million	A+ $'million	A $'million	A- $'million	NR $'million	Total $'million
Loans/investments	1 160	22	279	288	-	108	50	6 096	8 003
Currency swaps	30	28	-	24	-	-	-	8	90
Interest rate swaps	-	6	51	84	-	2	-	37	180
FX Contracts	-	-	-	-	-	-	-	-	-
Total	1 190	56	330	396	-	110	50	6 141	8 285

Credit Risk (continued)

SAFA 2003

Counterparty Class	Asset Class	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**

Credit Risk (continued)

SAFA's credit guidelines also permit SAFA to undertake credit exposure transactions with counterparties from Japan, New Zealand, Norway, Singapore and selected Supranationals. As at 30 June 2003, SAFA did not have any credit exposure to these countries or Supranationals.

* Standard & Poor's long-term foreign currency credit rating.

SAFA 2002

Counterparty Class	**Asset Class**	Australia (AA+)* $'million	Canada (AA+) $'million	France (AAA) $'million	Germany (AAA) $'million	Netherlands (AAA) $'million	Switzerland (AAA) $'million	United Kingdom (AAA) $'million	United States (AAA) $'million	Total $'million
South Australian Government:	Loans Investments	6 086	-	-	-	-	-	-	-	6 086
	Currency swaps	8	-	-	-	-	-	-	-	8
	Interest rate swaps	34	-	-	-	-	-	-	-	34
	FX Contracts	-	-	-	-	-	-	-	-	-
	Sub Total	6 128	-	-	-	-	-	-	-	6 128
Commonwealth/ State Government:	Loans/ Investments	942	-	-	-	-	-	-	-	942
	Sub Total	942	-	-	-	-	-	-	-	942
Banks:										
	Loans/ Investments	656	3	20	32	50	-	30	22	813
	Currency swaps	11	-	-	-	-	52	-	-	63
	Interest rate swaps	39	2	-	3	6	29	60	5	144
	Sub Total	706	5	20	35	56	81	90	27	1 020
Corporate/ Other:										
	Loans/ Investments	161	-	-	-	-	-	-	-	161
	Currency swaps	-	-	-	-	-	-	19	-	19
	Interest rate swaps	3	-	-	-	-	-	-	-	3
	Sub Total	164	-	-	-	-	-	19	-	183
	Total bv Country	7 940	5	20	35	56	81	109	27	8 273
Total by Asset Class:										
	Loans/ Investments	7 845	3	20	32	50	-	30	22	8 002
	Currency swaps	19	-	-	-	-	52	19	-	90
	Interest rate swaps	76	2	-	3	6	29	60	5	181
	FX Contracts	-	-	-	-	-	-	-	-	-
	Total bv Country	7 940	5	20	35	56	81	109	27	8 273

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.

23. Maturity Analysis of Financial Instruments

	Maturity period as at 30 June 2003					
	At call	0 to 3 Months	3 to 12 Months	1 to 5 years	Over 5 years	**2003 Total**
Assets:	$'million	$'million	$'million	$'million	$'million	**$'million**
Cash and short term assets	166.7	778.3	34.5	-	-	**979.5**
Investment	-	168.6	112.6	547.4	201.7	**1 030.3**
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	1 366.1	590.2	1 479.4	4 085.3	**7 777.2**
Liabilities						
Deposits and short term borrowings	1 850.5	1 032.0	20.5	82.2	-	**2 985.2**
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	1 850.5	1 270.1	777.8	2 199.8	1 849.0	**7 947.2**
NET	(1 594.3)	96.0	(187.6)	(720.4)	2 236.3	**(170.0)**

	Maturity period as at 30 June 2002					
	At call	0 to 3 Months	3 to 12 Months	1 to 5 years	Over 5 years	2002 Total
Assets:	$'million	$'million	$'million	$'million	$'million	$'million
Cash and short term assets	76.2	609.4	25.5	-	-	711.1
Investment	0.2	7.9	65.9	431.3	176.0	681.3
Loans to SA Government	0.1	3.5	11.5	36.6	3 813.6	3 865.3
Loans to semi-government authorities	30.7	141.8	149.6	407.7	426.9	1 156.7
Loans to public sector financial institutions	7.8	195.6	210.2	318.7	50.4	782.7
Currency swaps - Receivable	-	277.8	76.2	424.3	-	778.3
Total	115.0	1 236.0	538.9	1 618.6	4 466.9	7 975.4
Liabilities						
Deposits and short term borrowings	1 597.3	656.8	2.5	82.8	2.4	2 341.8
Bonds, notes and debentures	-	245.2	1 070.8	1 463.4	1 402.7	4 182.1
Obligations to Commonwealth Government	-	-	12.6	104.2	675.0	791.8
Currency swaps - Payable	-	283.8	63.7	398.5	-	746.0
Total	1 597.3	1 185.8	1 149.6	2 048.9	2 080.1	8 061.7
NET	(1 482.3)	50.2	(610.7)	(430.3)	2 386.8	(86.3)

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

24. Fiduciary Activities

SAFA provides asset and liability management services to clients and these financial assets and liabilities do not reside on SAFA's Statement of Financial Position. SAFA manages these assets and liabilities within prescribed risk limits as directed or agreed by the clients. SAFA is responsible for providing regular financial and management information with respect to its management of the clients' assets and liabilities. Assets and liabilities under management as at 30 June 2003 totalled $780.2 million.

SAFA provides a range of pooled investment portfolios to its clients that reflect their investment needs. The Cash Management Fund comprises cash and short term money market securities whilst the Cash Enhanced Fund is a market value fund that comprises term investments of high credit quality and marketability. Total value of these portfolios as at 30 June 2003 was $398.7 million. The assets and liabilities of these portfolios are reported within SAFA's Statement of Financial Position.

25. Auditors' Remuneration

	SAFA	
	2003	2002
	$'000	$'000
Remuneration paid to external audit	**101**	101

26. Remuneration of SAFA Advisory Board Members

	SAFA	
	2003	2002
	Number of	Number of
Remuneration:	**Members**	Members
$0 - $10 000	**-**	1
$10 001 - $20 000	**-**	-
$20 001 - $30 000	**4**	3
	4	4

26. Remuneration of SAFA Advisory Board Members (continued)

The Advisory Board as at 30 June 2003 comprised 6 members: Mr J Wright (Presiding Member), Mr B Brownjohn, Mr M Doyle, Mr C Long, Ms Y Sneddon and Ms A Howe who commenced on 18 July 2002. 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 2002-03 only four members were entitled to receive the approved fee. The total remuneration paid was $107 270 ($88 995).

27. Controlled Entities

SAFA controls certain entities either through ownership or management control. SAFA's controlled entities are:

	Place of Incorporation	Ownership Percent	2003 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
South Australian Finance Limited[3]	UK	100	2 GBP
SABT Pty Limited[4]	Aust	0	1

(1) SAFTL had $76 000 in retained earnings as at 30 June 2003. This was distributed to SAFA in August 2003. It is now an inactive company, 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 2003, the HK subsidiaries had retained earnings of AUD $5.6 million. Transactions in the companies mature by 30 June 2004. It is expected that the companies will be wound up in 2004-05.
(3) SAFL made a final distribution to SAFA in 2002-03 and was dissolved on 2 July 2003.
(4) There has been no activity in SABT Pty Ltd since November 1999 and it is expected that it will be wound up in 2003-04.

Below are the Statement of Financial Position and Statement of Financial Performance for the consolidated Hong Kong subsidiaries and SAFTL for 2002-03.

	SAFT (HK) $'000	SAFHKL $'000	SAFTL $'000
Statement of Financial Position			
Cash and short term assets	8 706	513	(1)76
Derivatives - receivable	(1)22 707	-	-
Other assets	-	(2)237	-
Total Assets	**31 413**	**750**	**76**
Bonds, notes and debentures	22 717	-	-
Derivatives - payable	(1)3 539	-	-
Other liabilities	(2)273	20	-
Total Liabilities	**26 529**	**20**	**-**
Retained Earnings	**4 884**	**730**	**76**
Statement of Financial Performance			
Interest revenue	2 533	3	3
Less: Interest expense	2 507	-	-
Net interest revenue	26	3	3
Other revenue[3]	(141)	(138)	-
Less: Other expense	57	26	3
Operating surplus (loss) before income tax	(172)	(161)	0
Income tax (TER) attributable to operating surplus	-	-	-
Net Profit (Loss) after Income Tax	**(172)**	**(161)**	**0**

(1) Balances reflect transactions undertaken with SAFA.
(2) Inter-company transaction between SAFT(HK) and SAF(HK)L.
(3) Losses reflect translation loss.

28. Related Party Transactions

South Australian Asset Management Corporation

As at 30 June 2003, SAFA had with SAAMC a currency swap with a face value of $42 million and net interest expense of $0.3 million.

South Australian Finance Limited (SAFL)

On 8 August 2002 and 18 February 2003 SAFL made a dividend distribution to SAFA of GBP 120 000 and GBP 38 396.85 respectively. On 3 July 2003 SAFL was dissolved.

South Australian Finance (Hong Kong) Limited (SAFHKL)

SAFA has entered into three currency swaps with SAFHKL which enable SAFHKL to match its interest rate and currency risk exposure on certain fixed debentures. The currency swaps transactions are at market rates. One currency swap totalling $9.2 million matured during the year. As at 30 June 2003, the two currency swaps remaining totalled $23.6 million with a net interest expense to SAFA of $1.6 million. The two swaps mature by 15 June 2004.

South Australian Finance Trust Limited (SAFTL)

During 2002-03, SAFTL had a call deposit of $0.1 million with SAFA.

29. Segment Information

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

SOUTH AUSTRALIAN SUPERANNUATION BOARD

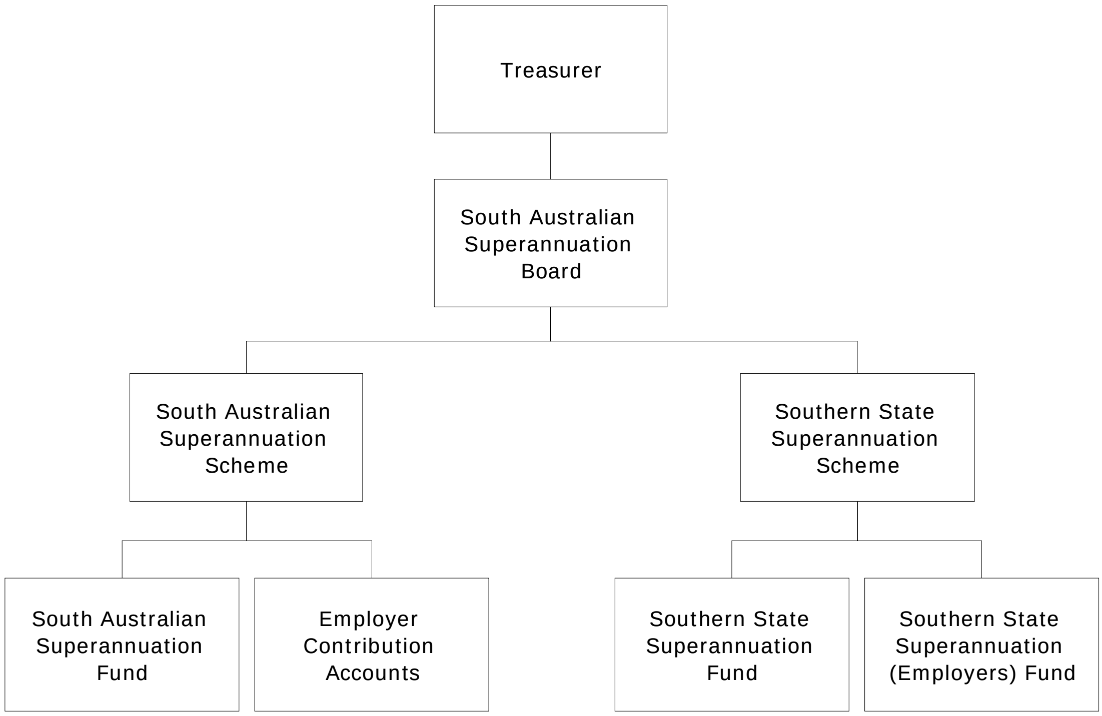
FUNCTIONAL RESPONSIBILITY AND STRUCTURE

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 in relation to 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 — This relates to the provision of pension based benefits;
- New Scheme Division — This relates to 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 in relation to the Scheme.

The Superannuation Funds Management Corporation of South Australia, operating under the business name of Funds SA, a body corporate, has statutory responsibility for the investment and management of the Fund. This Fund comprises the contributions of employees and income derived from investment of those funds, less the Fund portion of benefits payable and administration expenses. Funds SA also invests and manages the employer contributions on behalf of the Board.

Both the Old Scheme and the New Scheme Divisions were closed to new membership in May 1986 and June 1994, respectively. Consequently, the South Australian Superannuation Scheme is now a 'closed' scheme, having been replaced by the Southern State Superannuation Scheme effective 1 July 1995 (refer hereunder for further details).

Southern State Superannuation Scheme

The *Southern State Superannuation Act 1994* (Triple S Act) originally established the Southern State Superannuation Scheme (Triple S Scheme) to provide an employer sponsored contributory superannuation scheme for persons employed in the public sector. The Triple S Scheme replaced the South Australian Superannuation Scheme as the Government sponsored scheme available to public sector employees. Police Officers who commenced employment from 1 July 1995 also became members of the Triple S Scheme.

The Triple S Scheme is both a contributory and non-contributory superannuation scheme as it provides employer benefits for public sector employees who were 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 in relation to 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, in respect of 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 Board 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. 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 2002-03, specific areas of audit attention included:

- receipting and banking of employer and employee contributions
- processing of contributions data
- maintenance of member accounts
- benefit payments
- liability for accrued benefits.

The audit did not include a review of the investment and management activities undertaken by Funds SA in respect of the assets of the Fund and Employer Contribution Accounts; these areas were reviewed in the course of the audit of Funds SA.

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 Presiding Member, South Australian Superannuation Board subsequent to the signing of the accounts.

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 2003, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

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

Significant Matters Raised with Agencies

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

	2003	2002	Percentage
	$'million	$'million	Change
REVENUE			
Contribution Revenue	**346.0**	377.7	(8.4)
Net Investment Revenue	**(10.3)**	(157.0)	93.5
Other	**67.8**	67.3	0.7
Total Revenue	**403.5**	288.0	40.1
EXPENDITURE			
Benefits expenses	**658.2**	850.1	(22.6)
Transfers to other Schemes	**50.0**	-	-
Other expenses	**4.2**	4.1	2.4
Total Expenses	**712.4**	854.2	(16.6)
Operating result	**(308.9)**	(566.2)	45.4
Net Cash Flows from Operations	**(6.2)**	(28.1)	77.9
ASSETS			
Investments	**2 693.2**	2 764.7	(2.6)
Other assets	**14.1**	14.3	(1.4)
Total Assets	**2 707.3**	2 779.0	(2.6)
LIABILITIES			
Liability For Accrued benefits	**7 127.3**	6 889.7	3.4
Current liabilities	**7.8**	4.5	73.3
Non-current liabilities	**14.2**	17.9	(20.7)
Total Liabilities	**7 149.3**	6 912.1	3.43
EXCESS OF LIABILITIES OVER NET ASSETS	**(4 442.0)**	(4 133.1)	7.47

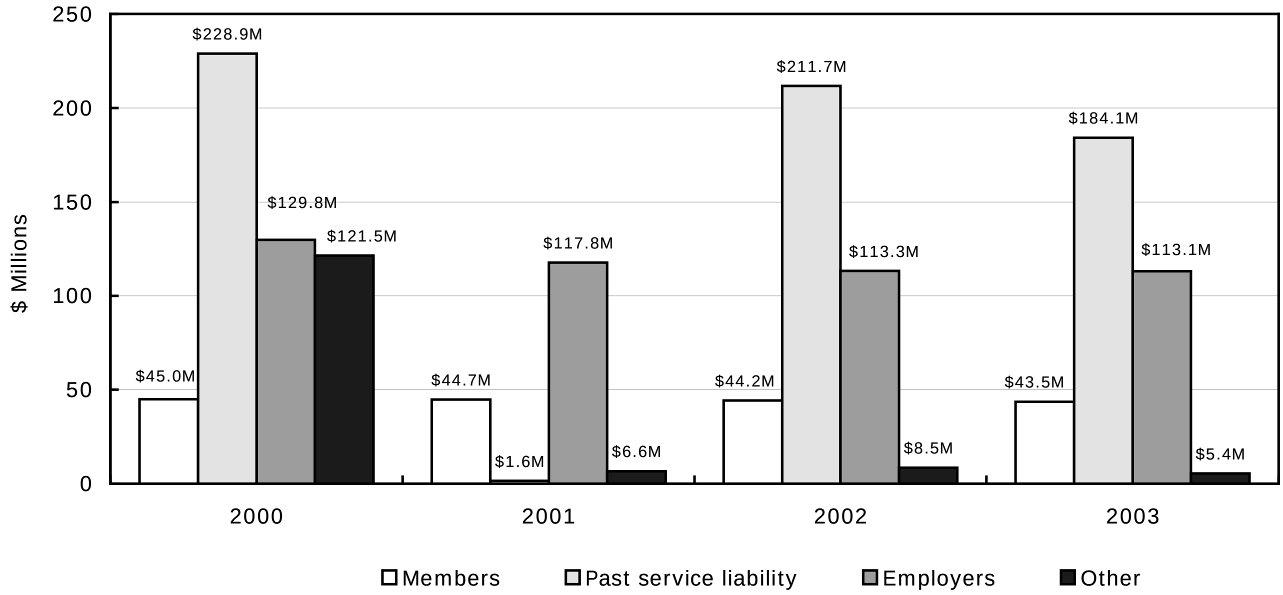
Operating Statement

Revenues

- Investment activity for the year resulted in a negative return of $10 million compared to a negative return of $157 million in the previous year. Investment returns are further discussed in the commentary for Superannuation Funds Management Corporation.

- Contribution revenue decreased by $32 million to $346 million, due mainly to a decrease of $28 million in contributions for past service liability. During the year the Government transferred $183 million into the 'South Australian Superannuation Scheme Contribution Account' in relation to past service liability funding.

A structural analysis of contribution revenue for the Scheme for the four years ending 2003 is presented in the following chart.



The chart shows that over the last three years employer and member contributions have remained constant. 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.

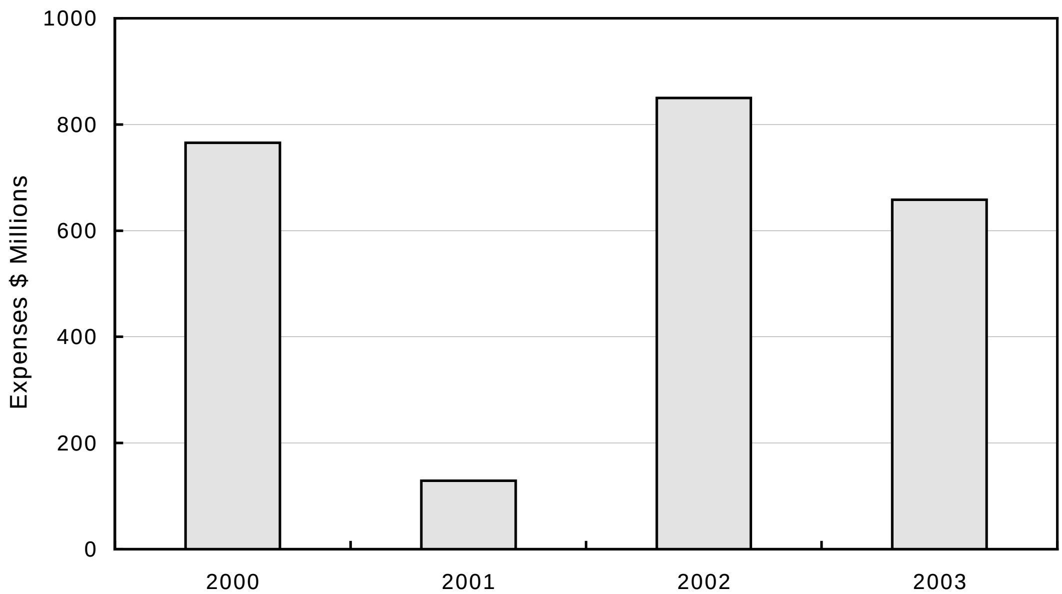
Other contributions are generally minor however in 2000 transfers from other schemes totalled $123 million and mainly related to ETSA employees.

Expenses and Transfers

The schemes dominant expenditure item is benefits expense with other items of expenditure being insignificant. Benefits expense decreased by $192 million (22.6 percent) to $658 million for the year.

Out of the $183 million received from the Government for accrued liabilities, amounts of $30 million and $20 million were transferred to the Parliamentary Superannuation Schemes and Judges' Pension Scheme respectively to meet past service liabilities of these Schemes. This is reflected in the expense item 'Transfer to Other Schemes'.

For the four years to 2003 a structural analysis of the benefits expense item for the Scheme is shown in the following chart.

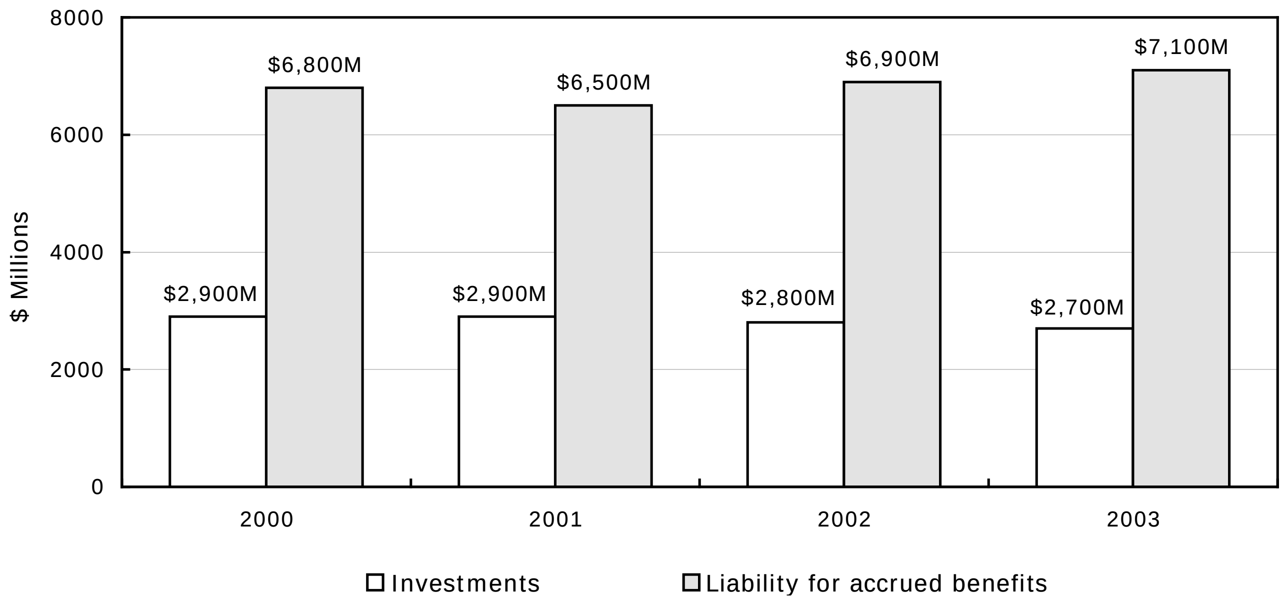


The fluctuation in benefits expense relates to changing assumptions in the calculation of the estimated liability for accrued benefits. An actuarial review is undertaken every three years but the assumptions from this review are used to calculate the accrued liability in years between reviews. In 2001 revised economic assumptions relating to 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 relating to pensioner mortality rates and other factors resulting in the increase in 2002.

Statement of Financial Position

The estimated liability for accrued benefits increased by $309 million to $7.1 billion ($6.9 billion) for which net assets of $2.7 billion ($2.8 billion) were available to pay benefits. This has resulted in an excess of liabilities over net assets of $4.4 billion ($4.1 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 2003 a structural analysis of investments and liability for accrued benefits is shown in the following chart.



The downward trend in investments over the last two years reflects the negative returns from investments over these years along with an increase in benefits paid.

Statement of Cash Flows

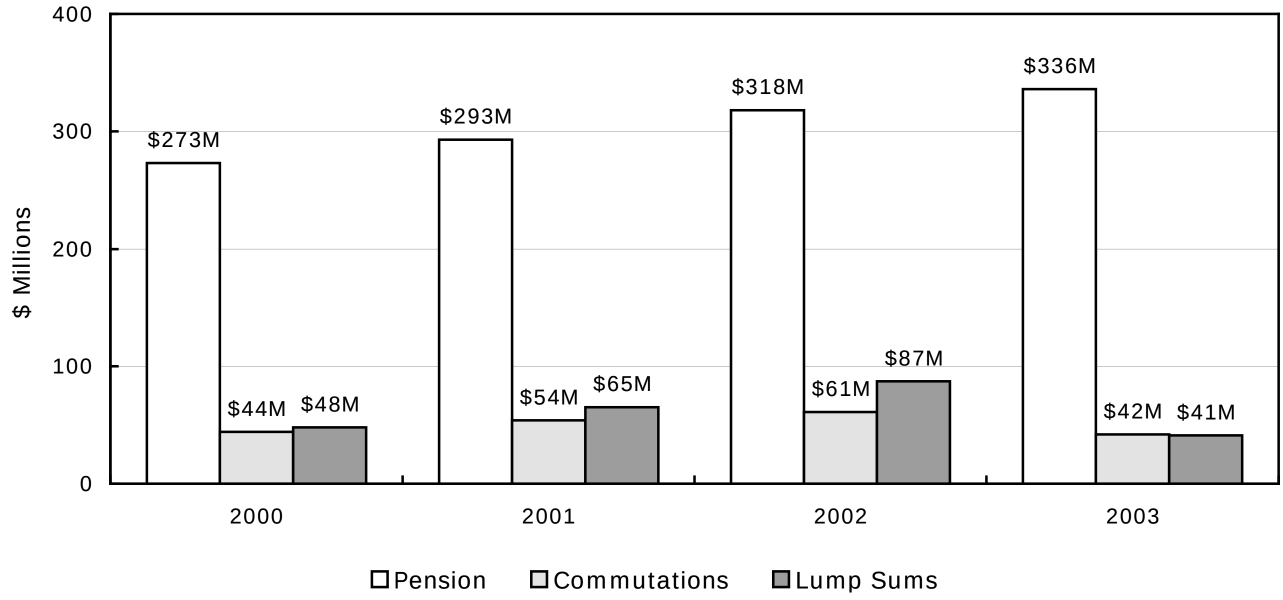
The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**(6.2)**	(28.1)	(166.1)	73.3
Investing	**10.2**	23.6	66.3	(205.0)
Change in Cash	**4**	(4.5)	(99.8)	(131.7)
Cash at 30 June	**10.6**	6.6	11.1	110.9

The analysis of cash flows shows that over the last three years net cash flow from operations has mainly been affected by past service liability funding. While general contributions received and benefits paid have remained relatively constant there was no past service liability funding in 2001 and the 2003 payment was less than the previous year.

In 2002-03 total benefits paid amounted to $419 million ($464 million), which included $336 million ($318 million) paid as pensions. Details of Benefits paid/payable are disclosed in Note 6 of the Financial Statements.

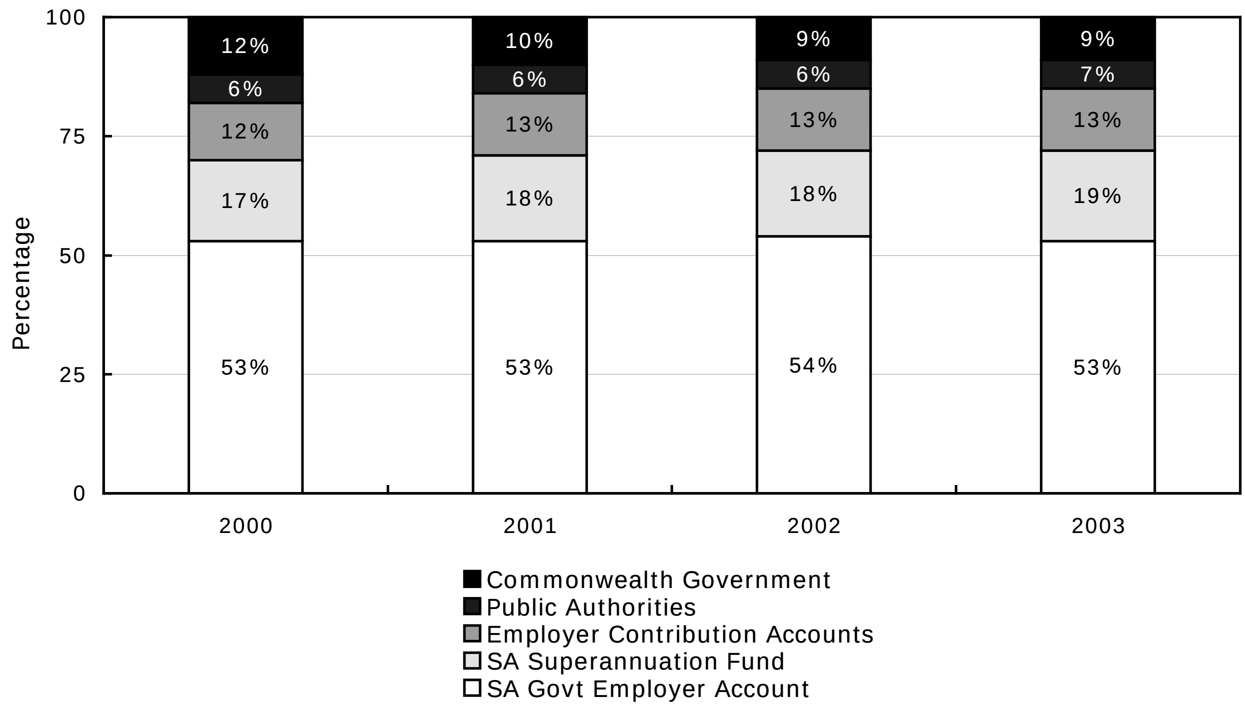
The following chart analyses benefits paid for the four years to 2003 and shows an increasing amount of pensions paid as more people reach retirement age.



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 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.

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:

	2003	2002	2001	2000
Pensioners	***14 629**	*14 672	*14 280	14 228
Pensions paid ($'million)	**336**	318	293	273

*includes ETSA members

Contributions by Members

The number of contributors, and contributions received from members for the past three years, was:

	2003			2002	2001
	Old Scheme	**New Scheme**	**Total**	Total	Total
Contributors (excludes preserved members)	**5 553**	**7 829**	**13 382**	14 378	15 614
Contributions received ($'000)	**19 805**	**24 812**	**43 830**	44 617	44 886

Operating Statement
for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
INVESTMENT REVENUE:			
Net investment revenue	2(a)	**(10 253)**	(156 989)
		(10 253)	(156 989)
CONTRIBUTION REVENUE:			
Contribution for past service liability	1(d)	**184 057**	211 717
Contributions by employers	1(d)	**113 058**	113 349
Transfers from other schemes		**5 392**	8 481
Contributions by members		**43 830**	44 617
Refunds of overpaid contributions		**(324)**	(435)
		346 013	377 729
OTHER REVENUE	18	**67 735**	67 245
TRANSFERS TO OTHER SCHEMES	1(d)	**(50 000)**	-
ADMINISTRATION EXPENSE	4	**(4 059)**	(3 888)
ACTUARIAL VALUATION EXPENSE		**(10)**	(67)
GST EXPENSE	19	**(102)**	(99)
BENEFITS EXPENSE	7	**(658 183)**	(850 109)
OPERATING RESULT FOR THE PERIOD		**(308 859)**	(566 178)

Statement of Financial Position
as at 30 June 2003

	Note	2003 $'000	2002 $'000
INVESTMENTS:	2(b),9		
Inflation linked securities		**335 894**	372 406
Property		**260 154**	289 267
Australian equities		**900 785**	961 738
International equities		**997 848**	909 088
Fixed interest		**142 695**	127 737
Cash		**55 812**	104 457
		2 693 188	2 764 693
FIXED ASSETS		**31**	55
OTHER ASSETS:			
Cash and deposits at Treasury	11	**10 623**	6 577
Cash and deposits at Treasury - Funds SA		**205**	688
Contributions receivable	3	**822**	1 142
Interest, dividends and rent due - Funds SA		**78**	133
Other income receivable	17(a)	**1 888**	405
Sundry debtors	17(b)	**491**	5 333
		14 107	14 278
Total Assets		**2 707 326**	2 779 026
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		**875**	1 192
Benefits payable	20	**1 948**	242
Sundry creditors and provisions	12	**4 926**	3 049
Provisions for PAYG tax payable	13	**15**	7
		7 764	4 490
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		**14 161**	17 876
Total Liabilities		**21 925**	22 366
NET ASSETS AVAILABLE TO PAY BENEFITS	5,16	**2 685 401**	2 756 660
Less: **LIABILITY FOR ACCRUED BENEFITS**	7	**7 127 300**	6 889 700
EXCESS OF LIABILITIES OVER NET ASSETS		**(4 441 899)**	(4 133 040)

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Contributions received:			
Contributions for past service liability	1(d)	**184 057**	211 717
Contributions by employers		**113 472**	112 840
Transfers from other schemes		**4 889**	4 838
Rollovers from other schemes		**4 173**	-
Contributions by members		**43 901**	44 706
Refund of overpaid contributions		**(326)**	(435)
		350 166	373 666
Other income:			
Reimbursement from other sources:			
Commonwealth Government and Public Authorities		**65 253**	68 013
Temporary disability reimbursements		**458**	471
		65 711	68 484
Interest		**332**	413
		66 043	68 897
Benefits paid:			
Pensions		**(336 047)**	(317 565)
Commutation of pension benefits		**(41 599)**	(61 381)
Lump sums		**(41 231)**	(86 991)
Provision for PAYG tax payable		**8**	(21)
		(418 869)	(465 958)
GST expense		**(79)**	(123)
Administration expense		**(4 059)**	(3 888)
Actuarial valuation expense		**(10)**	(67)
Payments/Receipts to/from Board debtors		**629**	(587)
Payments/Receipts to/from Board creditors		**(20)**	(14)
Net Cash used in Operating Activities	10	**(6 199)**	(28 074)
CASH FLOWS FROM INVESTING ACTIVITIES:	2(a)		
Receipts from Superannuation Funds Management Corporation		**236 550**	249 800
Payments to Superannuation Funds Management Corporation		**(226 305)**	(226 250)
Net Cash provided by Investing Activities		**10 245**	23 550
NET INCREASE (DECREASE) IN CASH HELD		**4 046**	(4 524)
CASH AT 1 JULY		**6 577**	11 101
CASH AT 30 JUNE	11	**10 623**	6 577

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 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 Australia 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 2003 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.

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.

(i) *State Government Departments (continued)*

Since 30 June 1994 the Government has commenced a process of funding its accrued past service superannuation liabilities. During the year ended 30 June 2003 the Government transferred a total of $183 million into the Account. Transfers from this Account of $30 million into the Parliamentary Superannuation Scheme and $20 million into the Judges' Pension Scheme were then made to meet liabilities in respect of these Schemes.

An amount of $133 million ($210.7 million) was left in the Account to meet liabilities in respect of this Scheme.

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 $1.1 million ($1.0 million) was received during 2003 representing accrued past service 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

The financial statements are general purpose statements and have been prepared on an accruals basis in accordance with Australian Accounting Standard 25 'Financial Reporting by Superannuation Plans', other 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*, except as provided below.

Assets and liabilities are recorded at net market values in the Statement of Financial Position as at the balance date, and realised and unrealised gains or losses are brought to account in the Operating Statement. The financial statements of Funds SA, although not recording the administration activities of the public sector superannuation funds, are 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 statements of the relevant superannuation schemes associated with the public sector superannuation funds.

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

(a) Basis of Accounting (continued)

Funds SA operates a unitised investment portfolio utilising a number of asset class funds, each of which holds assets of a different category. The Scheme holds an interest in the asset class funds by way of notional 'units', as determined by Funds SA, rather than holding assets directly. As funds of the Scheme are regularly subscribed to and redeemed from the asset class funds, in line with the Scheme's cash flow requirements, it is not possible to accurately determine the separate contribution by realised and unrealised gains to the Scheme's income. For this reason, unrealised gains are not separately identified as required by Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' and the Statement of Cash Flows only reflects a net result for cash flows from investing activities. In addition, direct investment expenses and change in net market value of investments held at reporting date and realised during the reporting period are not reported. For information regarding the manner in which Funds SA operates its investment portfolio and, the contributions that realised and unrealised gains make to Funds SA's total investment returns, reference should be made to the financial statements of Funds SA.

(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 2003 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

Valuations of directly held properties have been carried out by independent licensed property valuers, other than as indicated in Note 8 of the financial statements of Funds SA.

In addition, a secured short-term loan provided to a 3rd party has been valued on the basis of principal outstanding at the balance date.

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 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 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 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 and other deposits of very short term duration 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.

3. Contributions Receivable

	2003	2002
	$’000	$’000
Contributions by members	**180**	251
Contributions by employers	**642**	891
	822	1 142

Contributions receivable have decreased in the 2002-03 year as Super SA has been actively following up agencies/statutory authorities to ensure the timely remittance of contributions.

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:

	2003		Total	
	Old Scheme Division	**New Scheme Division**	**2003**	2002
	$’000	**$’000**	**$’000**	$’000
Actual cost of administration	**2 234**	**1 825**	**4 059**	3 888
Administration cost charged to the Fund (30 percent)	**669**	**548**	**1 217**	1 165
Administration cost deducted from employer contributions:				
WorkCover	**-**	**-**	**-**	3
SA Water	**3**	**-**	**3**	-
SA Housing Trust	**-**	**-**	**-**	4
Administration cost deducted from employer contributions	**1 562**	**1 277**	**2 839**	2 716

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 SA Superannuation Scheme Contribution Account. Movements in the balances of these accounts are detailed below:

(a) South Australian Superannuation Fund (Employees)

	2003 Old Scheme Division $'000	2003 New Scheme Division $'000	Total 2003 $'000	Total 2002 $'000
Funds held at 1 July	**1 118 685**	**335 080**	**1 453 765**	1 569 580
Add: Contributions	**18 840**	**24 990**	**43 830**	44 617
Transfers from other schemes	**705**	**3 999**	**4 704**	7 755
Refunds of overpaid contributions	**(289)**	**(35)**	**(324)**	(435)
Investment income[(i)]	**(9 190)**	**(1 600)**	**(10 790)**	(82 134)
Other income - Bank account interest	**55**	**45**	**100**	122
	10 121	**27 399**	**37 520**	(30 075)
Less: Net benefits paid [(ii)]	**64 880**	**13 766**	**78 646**	84 575
Administration expenses	**669**	**548**	**1 217**	1 165
	65 549	**14 314**	**79 863**	85 740
Funds held at 30 June	**1 063 257**	**348 165**	**1 411 422**	1 453 765

(i) Shown net of direct investment expenses.
(ii) Refer to Note 6.

(b) SA Superannuation Scheme Contribution Account (Employers)

	2003 $'000	2002 $'000
Funds held at 1 July	**1 302 895**	1 367 158
Add: Employer contributions:		
State Government Departments	**85 137**	84 163
Transfers from other schemes[(iv)]	**688**	726
Statutory Authorities[(i)]	**27 921**	29 186
Contribution for past service liability[(i)]	**134 057**	211 717
	247 803	325 792
Investment income[(ii)]	**537**	(74 855)
Other income – Commonwealth and Public Authorities	**66 977**	66 381
Other income – Temporary disability	**426**	451
Other income – Bank account interest	**232**	291
	315 975	318 060
Less: Benefits paid:[(iii)]		
Old Scheme contributors	**313 983**	332 268
New Scheme contributors	**27 954**	47 166
Actuarial valuation expenses	**10**	67
GST expense	**102**	99
Administration expenses	**2 842**	2 723
	344 891	382 323
Funds held at 30 June	**1 273 979**	1 302 895
Total Net Assets	**2 685 401**	2 756 660

(i) Refer to Note 1(d).
(ii) Shown net of direct investment expenses.
(iii) Refer to Note 6.
(iv) Relates to a transfer of monies from EISS.

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.

Pensions:	2003 Old Scheme Division	2003 New Scheme Division	2003 Total	2002 Old Scheme Division	2002 New Scheme Division	2002 Total
Funded from:	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
SA Superannuation Fund	**56 960**	**106**	**57 066**	53 267	101	53 368
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**33 518**	**461**	**33 979**	31 934	450	32 384
Public authorities	**23 259**	**11**	**23 270**	21 881	23	21 904
Commonwealth Government	**35 555**	**-**	**35 555**	35 501	-	35 501
SA Government employer account	**185 962**	**215**	**186 177**	174 131	276	174 407
Gross Scheme Costs	**335 254**	**793**	**336 047**	316 714	850	317 564

6. Benefits Paid / Payable (continued)

	2003 Old Scheme Division $'000	2003 New Scheme Division $'000	2003 Total $'000	2002 Old Scheme Division $'000	2002 New Scheme Division $'000	2002 Total $'000
Commutations:						
Funded from:						
SA Superannuation Fund	**7 544**	**-**	**7 544**	11 933	-	11 933
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**7 491**	**-**	**7 491**	10 472	-	10 472
Public authorities	**2 752**	**-**	**2 752**	3 124	-	3 124
Commonwealth Government	**2 464**	**-**	**2 464**	5 424	-	5 424
SA Government employer account	**21 348**	**-**	**21 348**	34 113	-	34 113
Gross Scheme Costs	**41 599**	**-**	**41 599**	65 066	-	65 066
Lump Sums:						
Funded from:						
SA Superannuation Fund	**-**	**13 348**	**13 348**	-	16 256	16 256
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**-**	**10 535**	**10 535**	-	14 265	14 265
Public authorities	**-**	**436**	**436**	-	1 202	1 202
SA Government employer account	**-**	**15 132**	**15 132**	-	24 505	24 505
Gross Scheme Costs	**-**	**39 451**	**39 451**	-	56 228	56 228
Retrenchments:						
Funded from:						
SA Superannuation Fund	**-**	**266**	**266**	76	325	401
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**-**	**244**	**244**	45	663	708
Public authorities	**614**	**370**	**984**	127	324	451
SA Government employer account	**87**	**-**	**87**	201	100	301
Gross Scheme Costs	**701**	**880**	**1 581**	449	1 412	1 861
Targeted Separation Packages:						
Funded from:						
SA Superannuation Fund	**376**	**46**	**422**	1 883	734	2 617
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**423**	**-**	**423**	2 296	1 640	3 936
SA Government employer account	**510**	**550**	**1 060**	13 019	3 718	16 737
Gross Scheme Costs	**1 309**	**596**	**1 905**	17 198	6 092	23 290
Total Benefits Paid / Payable	**378 863**	**41 720**	**420 583**	399 427	64 582	464 009

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 2003 based on membership data as at 30 June 2002.

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 2003.

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 per cent 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 5 percent per annum above the CPI.

	2003 Old Scheme Division $'000	2003 New Scheme Division $'000	2003 Total $'000	2002 Old Scheme Division $'000	2002 New Scheme Division $'000	2002 Total $'000
Changes in the liability for accrued benefits:						
Liability for accrued benefits at 1 July	**5 927 600**	**962 100**	**6 889 700**	5 611 900	891 700	6 503 600
Add: Benefits expense(ii)	**569 263**	**88 920**	**658 183**	715 127	134 982	850 109
Less: Benefits paid(i)	**378 863**	**41 720**	**420 583**	399 427	64 582	464 009
Liability for Accrued Benefits at 30 June	**6 118 000**	**1 009 300**	**7 127 300**	5 927 600	962 100	6 889 700

7. Liability for Accrued Benefits (continued)

	2003 Old Scheme Division $'000	2003 New Scheme Division $'000	2003 Total $'000	2002 Old Scheme Division $'000	2002 New Scheme Division $'000	2002 Total $'000
Represented by:						
SA Superannuation Fund	**1 129 500**	**348 200**	**1 477 700**	1 090 900	335 100	1 426 000
SA Superannuation Scheme Employer Contribution Account:						
Employer contribution accounts	**813 800**	**240 200**	**1 054 000**	720 000	227 800	947 800
SA Government employer account	**3 565 200**	**410 700**	**3 975 900**	3 508 200	389 000	3 897 200
Public authorities	**235 300**	**10 200**	**245 500**	226 200	10 200	236 400
Commonwealth Government	**374 200**	**-**	**374 200**	382 300	-	382 300
Total	**6 118 000**	**1 009 300**	**7 127 300**	5 927 600	962 100	6 889 700

(i) Refer to Note 6.
(ii) This figure represents the change in Liability for Accrued Benefits plus Benefits Paid for the year.

Although the total liability for accrued benefits shown above is $7.1 billion, the SA Government is only responsible for funding a portion of the liability, which comprises the SA Government Employer Account and a portion of the Employer Contribution Accounts. For further details refer to Note 1(d).

Pursuant to the Act, actuarial reviews of the Scheme must be conducted on a three yearly basis to address the cost of the Scheme to the Government and the proportion of future benefits that can be met from the Fund. The last review was carried out as at 30 June 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 Pension Scheme and three options in the Lump Sum Scheme. Firstly, they can elect to take a cash refund of their own contributions, accumulated with interest, but with no employer money added. 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 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 2003 based on membership data as at 30 June 2002.

	2003 Old Scheme Division $'000	2003 New Scheme Division $'000	2003 Total $'000	2002 Old Scheme Division $'000	2002 New Scheme Division $'000	2002 Total $'000
SA Superannuation Fund	**1 097 800**	**348 200**	**1 446 000**	1 057 800	335 100	1 392 900
SA Superannuation Scheme Employer Account:						
Employer contribution accounts	**767 400**	**266 200**	**1 033 600**	668 600	261 600	930 200
SA Government employer account	**3 398 100**	**468 400**	**3 866 500**	3 330 900	459 500	3 790 400
Public authorities	**233 100**	**5 100**	**238 200**	223 800	5 000	228 800
Commonwealth Government	**374 200**	**-**	**374 200**	382 300	-	382 300
Total	**5 870 600**	**1 087 900**	**6 958 500**	5 663 400	1 061 200	6 274 600

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:

	2003 Fund - Old Scheme Division $'000	2003 Fund - New Scheme Division $'000	2003 Scheme Contribution Accounts $'000	Total 2003 $'000	Total 2002 $'000
Inflation linked securities	**132 441**	**45 895**	**159 558**	**335 894**	372 406
Property	**102 577**	**33 997**	**123 580**	**260 154**	289 267
Australian equities	**355 172**	**117 716**	**427 897**	**900 785**	961 738
International equities	**393 444**	**130 401**	**474 003**	**997 848**	909 088
Fixed interest	**56 263**	**18 648**	**67 784**	**142 695**	127 737
Cash	**22 006**	**7 294**	**26 512**	**55 812**	104 457
Total	**1 061 903**	**351 951**	**1 279 334**	**2 693 188**	2 764 693

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

	2003	2002
	$'000	$'000
Operating result	**(308 859)**	(566 178)
Increase in liability for accrued benefits	**237 600**	386 100
Transfer to other schemes	**50 000**	-
Net Investment Revenue	**10 253**	156 989
(Increase) Decrease in other income receivable	**(1 483)**	1 342
Decrease in contributions receivable	**320**	206
Increase (Decrease) in PAYG tax payable	**8**	(21)
Increase (Decrease) in benefits payable	**1 706**	(2 098)
Net movement in other debtors	**4 563**	-
Net movement in other creditors	**(307)**	(4 414)
Net Cash used in Operating Activities	**(6 199)**	(28 074)

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:

	2003	2002
	$'000	$'000
Cash and Deposits at Treasury	**10 623**	6 577

12. Summary of Sundry Creditors and Provisions

Rollovers to be transferred to Triple S	**27**	91
SA Water overpaid contributions	**-**	4
Commonwealth reimbursement (ex ANR employees)	**104**	300
Public authorities	**-**	45
Pension payments	**(2)**	1
Pension re banks to be repaid to members	**3**	(2)
Funds SA sundry creditors	**4 794**	2 610
	4 926	3 049

13. Provision for Tax Payable

The provision for tax payable represents taxation due on benefit payments made in June 2003 which had not been remitted to the Commissioner of Taxation as at 30 June 2003. This amount was forwarded to the Commissioner of Taxation early in the 2003-04 financial year.

14. Guaranteed Benefits

Contributors' benefit entitlements are specified by the *Superannuation Act 1988*.

15. Additional Financial Instrument Disclosures

The specific disclosure requirements of Australian Accounting Standard AAS 33, 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the Financial Statements of Funds SA and have not been repeated in this financial report.

16. Reconciliation of Net Assets available to Pay Benefits

	2003	2002
	$'000	$'000
Opening net assets available to pay benefits	**2 756 660**	2 936 738
Add: Benefits expense	**658 183**	850 109
Less: Benefits paid	**420 583**	464 009
Add: Operating result for the period	**(308 859)**	(566 178)
Closing Value of Net Assets available to Pay Benefits	**2 685 401**	2 756 660

17. Summary of Other Income Receivable and Sundry Debtors

(a) Other income receivable:

Commonwealth (ex STA employees)[(i)]	**25**	1
Public Authorities[(ii)]	**1 863**	404
	1 888	405

(i) For the 2003 year, an estimated invoice was sent to the Commonwealth for the month of June 2003. As the invoice was an estimate, once the account was reconciled, the actual benefit payments for ex STA employees were greater than estimated and the account had been underpaid. The amount was recovered in the month of July 2003.

(ii) For the 2003 year invoices for the month of June were sent to the Public Authorities. As at 30 June 2003, monies outstanding were raised as accruals and are expected to be received in the July of the 2003-04 year.

(b) Sundry Debtors:	**2003**	2002
	$'000	$'000
Leave without pay invoices	**208**	373
Rollovers to be transferred from Triple S	**-**	3 734
Funds SA accruals	**55**	334
Temporary disability debtors	**170**	202
Refund from Taxation Office for GST (refer to Note 19)	**26**	49
Refund of overpaid benefit payments	**17**	-
Pension to be transferred from EISS	**-**	605
Bank fees (reimbursement receivable)	**10**	-
Other	**5**	36
	491	5 333

18. Other Revenue

Bank account interest	**332**	413
Commonwealth and public authorities debtors	**66 977**	66 381
Temporary disability debtors	**426**	451
	67 735	67 245

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 June 2003. This credit for $26 000 has been disclosed as a debtor in the financial statements (Note 17(b)).

20. Benefits Payable	**2003**	2002
	$'000	$'000
Benefits payable by South Australian Superannuation Fund	**585**	73
Benefits payable by South Australian Superannuation Scheme Contribution Account	**1 363**	169
	1 948	242

Benefits payable relate to members who have terminated employment prior to 30 June but have been paid after 30 June or remain unpaid.

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.

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 2002-03, 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 activities undertaken by Funds SA in respect of the assets of the Scheme; these areas were reviewed in the course of the audit of Funds SA.

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 Presiding Member, South Australian Superannuation Board subsequent to the signing of the accounts.

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 2003, the results of its operations and its cash flow 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 is sufficient to provide reasonable assurance that the financial transactions of the Southern State Superannuation Scheme have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

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

	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
Net investment revenue	**25.9**	(68.2)	138.0
Contribution revenue	**313.7**	262.4	51.3
Other revenue	**0.2**	0.3	(0.3)
Total Operating Revenue	**339.8**	194.5	74.7
OPERATING EXPENDITURE			
Other expenses	**5.3**	4.9	8.1
Total Operating Expenses	**5.3**	4.9	8.1
Benefits Accrued as a Result of Operations	**334.5**	189.6	76.4
Net Cash Flows from Operations	**234.7**	187.6	25.1
ASSETS			
Investments	**2 090.0**	1 826.5	14.4
Other assets	**9.5**	12.0	(20.8)
Total Assets	**2 099.5**	1 838.5	14.2
LIABILITIES			
Current liabilities	**5.8**	9.2	(37.0)
Non-current liabilities	**9.8**	10.7	(8.4)
Total Liabilities	**15.6**	19.9	(21.6)
NET ASSETS AVAILABLE TO PAY BENEFITS	**2 083.9**	1 818.6	14.6

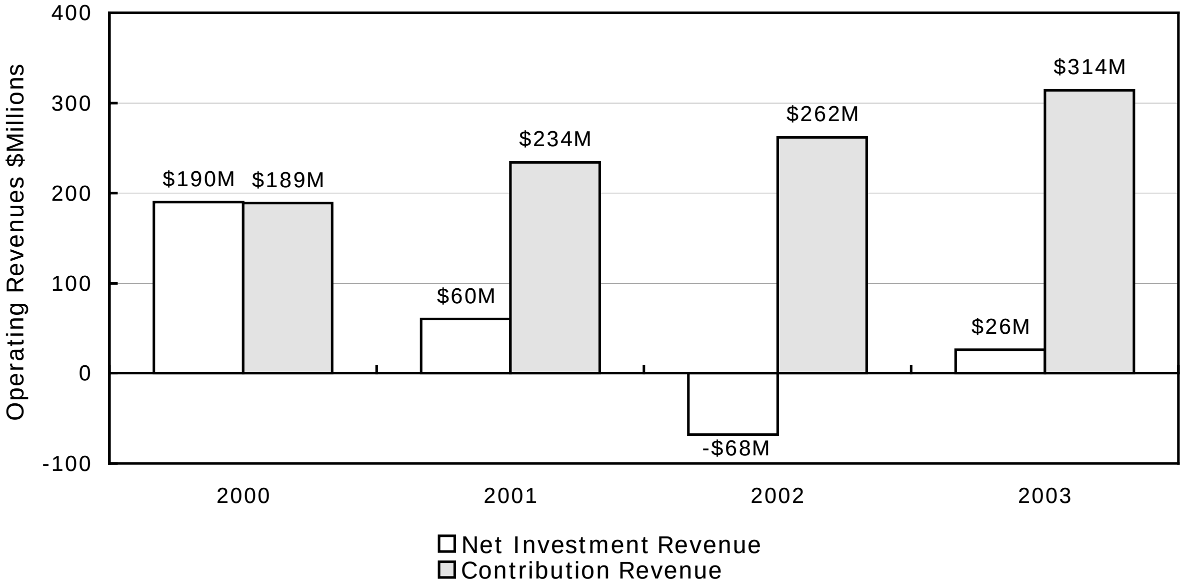
Statement of Financial Performance

Operating Revenues

Total operating revenue increased by $146 million (75 percent). Included in this amount were increases of:

- $94 million in Net Investment Revenue;
- $51 million in Contribution Revenue.

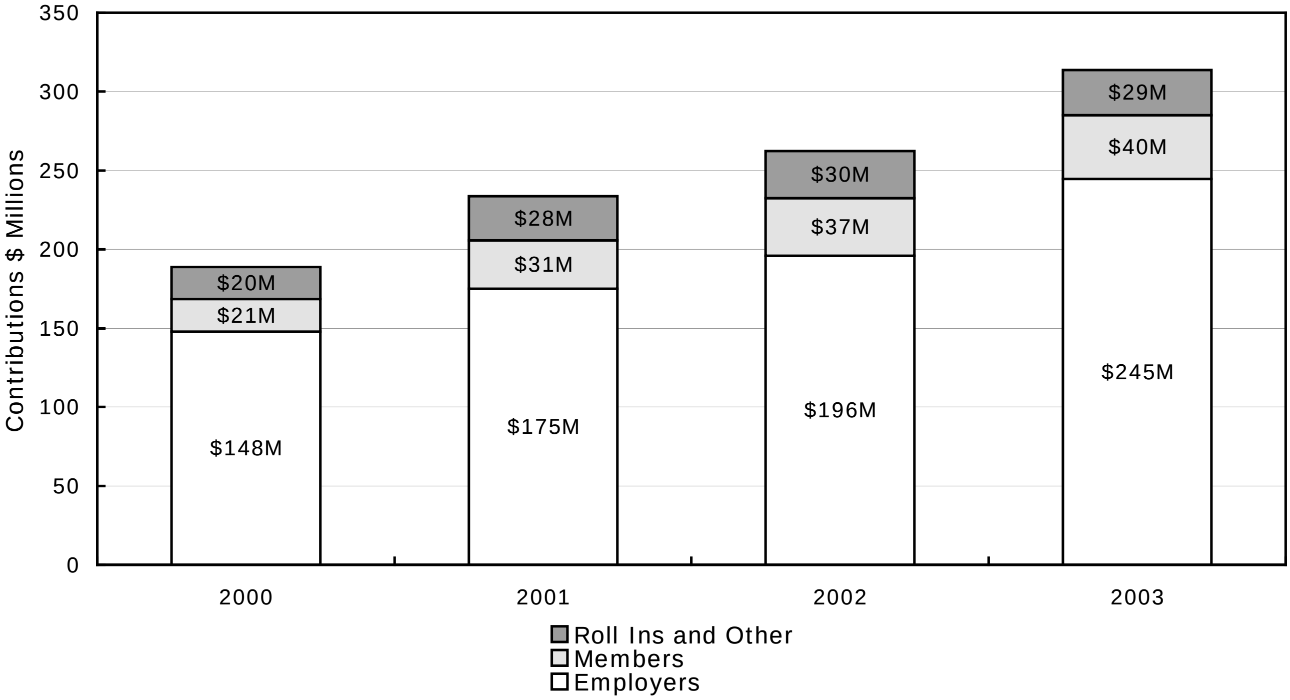
For the four years to 2003 a structural analysis of operating revenues for the Scheme is presented in the following chart.



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 in the four years to 2003 is presented in the following chart.



The chart indicates that the value of contributions by members has increased each year since the year 2000, due to increases in the numbers of members contributing. Contributions by employers have also increased over the same period by $96 million.

The number and proportion of contributory to non-contributory members for the last two years is depicted in the following table.

	2003 Numbers	2002 Numbers
Contributory	**17 801**	16 873
Non-contributory	**68 123**	66 396

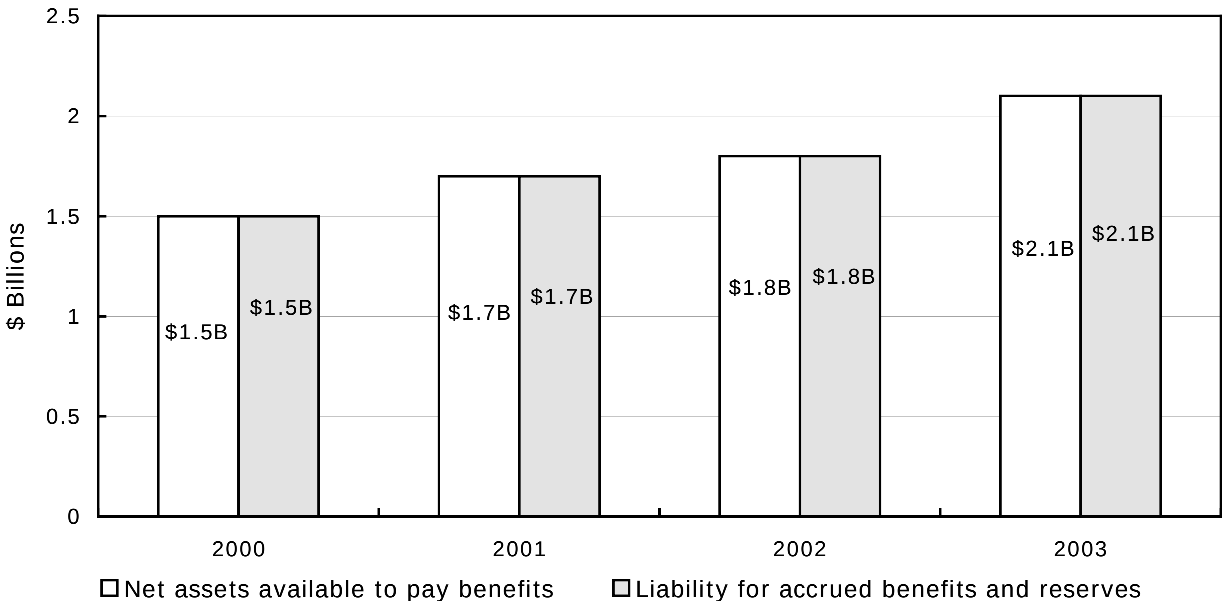
	2003 Percent	2002 Percent
Contributory	**20.7**	20.3
Non-contributory	**79.3**	79.7

Benefits Accrued as a Result of Operations

Benefits accrued as a result of operations increased by $145 million (77 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 2003 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.

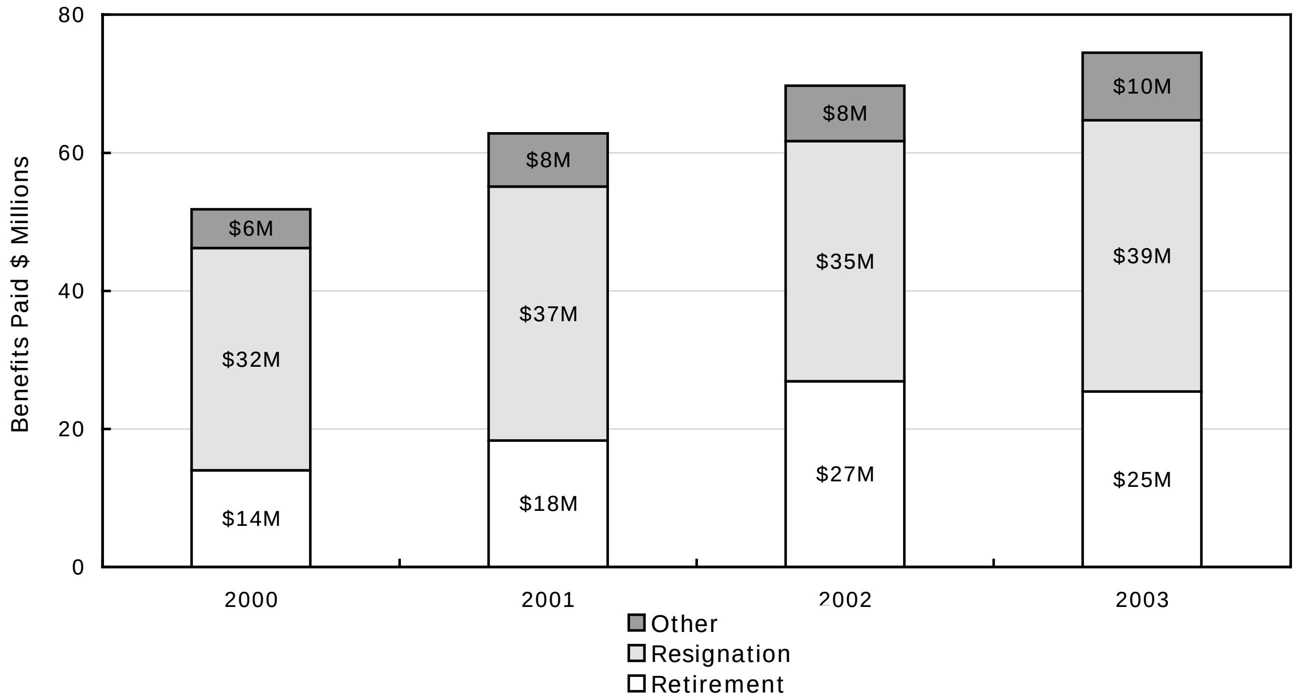
Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**234.7**	187.6	165.2	136.5
Investing	**(236.1)**	(187.5)	(165.0)	(132.0)
Change in Cash	**(1.4)**	0.1	1.2	4.5
Cash at 30 June	**7.1**	8.5	8.4	7.2

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 $75 million ($70 million). The following chart analyses benefits paid for the four years to 30 June 2003 and shows an increasing trend in benefits paid.



Operating Statement
for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
INVESTMENT REVENUE:			
Net investment revenue	2 (a)	**25 906**	(68 185)
		25 906	(68 185)
CONTRIBUTION REVENUE:			
Contributions by members	1 (a)	**40 440**	36 629
Contributions by employers	1 (a)	**244 690**	195 994
Rollovers from other schemes		**28 566**	29 747
Transfers from Electricity Industry		**-**	38
Refund of overpaid contributions		**(20)**	(19)
		313 676	262 389
INTEREST REVENUE		**278**	346
INSURANCE ADMINISTRATION	19	**(256)**	(55)
ADMINISTRATION EXPENSE	5	**(4 958)**	(4 743)
GST EXPENSE	15	**(124)**	(119)
BENEFITS ACCRUED AS A RESULT OF OPERATIONS	8	**334 522**	189 633

Statement of Financial Position
as at 30 June 2003

	Note	2003 $'000	2002 $'000
INVESTMENTS:	2 (b)		
Inflation linked securities		**251 100**	167 585
Property		**179 557**	172 715
Australian equities		**617 501**	569 812
International equities		**674 565**	519 583
Fixed interest		**308 164**	325 797
Cash		**59 131**	71 019
		2 090 018	1 826 511
FIXED ASSETS		**32**	37
OTHER ASSETS:			
Cash and deposits at Treasury	11	**7 132**	8 538
Cash and deposits at Treasury - Funds SA		**217**	468
Contributions receivable	3	**1 955**	2 506
Interest, dividends and rent due - Funds SA		**55**	84
Sundry debtors	16	**100**	353
		9 459	11 949
Total Assets		**2 099 509**	1 838 497
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		**654**	558
Benefits payable	17	**1 631**	6 914
Sundry creditors and provisions	18	**3 492**	1 676
Provision for PAYG tax payable	12	**1**	11
		5 778	9 159
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		**9 831**	10 685
Total Liabilities		**15 609**	19 844
NET ASSETS AVAILABLE TO PAY BENEFITS	4, 8	**2 083 900**	1 818 653
REPRESENTED BY:			
LIABILITY FOR ACCRUED BENEFITS:	8		
Allocated to members' accounts	20	**2 021 589**	1 759 812
Not Allocated to members' accounts	21	**3 681**	3 877
		2 025 270	1 763 689
RESERVES:			
Administration and investment reserve	7	**1 622**	1 587
Death, invalidity and income protection insurance reserve	6	**57 008**	53 377
		58 630	54 964
		2 083 900	1 818 653

Statement of Cash Flows
for the year ended 30 June 2003

	Note	**2003 Inflows (Outflows) $'000**	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Contributions received:			
Contributions by members		**40 505**	36 614
Refund of overpaid contributions		**(20)**	(19)
Contributions by employers		**245 178**	195 609
Transfers from Electricity Industry		**-**	38
Rollovers from other schemes		**28 629**	29 661
		314 292	261 903
Bank interest received		**278**	346
Benefits paid:			
Retirement		**(25 436)**	(26 921)
Resignation		**(39 316)**	(34 750)
Retrenchment		**(342)**	(1 423)
Invalidity - Balance of account		**(2 624)**	(2 425)
Invalidity - Future service benefit	6	**(1 643)**	(1 045)
Death - Balance of account		**(2 309)**	(1 682)
Death - Future service benefit	6	**(2 427)**	(981)
Payments to Unclaimed Monies		**(40)**	(113)
Base Pension		**(419)**	(305)
Provision for PAYG tax payable		**(10)**	(11)
		(74 566)	(69 656)
Receipts/payments to/from sundry debtors/creditors		**-**	(8)
Insurance Administration	19	**(252)**	(59)
Administration expense	5	**(4 958)**	(4 743)
GST expense	15	**(97)**	(153)
Bank Fees		**(3)**	-
Net Cash provided by Operating Activities	10	**234 694**	187 630
CASH FLOWS FROM INVESTING ACTIVITIES:	2(a)		
Receipts from Funds SA		**-**	300
Payments to Funds SA		**(236 100)**	(187 825)
Net Cash used in Investing Activities		**(236 100)**	(187 525)
NET (DECREASE) INCREASE IN CASH HELD		**(1 406)**	105
CASH AT 1 JULY		**8 538**	8 433
CASH AT 30 JUNE	11	**7 132**	8 538

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.

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 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 (8 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 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 11 of the Act. In determining the rate the Board should consider the net rate of return achieved by the investment of the 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 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 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 2003 payments were made from a Special Deposit Account.

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 Standard 25 'Financial Reporting by Superannuation Plans', other 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*, except as provided below.

(a) Basis of Accounting (continued)

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

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

Funds SA operates a unitised investment portfolio utilising a number of asset class funds, each of which holds assets of a different category. The Scheme holds an interest in the asset class funds by way of notional 'units', as determined by Funds SA, rather than holding assets directly. As funds of the Scheme are regularly subscribed to and redeemed from the asset class funds, in line with the Scheme's cash flow requirements, it is not possible to accurately determine the separate contribution by realised and unrealised gains to the Scheme's income. For this reason, unrealised gains are not separately identified as required by AAS 25 and the Statement of Cash Flows only reflects a net result for cash flows from investing activities. In addition direct investment expenses and change in net market value of investments held at reporting date and realised during the reporting period are not reported. For information regarding the manner in which Funds SA operates its investment portfolio, and the contributions that realised and unrealised gains make to Funds SA's total investment returns, reference should be made to the financial statements of Funds SA.

(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 2003 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*
  Valuations of directly held properties have been carried out by independent licensed property valuers, other than as indicated in Note 8 to the financial statements of Funds SA.

  In addition, a secured short-term loan provided to a 3rd party has been valued on the basis of principal outstanding at the balance date.

- *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.

(iii) Australian Equities (continued)

- *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 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 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 and other deposits of very short term duration have been valued on the basis of principal plus accrued interest. Bank bills 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) 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:

- Inflation Linked Securities
- Property
- Australian Equities
- International Equities
- Australian Fixed Interest
- International Fixed Interest
- 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. Funds SA therefore manages five separate investment products distinguished by differing strategic asset allocations. The products are:

- Growth
- Balanced
- Conservative
- Cash
- Defined Benefit

The first four products are available to members of the Southern State Superannuation Scheme whereas the fifth product, Defined Benefit, is 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. Unit prices are issued on a weekly basis.

3. Contributions Receivable

	2003	2002
	$'000	$'000
Contributions from members	**211**	276
Contributions from employers	**1 744**	2 230
	1 955	2 506

Contributions receivable are contributions relating to the 2002/03 financial year received by the Scheme after 30 June 2003.

4. Net Assets Available to Pay Benefits

(a) Southern State Superannuation(Employees) Fund

Funds held at 1 July	**193 059**	147 412
Add: Contributions by members	**40 440**	36 629
Rollovers from other schemes	**28 566**	29 747
Investment income (i)	**4 511**	(6 483)
Bank Interest	**28**	56
	73 545	59 949
Less: Benefits paid and payable	**8 837**	14 283
Refund of overpaid contributions	**20**	19
	8 857	14 302
Funds Held at 30 June	**257 747**	193 059

(b) Southern State Superannuation (Employers) Fund

Funds held at 1 July	**1 625 594**	1 555 880
Add: Employer contributions	**244 690**	195 994
Investment income (i)	**21 395**	(61 702)
Transfers from Electricity Industry	**-**	38
Bank Interest	**250**	290
	266 335	134 620
Less: Benefits paid and payable	**60 438**	59 989
Administration Costs	**4 958**	4 743
GST Expense	**124**	119
Insurance Administration	**256**	55
	65 776	64 906
Funds Held at 30 June	**1 826 153**	1 625 594
Total Net Assets	**2 083 900**	1 818 653

(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 prescribed by regulation. As at 30 June 2003 the charge $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 2003 the amount charged to members' employer contribution accounts was $5.5 million ($5.0 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 2003, based on actual costs of administering the Scheme, amounted to $4.9 million ($4.7 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 standard units of cover. The value of a unit under Standard Insurance for members up to 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 1994*, the Treasurer received a report on the costs and liabilities of the insurance arrangements in existence as at 30 June 2001. The actuary has reported that the premium rates for the insurance arrangement replaced on 1 July 2002 could have been reduced by around 50 percent, as with experience they had been found to be too conservative. The cost of insurance to the member under the new arrangements is in general significantly less. The report also advised that on the basis of the arrangements in place as at 30 June 2001, there was a reserve of $29.9 million before allowing for any prudential risk margins. This reserve was on the basis of the actuarially determined benefit liabilities of $18.5 million. Whilst the actuarially assessed value of the liabilities under the new arrangements has increased to $28.5 million the new premiums have been set to adequately cover the new liabilities.

In the event of invalidity, the Basic and Additional insurance is paid to the member. In the event of death, the Basic and Additional insurance is 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 $4.5 million ($2.3 million) were paid to members as a result of death or invalidity during the year ended 30 June 2003.

	Note	**2003**	2002
		$'000	$'000
Opening balance of the Death, Invalidity and Income Protection Insurance Reserve		**53 377**	47 692
Add: Investment earnings on insurance reserve		**615**	(993)
Contributions		**7 762**	9 064
		8 377	8 071
Less: Benefit Payments:			
Invalidity basic		**1 596**	889
Invalidity supplementary		**47**	156
Death basic		**2 321**	835
Death supplementary		**107**	146
Disability Pensions		**419**	305
Less: Administration Costs	19	**256**	55
		4 746	2 386
Transfers to the Death, Invalidity and Income Protection Insurance Reserve		**3 631**	5 685
Closing Balance of Reserve		**57 008**	53 377

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 2003.

	Administration Cost Reserve(i)	**Investment Reserve(ii)**	Total	
			2003	2002
	$'000	**$'000**	**$'000**	$'000
Balance as at 1 July	**907**	**680**	**1 587**	1 561
Transfers to Reserves	**446**	**-**	**446**	425
Transfers out of Reserves	**-**	**(411)**	**(411)**	(399)
Balance as at 30 June	**1 353**	**269**	**1 622**	1 587

(i) Section 27 of the Act requires an administrative charge to be deducted from the member 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 $446 000, which is a transfer to reserves, is based on the actual administration recovery of $5.5 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 decrease in the value of the investment reserve is due to the resolution of outstanding data integrity issues during the 2003 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.

	2003	2002
	$'000	$'000
Liability for accrued benefits at 1 July	**1 818 653**	1 703 292
Add: Increase in accrued benefits	**334 522**	189 633
Less: Benefits paid and payable	**69 275**	74 272
Liability for Accrued Benefits at 30 June	**2 083 900**	1 818 653

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 plan. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date.

	2003	2002
	$'000	$'000
Vested Benefits	**2 021 589**	1 759 812

10. Reconciliation of Net Cash provided by Operating Activities to Benefits Accrued from Operations

Benefits accrued as a result of operations	**334 522**	189 633
Benefits paid and payable	**(69 275)**	(74 272)
Decrease (Increase) in contributions receivable	**551**	(400)
(Decrease)Increase in rollovers payable to other schemes	**(1)**	2
Decrease (Increase) in rollovers receivable from other schemes	**64**	(88)
Net Investment Revenue	**(25 906)**	(68 185)
Increase (Decrease) in Board creditors	**3**	(20)
Decrease (Increase) in Board debtors	**28**	(29)
Decrease in PAYG Tax Payable	**(9)**	(11)
(Decrease) Increase in benefits payable	**(5 283)**	4 630
Net Cash provided by Operating Activities	**234 694**	51 260

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:

	2003	2002
	$'000	$'000
Cash and deposits at Treasury	**7 132**	8 538

12. Provision for Tax Payable

The provision for tax payable represents tax due on benefit payments made in June 2003 which had not been remitted to the Commissioner of Taxation as at 30 June 2003. This amount was forwarded to the Commissioner of Taxation in July 2003.

13. Guaranteed Benefits

Benefit entitlements are specified by the *Southern State Superannuation Act 1994*.

14. Additional Financial Instrument Disclosures

The specific disclosure requirements of Australian Accounting Standard AAS 33, 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the financial statements of Funds SA and have not been repeated in this financial report.

15. Net GST Paid

As a result of the introduction of the GST on 1 July 2000, an additional line has been inserted into the Operating Statement. 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 June 2003. The credit for $31 000 has been disclosed as a debtor in the financial statements.

16. Summary of Sundry Debtors

	2003	2002
	$'000	$'000
Rollover monies to be transferred to Triple S	**27**	91
Bank Fee Reimbursement from Department of Treasury and Finance	**3**	-
Refund from Taxation Office for GST (refer to Note 15)	**31**	62
Funds SA sundry debtors	**39**	200
	100	353

17. Benefits Payable

Benefits payable by Southern State Superannuation (Employees) Fund	**489**	1 754
Benefits payable by Southern State Superannuation (Employers) Fund	**1 142**	5 160
	1 631	6 914

Benefits payable relate to members who have terminated employment prior to 30 June 2003 but have not been paid until after 30 June 2003. The value for 2002 was larger as it included transfers payable to the South Australian Superannuation Scheme.

18. Summary of Sundry Creditors and Provisions

	2003 $'000	2002 $'000
Rollovers to be transferred from Triple S	**-**	2
Other	**3**	-
Funds SA sundry creditors	**3 489**	1 674
	3 492	1 676

19. Insurance Administration

The costs of implementing the new insurance arrangements have been deducted from the Death, Invalidity and Income Protection Insurance Reserve. The remaining costs of $256 000 involved in finalising the new insurance arrangements were deducted from the reserve in the 2002-03 year ($55 000).

20. 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 2003 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 21 (below).

21. Not Allocated to Members' Accounts

This Note indicates that there is approximately $3.7 million unallocated to members' accounts which is immaterial in a $2.0 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 accrual basis whilst monies are allocated to members on a cash basis.

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 in relation to 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.

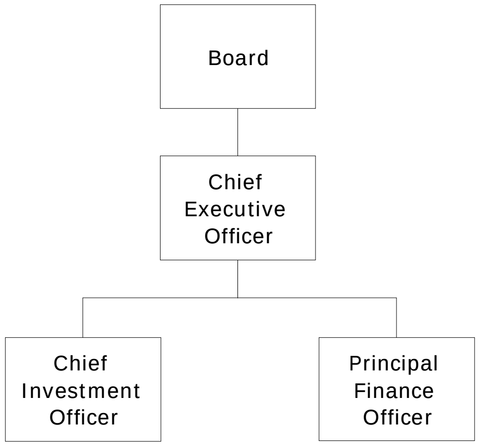
The Police Superannuation Board is responsible for all aspects of the administration of the Police Superannuation Fund and the associated Employer Contribution Account.

The Department of Treasury and Finance is responsible for the administration of the Governors' Pension Scheme, the Judges' Pension Scheme and the Parliamentary Superannuation Scheme.

Additional information relevant to the characteristics and the administration of the superannuation schemes may be obtained by reference to the financial reports of the various schemes which are included elsewhere in Part B of this Report.

Structure

The structure of Funds SA is illustrated in the following organisation chart.



Funds SA operates with a small staff comprising investment officers and accounting and administrative support staff. This structure is complemented by extensive use of external funds management firms. Fund managers are utilised in relation to 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 20 to the financial reports for details.

Audit Committee

The Act specifically requires Funds SA to establish an Audit Committee. The Committee comprises four Board members operating within the framework of an Audit Committee Charter. Pursuant to that charter, the Committee is responsible for assessing the quality of both internal and external financial reporting; assessing the effectiveness of Funds SA's internal control structure; and maintaining an effective and efficient liaison with both internal and external audit. Audit representatives attended Audit Committee meetings throughout the year.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and section 28 of the *Superannuation Funds Management 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.

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 report 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 2002-03, 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 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 Chairperson subsequent to the signing of the accounts.

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 as at 30 June 2003, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the 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 is 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.

Significant Matters Raised with Agencies

The audit of Funds SA indicated that the internal controls over its operations, including its accounting and investment functions were sound. The audit took into account the role of the Audit Committee in assessing the effectiveness of Funds SA's internal control structure. No significant issues of concern were raised as a result of the audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 $'million	2002 $'million	Percentage Change
NET FUNDS MADE AVAILABLE FOR INVESTMENT	**216.2**	145.1	49.0
INCOME EARNED FROM INVESTMENT ACTIVITIES			
Inflation linked funds	**75.3**	50.4	49.4
Property	**50.8**	53.4	(4.9)
International equities	**(175.8)**	(372.3)	52.8
Other	**63.8**	12.2	423.0
Total Income Earned From Investment Activities	**14.1**	(256.3)	105.5
ADMINISTRATION EXPENSES	**2.8**	2.6	7.7
Change in Net Assets	**227.5**	(113.8)	300.0
Net Cash Flows from Operations	**83.3**	78.9	5.6
Net Cash Flows from Investing Activities	**(369.7)**	(54.2)	(582)
Net Cash Flows from Financing Activities	**216.2**	145.1	49

	2003 $'million	2002 $'million	Percentage Change
ASSETS			
Investments	**5 409.9**	5 181.7	4.4
Other assets	**0.8**	2.2	(63.6)
Total Assets	**5 410.7**	5 183.9	4.4
LIABILITIES			
Current liabilities	**11.1**	6.8	63.2
Non-current liabilities	**27.3**	32.4	(15.7)
Total Liabilities	**38.4**	39.2	(2.0)
EQUITY	**5 372.3**	5 144.7	4.4

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 pubic sector superannuation funds. Net funds made available for investment increased by $71 million to $216 million. Details of receipts and payments related to the various funds are provided in Note 4 to the financial report.

An amount of $183 million ($211.7 million) was made available by the Treasurer in respect of accruing employers superannuation liabilities in relation to the South Australian Superannuation Scheme, Parliamentary Superannuation Scheme and Judges' Pension Scheme.

Income from Investments

Net income from investment activities resulted in a return of $11 million compared to a negative return of $259 million in the previous year. This result predominately reflects the recording of assets at net market values where unrealised gains or losses are brought to account.

The major reason for a return to a positive result in 2003 were improved returns from International equities and Australian equities. In 2002, equities across the globe experienced depressed valuations, reflecting poor conditions in world share markets. This trend continued in 2003, particularly in International Equities (albeit to a lesser extent). However, offsetting the negative result on International Equities were comparatively strong results in each of the other sector funds, hence producing a positive result for the fund overall in 2003. 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 2003 is presented in the following table.

Net Income Earned From Investment Activities

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Inflation Linked Funds	**75.3**	50.4	43.9	53.7
Property	**50.8**	53.4	45.2	32.3
Australian Equities	**5.8**	(28.3)	177.6	232.7
International Equities	**(175.8)**	(372.3)	(131.7)	328.8
Australian Fixed Interest	**22.0**	15.7	34.6	27.6
International Fixed Interest	**30.0**	20.0	(0.9)	0.0
Cash and other	**6.0**	4.9	9.4	106.1
	14.1	(256.2)	178.1	781.2

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 2003 these expenses amounted to $27.6 million of which $21.9 million (79.3 percent) related to fund management fees. These fees equate to 0.4 percent of funds under management.

Fund Manager fees over the last four years were:

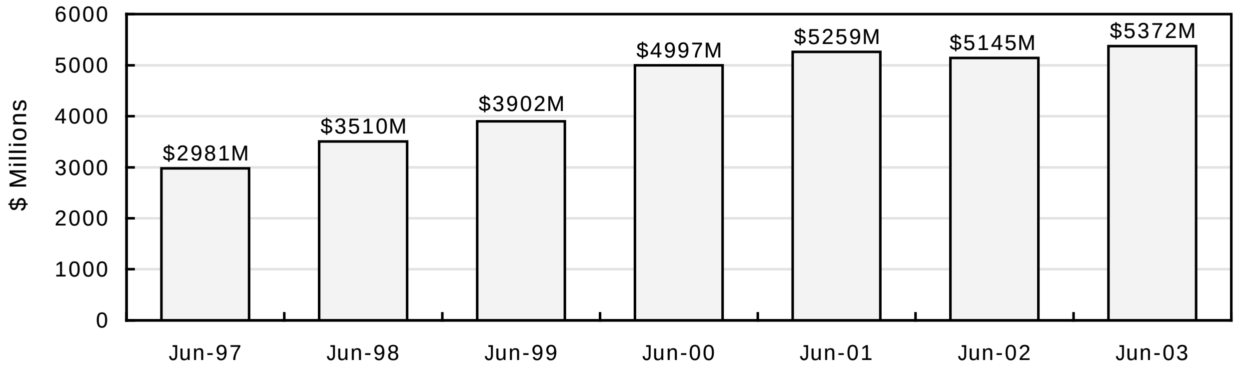
Year	$'million
2000	14.6
2001	17.3
2002	16.3
2003	**21.9**

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

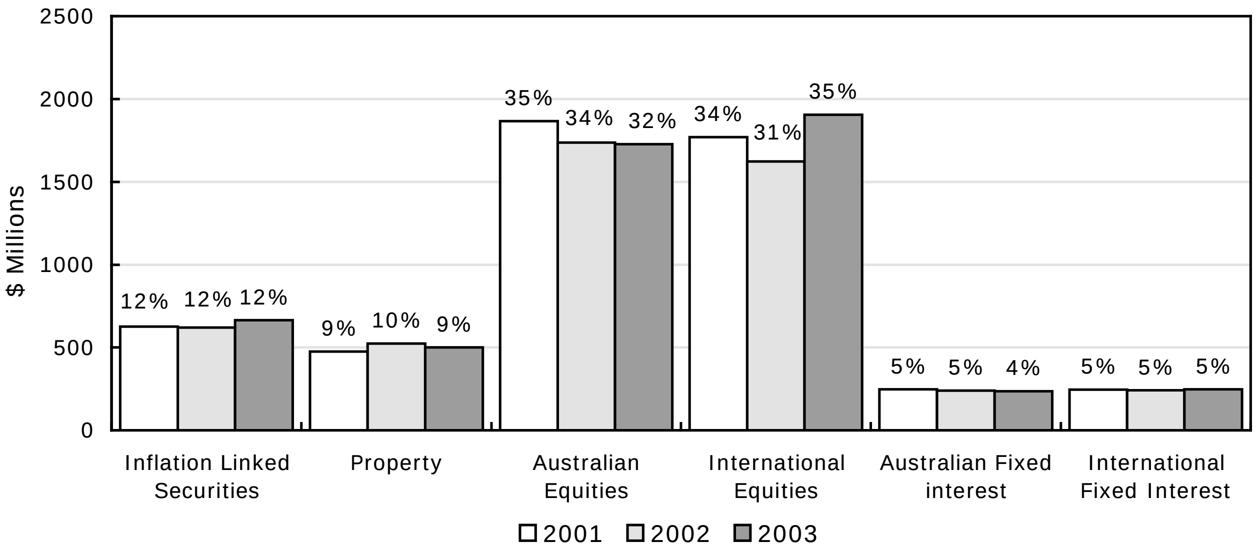
As the Corporation's main function is to invest and manage the public sector superannuation funds, assets predominantly consist of investments. Total liabilities as a percentage of total assets are 0.7 per cent.

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 as indicated $5.4 billion of funds under management. These funds are represented by seven investment classes and the level of holdings for each of these investments (excluding cash) 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. There was an increase in International Equities holdings during the current financial year due mainly to the majority of past service liability funding received late in the previous financial year being invested in the current year in International Equities. Most other investment classes have remained constant over the past three years.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**83.3**	78.9	(74.7)	(2.8)
Investing	**(369.7)**	(54.2)	(61.7)	(374.0)
Financing	**216.2**	145.1	85.6	316.1
Change in Cash	**(70.2)**	169.8	(50.8)	(60.7)
Cash at 30 June	**128.5**	198.7	28.9	79.7

Net cash flows from Investing Activities reflects the level of redemptions and purchases of investments. For 2003, the purchases and sales of Australian Equity of $670 million and $683 million respectively mainly reflect a change in fund manager. International Equity purchases and sales of $787 million and $285 million respectively are due mainly to bringing International Equity back into line with the Strategic Asset Allocation and also includes some movement due to fund manager transitions.

For details relating to Financing Activities which reflect receipts and payments from and to the various superannuation schemes refer to Note 4 in 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 exists a range of financial risks which 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.

In managing some of these risks Funds SA utilises derivative instruments. Refer to Note 23(b) of the financial report for further details.

Investment Products

Members of the Triple S Scheme are provided with investment choice 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 to Note 3 to the Financial Statements.) The objectives of these products is shown hereunder with respect to:

- the real return objective, ie the return in excess of inflation that is targeted over the long term;
- the investment time horizon, ie the likely minimum period required to enable the investment strategy to deliver the objective;
- risk, measured as the expected frequency with which the investment strategy is expected to deliver a negative return.

	Defined Benefit	Balanced	Growth	Conservative
Product Objectives:				
Real return objective greater than	4.5 percent	4.0 percent	5.0 percent	3.0 percent
Investment time horizon	8 years	7 years	10 years	4 years
Expectation of negative return	2 years in 8	2 years in 7	3 years in 10	1 year in 4
	$million	$million	$million	$million
Total Funds at 30 June 2003	**3 295.9**	**1 918.4**	**116.4**	**25.4**

The cash product ($16.1 million at 30 June 2003) has a target of maintaining the real value of capital invested.

Strategic Asset Allocation and the Actual Position

Reference should be made to Funds SA’s annual report for the strategic asset allocations applying to each of the investment products. A comparison of the target asset allocation for each of the five products compared to the actual position at 30 June 2003 revealed that all variances were within the rebalancing ranges around the strategic target. That is, a rebalancing policy has been adopted by Funds SA to ensure the efficient maintenance of the asset allocation within an acceptable tolerance around the strategic asset allocation target.

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 Poors/ASX 300 Accumulation Index
International equities	Tailored benchmark incorporating specific sub sectors and hedge
Property	Mercer Australian Unlisted Property Index Standard and Poors/ASX Property 300 Accumulation Index
Inflation linked	UBS Warburg Australian Inflation Linked Bond Index
Fixed Interest	(Australia) UBS Warburg Australian Composite Bond Index (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 six distinct asset classes (after fees), against their relevant benchmark, for the 2002-03 financial year, is depicted in the following chart:

The chart above shows that the return performance for all asset classes were above the benchmark return other than Property which was slightly under.

Return Performance by Product

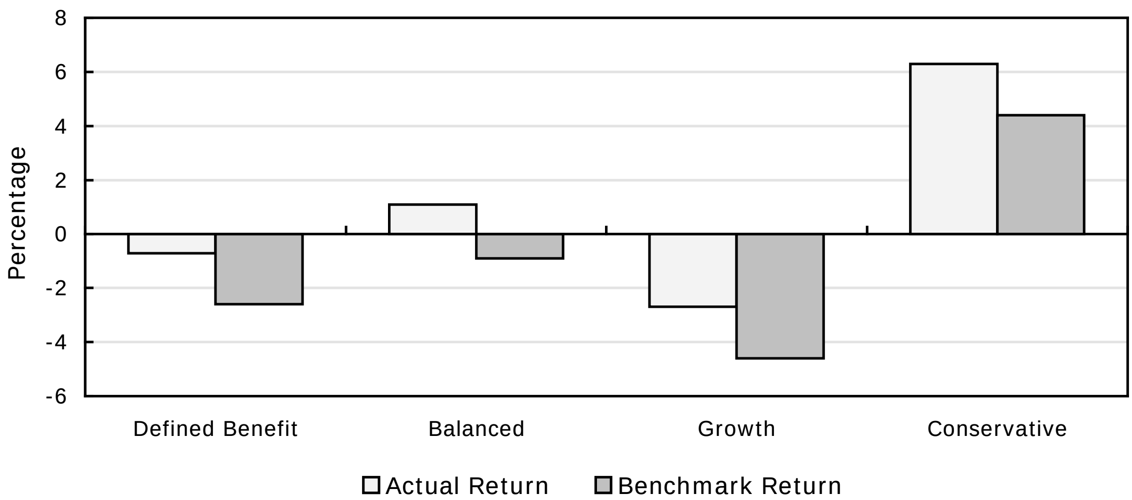
The return performance of each of the distinct products (excluding 'cash'), against their relevant benchmark, for the 2002-03 financial year, the last three years and the last five years (where relevant) is depicted in the following charts.

These charts show that Balanced and Conservative Products produced positive returns for the year whereas Defined Benefit and Growth produced negative returns. This reflects the asset classes in which these schemes are invested. However all products returns were above the benchmark for the year.

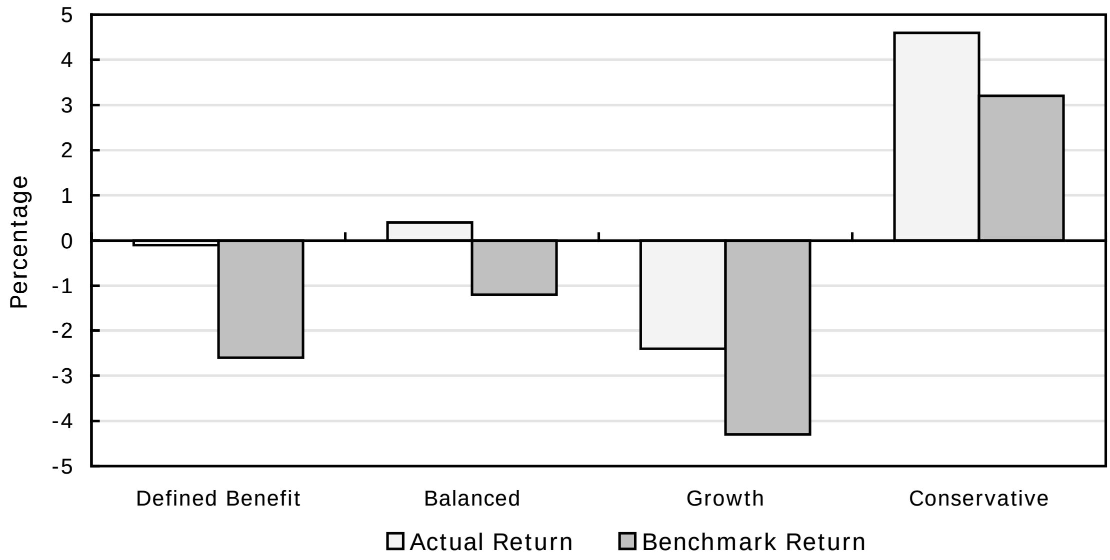
This is also consistent for the three years ending 30 June 2003 whereas for the five years ending 30 June 2003 both the Defined Benefit and Balanced Products provided positive returns of approximately five per cent which also were over the benchmark.

Growth and conservative products were first offered in 1999.

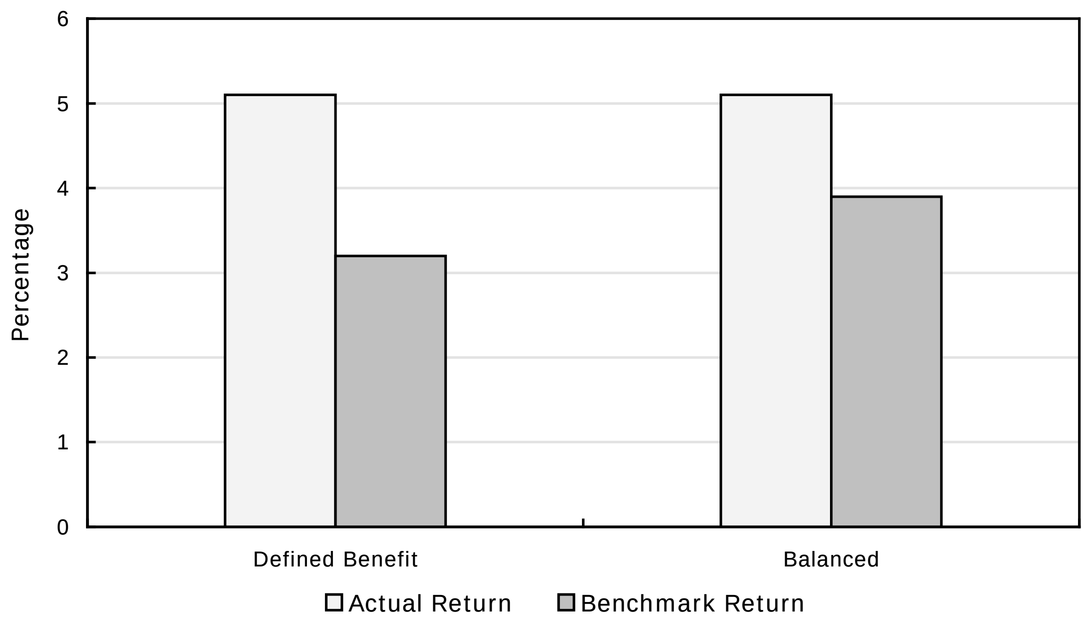
2002-03 Financial Year (Returns Percent)



Three Years ending 30 June 2003 (Returns Percent per annum)



Five Years ending 30 June 2003 (Returns Percent per annum)



Statement of Changes in Net Assets for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
NET ASSETS AS AT 1 JULY		**5 144 724**	5 258 492
NET FUNDS MADE AVAILABLE FOR INVESTMENT	4	**216 260**	145 055
INCOME EARNED AND EXPENDITURE INCURRED AS A RESULT OF INVESTMENT ACTIVITIES:			
Net income earned from:			
Inflation linked securities	5(a)	**75 267**	50 371
Property	5(a)	**50 811**	53 365
Australian equities	5(a)	**5 797**	(28 316)
International equities	5(a)	**(175 802)**	(372 258)
Australian fixed interest	5(a)	**21 954**	15 661
International fixed interest	5(a)	**30 032**	20 010
Cash	5(a)	**6 045**	4 918
		14 104	(256 249)
Less: Administration expenses	6	**2 841**	2 574
Net Income from Investment Activities	5(b)	**11 263**	(258 823)
NET ASSETS AS AT 30 JUNE		**5 372 247**	5 144 724

Statement of Net Assets as at 30 June 2003

	Note	**2003**	2002
BALANCE OF ACCOUNTS OPERATED IN RESPECT OF:		**$'000**	$'000
South Australian Superannuation Scheme	25	**2 673 727**	2 744 225
Police Superannuation Scheme	25	**399 517**	409 576
Southern State Superannuation Scheme	25	**2 076 388**	1 814 382
Parliamentary Superannuation Scheme	25	**122 019**	94 221
Judges' Pension Scheme	25	**100 139**	81 742
Governors' Pension Scheme	25	**457**	578
BALANCE OF ACCOUNTS		**5 372 247**	5 144 724
INVESTMENTS:			
Inflation linked securities	7	**665 150**	619 531
Property	8	**500 243**	523 764
Australian equities	9	**1 727 885**	1 736 960
International equities	10	**1 904 595**	1 622 835
Australian fixed interest	12	**235 902**	238 536
International fixed interest	13	**248 160**	242 280
Cash	14	**127 930**	197 787
		5 409 865	5 181 693
FIXED ASSETS	15	**70**	103
OTHER ASSETS:			
Cash at bank		**470**	1 303
Interest, dividends and rent due		**151**	245
Sundry debtors		**107**	604
		728	2 152
Total Assets		**5 410 663**	5 183 948
Less:			
CURRENT LIABILITIES:			
Rent and interest paid in advance		**1 732**	2 004
Sundry creditors		**8 898**	4 425
Provisions	16 (a)	**499**	416
		11 129	6 845
NON-CURRENT LIABILITIES	16 (b)	**27 287**	32 379
Total Liabilities		**38 416**	39 224
NET ASSETS		**5 372 247**	5 144 724
Commitment and Contingent Liabilities	17		

Statement of Cash Flows for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Inflation linked securities		**24 514**	22 108
Property		**5 430**	8 658
Australian equities		**3 514**	4 587
International equities		**46 962**	42 639
Australian fixed interest		**(417)**	(485)
International fixed interest		**(759)**	(710)
Cash		**6 722**	4 674
Administration		**(2 710)**	(2 490)
Net Cash provided by Operating Activities	22(b)	**83 256**	78 981
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments:			
Property		**(84 000)**	(37 839)
Australian equities		**(669 930)**	(14 390)
International equities		**(787 438)**	(268 182)
Fixed assets		**(44)**	(87)
		(1 541 412)	(320 498)
Sale of investments:			
Inflation linked securities		**5 035**	35 004
Property		**148 465**	31 052
Australian equities		**683 166**	112 193
International equities		**285 068**	-
Australian fixed interest		**25 000**	25 000
International fixed interest		**25 000**	25 000
Adelaide Plaza	11	**-**	38 000
Fixed assets		**25**	22
		1 171 759	266 271
Net Cash used in Investing Activities		**(369 653)**	(54 227)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipts		**523 330**	468 267
Payments		**(307 070)**	(323 212)
Net Cash provided by Financing Activities	4	**216 260**	145 055
NET (DECREASE) INCREASE IN CASH HELD		**(70 137)**	169 809
CASH AS AT 1 JULY		**198 680**	28 871
CASH AS AT 30 JUNE	22(a)	**128 543**	198 680

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; and
- funds determined by the Minister to be public sector superannuation funds.

As at 30 June 2003, 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' Pension Scheme; and

- 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 25 to this financial report as required by Section 26(2) of the Act.

Funds SA is not responsible for the administration of the superannuation schemes associated with the public sector superannuation funds. All scheme administration activities are undertaken by the Superannuation Boards established by scheme legislation, or by the Department of Treasury and Finance. Consequently, the financial report of Funds SA report 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 statements prepared by the responsible Superannuation Boards and/or the Department of Treasury and Finance.

2. Statement of 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.

(a) Basis of Accounting (continued)

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 2003 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*
  Valuations of directly held properties have been carried out by independent licensed property valuers, other than as indicated in Note 8.

  In addition, a secured short-term loan provided to a 3rd party has been valued on the basis of principal outstanding at the balance date.

- *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 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 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 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 and other deposits of very short term duration 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. 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 straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) Employee Benefits
Liabilities for salaries, annual leave and long service leave have been recognised in respect of employees' 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 the 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 not been recognised as a liability.

3. Operation of Investment Portfolio
Funds SA operates a pooled investment portfolio utilising a number of sector funds, each of which holds assets of a different category. The sector funds are:

- Australian Equities;
- International Equities;
- Property;
- 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.

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. Funds SA therefore manages five separate investment products distinguished by differing strategic asset allocations. The products are:

- Growth;
- Balanced;
- Conservative;
- Cash; and
- Defined Benefit.

3. Operation of Investment Portfolio (continued)

The first four products are available to members of the Southern State Superannuation Scheme whereas the fifth product, Defined Benefit, is 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 25. Each fund's allocation of total net investment income is disclosed in Note 5(b) and in each fund's Statement of Changes in Net Assets Under Management in Note 25.

4. Net Funds made Available for Investment

The receipts below represent the total of monies received by Funds SA from the public sector superannuation funds for investment, and payments represent the total of monies redeemed by the funds to meet scheme payments.

	2003	2002
South Australian Superannuation Scheme:	**$'000**	$'000
Receipts	**226 305**	226 250
Less: Payments	**286 550**	249 800
	(60 245)	(23 550)
Police Superannuation Scheme:		
Receipts	**5 050**	38 137
Less: Payments	**12 150**	15 450
	(7 100)	22 687
Southern State Superannuation Scheme:		
Receipts	**237 275**	195 450
Less: Payments	**1 175**	7 925
	236 100	187 525
Parliamentary Superannuation Scheme:		
Receipts	**32 790**	1 840
Less: Payments	**4 220**	7 650
	28 570	(5 810)
Judges' Pension Scheme:		
Receipts	**21 910**	770
Less: Payments	**2 860**	1 590
	19 050	(820)
Governors' Pension Scheme:		
Receipts	**-**	10
Less: Payments	**115**	50
	(115)	(40)
	216 260	145 055

5. Investment Income

(a) Composition of Investment Income

Asset Sector	Rent, Interest and Dividends $'000	Realised Gains (Losses)(1) $'000	Unrealised Gains (Losses)(2) $'000	Expenses $'000	**2003 Total $'000**
Inflation Linked Securities	46 753	3 993	25 036	(515)	**75 267**
Property	34 212	1 108	20 627	(5 136)	**50 811**
Australian Equities	77 209	(81 513)	18 670	(8 569)	**5 797**
International Equities	21 997	(52 928)	(132 980)	(11 891)	**(175 802)**
Australian Fixed Interest	12 818	4 584	5 003	(451)	**21 954**
International Fixed Interest	8 951	20 405	1 595	(919)	**30 032**
Cash	6 279	-	(143)	(91)	**6 045**
Total	208 219	(104 351)	(62 192)	(27 572)	**14 104**

Asset Sector	Rent, Interest and Dividends $'000	Realised Gains (losses)(1) $'000	Unrealised Gains (losses)(2) $'000	Expenses $'000	2002 Total $'000
Inflation Linked Securities	41 901	1 942	7 113	(585)	50 371
Property	36 063	7 438	14 379	(4 515)	53 365
Australian Equities	68 364	(7 700)	(83 241)	(5 739)	(28 316)
International Equities	16 838	(75 669)	(306 665)	(6 762)	(372 258)
Australian Fixed Interest	14 537	1 878	(289)	(465)	15 661
International Fixed Interest	9 553	13 933	(2 534)	(942)	20 010
Cash	4 470	47	410	(9)	4 918
Total	191 726	(58 131)	(370 827)	(19 017)	(256 249)

(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:

	2003	2002
	$'000	$'000
South Australian Superannuation Scheme:		
South Australian Superannuation Fund - Old Scheme Division	**(9 189)**	(63 818)
- New Scheme Division	**(1 601)**	(18 316)
Employer Contribution Accounts	**537**	(74 855)
Police Superannuation Scheme:		
Police Superannuation Fund - Old Scheme Division	**(1610)**	(12 554)
- New Scheme Division	**(32)**	(545)
Employer Contribution Account	**(1 317)**	(10 537)
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	**4 511**	(6 484)
Southern State Superannuation (Employers) Fund	**21 395**	(61 701)
Parliamentary Superannuation Scheme	**(772)**	(5 371)
Judges' Pension Scheme	**(653)**	(4 608)
Governors' Pension Scheme	**(6)**	(34)
	11 263	(258 823)

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 $2 840 900 ($2 574 200) 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.

	2003	2002
	$'000	$'000
Directors' fees and related expenses	**220**	224
Staff salary and related expenses	**1 661**	1 416
Rental and accommodation expenses	**141**	139
Depreciation	**77**	76
Travel, training and development	**141**	165
External audit fees	**84**	87
Consultancy fees	**102**	97
Insurances	**134**	120
Other	**281**	250
	2 841	2 574

(b) Fees paid to Consultants

Fees paid or payable to consultants for services not related to the management of specific investments amounted to $101 800 ($97 000), 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:

	2003	2002
	$'000	$'000
Internally managed investments	**430 951**	407 962
Externally managed investments	**234 199**	211 569
	665 150	619 531

7. Inflation Linked Securities (continued)

As at 30 June 2003, 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
- Government Computing Centre, Glenside, SA - 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) - License 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:-

	2003	2002
	$'000	$'000
Directly held properties	**59 066**	60 719
Externally managed listed property trusts	**254 299**	292 912
Externally managed unlisted property vehicles	**186 878**	170 133
	500 243	523 764

As at 30 June 2003, 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)
Loan to Meredith Projects Pty Ltd (secured against an office building in Bankstown, NSW)(3)

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 residual value of the property has been valued by Knight Frank. The offsetting non-current liability is reported in Note 16(b).

(2) The value of a future interest in the lease residual associated with the Department of Land Administration Offices, Midland, Western Australia, has been determined by Directors using the discounted cash flow method.

(3) The loan to Meredith Projects Pty Ltd has been provided by Funds SA pursuant to the exercise of a put option granted to the Commonwealth Bank of Australia in relation to a debt facility over a property in Bankstown, NSW, by Funds SA's predecessor, South Australian Superannuation Fund Investment Trust, in 1990. The put option was exercised in May 2002. The loan is secured by registered first mortgages over the Bankstown property plus fixed and floating charges over the assets of Meredith Projects Pty Ltd and Meredith Properties Pty Ltd (both companies Receivers and Managers appointed). Funds SA appointed Receivers and Managers to these companies in June 2003, following default by the property owner of its obligations under the debt facility.

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.

9. Australian Equities (continued)

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 mainly in unlisted companies and managed trust funds. Such investments may take the form of equity interests, loans, or a combination of both.

The nature of mandates given to investment managers and the value of the individual portfolios as at balance date comprise:

	2003	2002
Active Broad Market Mandate:	**$'000**	$'000
Credit Suisse Asset Management (Australia) Ltd	**354 805**	376 680
Perpetual Asset Management Ltd	**-**	467 580
Balanced Equity Management Pty Ltd	**405 704**	441 705
Barclays Global Investors Australia Limited	**238 861**	289 704
Barclays Global Investors Australia Limited – Long/Short	**56 877**	-
Perennial Value Management Limited	**446 361**	-
Active Small Capitalization Mandate:		
Perpetual Asset Management Ltd	**-**	113 599
Jenkins Investment Management Pty Ltd	**85 205**	-
SG Hiscock and Company Ltd	**87 570**	-
Private Equity Investments: [(1)]		
Listed Equities	**1 673**	2 243
Unlisted Equities	**-**	158
Managed Funds	**50 829**	45 291
	1 727 885	1 736 960

(1) As at 30 June 2003, the composition of each private equity sub-sector is as follows:

Listed Equities:
Grand Hotel Group Limited

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 Venture Investments 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:

	2003	2002
All Countries mandate:	**$'000**	$'000
Capital International Inc.	**190 551**	188 761
Europe Australasia Far East (EAFE) mandates:		
Capital International Inc	**249 932**	247 233
The Boston Company Asset Management LLC	**111 764**	119 639
Delaware International Advisers Limited	**154 456**	144 390
Fidelity International Limited	**118 248**	-
Schroder Investment Management (Australia) Ltd	**-**	57 163
North America mandates:		
Rainier Investment Management	**117 448**	105 450
Kacobs Levy Equity Management, Inc	**360 959**	-
Barclays Global Investors – US Alpha Tilts Fund	**334 191**	558 214
Barclays Global Investors – MSCI Canada Index Fund	**28 554**	30 610
Barclays Global Investors – Russell 2000 Alpha Tilts Fund	**77 073**	45 762
Emerging markets mandates:		
Genesis Management Australia Ltd	**48 360**	50 963
GMO Australia Limited	**36 694**	-
Schroder Investment Management (Australasia) Ltd	**-**	41 916

10. International Equities (continued)	**2003**	2002
Private Equity mandates:	**$'000**	$'000
Wilshire Private Markets Funds	**17 210**	17 726
Brinson Partnership Trusts	**11 973**	9 518
Adams Street Partnership Funds	**3 011**	631
Pantheon Europe Funds	**950**	-
Currency Hedge Overlay(1)	**43 221**	4 859
	1 904 595	1 622 835

(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 positive hedge overlay position, as at 30 June, reflects appreciation in the Australian dollar relative to cross-currencies during the June quarter.

11. Adelaide Plaza

The Adelaide Plaza Fund was established in 1995 to hold Funds SA's investment in the Adelaide Casino, Hyatt Hotel and Riverside Office building. These assets were owned and operated by Funds SA through its fully owned subsidiary, the Funds SA Subsidiary Holding Corporation, which was established under the *Public Corporations Act 1993*.

Between 1999 and 2001, the Funds SA Subsidiary Holding Corporation disposed of the Adelaide Plaza assets. Consequently, during the 2001-02 financial year, the Funds SA Subsidiary Holding Corporation was dissolved upon the passing of the Public Corporations (Funds SA Subsidiary Holding Corporation Dissolution) Amendment Regulations 2002.

Funds SA Subsidiary Holding Corporation paid a final dividend to Funds SA of $38 million in 2001-02

12. 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:

	2003	2002
Australian broad market:	**$'000**	$'000
Credit Suisse Asset Management (Australia) Ltd	**115 267**	104 774
Australian broad market with tactical discretion:		
UBS Brinson	**120 635**	133 762
	235 902	238 536

13. 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:

	2003	2002
Active mandates:	**$'000**	$'000
PIMCO Australia Pty Ltd	**127 574**	135 462
Fischer Francis Trees and Watts, Inc	**120 586**	106 818
	248 160	242 280

14. Cash

The cash sector fund comprised the following investments as at the balance date:

Externally managed		
Macquarie Investment Management Ltd	**127 930**	-
Internally managed		
11am and term deposits	**-**	14 400
Bank bills	**-**	183 387
	127 930	197 787

15. Fixed Assets

Fixed assets comprise fixtures, fittings, plant and equipment. Movements in this account are summarised below:

	2003	2002
	$'000	$'000
Fixed assets (at cost) at 1 July	**741**	794
Add: Purchases	**44**	87
	785	881
Less: Disposals (At cost)	**26**	140
Fixed assets (At cost) at 30 June	**759**	741
Less: Accumulated depreciation at 30 June	**689**	638
	70	103

16. Liabilities

(a) Current Provisions

Current provisions as at balance date comprise:

	2003	2002
Provision for employee entitlements	**123**	84
Lease incentive	**18**	18
Other	**358**	314
	499	416

(b) Non-Current Liabilities

Non-Current liabilities as at balance date comprise:

	2003	2002
Provision for employee entitlements	**341**	295
Bank bill facility(1)	**26 938**	31 343
Lease incentive	**8**	26
Other	**-**	715
	27 287	32 379

(1) The future income stream arising from the long term lease to the Australian Taxation Office (ATO) of the whole of a Hobart office property has been redirected to a syndicate of international banks. The redirection was in the form of a concurrent lease of the property to the banks under which the banks received the right to the rental and fixed outgoings payments made by the ATO. The concurrent lease requires the banks to make rental payments to Funds SA equal in value to the payments receivable from the ATO. As part of the transaction, the banks provided a bank bill facility to Funds SA. Under a set-off agreement, the rental payments due to Funds SA under the concurrent lease are applied by the banks to service the bill facility. The amounts outstanding under the facility are predetermined and are capable of being fully serviced and repaid from the concurrent lease rentals.

17. Commitments and Contingent Liabilities

(a) Commitments

As at the balance date, Funds SA had commitments associated with future capital calls on private equity investments entered into before that date, other than transactions which have been provided for in the financial report as unsettled purchases of investments. The commitments are as follows, with no allowance having been made for the time value of money:

	2003	2002
	$'000	$'000
Not later than one year	**57 320**	52 733
Later than one year but not later than five years	**147 647**	166 619
Later than five years	**10 816**	11 907
	215 783	231 259

(b) Contingent Liabilities

Funds SA has granted a put option with an exercise price of $8 million in respect of an office property located in Wollongong, NSW, occupied by the Australian Taxation Office. If exercised, Funds SA would acquire the property. This put option may be exercised in January 2004.

Directors consider that, as at 30 June 2003, exercise of the option will be unlikely as the forecasted valuation is higher than the respective exercise price. Should the put option be exercised, the impact on Funds SA's net worth will be limited to the amount by which the property value falls below the exercise price.

18. Employee Benefits

(a) Employees' Remuneration

Funds SA had 15 employees as at 30 June 2003.

Remuneration, including salary, bonuses, superannuation and other benefits, of Funds SA officers which exceeds the disclosure threshold required by Accounting Policy Statement APS 13 'Form and Content of General Purpose Financial Reports' is as follows:

Total Remuneration:	Number of Officers	
	2003	2002
$100 001 - $110 000	**3**	-
$110 001 - $120 000	**-**	1
$130 001 - $140 000	**1**	-
$210 001 - $220 000	**-**	1
$220 001 - $230 000	**1**	-
$270 001 - $280 000	**1**	1

The aggregate remuneration of employees exceeding the disclosure threshold was $954 700 ($603 300).

(b) Employee Benefits

The administration expenses incurred by Funds SA include recognition of the liabilities associated with employee benefits of Funds SA officers resulting from service up to the balance date.

Superannuation liabilities recognised in the Statement of Net Assets represent employer contributions due but not yet paid as at the balance date. Funds SA Directors and officers are either members of the South Australian Superannuation Scheme, Southern State Superannuation Scheme or private superannuation funds.

Funds SA makes periodic payments to these superannuation funds. These payments extinguish any future liability for superannuation for all employees and directors. In 2002-03, the periodic amounts paid, or due and payable, to the South Australian Superannuation Scheme and the Southern State Superannuation Scheme totalled $114 100 ($91 100). In 2002-03, the periodic amounts paid, or due and payable, to private superannuation funds totalled $41 100 ($43 600).

The employee benefits recognised as liabilities as at 30 June 2003 comprise:

		2003		2002
	Current	**Non-Current**	**Total**	Total
	$'000	**$'000**	**$'000**	$'000
Salaries and Wages	**44**	**-**	**44**	21
Annual Leave	**62**	**-**	**62**	56
Long Service Leave	**16**	**341**	**357**	302
Superannuation	**1**	**-**	**1**	-
	123	**341**	**464**	379

19. Related Parties

(a) Directors

The following are directors of the Corporation who have served during the course of the 2002-03 financial year, along with the period served.

Helen Nugent	Chairman	Throughout the year
Kevin Crawshaw	Director	Throughout the year
Leigh Hall	Director	Throughout the year
Jan McMahon	Director	Throughout the year
Anthony Sims	Director	Throughout the year
Jim Wright	Director	Throughout the year
Julie Brennan	Director	Appointed 28 November 2002
Louise Hicks	Director	Resigned 21 October 2002

(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 2002-03 year were set by the Governor of South Australia.

	Number of Directors	
	2003	2002
$10 001 - $20 000	**2**	-
$20 001 - $30 000	**1**	4
$30 001 - $40 000	**3**	1
$60 001 - $70 000	**1**	1

The aggregate remuneration of directors was $212 600 ($214 800).

(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 2002-03 on normal commercial terms and conditions. Dr Nugent has taken no part in any discussions, decisions or implementation of decisions relating to Funds SA's relationship with Macquarie Bank Group Limited (or its wholly-owned subsidiaries). Dr Nugent is also a non-executive director of Freehills. Freehills provided legal advice to Funds SA on one occasion during 2002-03 on normal commercial terms and conditions. Dr Nugent was not a director of Freehills at the time Freehills was engaged by Funds SA.

Another director of Funds SA, Ms Julie Brennan, is a partner of chartered accounting firm Ferrier Hodgson. Ferrier Hodgson has provided professional accounting services to Funds SA during 2002-03 on normal commercial terms and conditions. Ms Brennan has taken no part in any decisions relating to this engagement. Ms Brennan was not a director of Funds SA at the time Ferrier Hodgson was engaged by Funds SA.

20. Controlled Entities

Funds SA's share holdings in controlled entities are as follows:

Name of Entity	Ownership Percent
Carwell Pty Ltd	100
ASER Nominees Pty Ltd *(in liquidation)*	100
Kantilla Pty Ltd	100
Narana Pty Ltd	100
Pipetch Pty Ltd	100
SILT Trust	100

20. Controlled Entities (continued)

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 2003, Carwell Pty Ltd continues to hold Funds SA's residual equity interest in the remaining ASER entity listed above (in liquidation). Both Narana Pty Ltd and Kantilla Pty Ltd currently do not hold any investments. Pipetch Pty Ltd is the trustee company of the SILT Trust, which holds Funds SA's inflation linked investment in the Shell Australia Service Station Leases. This investment is reported in Note 7.

21. Remuneration of Auditors

Amounts received, or due and receivable, by the auditors are:

	2003	2002
Auditor-General's Department:	**$'000**	$'000
Auditing of Funds SA and certain controlled entities	**77**	83
Bird Cameron Partners (Sydney):		
Auditing of Pipetch Pty Ltd and SILT Trust	**7**	4
	84	87

22. Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash is considered to include cash on hand, cash at bank and investments in money market instruments, where such investments are considered to be part of the day to day cash management function. Such investments include 11am at call deposits and other deposits of very short duration, and bank bills.

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

	2003	2002
	$'000	$'000
Cash	**127 930**	197 787
Add: Net depreciation (appreciation) of assets	**143**	(410)
Short-term money market investments utilised in day to day cash management activities	**128 073**	197 377
Cash at bank	**470**	1 303
Cash as at 30 June reported in the Statement of Cash Flows	**128 543**	198 680

(b) Reconciliation of Net Cash provided by Operating Activities to Net Investment Income

Investment income reported in the Statement of Changes in Net Assets	**11 263**	(258 823)
Net depreciation of investments	**120 228**	418 513
Interest capitalised on inflation linked securities	**(12 117)**	(9 165)
Income realised by external investment managers, but not remitted	**(141 411)**	(127 688)
Shortfall of realisations over market values previously taken	**105 458**	58 175
Depreciation of fixed assets and provisions	**119**	122
Decrease in investment related debtors	**592**	150
Decrease in investment related creditors	**(876)**	(2 303)
Net Cash provided by Operating Activities	**83 256**	78 981

For asset classes other than property, operating outgoings are normally minor and incidental in nature. Funds SA's directly held properties are managed by external agents who are responsible for the collection of rents and the payment of property outgoings. Funds SA receives payments from the managing agents representing the net cash income from the properties. For these reasons, items comprising Net cash provided by (used in) operating activities in the Statement of Cash Flows are presented on a net cash flow basis.

(c) Credit Facilities

A syndicate of international banks has made a bank bill facility available to Funds SA as a result of transactions associated with Funds SA's investment in a property in Hobart, Tasmania. The facility has been fully drawn down and does not provide any standby credit. Further reference to this facility may be found under Note 16.

23. Additional Disclosures with Respect to Financial Instruments

(a) Interest Rate Risk

Funds SA's investments are exposed to various risks from fluctuations in market interest rates, which can impact on both the net market values of and expected cash flows from those investments. Funds SA is not exposed to interest rate risk on any of its liabilities. The following table summarises interest rate risk exposure on investments:

				2003			
Australian Fixed Interest:	Effective Interest Rate Percent	3 months or Less $'million	Over 3 to 6 months $'million	Over 6 to 12 Months $'million	Over 1 to 5 years $'million	More than 5 years $'million	**Total $'million**
Commonwealth bonds	4.94	-	-	-	-	46.7	**46.7**
Semi-Government bonds	4.5	-	-	-	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**

				2002			
Australian Fixed Interest:	Effective Interest Rate Percent	3 months or Less $'million	Over 3 to 6 months $'million	Over 6 to 12 months $'million	Over 1 to 5 years $'million	More than 5 years $'million	Total $'million
Commonwealth bonds	5.78	-	-	-	26.8	36.8	63.6
Semi-Government bonds	6.02	-	-	-	28.5	36.7	65.2
Corporate bonds	6.11	-	-	-	56.7	21.6	78.3
Inflation Linked - Internal:		-	-	-			
Corporate loans	3.98	-	-	-	-	94.0	94.0
Land and buildings	4.40	-	-	-	4.6	155.8	160.4
Indexed licence agreement	3.01	-	-	-	-	153.6	153.6
Inflation Linked - External:		-	-	-			
Commonwealth bonds	3.32	-	-	-	3.0	145.8	148.8
Semi-Government bonds	2.97	2.0	-	1.8	0.3	21.8	25.9
Corporate bonds	2.80	-	-	-	-	23.4	23.4
International Fixed Interest:							
United States	3.79	1.1	-	0.5	20.6	100.9	123.1
United Kingdom	5.13	-	-	-	5.4	3.7	9.1
European Community	4.97	-	-	-	34.1	72.2	106.3
Japan	0.92	-	-	1.5	5.8	11.8	19.1
Discounted Securities:							
Bank bills (internal)	4.84	183.4	-	-	-	-	183.4
Bank bills (manager held)	4.99	35.9	4.9	-	-	-	40.8
US Bank bills (manager held)	1.88	17.0	-	-	-	-	17.0
Cash (floating interest)	6.00	54.5					54.5
Total		293.9	4.9	3.8	185.8	878.1	1 366.5

(b) Use of Derivatives

Under the Regulations to the Act, in 1995 the Treasurer of South Australia authorised Funds SA to utilise derivative contracts for the purpose of the investment of funds or the management of portfolio risk. This authorisation continues in force.

(b) Use of Derivatives (continued)

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.

The following table summarises Funds SA's external managers' use of derivative instruments:

	2003		2002	
	Principal Amount	**Net Market Value**	Principal Amount	Net Market Value
Derivative Instrument:	**$'000**	**$'000**	$'000	$'000
Futures - Australian fixed interest	**(2 440)**	**478**	17 341	13
Futures - International fixed interest	**(15 958)**	**104**	8 297	(65)
Futures - Share price index	**16 146**	**(404)**	12 404	(104)
Futures - Discount securities	**(48 436)**	**(218)**	(5 852)	(35)
Options - Australian exchange traded	**11 541**	**11 413**	18 892	39 617
Options - International exchange traded	**-**	**(4 625)**	10 992	9
Options - International over the counter	**(143)**	**(143)**	-	-
Currency forward rate agreements	**663 806**	**43 221**	536 313	4 859
	624 516	**49 826**	598 387	44 294

(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)).

	2003	2002
	$'000	$'000
United States, Dollar	**1 169 893**	1 041 710
Europe, Euro	**333 314**	305 518
Japan, Yen	**127 756**	147 332
United Kingdom, Pound	**165 598**	130 280
Switzerland, Franc	**46 800**	40 503
Sweden, Krona	**8 996**	21 536
Hong Kong, Dollar	**16 850**	21 953
Canada, Dollar	**51 254**	44 290
Singapore, Dollar	**13 553**	12 282
Norway, Krone	**6 589**	4 897
Denmark, Kroner	**1 712**	1 160
New Zealand, Dollar	**8 018**	4 061
Mexico, Pesos	**1 635**	-
South Korea, Won	**1 801**	-
Brazil, Real	**264**	-
Taiwan, New Dollars	**672**	-
	1 954 705	1 775 522
Less: Amount effectively hedged	**(893 976)**	(794 599)
	1 060 729	980 923

(d) Net Fair Values

Financial instruments are stated in the financial report at net market values as required by AAS 25. Directors are of the opinion that net market value provides a reasonable representation of the net fair values of financial instruments as required by AAS 33 'Presentation and Disclosure of Financial Instruments'.

24. Events Occurring After Balance Date

There were no events occurring after the reporting date, which, in the opinion of directors, are required to be disclosed in either the Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash flows or in the Notes to and Forming Part of the Financial Report.

25. Financial Information of Funds Under Management

Statements of Net Assets Under Management and Statements of Changes in Net Assets in respect of each of the public sector superannuation funds under the investment management of Funds SA are reported 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 Fund - Old and New Scheme Divisions
(b) South Australian Superannuation Scheme - Employer Contribution Accounts
(c) Police Superannuation Fund - Old and New Scheme Divisions
(d) Police Superannuation Scheme - Employer Contribution Account
(e) Southern State Superannuation Fund
(f) Southern State Superannuation (Employers) Fund
(g) Parliamentary Superannuation Scheme
(h) Judges' Pension Scheme
(i) Governors' Pension Scheme
(j) Police Occupational Superannuation Scheme

(a) South Australian Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003 Old Scheme Division $'000	2002 Old Scheme Division $'000	**2003 New Scheme Division $'000**	2002 New Scheme Division $'000
Funds held at 1 July	**1 110 720**	1 226 988	**332 703**	340 719
Add: Receipts	**1 150**	-	**19 205**	12 450
Net investment earnings	**(9 189)**	(63 818)	**(1 601)**	(18 316)
Less: Payments	**48 450**	52 450	**900**	2 150
Funds held at 30 June	**1 054 231**	1 110 720	**349 407**	332 703

Statement of Net Assets under Management as at 30 June 2003

	2003 Old Scheme Division $'000	2002 Old Scheme Division $'000	**2003 New Scheme Division $'000**	2002 New Scheme Division $'000
Inflation linked securities	**132 441**	150 731	**43 895**	45 150
Property	**102 557**	117 080	**33 997**	35 070
Australian equities	**355 173**	389 262	**117 716**	116 598
International equities	**393 444**	367 951	**130 401**	110 215
Australian fixed interest	**26 936**	25 451	**8 927**	7 624
International fixed interest	**29 328**	26 250	**9 720**	7 863
Cash	**22 006**	42 279	**7 294**	12 664
Other assets	**145**	490	**48**	147
	1 062 050	1 119 494	**351 998**	335 331
Less: Liabilities	**7 819**	8 774	**2 591**	2 628
Net Assets	**1 054 231**	1 110 720	**349 407**	332 703

(b) South Australian Superannuation Scheme - Employer Contribution Accounts

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003 $'000	2002 $'000
Funds held at 1 July	**1 300 802**	1 357 057
Add: Receipts	**205 950**	213 800
Net investment earnings	**537**	(74 855)
Less: Payments	**237 200**	195 200
Funds held at 30 June	**1 270 089**	1 300 802

(b) South Australian Superannuation Scheme - Employer Contribution Accounts (continued)

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**159 558**	176 526
Property	**123 580**	137 117
Australian equities	**427 896**	455 878
International equities	**474 003**	430 921
Australian fixed interest	**32 452**	29 807
International fixed interest	**35 332**	30 742
Cash	**26 512**	49 514
Other assets	**175**	573
	1 279 508	1 311 078
Less: Liabilities	**9 419**	10 276
Net Assets	**1 270 089**	1 300 802

(c) Police Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003 Old Scheme Division	2002 Old Scheme Division	**2003 New Scheme Division**	2002 New Scheme Division
	$'000	$'000	**$'000**	$'000
Funds held at 1 July	**222 251**	239 030	**10 095**	9 915
Add: Receipts	**775**	525	**1 000**	775
Net investment earnings	**(1 610)**	(12 554)	**(32)**	(545)
Less: Payments	**4 725**	4 750	**75**	50
Funds held at 30 June	**216 691**	222 251	**10 988**	10 095

Statement of Net Assets under Management as at 30 June 2003

	2003 Old Scheme Division	2002 Old Scheme Division	**2003 New Scheme Division**	2002 New Scheme Division
	$'000	$'000	**$'000**	$'000
Inflation linked securities	**27 222**	30 161	**1 380**	1 370
Property	**21 084**	23 427	**1 069**	1 064
Australian equities	**73 004**	77 890	**3 702**	3 538
International equities	**80 870**	73 626	**4 101**	3 344
Australian fixed interest	**5 537**	5 093	**280**	231
International fixed interest	**6 028**	5 252	**306**	239
Cash	**4 523**	8 460	**229**	384
Other assets	**30**	98	**2**	5
	218 298	224 007	**11 069**	10 175
Less: Liabilities	**1 607**	1 756	**81**	80
Net Assets	**216 691**	222 251	**10 988**	10 095

(d) Police Superannuation Scheme - Employer Contribution Account

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**177 230**	161 580
Add: Receipts	**3 275**	36 837
Net investment earnings	**(1 317)**	(10 537)
Less: Payments	**7 350**	10 650
Funds held at 30 June	**171 838**	177 230

(d) Police Superannuation Scheme - Employer Contribution Account (continued)

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**21 587**	24 051
Property	**16 720**	18 682
Australian equities	**57 893**	62 111
International equities	**64 131**	58 711
Australian fixed interest	**4 390**	4 061
International fixed interest	**4 780**	4 188
Cash	**3 587**	6 747
Other assets	**24**	78
	173 112	178 629
Less: Liabilities	**1 274**	1 399
Net Assets	**171 838**	177 230

(e) Southern State Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**174 809**	144 868
Add: Receipts	**78 575**	44 050
Net investment earnings	**4 511**	(6 484)
Less: Payments	**1 175**	7 625
Funds held at 30 June	**256 720**	174 809

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**29 405**	15 339
Property	**21 954**	16 745
Australian equities	**76 033**	55 802
International equities	**83 431**	51 363
Australian fixed interest	**17 940**	14 785
International fixed interest	**18 521**	14 914
Cash	**11 103**	7 033
Other assets	**59**	78
	258 446	176 059
Less: Liabilities	**1 726**	1 250
Net Assets	**256 720**	174 809

(f) Southern State Superannuation (Employers) Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**1 639 573**	1 550 174
Add: Receipts	**158 700**	151 400
Net investment earnings	**21 395**	(61 701)
Less: Payments	**-**	300
Funds held at 30 June	**1 819 668**	1 639 573

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**221 695**	152 246
Property	**157 603**	155 970
Australian equities	**541 468**	514 010
International equities	**591 134**	468 220
Australian fixed interest	**133 751**	147 439
International fixed interest	**137 952**	148 659
Cash	**48 029**	63 986
Other assets	**284**	710
	1 831 916	1 651 240
Less: Liabilities	**12 248**	11 667
Net Assets	**1 819 668**	1 639 573

(g) Parliamentary Superannuation Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**94 221**	105 402
Add: Receipts	**32 790**	1 840
Net investment earnings	**(772)**	(5 371)
Less: Payments	**4 220**	7 650
Funds held at 30 June	**122 019**	94 221

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**15 329**	12 786
Property	**11 872**	9 932
Australian equities	**41 109**	33 021
International equities	**45 538**	31 213
Australian fixed interest	**3 118**	2 159
International fixed interest	**3 394**	2 227
Cash	**2 547**	3 586
Other assets	**17**	41
	122 924	94 965
Less: Liabilities	**905**	744
Net Assets	**122 019**	94 221

(h) Judges' Pension Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**81 742**	87 170
Add: Receipts	**21 910**	770
Net investment earnings	**(653)**	(4 608)
Less: Payments	**2 860**	1 590
Funds held at 30 June	**100 139**	81 742

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**12 581**	11 093
Property	**9 743**	8 616
Australian equities	**33 737**	28 647
International equities	**37 372**	27 079
Australian fixed interest	**2 559**	1 873
International fixed interest	**2 786**	1 932
Cash	**2 090**	3 112
Other assets	**14**	36
	100 882	82 388
Less: Liabilities	**743**	646
Net Assets	**100 139**	81 742

(i) Governors' Pension Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**578**	652
Add: Receipts	**-**	10
Net investment earnings	**(6)**	(34)
Less: Payments	**115**	50
Funds held at 30 June	**457**	578

(i) Governors' Pension Scheme (continued)

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**57**	78
Property	**44**	61
Australian equities	**154**	203
International equities	**170**	192
Australian fixed interest	**12**	13
International fixed interest	**13**	14
Cash	**10**	22
Other assets	**-**	-
	460	583
Less: Liabilities	**3**	5
Net Assets	**457**	578

(j) Police Occupational Superannuation Scheme [(1)]

Statement of Changes in Net Assets under Management for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Funds held at 1 July	**-**	34 937
Add: Receipts	**-**	-
Net investment earnings	**-**	-
Less: Payments	**-**	34 937
Funds held at 30 June	**-**	-

Statement of Net Assets under Management as at 30 June 2003

	2003	2002
	$'000	$'000
Inflation linked securities	**-**	-
Property	**-**	-
Australian equities	**-**	-
International equities	**-**	-
Australian fixed interest	**-**	-
International fixed interest	**-**	-
Cash	**-**	-
Other assets	**-**	-
	-	-
Less: Liabilities	**-**	-
Net Assets	**-**	-

(1) This Scheme was closed on 1 July 2001, and the balance of its funds were transferred to the Police Superannuation Scheme Employer Contribution Account on that date.

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.

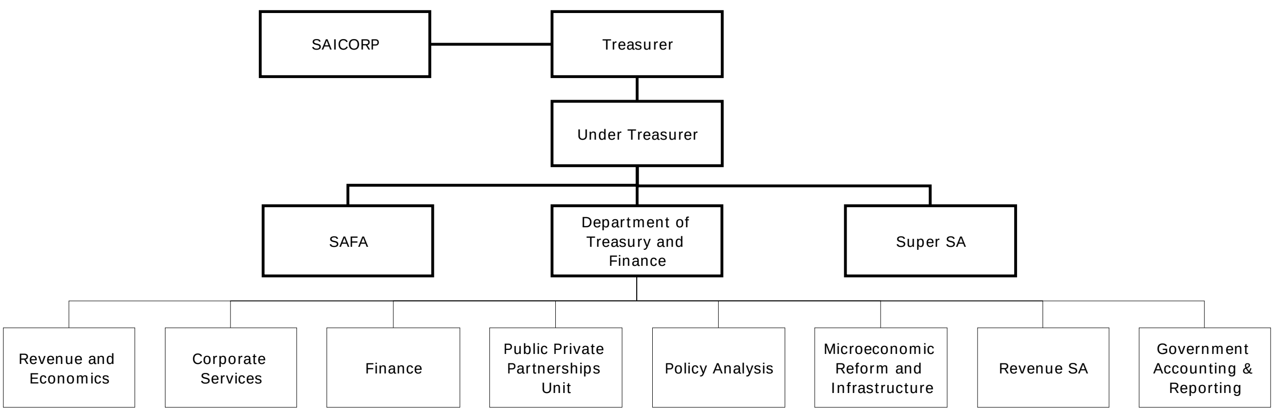
In turn the Department is a major service provider by:

- 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 Schedule of Administered Expenses and Revenues and Note 22 'Other Administered Accounts' appearing in the Department's financial statements.

Structure

The structure of the Department 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 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 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. 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 2002-03, specific areas of audit attention included:

Corporate Services

- Expenditure (including payment of accounts, salaries and related payments)
- Non-current assets
- Revenue/debtors
- Accounting and financial management reporting
- Computer processing environment
- Procurement activities, including reviewing the role of the Accredited Purchasing Unit (APU).

Revenue SA

- 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 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 to be satisfactory. Major matters raised with the Department and the related responses are considered in Audit Findings and Comments.

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 2003, its financial performance and its operations 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 is 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.

Significant Matters Raised with the Agency

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 highlighted that in most cases there was a satisfactory control environment in place, although there were some areas where minor improvements could be made.

DTF Response

The Department responded 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.

As part of the audit, consideration was given to the general control environment in which RevenueSA operates. In particular, Audit noted that RevenueSA operates around 'functional' lines rather than 'processing' or tax head lines resulting in no one person being responsible for overseeing the day to day administration of individual tax heads from start to finish. Whilst this has the benefit of consolidating similar functions for each tax head, it may have caused, in Audit's viewpoint, a number of matters raised relating to uncertainty of responsibilities and communication between different areas in the organisation.

In addition, Audit noted that increasing reliance is being placed on the use of taxpayer self assessments for the collection of taxation revenue. This appears to be a trend consistent with all taxing jurisdictions.

For the environment that RevenueSA operates within, it is important to have a strong focus on 'risk management'. During 2002-03, RevenueSA has made a significant step forward by developing a 'Verification and Compliance Strategy Plan' for the RevNet System and adopting a risk based approach for setting their business plan for the Compliance Services.

In relation to the review completed during 2002-03, the results of Audit work undertaken indicated that while existing systems of internal control were in general operating satisfactorily, a number of matters warranted further action by management, some of which have been recurrent/outstanding over a number of years. Detailed audit findings together with suggested actions to strengthen internal controls were forwarded to management for consideration and comment.

In particular, attention was drawn to the following areas:

Risk Management

The audit findings included comments concerning the adoption of a risk based approach for the RevNet Project and Compliance Services. In Audit's view, adopting a risk based approach at the corporate level would assist in identifying and addressing risks in a more proactive manner, enhancing the communication between sections through clarification of the responsibilities and accountabilities. Audit recommended RevenueSA initiate such a risk based approach in managing the raising and collection of tax revenues at the corporate level.

RevenueSA Response

In response, RevenueSA indicated that they endorsed a risk management approach to managing the raising and collecting of State tax revenues and as such have applied risk management principles to business planning and budgeting.

Debt Management

A common matter that appeared in relation to the majority of tax heads was that relating to debt management. In Audit's view there may be a need for RevenueSA to consider the adequacy of:

- documented procedures and their application relating to the transfer of debts from processing areas to Debt Management Services;

- current management reporting requirements relating to outstanding debts in all areas of RevenueSA.

As in previous years, Audit continues to be unable to obtain basic debtor information on various tax heads, such as the level and ageing of outstanding debts. Although Audit recognises that reporting from the existing system remains a major reason for this ongoing problem, and that RevenueSA may be going to replace that system, it remains important that information to monitor and manage outstanding debts is obtained.

RevenueSA Response

In response, RevenueSA indicated that they had completed a draft review of debt management in RevenueSA, which contains a number of recommendations, including one relating to system functionality requirements for the new revenue collection system.

IT Management and Control

Over the past year, Audit has maintained a focus on IT Governance and Management Control matters at a whole-of-government and Agency level and has undertaken a number of specific reviews.

RevenueSA initiatives, notably the Payroll Tax Collection facility, the Emergency Service Levy initiative and the RevenueSA web site were selected for review with specific focus on matters of a legal and contractual nature. In addition, a review of the RevNet project (an Internet based system to enable self-assessment and electronic lodgement of data and for payments for revenue collection) also addressed aspects of project management and achievements, and risk management arrangements. Finally, the RevenueSA web site facility was reviewed for compliance with government requirements and better practice management.

Audit has formally conveyed the findings arising from the above-mentioned reviews to RevenueSA and has received appropriate responses.

I intend to report on the issues arising from the reviews to Parliament, together with outcomes from certain other agency reviews, in the latter part of 2003.

Government Accounting and Reporting Branch

Responsibilities of this Branch include the Appropriation process (including the Governor's Appropriation Fund, Contingency Funds and Ministerial payments), Treasurer's Deposit Accounts and Treasurer's Loans.

The results of Audit work undertaken indicated that while existing systems of internal control were in general operating satisfactorily, there were a number of issues that Audit believe should be considered by DTF.

Specific issues raised by Audit included:

- Lack of documented policies and procedures in respect to maintenance of the MasterPiece Central General Ledger (MPCGL);
- Absence of timely maintenance of accounts within MPCGL;
- Lack of timely monitoring of key spreadsheets;
- Completeness of Contingent Liability Register.

DTF Response

The Department responded that each of the matters had either been resolved, or that steps had been put in place to implement the Audit recommendations.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

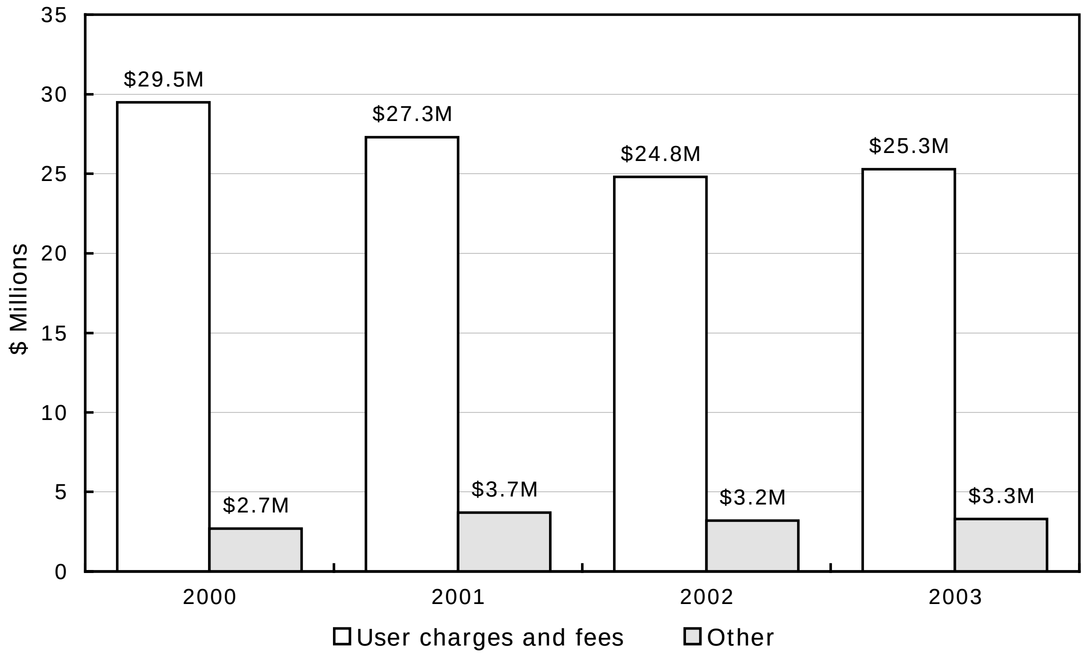
	2003 $'million	2002 $'million	Percentage Change
OPERATING REVENUE			
User charges and fees	**25.3**	24.8	2
Other	**3.3**	3.2	3
Total Operating Revenue	**28.6**	28.0	2
OPERATING EXPENDITURE			
Employment costs	**37.2**	35.0	6
Other expenses	**25.2**	25.1	-
Total Operating Expenses	**62.4**	60.1	4
Net Cost of Services	**33.8**	32.1	5
Government appropriation	**36.8**	30.8	20
Surplus (Deficit)	**3.0**	(1.3)	-
Net Cash Flows from Operations	**5.9**	1.4	-
ASSETS			
Current assets	**22.4**	18.8	19
Non-current assets	**8.3**	8.2	1
Total Assets	**30.7**	27.0	14
LIABILITIES			
Current liabilities	**4.6**	4.3	7
Non-current liabilities	**7.1**	6.9	3
Total Liabilities	**11.7**	11.2	4
EQUITY	**19.0**	15.8	20

Statement of Financial Performance

Operating Revenues

User charges and fees 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). User charges and fees have remained relatively steady in 2003, following decreases in the previous two years as a result of the closure of the Electricity Reform and Sales Unit.

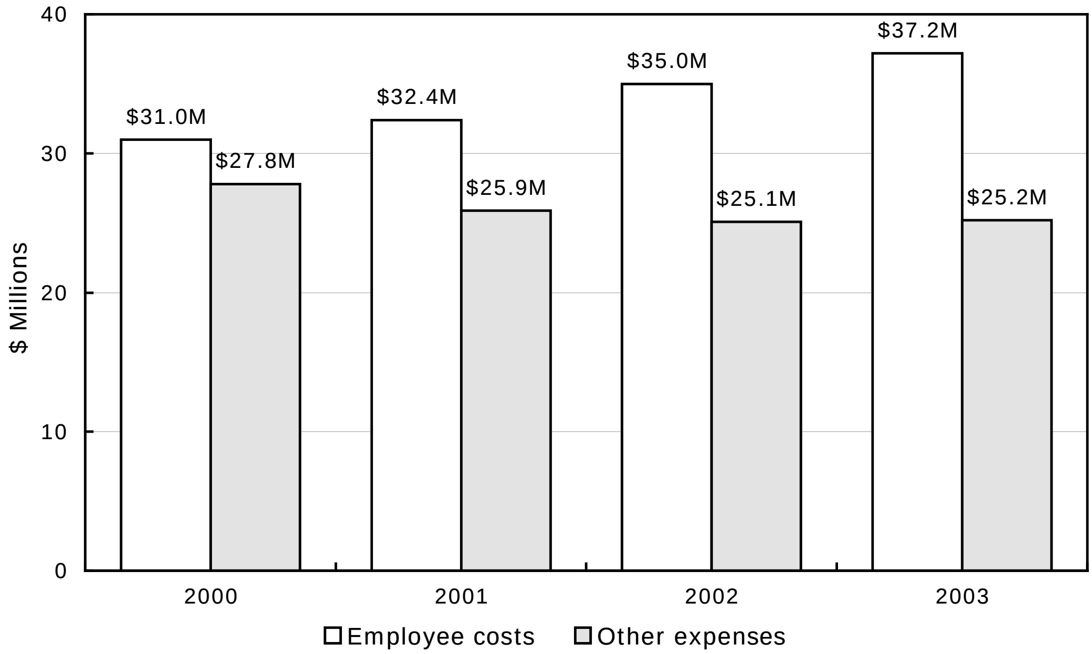
The following chart reflects that trend.



Operating Expenses

Total expenses from ordinary activities increased by $2.3 million (3.8 percent) to $62.4 million ($60.1 million) due almost entirely to increases in employee costs, which represent approximately 60 percent of the Department's costs.

The trend in operating costs over the past four years is shown in the following chart.



The increase in employee costs in 2002-03 has been mainly as a result of:

- a lower capitalisation of salary costs on information technology projects;
- an increase in separation packages; and
- the full impact of the transfer of employees from other agencies (Note 3 to the financial statement refers).

Operating Result

The Net Cost of Services from ordinary activities increased by 5 percent to $33.8 million ($32.1 million). This increase is consistent with the trend from the previous year, and is due mainly to the increase in employee costs as previously discussed.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 $'million	2002 $'million	2001 $'million	2000 $'million
Net Cash Flows				
Operations	**5.8**	1.4	5.0	12.0
Investing	**(2.3)**	(3.8)	(2.4)	(2.3)
Change in Cash	**3.5**	(2.4)	2.6	9.7
Cash at 30 June	**20.7**	17.2	19.6	16.9

During the year cash increased by $3.5 million to $20.7 million, and the Department continues to retain a large accumulated cash balance. As a result, interest revenue ($1.1 million) continues to be a significant item in the Department's net cost of services.

Statement of Financial Performance
for the year ended 30 June 2003

	Note	**2003 $'000**	2002 $'000
EXPENSES FROM ORDINARY ACTIVITIES			
Employee costs	5(a)	**37 161**	35 006
Accommodation and service costs		**4 411**	4 510
Depreciation	6	**2 039**	2 383
Other expenses from ordinary activities	7	**18 785**	18 168
Total Expenses		**62 396**	60 067
REVENUE FROM ORDINARY ACTIVITIES			
User charges and fees	8(a)	**25 269**	24 755
Interest		**1 060**	973
Other revenue from ordinary activities	8(b)	**2 232**	2 226
Total Revenues		**28 561**	27 954
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		**(33 835)**	(32 113)
REVENUES FROM GOVERNMENT			
Appropriation		**36 846**	30 813
Total Revenues from Government		**36 846**	30 813
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES BEFORE RESTRUCTURING		**3 011**	(1 300)
NET REVENUES FROM RESTRUCTURING	9	**-**	233
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES AFTER RESTRUCTURING		**3 011**	(1 067)
NET SURPLUS (DEFICIT)		**3 011**	(1 067)
EQUITY INTERESTS			
Net credit to asset revaluation reserve	15	**-**	108
Total revenues, expenses and valuation adjustments recognised directly in equity		**-**	108
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		**3 011**	(959)

Statement of Financial Position
as at 30 June 2003

	Note	2003 $'000	2002 $'000
CURRENT ASSETS:			
Cash assets	10	**20 713**	17 170
Receivables	10,11	**790**	969
Other	12	**882**	630
Total Current Assets		**22 385**	18 769
NON-CURRENT ASSETS:			
Property, plant and equipment	13	**8 225**	8 047
Other	12	**50**	180
Total Non-Current Assets		**8 275**	8 227
Total Assets		**30 660**	26 996
CURRENT LIABILITIES:			
Payables	10,14	**1 994**	1 740
Provision for employee entitlements	5(b)	**2 650**	2 510
Total Current Liabilities		**4 644**	4 250
NON-CURRENT LIABILITIES:			
Payables	10,14	**900**	804
Provision for employee entitlements	5 (b)	**6 216**	6 053
Total Non-Current Liabilities		**7 116**	6 857
Total Liabilities		**11 760**	11 107
NET ASSETS		**18 900**	15 889
EQUITY:			
Asset revaluation reserve	15	**108**	108
Retained surplus	15	**18 792**	15 781
TOTAL EQUITY		**18 900**	15 889
Commitments and Contingent Liabilities	16		

Statement of Cash Flows
for the year ended 30 June 2003

	Note	2003 Inflows (Outflows) $'000	2002 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
PAYMENTS:			
Employee costs		**(36 789)**	(33 852)
Accommodation and service costs		**(4 417)**	(4 433)
Other expenses from operating activities		**(18 507)**	(18 766)
GST payments on purchases		**(2 846)**	(2 974)
GST payments to taxation authority		**(2 274)**	(2 345)
Total Payments		**(64 833)**	(62 370)
RECEIPTS:			
User charges and fees		**25 391**	24 325
Interest		**1 058**	984
Other revenue from operating activities		**2 240**	2 439
GST receipts on receivables		**2 321**	2 270
GST receipts from taxation authority		**2 831**	2 950
Total Receipts		**33 841**	32 968
CASH FLOWS FROM GOVERNMENT:			
Appropriation		**36 846**	30 813
Total Cash Flows from Government		**36 846**	30 813
Net Cash provided by Operating Activities	17	**5 854**	1 411
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for property, plant and equipment		**(2 311)**	(3 798)
Net Cash used in Investing Activities		**(2 311)**	(3 798)
NET INCREASE (DECREASE) IN CASH HELD		**3 543**	(2 387)
CASH AT 1 JULY		**17 170**	19 557
CASH AT 30 JUNE		**20 713**	17 170

Programs Schedule of Department's Expenses and Revenues for the year ended 30 June 2003

Programs (refer Note 4)	1.1	1.2	2.1	2.2	2.3	2.4
	$'000	$'000	$'000	$'000	$'000	$'000
EXPENSES FROM ORDINARY ACTIVITIES:						
Employee costs	2 528	7 595	14 167	2 917	5 470	1 140
Accommodation and service costs	214	816	1 868	357	581	153
Depreciation	35	227	1 010	64	614	19
Other expenses from ordinary activities	370	3 914	7 702	1 235	3 239	683
Total	3 147	12 552	24 747	4 573	9 904	1 995
REVENUES FROM ORDINARY ACTIVITIES:						
User charges and fees	94	885	7 086	4 463	9 207	1 955
Interest	73	269	630	-	-	-
Other revenue from ordinary activities	23	777	1 133	1	281	3
Revenue from Government	1 721	13 838	18 933	-	10	-
Total	1 911	15 769	27 782	4 464	9 498	1 958
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES	(1 236)	3 217	3 035	(109)	(406)	(37)

Programs Schedule of Department's Expenses and Revenues for the year ended 30 June 2003 (continued)

Programs (refer Note 4)	2.5 $'000	3.0 $'000	4.0 $'000	Total **2003** **$'000**	 2002 $'000
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee costs	1 914	1 185	245	**37 161**	35 006
Accommodation and service costs	271	120	31	**4 411**	4 510
Depreciation	58	11	1	**2 039**	2 383
Other expenses from ordinary activities	707	894	41	**18 785**	18 168
Total	2 950	2 210	318	**62 396**	60 067
REVENUES FROM ORDINARY ACTIVITIES:					
User charges and fees	1 556	23	-	**25 269**	24 755
Interest	39	40	9	**1 060**	973
Other revenue from ordinary activities	7	6	1	**2 232**	2 226
Revenue from Government	795	1 356	193	**36 846**	30 813
Total	2 397	1 425	203	**65 407**	58 767
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES	(553)	(785)	(115)	**3 011**	(1 300)

The allocations to programs are indicative and are based on broad costing methodologies. In particular, appropriations were not developed on the basis of programs for 2002-03 and have been allocated on a broad basis.

Program Schedule of Administered Expenses and Revenues for the year ended 30 June 2003

	2003					
Programs (refer Note 4)	1.1	1.2	2.1	2.2	2.3	2.4
ADMINISTERED EXPENSES:	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated Account:						
Operating:						
Payments for which specific appropriation is authorised in various Acts:						
Parliamentary salaries and allowances	-	-	-	-	-	-
Employee entitlements:						
Past services superannuation liability	-	-	-	-	183 000	-
Other	-	-	-	-	49 127	-
Supplies and services	-	-	-	-	-	-
Interest and other financial payments	-	-	-	-	-	321 952
Grants, subsidies and transfers	-	-	59 700	3 750	-	7 000
Other payments	-	-	37 565	-	-	-
Investing:						
Other	-	-	-	-	-	-
Financing:						
Repayment of borrowings/loans	-	-	-	14 477	-	-
Other administered accounts (Refer Note 22)	-	-	121 068	-	23 697	-
Total Administered Expenses	-	-	218 333	18 227	255 824	328 952
ADMINISTERED REVENUES:						
Consolidated Account:						
Operating:						
Taxation	-	-	2 011 293	-	-	-
Interest	-	-	-	137 523	-	-
Dividends and distribution	-	700 362	-	-	-	-
Commonwealth grants and payments						
Commonwealth general purpose grants	-	-	-	3 060 721	-	-
Commonwealth specific purpose grants	-	-	-	25 853	-	-
Other receipts	-	17 204	-	-	32 717	-
Investing:						
Repayment of advances	-	-	-	85 459	-	-
Return of capital	-	-	-	-	-	-
Other Administered Accounts (Refer Note 22)	-	-	121 053	-	23 697	-
Total Administered Receipts	-	717 566	2 132 346	3 309 556	56 414	-
NET SURPLUS (DEFICIT)	-	717 566	1 914 013	3 291 329	(199 410)	(328 952)

Program Schedule of Administered Expenses and Revenues for the year ended 30 June 2003 (continued)

Program (refer Note 4)	2.5	3.0	4.0	Non-Allocated	**2003 Total**	2002 Total
ADMINISTERED EXPENSES:	$'000	$'000	$'000	$'000	**$'000**	$'000
Consolidated Account:						
Operating:						
Payments for which specific appropriation is authorised in various Acts:						
Parliamentary salaries and allowances	-	-	-	215	**215**	173
Employee entitlements:						
Past services superannuation liability	-	-	-	-	**183 000**	120 700
Other	-	-	-	20 437	**69 564**	79 505
Supplies and services	-	-	-	33 240	**33 240**	46 585
Interest and other financial payments	-	-	-	-	**321 952**	277 622
Grants, subsidies and transfers	-	3 942	2 662	158 125	**235 179**	366 996
Other payments	-	-	-	980	**38 545**	132 111
Investing:						
Other	-	-	-	108	**108**	8 855
Financing:						
Repayment of borrowings/loans	-	-	-	-	**14 477**	12 355
Other administered accounts (Refer Note 22)	-	7 760	1 156	190 744	**344 425**	645 744
Total Administered Expenses	-	11 702	3 818	403 849	**1 240 705**	1 690 646
ADMINISTERED REVENUES:						
Consolidated Account:						
Operating:						
Taxation	-	-	-	-	**2 011 293**	1 917 843
Interest	-	-	-	-	**137 523**	129 724
Dividends and distribution	-	-	-	-	**700 362**	332 842
Commonwealth grants and payments:						
Commonwealth general purpose grants	-	-	-	-	**3 060 721**	2 896 807
Commonwealth specific purpose grants	-	-	-	-	**25 853**	45 795
Other receipts	-	3 272	1 500	11 449	**66 142**	106 841
Investing:						
Repayment of advances	-	-	-	-	**85 459**	51 233
Return of capital	-	-	-	-	**-**	-
Other Administered Accounts (Refer Note 22)	-	9 100	1 201	190 439	**345 490**	669 507
Total Administered Receipts	-	12 372	2 701	201 888	**6 432 843**	6 150 592
NET SURPLUS (DEFICIT)	-	670	(1 117)	(201 961)	**5 192 138**	4 459 946

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Departmental Objectives

The overall objective of the Department of Treasury and Finance is to ensure that the South Australian public sector is accountable in both policy and financial terms to the Government of the day. This incorporates the provision of economic and financial services to, and on behalf of, the Government of South Australia.

The main focus of the Department during the financial year was in the following areas:

Strengthened State Economy

- Ensure economic and fiscal policies are in place to promote sustainable economic growth;
- Ensure revenue is raised in a manner, which is equitable, efficient and supportive of economic growth.

Strengthened State Finances

- Ensure an equitable share of Commonwealth funding for the State;
- Ensure sustainable outlays in aggregate over the long term, with no borrowings for non-commercial purposes;
- Support efficient service delivery across whole of Government;
- Maintain Government's capacity over time to deliver essential public services
- Achieve the lowest possible economic cost of outstanding debt consistent with agreed risk tolerances;
- Ensure comprehensive insurance protection of the State's finances and assets.

Improved Services

- Ensure client needs are integrated into the delivery of services'
- Provide quality superannuation services to all public sector employees which are financially sustainable.

To achieve these Objectives, the Department delivers a number of programs for the Government. The programs information is summarised in Note 4.

2. Summary of Significant Accounting Policies

(a) Financial Reporting Framework

The financial report is a general purpose financial report.

(b) Basis of Accounting

The accounts have been prepared in accordance with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Australian Accounting Standards and Urgent Issues Group Consensus Views. The accounts are prepared on the accrual basis and in accordance with conventional historical cost principles except where stated.

(c) The Reporting Entity

The financial report encompasses all activities transacted through an interest bearing Special Deposit Account titled 'Department of Treasury and Finance Operating Account' including cost recoveries from other entities (for example South Australian Financing Authority) through which the Department controls resources to carry out its functions.

The Department's principal source of funds consists of monies appropriated by Parliament.

Administered Resources

The Department administers but does not control, certain resources on behalf of the South Australian Government. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for achievement of the Department's objectives. For these resources, the Department acts only on behalf of the South Australian Government. Administered resources are reported on an accrual basis with the exception of items processed through the Consolidated Account, which are on a cash basis.

Transactions and balances relating to these administered resources are not recognised as Departmental revenues and expenses but are disclosed in the applicable program schedules.

(d) User Charges and Fees

User charges and fees controlled by the Department are recognised as revenues. User charges and fees are controlled by the Department where they can be deployed for the achievement of Departmental objectives. Such amounts are not required to be paid to the Consolidated Account or other funds not controlled by the Department.

User charges and fees collected by the Department but not controlled by it are not recognised as revenues, but are reported as administered revenues in the Programs Schedule of Administered Expenses and Revenues. Such amounts are required to be paid to the Consolidated Account or other funds not controlled by the Department.

(e) Appropriations

Appropriations, whether recurrent, capital, special or other, are recognised as revenues when the Department obtains control over the assets comprising the contributions. Control over appropriations is normally obtained upon their receipt.

(f) Acquisition of Assets

Assets acquired are recorded at the costs of acquisition, except as stated below. The cost of acquisition is the purchase consideration determined as at the date of acquisition plus costs intrinsic to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

Fair value means the amount for which an assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

(g) Property, Plant and Equipment

Purchases of property, plant and equipment are recognised in the Statement of Financial Position, except for purchases costing less that $5 000, which are expensed in the year of acquisition. As stated above, the cost method of accounting is used for the initial recording of all acquisitions of property, plant and equipment controlled by the Department.

System development costs are capitalised, with depreciation commencing once all costs associated with the development of the system have been incurred and the system is ready for its intended use.

Specific classes of non-current assets which have a total value greater than $1.0 million are revalued every three years in accordance with Treasurer's Accounting Policy Statement 3 'Valuation of Non-Current Assets'. Furniture and Fittings were revalued as at 30 June 2002 by the Department using an Index based on information provided by Contour Management (refer Note 13).

In accordance with current Treasurer's Accounting Policy Statement 3 'Valuation of Non-Current Assets', the Department has applied the Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' transitional provisions for the public sector and has elected to retain the revaluation basis of deprival value until 30 June 2005.

(h) Depreciation of Non-Current Assets

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each depreciable non-current asset over its expected useful life. Depreciation rates and methods are reviewed at each balance date and necessary adjustments are recognised in the current and future reporting periods as appropriate. The following estimated useful lives are used in the calculation of depreciation:

	Years
Furniture and fittings	10
Systems development	5
Office equipment	3

(i) Employee Benefits

Details of employee benefits are listed below. 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 of the Department is estimated to be less than the annual entitlement of sick leave.

(i) Wages and Salaries

Liabilities for wages, salaries and annual leave and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Annual Leave

Liabilities for annual leave are measured at their nominal amounts as it is anticipated that amounts unpaid at the reporting date will be taken in the next 12 months.

(iii) Long Service Leave

Liabilities for long service leave expected to be settled over 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities expected to be settled more than 12 months after the reporting date are calculated by using the product of the current liability (in time) for all employees who have completed seven or more years of service and the current rate of remuneration for each of these employees respectively.

(iv) Superannuation

Contributions are made by the Department to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the South Australian Superannuation Board. The only liability outstanding at balance date relates to any contribution due but not yet paid to the South Australian Superannuation Board.

(v) Employment On-Costs

The liability for employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave. These amounts are classified under payables.

(vi) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation liability was based on an actuarial assessment provided by the Public Sector Occupational Health and Injury Management Branch of the Department of the Premier and Cabinet.

(j) Leases

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

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

(k) Cash

For purposes of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis. Administered cash is not included in the Statement of Cash Flows.

(l) Goods and Services Tax

The accounting policies adopted for the treatment of Goods and Services Tax (GST) are in accordance with Urgent Issue Group Abstract 31 'Accounting for the Goods and Services Tax [GST]'. Input tax credits due from the Australian Taxation Office are included in receivables.

The Department prepares a Business Activity Statement on behalf of its administered entities under the grouping provisions of the GST legislation. Under these provisions, the Department is liable for the payment and entitled to the receipt of GST. As such, the GST applicable to these entities forms part of the Statement of Financial Position and Cash Flow Statement of the Department.

(m) Comparative Figures

The Statement of Financial Performance, Statement of Financial Position and the Statement of Cash Flows and the Notes to the Financial Statements disclose comparative figures for the reporting period ended 30 June 2002, except as highlighted in Note 2(o) for Employee Benefits.

(n) Rounding

All amounts are rounded to the nearest thousand dollars.

(o) Changes in Accounting Policies

(i) Employee Benefits

In the 2003 financial year, the Department applied AASB 1028 'Employee Benefits (Revised)' for the first time. The revised AASB 1028 prescribes the recognition and measurement of employee benefits using remuneration rates that the Department expects to pay when the leave is taken. Previously, employee benefits expected to be settled in the next 12 months were recognised on the employee's current salary rate applicable at the reporting date.

In accordance with Treasurer's Accounting Policy Statement 9 'Employee Benefits', a salary inflation of 4 percent has been applied to employee benefits existing at the reporting date which are expected to be paid in the next 12 months.

As a result of the new standard, the provisions for current employee annual leave liability existing at 30 June 2002, where expected to be paid in the next 12 months could be adjusted to include the 4 percent wage increase. There was no material effect on the Statement of Financial Performance arising from the change in policy and no adjustment was made to Retained surplus at the beginning of the financial year.

(p) Change in Accounting Estimates

The guidelines for the Treasurer's Accounting Policy Statement 9 'Employee Benefits' have been amended based on an actuarial assessment and a benchmark of seven years can be used for a short hand estimation of long service leave liability in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

The benchmark for the measurement of the long service leave liabilities has been revised from eight years to seven years as a result of actuarial assessment. The 2001-02 liabilities are based on a benchmark of eight years.

3. Agency Restructure

From 2 December 2002 the responsibility for energy policy was transferred from the Department of Primary Industries to the Department of Treasury and Finance. Staff were transferred to the Department of Treasury and Finance and the Department has met the costs of this function and provided the service to the Minister. The full year budget for 2002-03 was transferred from the Department of Primary Industries to the Department of Treasury and Finance therefore full year costs are included in the financial statements.

During 2001-02, responsibility for the Government Business Group, including the Office of Government Enterprises was transferred from the Department of Administrative and Information Services on 4 December 2001. The comparative figures include the financial operation of the transferred function only for that part of the year the functions were the responsibility of the Department. The net transfer of assets and liabilities as a result of the restructure has been reflected in Note 9.

4. Programs of the Department

As a result of a Cabinet decision during 2002-03, the previously reported output based performance structure was replaced with a program based performance structure. As a consequence, the 2002-03 financial report includes programs and sub-programs rather than the former structure of output classes and outputs. The change from outputs to sub-programs does not significantly change the schedules from previous reporting periods.

During 2002-03, the Department managed the delivery of nine sub-programs to the Treasurer and broader community within four program classes. A program is defined as a grouping of related sub-programs that contribute to the achievement of agency and, in turn, government objectives. A sub-program is a grouping of activities that contribute to a more specific objective. The identity and description of each sub-program of the Department during the year ended 30 June 2003 are summarised below (refer to the Program Schedules of Department's Expenses and Revenues).

Program 1: Accountability for Public Sector Resources

This program includes the programs Treasury and Finance delivers in its 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.

Sub-program 1.1 Policy Analysis and Advice

Provision of policy advice on a range of issues including revenue, Commonwealth–State relations, National Competition Policy, gambling policy and economic conditions; provision of strategic analysis of policy issues facing Government and the development of appropriate policy frameworks, along with the evaluation of existing policy positions across these frameworks.

Sub-program 1.2 Budget and Financial Management
Management of the State Budget process; provision of policy advice to Government on whole of government budgetary and financial issues including financial risk management; monitoring and reporting of financial performance; provision of advice to Government on its consolidated financial position; provision of advice to Government on budgetary and structural reform and facilitation of best practice financial management reforms.

Program 2: ***Financial Service Provision***
This program includes the programs Treasury and Finance delivers in its role of providing a range of whole of government services including liability management, collection of taxes, and insurance and superannuation administration.

Sub-program 2.1 Revenue Collection and Management
Provision of policy advice on taxation issues and the management of taxation legislation, revenue systems and compliance systems to enable the Government to raise revenue using its taxation powers.

Sub-program 2.2 Financing Services
Management of the existing stock of government liabilities and provision of certainty of funding to the State; provision of financial risk management advisory services to public organisations.

Sub-program 2.3 Superannuation Services
Administration of the various public sector superannuation schemes for the Superannuation Board, as well as the superannuation arrangements for parliamentarians, judges and governors; provision of superannuation policy and legislative advice to the Board, the Under Treasurer and the Treasurer.

Sub-program 2.4 Insurance Services
Provision of insurance cover to government agencies through the insurance and reinsurance of government risks; provision of advice to the Government on issues relating to the insurance and management of those risks.

Sub-program 2.5 Ministerial Support Services
Provision of business support services to the Treasurer's office and other agencies of Government.

Program 3: ***Energy and Infrastructure Policy***
This program includes the provision of policy advice to the Minister for Energy on energy issues, coordinating market reforms and reviewing infrastructure needs.

Program 4: ***Gambling Policy***
This program includes the provision of 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.

Not allocated: Certain items administered by the Department are not allocated to programs.

5. Employee Benefits

(a) Employee Costs

	2003	2002
	$'000	$'000
Salaries and wages	**26 927**	25 247
Superannuation and payroll tax expenses	**5 491**	5 127
Annual and long service leave expenses	**3 373**	3 597
Board fees[1]	**131**	82
Other employee related expenses	**1 239**	953
	37 161	35 006

(1) Represents fees paid to members of the South Australian Superannuation Board and the Board of Directors of SAICORP.

(b) Provision for Employee Entitlements

	2003	2002
Current Liability:		
Accrued salaries and wages	**106**	-
Annual leave	**2 023**	2 105
Long service leave	**521**	405
	2 650	2 510
Non-Current Liability:		
Long service leave	**6 216**	6 053

(c) Employee benefits and related on-costs liabilities

	2003	2002
Accrued Salaries and Wages:		
On-costs included in Payables - Current (Note 14)	**211**	185
Provision for Employee Benefits - Current (Note 5(b))	**106**	-
	317	185
Annual Leave:		
On-costs included in Payables - Current (Note 14)	**329**	343
Provision for Employee Benefits - Current (Note 5(b))	**2 023**	2 105
	2 352	2 448

		2003	2002
(c)	***Employee benefits and Related On-Costs Liabilities (continued)***	**$'000**	$'000
	Long Service Leave:		
	On-costs included in Payables - Current (Note 14)	**60**	47
	Provision for Employee Benefits - Current (Note 5(b))	**521**	405
		581	452
	On-costs included in Payables - Non-Current (Note 14)	**714**	700
	Provision for Employee Benefits - Non-Current (Note 5(b))	**6 216**	6 053
		6 930	6 753
	Aggregate Employee Benefit and Related On-Cost Liabilities	**10 180**	9 838

		2003	2002
		Number	Number
(d)	***Average Number of Employees during the Financial Year***	**540**	554

6. Depreciation

	2003	2002
Depreciation was charged in respect of:	**$'000**	$'000
Furniture and fittings	**484**	428
Office equipment	**331**	279
Systems development	**1 224**	1 676
	2 039	2 383

7. Other Expenses from Ordinary Activities

General administration	**11 040**	11 573
EDS charges	**3 368**	3 177
Consultants	**1 006**	457
Contractors	**3 371**	2 961
	18 785	18 168

8. Revenues from Ordinary Activities

(a) User Charges and Fees Recovered from:

Agencies for the provision of Corporate Services	**1 498**	1 537
South Australian Government Captive Insurance Corporation	**1 901**	1 709
South Australian Government Financing Authority	**4 457**	4 325
South Australian Superannuation Board	**8 893**	8 994
Electricity Reform and Sales Unit Operating Account	**-**	40
Emergency Services Levy	**7 017**	7 044
Other recoveries for services	**1 503**	1 106
	25 269	24 755

(b) Other Revenue from Ordinary Activities

Reimbursement for TVSPs paid	**286**	176
Land agents enquiry fees	**553**	586
Banking Administration Fee	**620**	503
Sundry items	**773**	961
	2 232	2 226

9. Net Revenue from Restructuring

Net Assets transferred (from) to the Department:		
Property, plant and equipment	**-**	13
Net Liabilities transferred from (to) the Department:		
Creditors and accruals - Current	**-**	(13)
Provision for employee entitlements - Current	**-**	(78)
Creditors and accruals - Non Current	**-**	(40)
Provision for employee entitlements - Non Current	**-**	(328)
	-	(459)
Costs incurred on behalf of the Department of Treasury and Finance by the Department of Administrative and Information Services	**-**	679
Net Revenue from Restructuring	**-**	233

10. Financial Instruments

The following disclosures have been provided to satisfy the requirements of Australian Accounting Standard AAS 33 'Presentation and Disclosure of 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

The imprest account of $7 000 was repaid to the Treasurer during 2002-03.

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	2003 Floating Interest Rate $'000	2003 Non-Interest Bearing $'000	2003 Total Carrying Amount $'000	2003 Weighted Average Effective Interest Rate Percent	2002 Floating Interest Rate $'000	2002 Non-Interest Bearing $'000	2002 Total Carrying Amount $'000	2002 Weighted Average Effective Interest Rate Percent
Financial Assets:								
Cash	**20 709**	**4**	**20 173**	**4.60**	17 163	7	17 170	4.17
Receivables	**-**	**790**	**790**		-	969	969	
	20 709	**794**	**21 503**		17 163	976	18 139	
Financial Liabilities:								
Payables	**-**	**2 894**	**2 894**		-	2 544	2 544	
	-	**2 894**	**2 894**		-	2 544	2 544	

(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.

11. Receivables

	2003 $'000	2002 $'000
Fees receivable	**602**	744
Net GST receivable	**188**	225
	790	969

12. Other Assets

	2003	2002
Current:		
Prepayments	**882**	630
Non-Current:		
Prepayments	**50**	180

13. Property, Plant and Equipment

	Furniture & Fitting $'000	Office Equipmnt $'000	Systems Dvlpmnt $'000	2003 Total $'000
Valuation at Current Cost and Historical Cost:				
Balance at 30 June 2002	**4 813**	**1 175**	**12 123**	**18 111**
Additions	**139**	**65**	**2 050**	**2 254**
Disposals	**(6)**	**(251)**	**(2 939)**	**(3 196)**
Net Revaluation increments	**-**	**-**	**-**	**-**
Other adjustments	**-**	**-**	**-**	**-**
Balance at 30 June 2003	**4 946**	**989**	**11 234**	**17 169**
Accumulated Depreciation:				
Balance at 30 June 2002	**(3 125)**	**(462)**	**(6 477)**	**(10 064)**
Disposals	**3**	**217**	**2 939**	**3 159**
Depreciation expense	**(484)**	**(331)**	**(1 224)**	**(2 039)**
Net adjustments from revaluations	**-**	**-**	**-**	**-**
Other adjustments	**-**	**-**	**-**	**-**
Balance at 30 June 2003	**(3 606)**	**(576)**	**(4 762)**	**(8 944)**
Net Book Value as at 30 June 2002	1 688	713	5 646	8 047
Net Book Value as at 30 June 2003	**1 340**	**413**	**6 472**	**8 225**

Valuations of asset classes greater than $1 million, for furniture and fittings were determined as at 30 June 2002 based on an index provided by Contour Management.

Systems development reflects costs incurred in the design and development of in-house applications, including the development of systems within RevenueSA and Super SA. It includes an amount of $5 274 000 ($3 297 000) for work in progress upon which depreciation will not be charged until the development is complete.

14. Payables

	2003 $'000	2002 $'000
Current:		
Employee related costs	**627**	604
Accommodation and service costs	**75**	81
General administration	**1 062**	886
Consultants	**185**	54
Unearned revenue	**3**	15
Purchases of property, plant and equipment	**-**	70
Provision for workers compensation	**42**	29
Others	**-**	1
	1 994	1 740

14. Payables (continued)

	2003	2002
	$'000	$'000
Non-Current:		
Employee related costs	714	700
Provision for Workers Compensation	117	97
Other borrowings	-	7
Others	69	-
	900	804

15. Equity

	2003	2002
Retained surplus:		
Retained surplus at 1 July	15 781	16 848
Increase (Decrease) in net assets resulting from ordinary activities	3 011	(1 067)
Retained Surplus at 30 June	18 792	15 781
Asset Revaluation Reserve:		
Balance as at 1 July	108	-
Revaluation adjustment for furniture and fittings	-	108
Balance as at 30 June	108	108

16. Commitments For Expenditure and Contingent Liabilities

(a) Operating Leases

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 five 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.
- Office equipment leases are non-cancellable with rental payable in arrears. No contingent rental provisions exist within the lease arrangement and no options exist to renew the leases at the end of their term.

For the current financial year, the total amount of rental expense for minimum lease payments for operating leases was $3 373 000 ($3 395 000).

Operating Lease Commitments

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

	2003	2002
	$'000	$'000
Not later than one year	3 311	3 196
Later than one year and not later than five years	634	3 377
Later than five years	-	-
	3 945	6 573

(b) 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:

	2003	2002
Not later than one year	15	83
Later than one year but not later than five years	-	-
Later than five years	-	-
	15	83

(c) Contingent Liabilities

The Department is not aware of any contingent liabilities or claims against the Department not accounted for in the Financial Statements.

17. Reconciliation of Net Cash provided by (used in) Operating Activities to Net Cost of Services from Ordinary Activities

	2003	2002
	$'000	$'000
Net cash provided by (used in) operating activities	5 854	1 411
Less: Appropriation from government	(36 846)	(30 813)
Non-Cash items:		
Depreciation expense	(2 039)	(2 383)
Gain (Loss) on disposal of fixed assets	(21)	(5)
Cost incurred on behalf of Department of Treasury and Finance by the Department for Administrative and Information Services	-	(679)
Change in operating assets and liabilities:		
Increase (Decrease) in receivables	(178)	180
Increase (Decrease) in prepayments	122	450
(Increase) Decrease in payables	(423)	551
(Increase) Decrease in provision for employee entitlements	(303)	(825)
Net Cost of Services from Ordinary Activities	(33 834)	(32 113)

18. Remuneration of Employees

The number of employees whose total employment cost was over $100 000 fell within the following bands:

	2003 Number of Employees	2002 Number of Employees
$100 000 - $109 999	**10**	5
$110 000 - $119 999	**11**	12
$120 000 - $129 999	**8**	4
$130 000 - $139 999	**5**	3
$140 000 - $149 999	**2**	2
$150 000 - $159 999	**1**	2
$160 000 - $169 999	**3**	2
$170 000 - $179 999	**2**	-
$180 000 - $189 999	**1**	2
$280 000 - $289 999	**1**	1
$290 000 - $299 999	**1**	-
	45	33

The tables includes all employees who received remuneration of $100 000 or more during the year. The total remuneration received by these employees for the year was $6.158 million ($4.501 million).

19. Payments to Consultants

Payments to consultants fell within the following bands:

	2003 Number of Consultants	2002 Number of Consultants
Below $10 000	**16**	24
Between $10 000 and $50 000	**4**	5
Above $50 000	**5**	2

The total payments to the 25 (31) consultants engaged was $1.006 million ($457 000). Of this amount $895 000 ($457 000) was met from operating expenses and $nil ($nil) was capitalised.

20. Remuneration of Auditors

Amounts received or due and receivable by the auditors with respect to the audit of the Department are:	2003 $'000	2002 $'000
Auditing the Department's activities	**341**	309

The auditors provided no other services.

21. Targeted / Voluntary Separation Package (TVSPs) Schemes

	2003 Number of Employees	2002 Number of Employees
Number of employees paid TVSPs	**6**	2

	2003 $'000	2002 $'000
Amount paid to these employees:		
TVSP	**286**	176
Accrued annual and long service leave	**13**	87
	299	263
Amount recovered from the Targeted/Voluntary Separation Package Schemes Special Deposit Account	**286**	176

These amounts are included in the financial statement.

22. Other Administered Accounts

The following deposit accounts established pursuant to section 8 of the *Public Finance and Audit Act 1987* are administered by the Department. Reflected below are a summary of revenues and expenses, and assets and liabilities of each administered item.

	2003 Revenues $'000	2003 Expenses $'000	2003 Assets $'000	2003 Liabilities $'000
Agency Provisions for Future Asset Replacements	**-**	**-**	**-**	**-**
Asset Sales Unit	**-**	**-**	**-**	**-**
Commonwealth Mirror Taxes on Commonwealth Places Revenue Account	**15 516**	**15 516**	**-**	**-**
Community Development Fund	**19 750**	**19 750**	**-**	**-**
Country Equalisation Scheme	**471**	**-**	**10 505**	**-**
Electricity Planning Council	**1 784**	**1 707**	**821**	**133**
Electricity Reform and Sales Unit	**35**	**864**	**-**	**-**
Emergency Service Levy	**118 556**	**118 571**	**21**	**7**
Essential Services Commission of South Australian	**4 657**	**4 299**	**4 674**	**2 661**
ETSA Sales/Lease Proceeds Account	**2 624**	**890**	**-**	**508 701**
Home Purchases Assistance Account	**39**	**39**	**507**	**507**
Hospitals Fund	**132 489**	**132 489**	**7 098**	**7 098**
Independent Gambling Authority	**1 201**	**1 156**	**808**	**232**
Inter-regional Settlements Residues Account	**6 438**	**6 438**	**20**	**20**
Local Government Concessions Senior Card Holders	**1 680**	**1 647**	**133**	**-**
Local Government Disaster Fund	**1 869**	**154**	**40 206**	**-**
Ports Corp sale/lease – Proceeds	**1 713**	**3 291**	**34 871**	**1 476**
Stony Point Indenture Account	**2 147**	**2 147**	**9 302**	**9 302**
TAB sale – Proceeds	**5 968**	**6 914**	**10 650**	**5 792**
Treasury Working Account	**28 553**	**28 553**	**852**	**852**
	345 490	**344 425**	**120 468**	**536 781**

22. Other Administered Accounts (continued)

Accounts of the South Australian Government Financing Authority, the South Australian Finance Trust Limited and the South Australian Government Captive Insurance Corporation established pursuant to the *Public Finance and Audit Act 1987* are not included. For further information on these accounts reference should be made to the financial statements of the South Australian Government Financing Authority and the South Australian Government Captive Insurance Corporation.

APPENDIX TO

AUDITOR-GENERAL'S

ANNUAL REPORT

TREASURER'S

FINANCIAL STATEMENTS

(Pursuant to section 22 of the *Public Finance and Audit Act, 1987*)

2002-03

PAGE

STATEMENT A

SUMMARY OF THE CONSOLIDATED
ACCOUNT FOR THE YEAR ENDED 30 JUNE 2003
(Section 22 *(a) (i) Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	Budget $	Actual $
RECEIPTS		
Taxation	2 049 700 000	2 277 632 237
Commonwealth General Purpose grants	2 978 200 000	3 060 720 394
Commonwealth Specific Purpose grants	45 374 000	47 595 856
Contributions from State Undertakings	657 554 000	700 361 490
Fees and Charges	109 676 000	101 548 278
Recoveries	34 395 000	52 526 219
Royalties	88 150 000	81 519 875
Other Receipts	238 948 000	236 758 451
Total Receipts	6 201 997 000	6 558 662 800
PAYMENTS		
Appropriation Act	6 050 194 000	5 968 188 526
Specific Appropriation Authorised in Various Acts	102 900 000	146 840 148
Total Payments	6 153 094 000	6 115 028 674
CONSOLIDATED ACCOUNT SURPLUS	48 903 000	443 634 126
REPAYMENT OF DEBT		
The surplus for 2002-03 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	48 903 000	443 634 126

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 2003
(Section 22 *(a)* (i) *Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	Budget 2002-03	Actual 2002-03
RECEIPTS	$	$
TAXATION		
Payroll Tax	760 100 000	782 885 429
Commonwealth places mirror payroll tax	13 300 000	13 701 219
Stamp Duties	727 600 000	916 596 373
Commonwealth places mirror stamp duties	1 200 000	819 113
Land Tax	148 600 000	159 217 174
Commonwealth places mirror land tax	500 000	592 419
Financial Institutions Duty	-	1 499 752
Debits Tax	59 100 000	58 425 194
Commonwealth places mirror debits tax	400 000	403 369
Other Taxes on Property	500 000	841 220
Gaming Machines Tax	240 800 000	241 919 384
Contribution from Lotteries Commission	70 900 000	74 808 628
Contribution from Casino Operations	16 900 000	17 290 055
Contribution from South Australian Totalizator Agency Board	6 800 000	5 920 066
Contribution from On-course Totalizators, Bookmakers and Small Lotteries	2 800 000	2 289 128
Recoup from Recreation and Sport Fund	200 000	423 714
Total Taxation Receipts	2 049 700 000	2 277 632 237
COMMONWEALTH GENERAL PURPOSE GRANTS		
Competition Grants	56 900 000	57 134 168
GST Revenue Grants	2 749 300 000	2 859 080 653
Transitional Grants	172 000 000	87 742 874
Transitional Grant Overpayment	-	56 762 699
Total Commonwealth General Purpose Grants	2 978 200 000	3 060 720 394
COMMONWEALTH SPECIFIC PURPOSE GRANTS		
Additional First Home Owners Grants	1 300 000	4 472 000
Companies Code - Fees	10 900 000	11 366 428
Concessions to Pensioners and Others	17 490 000	17 631 000
Debt Redemption Assistance	3 740 000	3 750 428
Housing Interest Assistance	940 000	-
Legal Aid	10 531 000	10 376 000
Native Title Legislation – Administration	473 000	-
Total Commonwealth Specific Purpose Grants	45 374 000	47 595 856
CONTRIBUTIONS FROM STATE UNDERTAKINGS		
Administrative and Information Services (excluding SAGERP) —		
Dividend	35 148 000	55 788 000
Income Tax Equivalent	1 515 000	-
Local Government Rate Equivalent	546 000	624 899

STATEMENT A—*continued*

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
TO THE CONSOLIDATED ACCOUNT, 2002-03—*continued*

	Budget 2002-03	Actual 2002-03
RECEIPTS-*continued*	$	$
CONTRIBUTIONS FROM STATE UNDERTAKINGS—*continued*		
Forestry SA—		
Dividend	20 100 000	27 901 000
Income Tax Equivalent	9 161 000	11 172 177
Local Government Rate Equivalent	1 000	-
Funds SA (and subsidiaries)—		
Local Government Rate Equivalent	134 000	155 107
HomeStart Finance—		
Income Tax Equivalent	1 600 000	2 533 282
Industrial and Commercial Premises Corporation—		
Dividend	311 000	289 894
Income Tax Equivalent	488 000	111 000
Land Management Corporation—		
Dividend	3 266 000	6 133 000
Income Tax Equivalent	1 370 000	3 721 950
Local Government Rate Equivalent	105 000	138 802
Lotteries Commission—		
Income Tax Equivalent	6 700 000	7 992 898
Local Government Rate Equivalent	31 000	32 197
Motor Accident Commission—		
Dividend	10 000 000	10 000 000
Police Security Services—		
Income Tax Equivalent	167 000	54 756
Public Trustee Office—		
Dividend	1 342 000	1 342 500
Income Tax Equivalent	818 000	637 868
Local Government Rate Equivalent	26 000	26 784
South Australian Asset Management Corporation—		
Dividend	230 000 000	230 000 000
South Australian Finance Trust Ltd—		
Income Tax Equivalent	-	11 366
South Australian Government Captive Insurance Corporation—		
Income Tax Equivalent	509 000	-
Payments in lieu of other taxes (a)	4 127 000	-
South Australian Government Employee Residential Properties—		
Dividend	906 000	906 000
Income Tax Equivalent	359 000	-
South Australian Government Financing Authority—		
Dividend	84 375 000	86 802 722
Income Tax Equivalent	9 900 000	7 472 278
South Australian Ports Corporation—		
Local Government Rate Equivalent	-	301 162
South Australian Water Corporation—		
Dividend	175 584 000	164 845 000
Income Tax Equivalent	48 292 000	62 567 725
Local Government Rate Equivalent	900 000	995 132

(a) In 2002-03 the South Australian Government Captive Insurance Corporation made actual stamp duty payments rather than payments in lieu.

STATEMENT A—*continued*

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
TO THE CONSOLIDATED ACCOUNT, 2002-03—*continued*

	Budget 2002-03	Actual 2002-03
RECEIPTS-*continued*	$	$
CONTRIBUTIONS FROM STATE UNDERTAKINGS—*continued*		
TransAdelaide—		
Dividend	706 000	4 592 000
Income Tax Equivalent	504 000	-
Local Government Rate Equivalent	83 000	-
Transport SA—		
Dividend	3 993 000	10 159 853
Income Tax Equivalent	3 310 000	2 364 583
Local Government Rate Equivalent	82 000	92 957
West Beach Trust—		
Income Tax Equivalent	1 095 000	594 598
Total Contributions from State Undertakings	657 554 000	700 361 490
FEES AND CHARGES		
Auditor-General's Department - Fees for audit and other sundry receipts	8 291 000	8 470 619
Court and Probate fees	13 304 000	13 743 349
Court fines	14 371 000	15 443 950
Environment Protection Agency - Excess Water Charges	1 000 000	589 858
Guarantee fees	17 321 000	17 187 468
Infringement notice schemes - Expiation fees	55 366 000	46 076 831
Sundry fees	23 000	36 203
Total Fees and Charges	109 676 000	101 548 278
RECOVERIES		
Child Abuse Protection Program - Intra sector grants received	200 000	200 000
Community Development Fund - St John Australia SA Inc	100 000	100 000
Contingency provisions - Recoveries	235 000	35 000
Contribution to the cost of private plated vehicles	10 000	2 549
Forestry SA	3 650 000	-
Helicopter service - Recovery of costs and sponsorships	2 110 000	1 694 708
Independent Gaming Corporation contribution to Gamblers Rehabilitation Fund	1 500 000	1 500 000
Legislature - Sale of publications	550 000	313 274
Light motor vehicle fleet - Rental payments recovery	4 300 000	6 957 666
National Tax Equivalent Program	12 000	-
Recoup from Government Workers Fund	-	1 000 000
Return of Commonwealth places mirror taxes collected for the 2002-03 financial year (a)	15 400 000	-
Return of deposit account balances	-	1 429 199
Sale of evidence/transcripts	1 235 000	1 277 885
Sale of Government Gazette	150 000	-
South Australian Independent Industry Regulator	3 192 000	3 272 209
Sundry recoups	112 000	1 047 565
Superannuation receipts recovered from-		
Electricity Industry Superannuation Scheme – Fund share of benefits paid	-	32 717 023
Unclaimed monies	1 639 000	979 141
Total Recoveries	34 395 000	52 526 219

(a) Refer to the Taxation Receipts for details of Commonwealth places mirror taxes collected for the 2002-03 financial year

STATEMENT A—*continued*

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL RECEIPTS
TO THE CONSOLIDATED ACCOUNT, 2002-03—*continued*

	Budget 2002-03	Actual 2002-03
RECEIPTS-*continued*	$	$
ROYALTIES		
Department of Primary Industries and Resources	88 150 000	81 519 875
Total Royalties	88 150 000	81 519 875
OTHER RECEIPTS		
Interest on investments	84 000 000	70 285 517
Interest recoveries from—		
General government entities	16 665 000	14 950 271
Non commercial public trading enterprises	68 257 000	49 083 066
Private sector	1 494 000	1 790 780
Universities	1 414 000	1 414 000
Repayment of advances—		
Administrative and Information Services	1 464 000	1 164 000
Industry and Trade	4 392 000	2 308 838
Lotteries Commission	1 403 000	1 367 955
Minister for Education, Training and Employment	2 000 000	2 000 000
Minister for Government Enterprises	-	22 740 000
Primary Industries and Resources	1 382 000	993 046
South Australian Cricket Association	600 000	5 921 967
South Australian Housing Trust	27 660 000	16 224 760
TransAdelaide	5 381 000	13 381 000
Other	3 108 000	1 989 099
Repayment of equity capital contributions—		
South Australian Water Corporation	16 000 000	16 000 000
Other—		
Sale of land and buildings	3 728 000	15 144 151
Total Other Receipts	238 948 000	236 758 451
TOTAL CONSOLIDATED ACCOUNT RECEIPTS	6 201 997 000	6 558 662 800

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 2003
(Section 22 *(a)* (i) *Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	Budget 2002-03	Actual 2002-03
PAYMENTS - AUTHORISED BY VARIOUS ACTS	$	$
SALARIES AND ALLOWANCES		
Agent-General - Pursuant to *Agent-General Act*	254 000	304 780
Auditor-General - Pursuant to *Public Finance and Audit Act*	200 000	208 531
Commissioner of Police - Pursuant to *Police Act*	226 000	261 111
Electoral Commissioner and Deputy Electoral Commissioner - Pursuant to *Electoral Act*	281 000	254 201
Employee Ombudsman - Pursuant to the *Industrial and Employee Relations Act*	86 000	115 656
Governor - Pursuant to *Constitution Act*	182 000	172 785
Judges - Pursuant to *Remuneration Act—*		
Chief Justice	364 000	381 980
Judges	12 146 000	12 544 978
Magistrates - Pursuant to *Remuneration Act*	7 459 000	8 013 667
Members of various Standing Committees - Pursuant to *Parliamentary Remuneration Act* and *Parliamentary Committees (Miscellaneous) Act*	387 000	388 376
Ombudsman - Pursuant to *Ombudsman Act*	208 000	208 010
Parliamentary Salaries and Electorate and Expense Allowances—		
Ministers, Officers and Members of Parliament - Pursuant to *Parliamentary Remuneration Act*	10 048 000	10 054 474
Senior Judge and Judges of the Industrial Relations Commission - *Pursuant to Remuneration Act*	1 221 000	1 336 113
Solicitor-General - Pursuant to *Solicitor-General Act*	239 000	308 376
Valuer-General - Pursuant to *Valuation of Land Act*	99 000	120 874
SUPERANNUATION AND PENSION PROVISIONS		
Electricity Trust of South Australia Superannuation Scheme-Pursuant to *Electricity Trust of South Australia Act*	-	32 717 024
OTHER		
Compensation for Injuries Resulting from Criminal Acts – Pursuant to *Criminal Injuries Compensation Act*	6 200 000	6 200 000
Electoral Districts Boundaries Commission - Pursuant to *Constitution Act*	-	325 090
First Home Owners' Grants - Pursuant to *First Home Owner Grant Act*	63 300 000	72 924 122
Total Payments Authorised by Various Acts	102 900 000	146 840 148

STATEMENT A—*continued*

COMPARATIVE STATEMENT OF THE ESTIMATED AND ACTUAL PAYMENTS
FROM THE CONSOLIDATED ACCOUNT, 2002-03—*continued*

	Budget (*Appropriation Act 2002*)			Actual
	Initial Section 4(1)	Transfers Section 5	Balance	2002-03
PAYMENTS	$	$	$	$
Legislative Council	3 786 000	-	3 786 000	3 379 603
House of Assembly	5 906 000	-	5 906 000	5 302 138
Joint Parliamentary Services	6 393 000	-	6 393 000	6 463 050
Department of the Premier and Cabinet	144 481 000	(2 865 000)	141 616 000	142 766 000
Administered Items for Department of the Premier and Cabinet	2 205 000	-	2 205 000	636 611
State Governor's Establishment	2 253 000	-	2 253 000	2 253 000
South Australian Tourism Commission	45 444 000	-	45 444 000	45 444 000
Minister for Tourism - Other Items	10 066 000	-	10 066 000	9 065 999
Auditor-General's Department	9 283 000	-	9 283 000	9 283 000
Administered Items for Auditor-General's Department	820 000	-	820 000	774 738
Department of Treasury and Finance	36 292 000	503 000	36 795 000	36 795 000
Administered Items Department of Treasury and Finance	903 132 000	-	903 132 000	790 423 814
Department of Industry and Trade	157 525 000	1 656 000	159 181 000	158 498 299
Administered Items for the Department of Industry and Trade	1 590 000	-	1 590 000	2 095 191
Department of Primary Industries and Resources	104 461 000	(503 000)	103 958 000	106 049 792
Administered Items for Department of Primary Industries and Resources	85 915 000	(5 410 000)	80 505 000	81 320 000
Department of Justice	590 669 000	918 000	591 587 000	598 368 880
Administered Items for Attorney-General's Department	49 816 000	-	49 816 000	45 731 695
Administered Items for the South Australian Police Department	4 105 000	-	4 105 000	3 920 265
Administered Items for State Electoral Office	200 000	-	200 000	-
Minister for Government Enterprises - Other Items	28 155 000	-	28 155 000	22 254 326
Minister for Police and Minister for Emergency Services - Other Items	583 000	-	583 000	803 000
Department of Human Services	1 488 489 000	(294 000)	1 488 195 000	1 502 696 296
Administered Items for Department of Human Services	95 478 000	-	95 478 000	95 478 000
Minister for Social Justice - Other Items	9 020 000	-	9 020 000	9 017 000
Department of Education and Children's Services and Department of Employment, Further Education, Science and Small Business	1 559 449 000	5 527 000	1 564 976 000	1 582 370 000
Administered Items for Department of Education and Children's Services and Administered Items for Department of Employment, Further Education, Science and Small Business	120 780 000	-	120 780 000	122 810 206
Department for Environment and Heritage and Environment Protection Authority	90 778 000	(675 000)	90 103 000	93 438 401
Administered Items for the Department for Environment and Heritage and Environment Protection Authority	4 702 000	-	4 702 000	4 824 000
Department of Water, Land and Biodiversity Conservation	52 857 000	969 000	53 826 000	54 826 000
Administered Items for Department of Water, Land and Biodiversity Conservation	16 538 000	-	16 538 000	10 853 460
Department of Transport and Urban Planning	243 415 000	-	243 415 000	255 705 720
Administered Items for Department of Transport and Urban Planning	13 980 000	-	13 980 000	8 970 170
Administered Items for Planning SA	1 151 000	-	1 151 000	759 126
TransAdelaide	8 068 000	-	8 068 000	6 822 046
Minister for Local Government – Other items	416 000	-	416 000	416 000
Department for Administrative and Information Services	150 952 000	174 000	151 126 000	146 532 700
Office of Venue Management	538 000	-	538 000	538 000
Minister for Industrial Relations – Other Items	503 000	-	503 000	503 000
Total Payments Appropriated for Departments and Ministers	6 050 194 000	-	6 050 194 000	5 968 188 526
TOTAL CONSOLIDATED ACCOUNT PAYMENTS	6 153 094 000	-	6 153 094 000	6 115 028 674

STATEMENT B

SUMMARY OF MOVEMENTS OF FUNDS OF THE TREASURER
DURING THE YEAR ENDED 30 JUNE 2003
(Section 22 *(a)* (ii) *Public Finance and Audit Act, 1987*)
(Prepared on a Cash Basis)

	2002-03	2001-02
	$'000	$'000
SOURCE OF FUNDS		
Consolidated Account Receipts —		
Taxation	2 277 632	2 055 693
Commonwealth—General Purpose Grants	3 060 721	2 896 807
Commonwealth—Specific Purpose Grants	47 596	66 534
Contributions from State Undertakings	700 362	341 842
Fees and Charges	101 548	104 927
Recoveries	52 526	182 697
Royalties	81 520	82 623
Other Receipts	236 758	229 226
Total Receipts	6 558 663	5 960 349
Borrowing from the South Australian Government Financing Authority	-	119 766
Increase in balance of Special Deposit Accounts	237 321	35 899
Decrease in balance of Imprest Accounts	119	-
Decrease in cash at bank	90 291	202 542
Increase in the value of cheques drawn but not presented	-	20 820
	6 886 394	6 399 376
APPLICATION OF FUNDS		
Consolidated Account Payments	6 115 029	6 080 115
Repayment of borrowings to the South Australian Government Financing Authority (a)	443 634	-
Increase in deposits by the Treasurer with SAFA	228 519	225 710
Increase in deposits by the Treasurer with LGFA	1 800	2 700
Decrease in balance of Deposits lodged with the Treasurer	64 471	30 851
Decrease in the value of cheques drawn but not presented	32 941	-
	6 886 394	6 339 376

(a) As reported in Statement A and J, the surplus on Consolidated Account for 2002-03 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 2003
(Section 22 *(a)* (xiv) *Public Finance and Audit Act, 1987*)

	2002-03	2001-02
	$'000	$'000
BALANCE OF FUNDS		
CONSOLIDATED ACCOUNT—See Statement A	-	-
SPECIAL DEPOSIT ACCOUNT BALANCES—See Statement F	1 184 794	947 473
DEPOSITS LODGED WITH THE TREASURER—See Statement G	449 587	514 059
CHEQUES DRAWN BUT NOT PRESENTED	31 729	64 669
	1 666 110	1 526 201
REPRESENTED BY		
CASH AT BANK	142 928	233 219
DEPOSITS WITH SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY—See Statement J	1 481 834	1 253 315
DEPOSITS WITH LOCAL GOVERNMENT FINANCE AUTHORITY OF SA —See Statement E	39 800	38 000
DEPARTMENTAL IMPREST ACCOUNTS—See Statement H	1 548	1 667
	1 666 110	1 526 201

KEVIN FOLEY, Treasurer

STATEMENT D

ABSTRACT OF CONSOLIDATED ACCOUNT RECEIPTS AND PAYMENTS FOR OPERATING ACTIVITIES
FOR THE YEAR ENDED 30 JUNE 2003 (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	$'000
The Legislature	15 145	313	14 832	
Department of the Premier and Cabinet	143 403	-	143 403	
State Governor's Establishment	2 253	-	2 253	
South Australian Tourism Commission	45 444	-	45 444	
Minister for Tourism- Other Items	9 066	-	9 066	
Auditor-General's Department	10 058	8 471	1 587	
Department of Treasury and Finance	812 742	897 150	(84 408)	
Department of Industry and Trade	160 594	-	160 594	
Department of Primary Industries and Resources	186 569	144	186 425	
Department of Justice	598 369	30 491	567 878	
Attorney-General's Department	45 732	21 952	23 780	
South Australia Police Department	3 920	47 872	(43 952)	
Minister for Government Enterprises – Other Items	22 254	-	22 254	
Minister for Police and Minister for Emergency Services – Other Items	803	-	803	
Department of Human Services	1 537 295	-	1 537 295	
Minister for Social Justice - Other Items	9 017	-	9 017	
Department of Education and Children's Services and Department of Employment, Further Education, Science and Small Business	1 705 180	-	1 705 180	
Department for Environment and Heritage and Environment Protection Authority	98 263	15 000	83 263	
Department of Water, Land and Biodiversity Conservation	65 680	590	65 090	
Department for Transport and Urban Planning	225 633	-	225 633	
Minister for Local Government – Other Items	416	-	416	
Department for Administrative and Information Services	121 787	-	121 787	
Office of Venue Management	538	-	538	
Minister for Industrial Relations – Other Items	503	-	503	
Special Acts (b)	146 840	32 717	114 123	
Total	5 967 504	1 054 700	4 912 804	
TOTAL NET COST TO CONSOLIDATED ACCOUNT FOR OPERATING ACTIVITIES				4 912 804

RECEIPTS FROM THE FOLLOWING SOURCES WERE APPLIED TOWARDS MEETING THE ABOVE NET COST—

	$'000	$'000	$'000
State Taxation—			
Payroll Tax	782 886		
Stamp Duties	916 596		
Land Tax	159 217		
Financial Institutions Duty	1 500		
Debits Tax	58 425		
Commonwealth Places Mirror Tax	15 516		
Gaming Machines Tax	241 919		
Other Taxes on Property	841		
Contribution from Lotteries Commission	74 809		
Contribution from Casino Operations	17 290		
Contribution From Totalizator Agency Board	5 920		
Contribution from On-course Totalizators, Bookmakers and Small Lotteries	2 289		
Recoup from Recreation and Sport Fund	424		
Total Receipts from State Taxation		2 277 632	
Commonwealth Government General Purpose Grants		3 060 720	
Royalties		81 520	
Total Direct Receipts			5 419 872
LEAVING A SURPLUS ON ACCOUNT OF OPERATING ACTIVITIES FOR THE YEAR OF			(507 068)
THIS WAS REDUCED BY THE NET OF—			
Payments for investing activities		133 048	
Payments for financing activities		14 477	
Receipts from investing activities		(84 091)	
			63 434
RESULTING IN A CONSOLIDATED ACCOUNT SURPLUS FOR THE YEAR OF			(443 634)
REPAYMENT OF BORROWINGS TO THE SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY			(443 634)

STATEMENT D - *continued*

ABSTRACT OF CONSOLIDATED ACCOUNT RECEIPTS AND PAYMENTS FOR OPERATING ACTIVITIES
FOR THE YEAR ENDED 30 JUNE 2003 (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'. Under the revised presentation of the budget on an accrual-output class basis, the categorisation of Consolidated Account transactions as recurrent or capital has been replaced with classifications contained in the Australian Accounting Standards. 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 2003
(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 2003 the amount invested with the Local Government Finance Authority of South Australia under these arrangements was $39.8 million.

KEVIN FOLEY, Treasurer

STATEMENT F

SPECIAL DEPOSIT ACCOUNTS—BALANCES ON 30 JUNE 2003
(Section 22 *(a)* (v) (C) *Public Finance and Audit Act, 1987*)

Account	Balance $
Interest Bearing—	
Accrual Appropriation Excess Funds	206 370 131
Adelaide Convention Centre Future Asset Replacement Account	6 883 286
Adelaide Convention Centre Operating Account	8 977 991
Administrative and Information Services Operating Account	270 555 796
Attorney-General's Operating Account	8 409 449
Auditor-General's Operating Account	1 500 233
Community Emergency Services Fund	12 567 893
Correctional Services Operating Account	3 433 763
Country Equalisation Scheme	10 466 418
Criminal Injuries Compensation Fund	19 090 739
Dog Fence Fund - for Administration of Dog Fence Act	27 777
Education, Training and Employment Operating Account	48 588 184
Electoral Office Operating Account	934 429
Electricity Reform and Sales Operating Account	-
Electricity Sale/Lease Proceeds Account	-
Emergency Services Administrative Unit Operating Account	14 253 723
Environment and Heritage Operating Account	20 717 154
Environment Protection Authority	6 287 587
Forestry SA – Insurance Reserve Account	-
Gamblers Rehabilitation Fund	971 570
Gaming Supervisory Authority Operating Account	-
Gas Supply Options RFS Operating Account	-
Governors' Pensions Account	9 558
HIH Builders Indemnity Assistance Account	502 826
Home Builders' Account No. 2	-
Home Purchase Assistance Account	-
HomeStart Finance Account	628 547
Housing Loans Redemption Fund	6 262 113
Human Services Operating Account	52 765 259
Industry and Trade Operating Account	56 423 116
Judges' Pensions Account	144 657
Justice Operating Account	-
Local Government Disaster Fund	156 389
National Wine Centre Operating Account	413 205
Natural Disaster Relief Fund	-
Office of Venue Management Operating Account	-
Ombudsman's Office Operating Account	240 178
Parliamentary Superannuation Scheme Account	111 472
Playford Centre Operating Account	1 002 921
Police Complaints Authority	1 138 539
Police Operating Account	35 680 509
Police Superannuation Scheme Contribution Account	1 203 641
Ports Corp Sale/Lease Proceeds	34 732 983
Premier and Cabinet Operating Account	25 646 495
Primary Industries (Log Rebate Funding) Operating Account	-
Primary Industries and Resources Operating Account	14 360 467
Public Trustee Office Operating Account	4 392 495
Rural Finance Account	27 189 258
Rural Industry Adjustment and Development Fund	14 193 249
School Loans Scheme	153 096
South Australian Aboriginal Heritage Fund	350 970
South Australian Government Insurance and Risk Management Fund	11 556 472
South Australian Local Government Grants Commission Account	142 816
South Australian Superannuation Fund Account	11 120 997
Southern State Superannuation Fund Account	7 965 329
State Emergency Services Operating Account	-
State Governor's Establishment Operating Account	119 509
TAB Sale – Proceeds	10 625 582
Transport, Urban Planning and the Arts Operating Account	15 226 243

STATEMENT F—*continued*

SPECIAL DEPOSIT ACCOUNTS—BALANCES ON 30 JUNE 2003
(Section 22 *(a)* (v) (C) *Public Finance and Audit Act, 1987*)

Account	Balance $
Interest bearing— *continued*	
Treasury and Finance Operating Account	14 866 442
Water Resources Operating Account	5 716 217
Sub-Total	995 077 673
Non-interest bearing—	
Agency Provisions for Future Asset Replacements	-
Asset Sales Operating Account	-
Charitable and Social Welfare Fund	1 879 552
Commonwealth Mirror Taxes on Commonwealth Places Revenue Account	-
Dingo Control Fund	56 132
Egg Industry Deregulation Account	464 709
Firearms Acquisition/Compensation Account	46 760
Firearms Acquisition/Disposal - Full-Time Firearms Dealers	-
Government Workers Rehabilitation and Compensation Fund	1 834 428
Highways Fund	125 189 156
Hospitals Fund	-
Industry Development Fund	-
Interregional Settlements Residues Account	19 731
Local Government Concessions - Seniors Card Holders	133 110
Local Government Disaster Fund	39 800 000
Motor Vehicles - Clearing Account	-
Office for Government Enterprises Asset Sales Operating Account	2 040 835
Police Occupational Superannuation (Employer Contribution Account)	-
Sale of Government Land and Property	10 266 155
South Australian Electricity Supply Industry Planning Council Operating Account	612 971
South Australian Independent Industry Regulator	2 552 373
Sport and Recreation Fund	3 280 687
State - Local Government Reform Fund	-
Stony Point (Liquids Project) Indenture Account	-
Targeted/Voluntary Separation Package Schemes	977 571
Treasury – Working Account	562 458
Sub-Total	189 716 628
Total Special Deposit Accounts	1 184 794 301

KEVIN FOLEY, Treasurer

STATEMENT F (1)

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003
(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 those formerly carried on by the Department for State Government Services, and the Department of Information Technology Services, and the Department of Primary industries (Forestry), and the Land Titles Office component of the Department of Environment and Natural Resources, and the Industrial Relations Programs and Services component of the Department for Industrial Affairs, and the Registration and Licensing component of the Department of Transport) including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Agency Provisions for Future Asset Replacements...	To record all receipts and payments associated with surplus cash balances generated within agencies for future asset replacements.
Asset Sales Operating Account.................................	To record all of the financial transactions of the Asset Sales Unit including expenses incurred by the Asset Management Task Force prior to 31 March 1997 not yet brought to account, recurrent and capital expenditure on disposal of assets, revenue from 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.
Attorney-General's Operating Account	To record all of the activities of the Department (including those carried on by the Attorney-General's and Public and Consumer Affairs components of the former Department of Justice) including recurrent and capital 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.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Charitable and Social Welfare Fund	To record receipts and disbursements associated with the Gaming Machines (Miscellaneous) Amendment Bill 1996 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 *Emergency Services Funding Act, 1998* and any amendments as approved by Parliament.
Correctional Services Operating Account..................	To record all the activities of the Department (including those carried on by the Correctional Services component of the former Department of Justice and those formerly carried on by the Justice Information System Division within the Office of Information Technology) including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
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.
Criminal Injuries Compensation 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.
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 - for administration of Dog Fence Act	To record receipts and disbursements relating to the operation of the Dog Fence Board.
Education, Training and Employment Operating Account	To record all of the activities of the Department (including those formerly carried on by the Department for Education and Children's Services, and the Department of Education, Training and Employment, and the Information Technology Workforce Strategy Office) including recurrent and capital expenditures, revenue for various activities, injections of funds provided from the Consolidated Account and borrowings, the receipt of various Commonwealth Government grants and associated payments.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
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 *Electricity Corporations (Restructuring and Disposal) Act 1999* 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.
Environment and Heritage Operating Account	To record all of the activities of the Department (including those formally carried on by the Department for Environment, Heritage and Aboriginal Affairs other than the Division of State Aboriginal Affairs and the Office of Recreation and Sport within the Department of Industry and Trade) including recurrent and capital 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.
ForestrySA – Insurance Reserve Account.................	To record receipts and payments associated with the self-insurance of ForestrySA's growing timber assets.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
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.
Gaming Supervisory Authority Operating Account.....	To record all the activities of the Authority including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
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.
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 Builders' Account No. 2....................................	Established in 1971 to facilitate the recording of transactions associated with the administration of welfare housing funds provided by the State during 1971-72 and 1972-73 in terms of the Housing Grants Administration Act.
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.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Housing Loans Redemption Fund.............................	Established under the *Housing Loans Redemption Fund Act (1962)* 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 those formerly carried on by the Department for Family and Community Services, and the Department of Housing and Urban Development other than the Planning Division) including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Industry and Trade Operating Account	To record all of the activities of the Department including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings, and to make payments to the department for Transport, Urban Planning and the Arts and the Department for Environment and Heritage.
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.
Justice Operating Account...	To record all the activities of the Department and various activities within the Justice Portfolio including the transfer of funds to other agencies within the portfolio, operating and investing expenditures, revenue from various activities and injections of funds provided from Consolidated Account including from borrowings.
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.
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.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
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 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 Occupational Superannuation (Employer Contribution Account)...	To record receipts and payments in respect of the Police Occupational Superannuation Scheme
Police Operating Account	To record all the activities of the Police Department (including those formerly carried on by Security Services in the Department of Housing and Construction) including recurrent and capital 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.
Ports Corp sale/lease - proceeds	To apply proceeds of the sale/lease in accordance with Section 12 of the *South Australian Ports (Disposal of Maritime Assets) Act 2000* and to account for the net proceeds.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Premier and Cabinet Operating Account	To record all the activities of the Department (including those formerly carried on by the Division of Public Sector Reform within the former Office of Government Management, the Office for the Commissioner for Public Employment, the Office of Multicultural and Ethnic Affairs, the Economic Development Policy component of the Economic Development Authority, and the Policy component of the Department for Industrial Affairs) including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account, borrowings and to make payments to the Department of Treasury and Finance.
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 recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings, and to make payments to the Department for Water Resources.
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...	To provide for the administration of separate funds covering - · the agreement between the Commonwealth and the States relating to: - 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; 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.
Rural Industry Adjustment and Development Fund....	To record receipts and payments authorised by the *Rural Industry Adjustment and Development Act 1985*.
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.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
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 *South Australian Local Government Grants Commission Act, 1992* 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 Gaming Machines (Miscellaneous) Amendment Bill 1996 relating to the provision of financial assistance to sporting and recreational organisations.
State Emergency Services Operating Account	To record all the activities of the organisation including recurrent and capital expenditures, revenue from various activities, injection of funds provided from Consolidated Account and borrowings.
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.
TAB sale - proceeds...	To apply proceeds of the sale in accordance with Section 14 of the *TAB (Disposal) Act 2000* and to account for the net proceeds.
Targeted/Voluntary Separation Package Scheme	To administer the costs associated with the Targeted/Voluntary Separation Package Scheme.

STATEMENT F (1)—*continued*

SPECIAL DEPOSIT ACCOUNTS IN OPERATION ON 30 JUNE 2003—*continued*
(Section 22 *(a)* (v) (B) *Public Finance and Audit Act, 1987*)

Account	Purpose
Transport, Urban Planing and the Arts Operating Account	To record all of the activities of the Department (including those formerly carried on by the Department for the Arts and Cultural Development and the Department of Transport other than Registration and Licensing, and the Department of Recreation and Sport other than Sport Facilities and Industry Development) including recurrent and capital expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings.
Treasury and Finance Operating Account	To record all the activities of the Department (including those formerly carried on by the Corporate Services Division within the Department of the Premier and Cabinet) including recurrent and capital 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.
Water Resources Operating Account........................	To record all of the activities of the Department (including those water related activities formally carried on by the Department of Primary Industries and Resources and the Department for Environment and Heritage) including recurrent and capital expenditures, revenue from the Consolidated Account and borrowings.

KEVIN FOLEY, Treasurer

STATEMENT F (2)

SPECIAL DEPOSIT ACCOUNTS OPENED DURING THE YEAR ENDED 30 JUNE 2003
(Section 22 *(a)* (v) (A) *Public Finance and Audit Act, 1987*)

Account	Purpose
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

KEVIN FOLEY, Treasurer

STATEMENT G

DEPOSITS LODGED WITH THE TREASURER—BALANCES ON 30 JUNE 2003
(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	5 418 469
Adelaide Festival Trust Fund	27 427
Agents Indemnity Fund	974 823
Arid Areas Catchment Water Management Board	636 555
Art Gallery Board Bequests Account	2 262 241
Basketball Association of South Australia	10 774
Bio-Innovation SA	-
Boating Administration - Working Account	932 966
Botanic Gardens Board Endowment and Commercial Fund	2 156 834
Carrick Hill Trust	112 106
Cattle Compensation Fund	2 904 226
Cooperative Research Centre for Molecular Plant Breeding	667 843
Cooperative Research Centre for Sustainable Aquaculture of Finfish	1 707 950
Country Fire Services Workers Compensation Fund	-
Courts Administration Authority	7 865 909
Crown Solicitor's Trust Account	6 254 768
Daniel Livingston Scholarship	26 182
Deer Keepers' Compensation Fund	113 875
Distribution Lessor Corporation Account	57 196
District Court Suitors' Fund	1 322 922
Dried Fruits Board	76 511
Education Department - Scholarships and Prizes	113 115
Electricity Industry Superannuation Fund	-
Employment and Technical and Further Education – College Council Funds	831 805
Employment and Technical and Further Education – Scholarships and Prizes	2 717
Environment Protection Fund	3 488 570
Eyre Peninsula Catchment Water Management Board	463 036
Fire Equipment Services Operating Account	-
Generation Lessor Corporation Account	109 621
Grains Industry Levy Fund	244 632
Gulf St Vincent Prawn Fishery Voluntary Contributions	19 945
History Trust of South Australia	701 582
Independent Gambling Authority	791 819
Industrial & Commercial Premises Corporation	1 917 396
Institute of Medical and Veterinary Science	11 681 992
Land Management Corporation	59 771 566
Land Technologies Alliance Fund	129 226
Langhorne Creek Wine Industry Fund	21 664
Legal Practitioners Act	183 939
Libraries Board of South Australia	3 179 310
Local Government Taxation Equivalents Fund	839 328
Lower Murray Reclaimed Irrigation Areas Operating Account	240 162
Loxton Irrigation Scheme	-
Marine Scalefish Industry Fund	56 769
Motor Accident Commission Account	5 381 085
Museum Board – Bequests Account	2 394 985
National Action Plan for Salinity and Water Quality	22 587 875
National Parks General Reserves Account	2 926 482
Native Vegetation Fund	1 001 574
Northern Adelaide and Barossa Catchment Water Management Board	1 873 779
Office of Catchment Water Management Boards'	4 426 302
Onkaparinga Catchment Water Management Board	1 396 201
Outback Areas Community Development Fund	736 169
Passenger Transport Board	9 339 140
Passenger Transport Research and Development Fund	928 998

STATEMENT G—*continued*

DEPOSITS LODGED WITH THE TREASURER—BALANCES ON 30 JUNE 2003—*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	723 589
Pitjantjatjara Council - Replacement of Plant Account	10 518
Planning and Development Fund	6 945 111
Pleuro Pneumonia Fund	67 614
Police Superannuation Fund	527 673
Racing Industry Development Authority	-
Rail Transport Facilitation Fund	6 287 917
Real Property Act Assurance Fund	3 933 644
Real Property Act Trust Account	56 279
Recreation and Sport Disability Foundation of South Australia	-
Recreational Boating Facilities Fund	1 462 384
RESI Corporation Account	120 682
RESI FP Pty Ltd Account	-
Residential Tenancies Fund	1 436 647
Retail Shop Leases Fund	363 102
Returned and Services League of Australia - Poppy Day Trust Inc - Enfield Project Account	401 008
Returned and Services League of Australia (South Australian Branch) Incorporated	772 485
River Murray Catchment Water Management Board	4 817 333
Riverland Wine Industry Fund	87 628
SA BITS Funds Pty Ltd – Playford Centre Capital	4 653 603
Second-Hand Vehicles Compensation Fund	384 682
Soil Conservation and Land Care Fund	25 154
South Australian Aboriginal Housing Authority	5 697 327
South Australian Apiary Industry Fund	144 685
South Australian Community Housing Development Fund	15 346 409
South Australian Co-ordinated Care - SA Health Plus	-
South Australian Country Arts Trust	1 138 122
South Australian Film Corporation Investors Returns Account	364 110
South Australian Finance Trust Limited	-
South Australian Forestry Corporation	13 427 268
South Australian Government Financing Authority	30 396 859
South Australian Housing Trust	59 964 425
South Australian Metropolitan Fire Service	23 661 100
South Australian Metropolitan Fire Service Superannuation Trustees Account	-
South Australian Pig Industry Fund	1 333 436
South Australian Ports Corporation	3 835 220
South Australian Sheep Industry Fund	909 314
South Australian Timber Corporation	1 416 789
South Australian Tourism Commission	7 833 076
South Australian Water Corporation	-
South East Catchment Water Management Board	1 194 557
Southern Group Insurance Corporate Account	139 943
State Disaster Relief Fund	95 595
State Supply Board – Gaming Machine Operations	2 053 829
Superannuation Funds Management Corporation Operating Account	473 227
Supreme Court Suitors Fund	23 130 718
Teachers' Registration Board	2 064 668
Totalizator Agency Board – Capital Infrastructure Fund	-
TransAdelaide	11 447 291
Transmission Lessor Corporation Account	43 172
Upper South East Dryland Salinity Project	2 180 275
Water Resources Levy Fund	-
Wildlife Conservation Fund	479 153
Woods and Forests - Research into Forest Pest Disease	10 273
Woods, Bagot, Jory and Laybourne-Smith - National War Memorial Account	1 899
World Congress on Information Technology 2002	-
Sub-Total	413 170 154

STATEMENT G—*continued*

DEPOSITS LODGED WITH THE TREASURER—BALANCES ON 30 JUNE 2003—*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	3 664
Adelaide Magistrates Court	183 757
Agriculture – Research and Services Grants	10 665 461
Animal and Plant Control Commission Fund	102 104
Children's Services Office – Capital Assistance Fund	192 235
Coast Protection Fund	545 588
Commissioner for Equal Opportunity Account	-
Companies Liquidation Account	18 548
Contractors' Deposits	380 824
Co-operatives Liquidation Account	64 993
Correctional Services - Prisoners' Moneys	188 320
Economic Development Authority	12 543 811
Extractive Areas Rehabilitation Fund	4 014 179
Fisheries – Research and Development Fund	3 044 517
Government's Light Motor Vehicle Replacement Program	3 030 907
Metropolitan Drainage Maintenance Fund	101 557
Natural Gas Authority of South Australia	402 198
Recreation and Sport Fund	303 142
Sheriff's Office Account	2 948
South Eastern Water Conservation and Drainage Board	17 912
State Heritage Fund	56 418
Unclaimed Salaries and Wages Account	295 015
Workmen's Liens	259 088
Sub-Total	36 417 186
Total Deposits lodged with the Treasurer	449 587 340

KEVIN FOLEY, Treasurer

STATEMENT H

IMPREST ACCOUNTS
(Section 22 *(a)* (vii) *Public Finance and Audit Act, 1987*)

These amounts represent moneys 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 recouped from departmental moneys.

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 for Business, Manufacturing and Trade	3 000
Chief Executive	South Australian Police Department	200 000
Chief Executive	Department of the Premier and Cabinet	30 380
Electoral Commissioner	State Electoral Office	200
Chief Executive	Department for Transport and Urban Planning	247 590
	Total	1 548 284

KEVIN FOLEY, Treasurer

STATEMENT I

INDEBTEDNESS OF THE TREASURER AS AT 30 JUNE 2003
(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 non-commercial 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 2003 was $3 420.5 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 2002-03 the Consolidated Account surplus was $443.6 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:-

	2002-03 $' 000	2001-02 $' 000
Loans to State Government Departments		
Administrative and Information Services—		
Operations	2 769	2 769
Government Commercial Properties	51 187	51 187
Government Employee Residential Properties	36 185	37 349
Environment and Heritage	38 054	38 054
Industry and Trade	-	2 309
Primary Industries and Resources—		
Gulf St Vincent Prawn Fishery	97	1 016
Rural Loans	1 851	2 044
Transport, Urban Planning and the Arts	47 761	47 761
	177 904	182 489
Loans to Statutory Authorities and Other Bodies		
Adelaide Bank	726	909
Adelaide Festival Centre Trust	28 098	28 258
Basketball Association of South Australia Incorporated	10 451	10 595
Flinders Medical Centre	24 205	23 824
Home Builders' Account No. 2	-	14 364
Land Management Corporation	3 893	3 906
Lotteries Commission	6 881	8 249
Lyrup Village Association	62	66
Medical Board of South Australia	95	128
Minister for Education and Children's Services	7 460	9 460
Minister for Government Enterprises	6 090	28 830
Minister for Industry and Trade	5 223	5 223
Minister for Recreation, Sport and Racing	459	488
Passenger Transport Board	3 168	4 068
Pyap Irrigation Trust	-	29

STATEMENT I—*continued*

INDEBTEDNESS OF THE TREASURER AS AT 30 JUNE 2003—*continued*
(Section 22 *(a)* (viii) *Public Finance and Audit Act, 1987*)

	2002-03 $' 000	2001-02 $' 000
Loans to Statutory Authorities and Other Bodies-*continued*		
Renmark Irrigation Trust	1 829	1 925
South Australian Country Arts Trust	15 737	15 757
South Australian Cricket Association Incorporated	-	5 922
South Australian Housing Trust	809 773	826 219
South Western Suburbs Drainage	3 039	3 269
South Australian Tourism Commission	1 166	1 287
TransAdelaide	92 133	105 514
University of South Australia	15 000	15 000
West Beach Trust	2 716	2 716
Womens and Childrens Hospital	5 662	5 823
Woodville, Henley and Grange Drainage	267	279
	1 044 133	1 122 108
Equity Contributions		
Adelaide Convention Centre	77 794	77 794
Adelaide Entertainments Corporation	55 536	55 536
Administrative and Information Services—		
Operations	164 250	139 505
Government Commercial Properties	63 529	63 529
Distribution Lessor Corporation	28 273	28 273
Education, Training and Employment	4 463	4 463
Forestry SA	4 984	4 984
Generation Lessor Corporation	24 539	24 539
Human Services	88 722	27 843
National Electricity Administrator	93	93
National Electricity Market Management Company	490	490
Passenger Transport Board	16 800	9 800
Police Department	25 069	25 069
Primary Industries and Resources	1 059	1 059
SA Water Corporation	247 950	263 950
South Australian Asset Management Corporation	52 716	52 716
South Australian Film Corporation	8 460	8 460
South Australian Ports Corporation	15 000	15 000
Transport, Urban Planning and the Arts	118 243	80 237
	997 970	883 340
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	(1 136 739)	(660 853)
	1 200 511	1 676 397
Total Treasurer's Indebtedness to SAFA	3 420 518	3 864 334

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.

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*).

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 stems from—
- 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;
- 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 2002-03 is summarised as follows—

	$' million
Balance at 30 June 2002	3 865
Add- SAFA book gains/losses (net) (i)	15
Less- Consolidated Account repayment of borrowings in 2002-03	444
Less- Repayment of borrowing	1
Less- Other minor adjustments (net)	14
Balance at 30 June 2003	3 421
Add- SAFA adjustment to market value (ii)	222
Market value at 30 June 2003	3 643

(i) SAFA's accounting policy in relation to gains and losses resulting from debt management transactions is to recognise these gains and losses immediately in its profit and loss account and recover the gain/loss through an adjustment to the Treasurer's debt level.

(ii) Unlike SAFA that manages its financial assets and liabilities on a market value basis (net fair value), the Treasurer has recognised this indebtedness on a historical cost basis consistent with Statements of Accounting Concepts (SAC) 4, *Definition and Recognition of the Elements of Financial Statements*. The indebtedness is reviewed regularly by SAFA.

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 2002-03 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 2003 the amount deposited by the Treasurer with SAFA was $1 482 million (SAFA's market valuation $1 490 million).

Statement C shows details of cash balances held by the Treasurer at 30 June 2003 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 2002-03 prior to income tax was $26.2 million. SAFA and its controlled entities come under the Tax Equivalent Regime (TER) and under this arrangement $7.5 million from the surplus was paid to Consolidated Account in 2002-03 and is reported in Statement A.

After taking account of the retained surplus carried forward from previous years and the TER payment in 2002-03 the amount of SAFA's surplus potentially available for distribution at 30 June 2003 was $279.0 million. The Treasurer determined that the distribution for 2002-03 would be $ 86.8 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 2002-03	184 223 000

Purpose of Appropriation	Amounts Issued and Applied $
Joint Parliamentary Services	70 050
Department of the Premier and Cabinet	1 150 000
Administered Items for Industry and Trade	505 191
Department of Primary Industries and Resources	2 091 793
Administered Items for Department of Primary Industries and Resources	815 000
Department of Justice	6 781 880
Minister for Police and Minister for Emergency Services – Other Items	220 000
Department of Human Services	14 501 296
Department of Education and Children's and Department of Employment, Further Education, Science and Small Business	17 394 000
Administered Items for Department of Education and Children's and Department of Employment, Further Education, Science and Small Business	2 030 206
Department for Environment and Heritage and Environment Protection Authority	3 335 401
Administered Items for Department for Environment and Heritage and Environment Protection Authority	122 000
Department of Water, Land and Biodiversity Conservation	1 000 000
Department of Transport and Urban Planning	12 290 720
Total	62 307 537

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*)

No transfers were made during 2002-03.

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 2002-03.

APPROPRIATION AUTHORITIES FOR ACTUAL PAYMENTS FROM THE
CONSOLIDATED ACCOUNT, 2002-03
(Section 22 (a) (xiii) *Public Finance and Audit Act, 1987*)

	Appropriation Authority	Actual Payments
	$	$
Appropriation Act, 2002 Section 4	6 050 194 000	5 905 880 989
Public Finance and Audit Act—Section 15	-	-
	6 050 194 000	5 905 880 989
The Governor's Appropriation Fund, *Public Finance and Audit Act*—Section 12	184 223 000	62 307 537
	6 234 417 000	5 968 188 526
Specific appropriation authorised in various Acts	146 840 148	146 840 148
Total	6 381 257 148	6 115 028 674

KEVIN FOLEY, Treasurer

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