Government of South Australia

Consolidated Financial Report for the year ended 30 June 2007

Prepared by the
DEPARTMENT OF TREASURY AND FINANCE

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Foreword

This document contains the Consolidated Financial Report (CFR) of the Government of South Australia for the financial year ended 30 June 2007. The CFR fulfils the government's consolidated financial reporting requirements pursuant to generally accepted accounting principles (GAAP). The report has been prepared in accordance with applicable Australian Accounting Standards Board Standards and Pronouncements, Treasurer's Instructions and Accounting Policy Framework, and is consistent with Australian Accounting Standard (AAS) 31 *Financial Reporting by Governments.* The CFR is only one component of the suite of publications that discharge the government's financial accountability obligations.

The government's budget and fiscal targets are based on the Government Finance Statistics (GFS) framework promulgated by the Australian Bureau of Statistics. Financial information on a GFS basis is presented in the annual budget, mid year budget review and budget outcomes reports in accordance with the *Uniform Presentation Framework* (UPF) agreed by the Commonwealth and all state and territory governments. This UPF format is the primary reporting and accountability focus for the government.

The Auditor-General has reviewed the CFR but has not provided a formal independent audit report, as there is no legislative requirement for the preparation, audit or presentation of a whole of government financial report. However, the Auditor-General has made a number of observations on the report. The Auditor-General's comments are provided at the end of this document.

While the CFR is presented for the government as a whole, Note 2 to the financial report shows the financial performance and the financial position of the three major sectors of government: general government, public non-financial corporations and public financial corporations. These sectors are consistent with the classifications used by the ABS.

The consolidated financial result is not simply the sum of the results of the three sectors. In arriving at a consolidated result, transactions between agencies are eliminated to present a consolidated picture of the financial relationship between the government in its entirety and the 'rest of the world'.

Key points

- The Government of South Australia and controlled entities ('the government') recorded a consolidated operating surplus of $1.194 billion for the financial year ended 30 June 2007.

- The significant surplus of $1.194 billion, calculated on a GAAP reporting basis for the CFR, contrasts with the much smaller surplus of $209 million reported in the 2006-07 Final Budget Outcome as measured in the government's preferred GFS/UPF reporting basis. This general government net operating surplus of $209 million excludes the significant fluctuations that result from revaluations of superannuation related assets and liabilities.

- Investment revenues were a significant contributor to the operating surplus with earnings on the state's superannuation assets contributing approximately $2 billion to the State's revenue stream.

- Net assets of the government as at 30 June 2007 were $21.5 billion, comprising assets of $54.0 billion and liabilities of $32.5 billion.

- The government's balance sheet continues to reflect a strong financial position and is consistent with the State's triple-A credit rating.

Financial performance

An indication of the government's financial performance during the year is reflected in the income statement, which records the operating result from ordinary activities for the government. Table 1 shows consolidated income statements for the last five years.

Table 1 Income statements ($ million)

	2006-07	2005-06	2004-05	2003-04	2002-03
Incomes					
Grants revenues	**6 162**	5 952	5 589	5 289	5 010
Taxation revenues	**3 032**	2 779	2 760	2 651	2 285
Goods and services	**2 332**	2 251	2 095	2 143	1 914
Investment revenues	**3 007**	2 396	1 737	1 757	878
Other incomes	**1 922**	1 749	2 031	1 918	1 905
Total revenues	**16 455**	**15 127**	**14 212**	**13 758**	**11 992**
Expenses					
Employee benefits	**4 800**	4 567	6 710	6 057	5 032
Supplies and services	**3 393**	3 359	2 307	2 305	2 713
Grants and subsidies	**1 691**	1 627	1 661	1 466	1 395
Finance costs	**674**	645	688	737	761
Depreciation and amortisation	**765**	702	692	660	617
Other expenses	**3 938**	3 060	3 632	3 196	2 383
Total expenses	**15 261**	**13 960**	**15 690**	**14 421**	**12 901**
Surplus (–deficit)	**1 194**	**1 167**	**-1 478**	**- 663**	**- 909**

For the year ended 30 June 2007 the operating result was a surplus of $1.194 billion.

Investment revenues are the most volatile revenue item reflecting variations in share market returns on the state's superannuation assets.

A significant item affecting each year's employee benefits expense has been the upward and downward variation in expenses associated with the government's unfunded superannuation liability. The superannuation expense for 2006-07 was negative $292 million, an amount comparable with the 2005-06 superannuation expense of negative $276 million. These negative expenses in the last two financial years compare favourably with the large superannuation expenses of earlier years.

In 2006-07 the negative superannuation expense was the result of a variation in the discount rate, (from 5.9 per cent to 6.3 per cent), used to value the state's unfunded superannuation liability, and earnings on superannuation assets that were well above long-term expected earnings rates. Primarily as a result of these factors, the total unfunded superannuation liability for the year decreased by $1.07 billion.

Table 2 shows summary information in relation to superannuation for the last five years.

Table 2 Superannuation summary

Factor	2006-07	2005-06	2004-05	2003-04	2002-03
Long term earnings assumption on superannuation assets (%)	**7.0**	7.0	7.0	7.0	7.5
Actual return on superannuation assets (%)	**19.5**	19.2	15.0	17.3	-0.6
Discount rate (%)[(a)]	**6.3**	5.9	5.2	6.0	7.5
Impact on superannuation expense arising from change in discount rate ($b)	**-0.6**	-1.0	1.0	1.4	n/a
Superannuation expense ($b)	**-0.292**	-0.276	2.305	1.890	1.046
Movement in unfunded superannuation liability ($b)	**-1.071**	-1.081	1.559	1.223	0.458

(a) In 2003-04 the government implemented an early adoption of the national bond rate for discounting superannuation liabilities in accordance with Australian equivalents to International Accounting Standard requirements.

Financial position

The balance sheet provides an indication, at a point in time, of the nature and value of assets controlled by the government, together with the liabilities incurred. Table 3 shows consolidated balance sheets for the last five financial years.

Table 3 Balance Sheets ($ million)

as at June 30	2007	2006	2005	2004	2003
Assets					
Cash and investments	**7 019**	6 099	6 154	6 643	6 289
Superannuation investment assets	**13 146**	10 326	7 934	6 635	5 411
Land and improvements	**15 763**	15 143	13 608	11 428	10 344
Plant, equipment and infrastructure assets	**13 939**	13 284	12 737	12 321	12 384
Receivables	**1 945**	1 948	1 830	1 750	1 983
Other assets	**2 185**	2 029	1 787	1 631	1 586
Total assets	**53 997**	**48 829**	**44 050**	**40 408**	**37 997**
Liabilities					
Payables and other interest-bearing liabilities	**7 294**	6 665	7 277	7 418	8 526
Employee benefits	**1 562**	1 486	1 387	1 595	1 440
Funded superannuation liabilities	**12 809**	10 290	7 901	6 599	5 372
Unfunded superannuation liabilities	**5 075**	6 146	7 227	5 668	4 445
Provisions (other than employee benefits)	**4 559**	4 066	3 706	3 040	2 764
Other liabilities	**1 247**	1 033	919	1 033	946
Total liabilities	**32 546**	**29 686**	**28 417**	**25 353**	**23 493**
Net Assets	**21 451**	**19 143**	**15 633**	**15 055**	**14 504**

In 2006-07 the government's net assets increased by $2.4 billion, from $19.1 billion at 30 June 2006 to $21.5 billion at 30 June 2007. In 2005-06 the government's net assets increased by $3.5 billion, from $15.6 billion to $19.1 billion.

Assets increased in value by $5.2 billion during 2006-07. This is similar to the increase of $4.8 billion in 2005-06. Higher asset values were largely influenced by increased holdings of superannuation investment assets, as discussed earlier, ($2.8 billion), upward non-current asset revaluation adjustments ($1.3 billion), additional cash and investments ($0.9 billion) and other assets ($0.2 billion). The growth in non-current physical assets was mainly attributable to net revaluations of land and improvements, ($0.7 billion), reflecting the continued strong growth in residential and other property values, and other plant, equipment and infrastructure assets ($0.6 billion). The additional cash and investments were largely from marketable debt securities held by the South Australian Financing Authority (SAFA) and shares held by the Superannuation Funds Management Corporation of South Australia (Funds SA).

Increases in asset holdings were partly offset by the overall increase in the government's liabilities ($2.9 billion). An increase in superannuation liabilities accounted for almost half of the overall increase.

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Income Statement

Income Statement	Note	2007 $m	2006 $m
INCOMES			
Taxation revenues	3	**3 032**	2 779
Grants revenues	4	**6 162**	5 952
Charges for goods and services	5	**2 332**	2 251
Regulatory fees / levies	6	**1 198**	1 203
Investment revenues	7	**3 007**	2 396
Net gain from disposal of non–current assets	8	**34**	33
Fair values of assets and services received free of charge or for nominal consideration	9	**76**	77
Fines and penalties		**80**	63
Other revenues	10	**534**	373
Total income		**16 455**	**15 127**
EXPENSES			
Employee benefits costs	11	**4 800**	4 567
Depreciation and amortisation	12	**765**	702
Supplies and services	13	**3 393**	3 359
Finance costs	14	**674**	645
Grants and subsidies	15	**1 691**	1 627
Other expenses	16	**3 938**	3 060
Total expenses		**15 261**	**13 960**
Net Surplus		**1 194**	**1 167**

This Consolidated Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet

Balance Sheet	Note	2007 $m	2006 $m
CURRENT ASSETS			
Cash and cash equivalents	35(a)	**444**	618
Receivables	17	**650**	595
Other financial assets	18	**3 005**	2 016
Inventories	19	**186**	137
Other current assets		**7**	32
		4 292	**3 398**
Non-current assets classified as held for sale	20	**55**	54
Total current assets		**4 347**	**3 452**
NON-CURRENT ASSETS			
Receivables	17	**1 295**	1 353
Other financial assets	18	**16 716**	13 791
Inventories	19	**99**	57
Investment properties	21	**290**	214
Land and improvements	22	**15 763**	15 143
Plant, equipment and infrastructure	23	**13 939**	13 284
Heritage assets	24	**841**	844
Biological assets	25	**616**	593
Intangible assets	26	**91**	98
Total non-current assets		**49 650**	**45 377**
TOTAL ASSETS		**53 997**	**48 829**
CURRENT LIABILITIES			
Payables	27	**820**	734
Interest-bearing liabilities	28	**2 223**	1 084
Employee benefits	29	**595**	546
Unfunded superannuation	30	**235**	252
Superannuation fund deposits	31	**12 809**	10 290
Provisions (other than employee benefits)	32	**961**	846
Other current liabilities	33	**451**	479
Total current liabilities		**18 094**	**14 231**
NON-CURRENT LIABILITIES			
Payables	27	**98**	35
Interest-bearing liabilities	28	**4 153**	4 812
Employee benefits	29	**967**	940
Unfunded superannuation	30	**4 840**	5 894
Provisions (other than employee benefits)	32	**3 598**	3 220
Other non–current liabilities	33	**796**	554
Total non–current liabilities		**14 452**	**15 455**
TOTAL LIABILITIES		**32 546**	**29 686**
NET ASSETS		**21 451**	**19 143**

Balance Sheet (Continued)	Note	2007 $m	2006 $m
EQUITY			
Retained earnings		**4 680**	3 074
Asset revaluation reserve		**16 063**	15 390
Other reserves		**708**	679
TOTAL EQUITY		**21 451**	**19 143**
Commitments for Expenditure	36 – 38		
Contingent Assets and Liabilities	39		

This Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

Statement of Changes in Equity	Asset Revaluation Reserve $ m	Other Reserves $ m	Retained Earnings $ m	Total $ m
Balance at 30 June 2005	**13 191**	**694**	**1 748**	**15 633**
Gain on revaluation of property, plant and equipment during 2005–06	2 380	—	—	2 380
Transfers to / from reserves during 2005–06	- 182	- 14	196	—
Net income / expense recognised directly in equity for 2005–06	**2 198**	**- 14**	**196**	**2 380**
Net surplus for 2005–06	—	—	1 151	1 151
Total recognised income and expenses for 2005–06	**2 198**	**- 14**	**1 347**	**3 531**
Rounding	1	- 1	1	1
Balance at 30 June 2006	**15 390**	**679**	**3 096**	**19 165**
Changes in accounting policy	—	—	16	16
Error correction current year	—	—	- 38	- 38
Restated balance at 30 June 2006	**15 390**	**679**	**3 074**	**19 143**
Gain on revaluation of property, plant and equipment during 2006–07	1 115	—	—	1 115
Transfers to / from reserves during 2006–07	- 442	30	412	—
Net income / expense recognised directly in equity for 2006–07	**673**	**30**	**412**	**1 115**
Net surplus for 2006–07	—	—	1 194	1 194
Total recognised income and expenses for 2006–07	**673**	**30**	**1 606**	**2 309**
Rounding	—	- 1	—	- 1
Balance at 30 June 2007	**16 063**	**708**	**4 680**	**21 451**

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

This Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

Cash Flow Statement	Note	2007 inflows (-outflows) $m	2006 inflows (-outflows) $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows (receipts) :			
Taxation		**3 005**	2 768
Grants and subsidies		**6 185**	5 934
Charges for goods and services		**2 327**	2 176
GST reimbursed		**379**	289
Gambling product receipts		**349**	349
Royalties		**145**	125
Fines and penalties		**80**	59
Regulatory fees		**224**	249
Other receipts		**346**	682
Cash generated from operating activities		**13 040**	**12 631**
Cash outflows (payments) :			
Employee benefits payments		**-5 714**	-5 423
Supplies and services		**-3 299**	-3 234
Finance costs		**- 118**	- 181
Grants and subsidies paid		**-1 689**	-1 642
GST payments		**- 263**	- 273
Gambling prizes and dividends		**- 268**	- 266
Other payments		**—**	-1 352
Cash used in operating activities		**-11 351**	**-12 371**
Net Cash Inflows from Operating Activities	35(c)	**1 689**	**260**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows (proceeds):			
Sale of property, plant and equipment		**287**	360
Sale of investment securities		**16**	13
Net loans repaid		**186**	34
Maturing term deposits		**—**	5
Cash generated from investing activities		**489**	**412**
Cash outflows (payments) :			
Property, plant and equipment		**-1 057**	-1 000
Investment securities		**- 34**	- 25
Australian dollar deposits		**- 2**	- 4
Cash used in investing activities		**-1 093**	**-1 029**
Net Cash Outflows from Investing Activities		**- 604**	**- 617**

Cash Flow Statement (Continued)	Note	2 007 inflows (-outflows) $m	2 006 inflows (-outflows) $m
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from deposits		**- 470**	364
Net decrease in borrowings		**- 568**	- 1
Net payment of dividends		**—**	88
Finance lease principal repayments		**- 4**	- 18
Net inflows (–outflows) from financing activities		**-1 042**	**433**
Cash flows by Government, excluding Public Financial Corporations sector		**43**	**76**
NET CASH (–OUTFLOWS) FROM PUBLIC FINANCIAL CORPORATIONS	35(d)	**- 216**	**- 267**
NET (–DECREASE) IN CASH		**- 173**	**- 191**
Cash at the beginning of the financial year		**617**	809
CASH AT THE END OF THE FINANCIAL YEAR	35(a)	**444**	**618**

This Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL REPORT

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1. Significant accounting policies

To help in the understanding of the financial information presented in this report, the following notes set out significant accounting policies adopted in this report.

(a) Accounting Standards

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards, and in particular with Australian Accounting Standard AAS 31 *Financial Reporting by Governments,* and Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987.*

Statement of Compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards and AAS 31.

Except for the amendments to AASB 101 *Presentation of Financial Statements*, which have been early-adopted, the Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted for the reporting period ending 30 June 2007. The impact of the new and amended standards and interpretations have been assessed and considered to have no material impact on the *accounting policies* or the consolidated statements.

The preparation of the consolidated statements requires the use of certain accounting estimates and requires judgement to be exercised in the process of applying accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the consolidated statements, are outlined in the applicable notes.

The harmonisation of Generally Accepted Accounting Principles and Government Finance Statistics (AASB 1049 *Financial Reporting of General Government Sectors by Governments*) will result in changes to *reporting* requirements that will impact on the future presentation of financial information.

(b) Basis of accounting

The consolidated statements have been prepared for the reporting (financial) period for the 12 months from 1 July 2006 to 30 June 2007. Except where otherwise stated, the report has been prepared using the full accrual basis of accounting, which recognises the effect of transactions and events when they occur, rather than recognising the effects of transactions and events when cash is received or paid.

(c) The Government economic entity

In accordance with Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*, these consolidated financial statements include the values of all material assets, liabilities, equities, revenues and expenses controlled by the Government of South Australia.

Every effort has been made to include all State controlled agencies, regardless of the materiality of the size of their financial transactions and/or resources managed in this consolidated financial report. Where control of an entity is obtained during the financial year, its results are included in the Income Statement from the date control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

The government economic entity includes government departments, non-financial corporations, financial corporations and other government-controlled entities. These entities are set out at Note 41.

The government economic entity excludes local government bodies, universities, most marketing and professional regulatory authorities, the Legislature, and associations and financial institutions incorporated under State statute but not controlled by the government. In the process of reporting the Government of South Australia as a single economic entity, all material inter–entity and intra–entity transactions and balances have been eliminated to the extent practicable.

(d) Comparatives

Where applicable, comparatives have been restated to agree with changes in presentation in the financial statement for the current reporting period. Otherwise, presentation and classification of items in the consolidated financial report are consistent with prior periods.

(e) Sectors

Assets, liabilities, revenues and expenses that are reliably attributable to each broad sector of activities of the government are set out below. The sectors of government have been determined in accordance with the Government Financial Statistics (GFS) framework, promulgated by the Australian Bureau of Statistics, as follows:

- **General government** (GG) sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those that are mainly non-market in nature, those that are largely for collective consumption by the community, and those that involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges.

- **Public non-financial corporations** (PNFC) sector comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at prices that aim to recover all, or most of, the costs involved. In general they are legally distinguishable from the government that owns them.

- **Public financial corporations** (PFC) sector comprises bodies primarily engaged in providing financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services), and to acquire financial assets in the market on their own account. They can also perform central borrowing functions.

(f) Basis of measurement

The financial report adopts the following basis of measurement:

Non-current assets, including heritage assets, with a cost of acquisition greater than $1 million and a useful life of more than three years, are revalued using the fair value concept, in accordance with the Accounting Policy Framework (APF) III *Asset Accounting Framework*. Fair value is measured having regard to the assets highest and best use, and usually results in assets being valued at the current cost of replacing the future economic benefits that can be expected to be obtained from the remaining useful lives of the assets. Land under roads has not yet been recognised in accordance with the transitional provisions of AAS 31, but is considered within the application of APF III. Non-current assets with an acquisition cost of less than $10 000 may be written off in the reporting period in which they are acquired, in accordance with APF III.

Timber growing on commercial plantations and surplus assets are valued at fair value (net market value).

Equity investments in entities that are not controlled are valued at either cost or market value. Changes in the value of investments marked to market are recognised in the Income Statement.

Superannuation liabilities, insurance liabilities, long service leave calculations, liabilities for outstanding workers compensation claims and motor accident liabilities are based on actuarial assumptions.

Interest bearing financial assets and financial liabilities are valued at either cost or market value. Changes in the value of investment assets marked-to-market are recognised as investment revenues in the Income Statement. Changes in the value of liabilities marked-to-market are recognised as finance costs in the Income Statement.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. The fair value of cash consideration with deferred settlement terms is determined by discounting any amounts payable in the future to their present value as at the date of acquisition. Present values are calculated using rates applicable to similar borrowing arrangements of the economic entity.

Purchased goodwill represents the excess of costs of acquisition over the fair value of the State's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Internally generated intangible assets are only revalued where an active market exists for the asset in question, otherwise they are measured at cost.

Most remaining assets have been valued at their written down historical cost.

Market / fair value is 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.

Net market value in relation to an asset means the market value after deducting costs expected to be incurred were the asset to be exchanged.

Current cost of an asset means the lowest cost at which the gross service potential of that asset could currently be obtained in the normal course of operations.

Unless otherwise stated, the accounting policies adopted for the reporting period are consistent with those of the previous reporting period. In accordance with AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, changes to accounting policies are applied retrospectively unless specific transitional provisions apply.

(g) Financial risk management

The government has significant non-interest bearing assets (cash on hand and at call, and receivables) and liabilities (payables); and interest bearing assets (held to maturity investments) and liabilities (external borrowings). The government's activities expose it to a variety of financial risks, market risk (including foreign currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The government has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

The government's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects. The government uses certain derivative instruments such as forward exchange contracts and cross currency swaps to hedge risk exposures. Overall exposure to market risk and cash flow risk is minimised, and there are no significant concentrations of credit risk.

(h) Income recognition

All revenues, including capital grants, are included in the Income Statement with the exception of revaluation increments subject to the provisions of AASB 116 *Property, Plant and Equipment* that are generally recorded by directly crediting an asset revaluation reserve unless they are reversing a previous decrement.

Grant funding received is recorded as revenue at the time control over the asset passes to government. A material economic dependence, of approximately 37 per cent of the government's revenue base, exists in terms of the receipt of grants funded by the Commonwealth (39 per cent in 2005–06). These grants represent the government's share of GST, which is distributed in accordance with the Principle of Fiscal Equalisation applied by the Commonwealth Grants Commission. Further disclosures about grant revenues are outlined in Note 4.

Revenues resulting from sale of / charges for goods and services, and fines and regulatory fees, are, where possible, recognised when the transaction or event giving rise to the revenues occurs.

State taxation revenue is recognised by the responsible agency upon the receipt of cash associated with either an account as rendered, or with a taxpayer's self-assessment. Major types of taxation revenues are:

- payroll tax
- stamp duties
- gambling
- motor vehicle registration
- water catchment levy
- debits tax (abolished in 2005–06)
- land tax
- emergency services levy
- River Murray levy

(i) Taxation

The government is exempt from Commonwealth taxation except for Fringe Benefits Tax and Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net 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 acquisition cost of the asset or as part of the item of expense.

Receivables and payables are stated with the amount of GST included. The amounts of GST receivable from, or payable to, the ATO are included as a current asset or liability in the Balance Sheet.

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

Payments for fringe benefits tax are included as employee benefit costs (refer Note 11).

Consistent with discussions in Note 1(c), relevant taxes as listed in Note 1(h) paid by state government controlled entities to other government agencies are eliminated upon consolidation from the financial statements presented here.

(j) Depreciation and amortisation of non-current assets

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential on a straight-line method. In accordance with APF III estimates of remaining useful lives are reassessed on a regular basis for all relevant assets.

Heritage assets are anticipated to have very long and indeterminate useful lives. Their service potential is not, in any material sense, consumed during the reporting period. As such, very little accumulated amortisation has been recognised in respect of these assets.

Assets acquired under finance lease are amortised over the period during which the government is expected to benefit from use of the leased assets.

Assets that would not be replaced, and are valued at either net market value or the net present value of expected cash flows and which are revalued at each reporting date, are not generally depreciated.

Assets under construction (work-in-progress) are not depreciated until they reach service delivery capacity.

Intangible assets such as goodwill are amortised and assessed annually for impairment.

The following are estimated useful lives for the different asset classes:

Asset class	Useful life
• Land	Not depreciated
• Fixed buildings	1–149 years
• Mobile buildings	1–60 years
• Leasehold improvements	1–40 years (life of lease)
• Plant and equipment	1–100 years
• Vehicles	1–87 years
• Water, sewerage and drainage	1–160 years
• Road network	1–242 years
• Rail and bus tracks	1–155 years
• Heritage assets	Indeterminate
• Intangible assets	1–25 years

(k) Impairment

At each reporting date, an assessment is undertaken as to whether there are any indications that a physical or intangible asset is impaired. If an asset is determined to be impaired, the recoverable amount of the impaired asset is determined as the higher of the asset's fair value less costs to sell and either depreciated replacement cost or value in use. Value in use is based on discounted cash flows using a risk adjusted discount rate. APF III precludes South Australian Public Sector agencies from using the discounted cash flow valuation method unless otherwise approved by the Treasurer.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Receivables, accounts payable and provisions for doubtful debts

Trade accounts receivable are carried at amounts due.

When there is objective evidence, provisions are raised for any doubtful debts based on 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 government 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.

(m) Employee benefits

Employee benefits (including wages, salaries, annual leave, long-service leave, sick leave, fringe benefits, and superannuation benefits) reflect those benefits accrued as a result of services provided by employees up to the reporting date.

In accordance with Australian Accounting Standard AASB 119 *Employee Benefits* employee benefits expected to be settled within twelve months of the reporting date are measured at the nominal amounts expected to be paid on settlement. Employee benefits not expected to be settled within twelve months of the reporting date are measured at the present value of the future cash-flows.

AASB 119 provides that it is acceptable practice to estimate the present value of future cash outflows by using a short-hand measurement technique. In accordance with APF IV *Financial Asset and Liability Framework* the Department of Treasury and Finance has undertaken an actuarial assessment based on a significant sample of employees throughout the South Australian public sector to estimate long service leave liability based on net present value. This has provided applicable agency benchmarks, that can be used as a short-cut estimation of the long service leave liability.

In measuring the liability for non-vesting sick leave at reporting date, only that component of the accumulated benefits that are expected to result in payments to employees are recognised.

Deficits in defined benefit superannuation plans are recognised as liabilities in the Balance Sheet. The deficits are measured as the excess of the present value of employees' accrued benefits resulting from service up to the reporting date over the net market value of the plans' assets as at the reporting date. Details of superannuation arrangements between employees, the government and its controlled entities are set out in Note 30.

(n) Leases

The government's rights and obligations under finance leases, which are leases that effectively transfer to the government substantially all of the risks and benefits incidental to ownership of the leased items, are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed as plant and equipment under lease, and are amortised over the period during which the government is expected to benefit from use of the leased assets. Minimum lease payments are allocated between finance cost expense and reduction of the lease liability, according to the interest rate implicit in the lease.

Lease liabilities are classified into current and non-current categories. The principal component of lease payments due on or before the end of the succeeding year is disclosed as a current liability, and the remainder of the lease liability is disclosed as a non-current liability.

In respect of operating leases, where the lessor effectively retains substantially all of the risks and benefits incidental to ownership of the leased items, lease payments are charged to expense over the lease term.

(o) Inventories

Inventories (other than those held for distribution) are carried at the lower of cost and net realisable value under AASB 102 *Inventories*. For most agencies, cost is determined on either a first-in-first-out or average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location, except for training costs which are expensed as incurred. Where inventories are acquired for no or nominal consideration, the cost is the current replacement cost as at the date of acquisition.

Inventories held for distribution are those inventories that the government distributes for no or nominal consideration. These are measured at the lower of cost and current replacement cost. Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and development.

(p) Non-current assets classified as held for sale

All non-current assets classified as held for sale are reported as current assets on the Balance Sheet. In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinuing Operations*, non-current assets held for sale are assets measured at the lower of carrying amount and fair value less costs to sell and have not been depreciated or amortised but are assessed annually for impairment.

(q) Investment properties

All investment properties are reported as non-current assets on the Balance Sheet. In accordance with AASB 140 *Investment Property*, properties held to earn rental income or for capital gains purposes are classified as investment properties. Such properties are valued at fair value. Changes in fair value are recognised in the Income Statement and no depreciation expense or asset impairment is recognised.

(r) Intangible assets

An intangible asset is an indefinable non-monetary asset without physical substance. All intangible assets are reported as non-current assets on the Balance Sheet. Intangible assets are measured at cost. Aspects of accounting for intangibles, including recognition, and write-down criteria are consistent with APF III and AASB 138 *Intangible Assets*.

(s) Financial instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement* financial assets are to be classified and measured as follows:
- designated at fair value through profit or loss;
- held to maturity - measured at amortised cost;
- loans and receivables - measured at amortised cost; or
- available-for-sale - measured at fair value with unrealised gains/losses recognised directly in equity except for impairment losses and foreign exchange gains/losses.

Under AASB 139, financial liabilities are to be classified and measured as follows:
- designated at fair value through profit or loss; or
- other financial liabilities - measured at amortised cost.

Financial assets at fair value through profit or loss

Financial assets which include marketable debt securities, non-marketable debt securities, and Australian dollar term deposits are valued at fair value at balance date. Unrealised gains and losses are brought to account in the Income Statement. Financial assets held by the State include: money market deposits, discount securities, Commonwealth and State securities, floating rate notes, medium term notes, fixed interest deposits, letters of credit and investments managed by the South Australian Government Financing Authority (SAFA).

Financial liabilities at fair value through profit or loss

Financial liabilities which include deposits and interest bearing liabilities are valued at fair value at balance date. Unrealised gains and losses are brought to account in the Income Statement. Interest bearing liabilities held by the government include: Treasury notes, Australian bonds, credit foncier loans, commercial paper, overseas bonds and medium term notes principally raised by SAFA. In relation to deposits, income derived from their investment accrues to depositors daily. The amount reported in the Balance Sheet represents the market value of deposits held at balance date.

Other financial assets and financial liabilities held at amortised cost

Other financial assets are initially measured at fair value plus transaction costs. Other financial assets consist of non-derivative financial assets with fixed or determinable payments which are not subsequently valued at fair value either because they are not quoted in an active market or they are intended to be held to maturity. These financial assets are measured at amortised cost using the effective interest method. Changes are accounted for in the Income Statement when impaired, derecognised or through an amortization process.

Derivative financial instruments

Derivative financial instruments are employed, primarily by the public financial corporations sector agencies, in fund raising, debt management and to provide efficient entry to or exit from markets or as a cost efficient substitute for the actual acquisition of securities. They are used to convert funding costs (e.g. from fixed to floating interest costs or floating to fixed), facilitate diversification of funding sources, to reconfigure interest rate risk profiles and to manage foreign currency exposures.

Currency swaps are recorded in the Balance Sheet on a gross basis and translated at the exchange rate applying at balance date. Resulting exchange rate differences are recognised in the Income Statement.

Interest rate swaps are accounted for on a market value basis with interest receipts and interest payments accrued on a gross basis in the Balance Sheet.

Financial futures and exchange traded interest rate option contracts are marked-to-market daily and the resultant change in value is recognised directly in the Income Statement. Forward rate agreements gains or losses are recognised directly in the Income Statement. Forward foreign exchange contracts are accounted for as outlined in Note 1(t).

Further disclosures about financial instruments are outlined in Note 34.

(t) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling 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 Income Statement in the financial year in which the exchange rates change.

Hedges

All hedge transactions are initially recorded at the spot rate at the date of the transaction. Gains or losses arising at the time of entering into a hedge, other than to hedge the purchase of goods and services, are expensed or recognised as revenue, as the case may be at that time. Hedges, other than to hedge the purchase of goods and services, outstanding at balance date are translated at the rates of exchange ruling on that date and any exchange differences are brought to account in the Income Statement.

Where hedge transactions are designed to hedge the purchase of goods and services, exchange differences arising up to date of purchase or sale, together with any gains or losses arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase or sale. Any exchange differences on the hedge transaction after that date are included in the Income Statement.

(u) Commitments

Commitments include those operating, capital and other outsourcing commitments and contracts arising from non-cancellable contractual or statutory sources are stated at their nominal value. Details of such commitments are reported in Notes 36 to 38.

(v) Contingent assets and liabilities

In accordance with Australian Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* contingent assets and liabilities are not recognised in the Balance Sheet, but are disclosed by way of note and, if quantifiable, are measured at nominal value. Further disclosures are outlined in Note 39.

(w) GAAP / GFS convergence and International Harmonisation

The Australian Accounting Standards Board (AASB) has issued Australian equivalent International Financial Reporting Standards (AIFRS) for application to reporting periods beginning on or after 1 January 2005. Also, the AASB has, as a priority for the public sector, a commitment to converge Accounting Standards prepared using generally accepted accounting principles (GAAP) with Government Finance Statistics reporting (GFS).

The AASB's priorities are in response to the Financial Reporting Council's (FRC) strategic direction for the AASB to address concerns about the current lack of uniformity in the presentation of government consolidated financial reports in Australia. Some Australian jurisdictions highlight their financial results under GAAP, whilst others highlight their results under the GFS basis. In South Australia, focus is placed on the GFS presentation. The intent of the convergence project is to achieve an Australian Accounting Standard that would result in a single set of auditable government consolidated reports comparable between all jurisdictions, consistent with government budget presentations and that would include key features of the GFS framework in Australian GAAP. As part of the first phase of the GAAP/GFS convergence project, in September 2006 the AASB released AASB 1049 *Financial Reporting of General Government Sectors by Governments.* This standard applies to annual reporting periods beginning on or after 1 July 2008.

(x) Rounding

All amounts in the financial report have been rounded to the nearest million dollars unless otherwise indicated.

2. Disaggregated information

For the purpose of this disclosure, effects of transactions and balances between sectors have not been eliminated but those between entities within each sector have been eliminated. The financial impact of inter – sector transactions and balances is disclosed below, under the heading of Consolidated Eliminations.

Financial data by sector for the Income Statement ($ million)

Sector of Government	General Government		Public Non-Financial Corporations		Public Financial Corporations		Consolidated Eliminations		Consolidated Whole-of-Government	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
INCOME										
Taxation revenues	3 433	3 002	—	—	—	—	- 401	- 223	**3 032**	2 779
Income tax equivalent	167	151	—	—	—	—	- 167	- 151	**—**	—
Grants revenues	6 165	5 946	467	437	47	29	- 517	- 460	**6 162**	5 952
Charges for goods and services	858	925	1 455	1 600	19	7	—	- 281	**2 332**	2 251
Regulatory fees / levies	255	277	—	—	951	930	- 8	- 4	**1 198**	1 203
Investment revenues	484	608	54	50	3 213	2 599	- 744	- 861	**3 007**	2 396
Net gain from disposal of non–current assets	8	—	31	32	—	1	- 5	—	**34**	33
Fair values of assets received free of charge or for nominal consideration	18	11	59	67	—	—	- 1	- 1	**76**	77
Fines and penalties	80	63	—	—	—	—	—	—	**80**	63
Other revenues	363	326	60	35	165	41	- 54	- 29	**534**	373
Total Income	11 831	11 309	2 126	2 221	4 395	3 607	-1 897	-2 010	**16 455**	**15 127**
EXPENSES										
Employee benefits costs	4 573	4 339	205	248	38	40	- 16	- 60	**4 800**	4 567
Depreciation and amortisation	499	455	257	239	9	9	—	- 1	**765**	702
Supplies and services	2 844	2 751	713	643	117	116	- 281	- 151	**3 393**	3 359
Finance costs	204	223	130	153	800	743	- 460	- 474	**674**	645
Grants and subsidies	2 157	2 113	46	11	2	2	- 514	- 499	**1 691**	1 627
Income tax equivalent expense	—	—	136	134	29	17	- 165	- 151	**—**	—
Other expenses	352	215	497	496	3 325	2 574	- 236	- 225	**3 938**	3 060
Total Expenses	10 629	10 096	1 984	1 924	4 320	3 501	-1 672	-1 561	**15 261**	**13 960**
Net Surplus / (-Deficit)	1 202	1 213	142	297	75	106	- 225	- 449	**1 194**	**1 167**

Financial data by sector for the balance sheet ($ million)

Sector of Government	General Government		Public Non-Financial Corporations		Public Financial Corporations		Consolidated Eliminations		Consolidated Whole-of-Government	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
ASSETS										
Current assets										
Cash and cash equivalents	2 317	2 157	354	306	180	316	-2 407	-2 161	**444**	618
Receivables	475	487	159	151	728	538	- 712	- 581	**650**	595
Other financial assets	103	153	5	2	2 958	1 912	- 61	- 51	**3 005**	2 016
Inventories	92	47	94	90	—	—	—	—	**186**	137
Other current assets	4	12	—	11	3	9	—	—	**7**	32
Non-current assets classified as held for sale	30	44	23	10	3	—	- 1	—	**55**	54
Total current assets	3 021	2 900	635	570	3 872	2 775	-3 181	-2 793	**4 347**	**3 452**
Non-current assets										
Receivables	900	897	509	1 028	5 196	5 212	-5 310	-5 784	**1 295**	1 353
Other financial assets	565	681	62	66	16 555	13 479	- 466	- 435	**16 716**	13 791
Inventories	—	1	99	56	—	—	—	—	**99**	57
Investment properties	1	5	98	89	191	120	—	—	**290**	214
Land and improvements	7 039	6 832	7 949	7 558	784	735	- 9	18	**15 763**	15 143
Plant, equipment and infrastructure	5 953	6 016	7 983	7 271	5	5	- 2	- 8	**13 939**	13 284
Heritage assets	834	838	7	7	—	—	—	- 1	**841**	844
Biological assets	3	3	613	590	—	—	—	—	**616**	593
Intangible assets	53	45	38	53	—	—	—	—	**91**	98
Total non-current assets	15 348	15 318	17 358	16 718	22 731	19 551	-5 787	-6 210	**49 650**	**45 377**
Total Assets	18 369	18 218	17 993	17 288	26 603	22 326	-8 968	-9 003	**53 997**	**48 829**
LIABILITIES										
Current liabilities										
Payables	469	522	200	158	236	176	- 85	- 122	**820**	734
Interest-bearing liabilities	441	333	181	107	4 468	3 105	-2 867	-2 461	**2 223**	1 084
Employee benefits	569	517	26	23	1	5	- 1	1	**595**	546
Unfunded superannuation	235	252	—	—	—	—	—	—	**235**	252
Superannuation fund deposits	—	—	—	—	12 809	10 290	—	—	**12 809**	10 290
Provisions (other than employee benefits)	99	121	12	9	868	717	- 18	- 1	**961**	846
Other current liabilities	149	8	76	186	229	887	- 3	- 602	**451**	479
Total current liabilities	1 962	1 753	495	483	18 611	15 180	-2 974	-3 185	**18 094**	**14 231**
Non-current liabilities										
Payables	548	532	9	24	38	2	- 497	- 523	**98**	35
Interest-bearing liabilities	2 943	2 839	2 227	2 158	3 966	3 864	-4 983	-4 049	**4 153**	4 812
Employee benefits	923	877	42	57	2	6	—	—	**967**	940
Unfunded superannuation	4 840	5 894	—	—	—	—	—	—	**4 840**	5 894
Provisions (other than employee benefits)	335	516	28	23	3 247	2 680	- 12	1	**3 598**	3 220
Other non–current liabilities	132	163	1 298	1 092	12	32	- 646	- 733	**796**	554
Total non-current liabilities	9 721	10 821	3 604	3 354	7 265	6 584	-6 138	-5 304	**14 452**	**15 455**
Total Liabilities	11 683	12 574	4 099	3 837	25 876	21 764	-9 112	-8 489	**32 546**	**29 686**
NET ASSETS	6 686	5 644	13 894	13 451	727	562	144	- 514	**21 451**	**19 143**

3. Taxation revenues

	2007 $m	2006 $m
Taxes on employers' payroll and labour force	**859**	**798**
Financial institutions' transaction taxes	**—**	**6**
Taxes on property:		
Stamp duties	**819**	703
Land tax	**188**	159
Emergency services levy	**76**	73
Water catchment levy	**20**	21
River Murray levy	**21**	20
Total taxes on property	**1 124**	**976**
Taxes on the provision of goods and services:		
Gambling	**347**	325
Stamp duties on insurance	**301**	284
Total taxes on the provision of goods and services	**648**	**609**
Taxes on use of goods and performance of activities:		
Motor vehicle registration	**367**	357
Other taxes on motor vehicles	**28**	27
Total taxes on use of goods and performance of activities	**395**	**384**
Other taxation revenue	**6**	6
Total taxation revenues	**3 032**	**2 779**

4. Grants revenues

Commonwealth general purpose grants	**3 606**	3 521
Commonwealth specific purpose grants to the State	**1 584**	1 553
Commonwealth specific purpose grants through the State	**671**	574
Other grant revenues	**301**	304
Total grants revenues	**6 162**	**5 952**

	2007 $m	2006 $m

5. Charges for goods and services

Goods:		
Gambling items (Lotteries Commission)	**349**	348
Forestry products (Forestry SA)	**127**	122
Other goods	**68**	69
Total charges for goods	**544**	**539**
Services:		
Water and wastewater related rates and charges (SA Water)	**596**	536
Health services	**234**	223
House rentals (South Australian Housing Trust)	**214**	212
Education services (incl. TAFE Colleges)	**74**	129
MetroTicket public transport sales (Office of Public Transport)	**63**	77
Other services	**607**	535
Total charges for services	**1 788**	**1 712**
Total charges for goods and services	**2 332**	**2 251**
Cost of goods sold forms part of expenses for supplies and services in the Income Statement. Cost of sales / charges in relation to goods were as follows:	**355**	**341**

6. Regulatory fees/levies

Compulsory Third Party Premiums	**386**	386
Drivers licences	**27**	21
Other Regulatory fees	**220**	252
Workers compensation levies	**565**	544
Total regulatory fees / levies	**1 198**	**1 203**

	2007 $m	2006 $m

7. Investment revenues

Interest earnings: South Australian Government Financing Authority	**449**	391
Interest earnings: other agencies	**289**	278
Dividends	**651**	316
Investment property rentals	**54**	53
Gains on sale of investments	**546**	500
Gains on revaluation of investments	**994**	846
Other investment revenue	**24**	12
Total investment revenues	**3 007**	**2 396**

8. Net gain from disposal of non-current assets

Disposals of property, plant and equipment:		
Proceeds from disposal	**290**	203
Less written-down value of assets sold	**256**	170
Net gain from disposal of non-current assets	**34**	**33**

No government businesses were sold in 2006-07, nor in 2005-06

9. Fair values of assets and services received free of charge or for nominal consideration

Land	**4**	1
Plant, equipment, and vehicles	**3**	6
Water, sewerage and drainage assets	**59**	65
Other assets	**10**	5
Total fair values of assets and services received free of charge or for nominal consideration	**76**	**77**

10. Other revenues

Royalties	**145**	124
Revaluation increments	**125**	4
Other revenues	**264**	245
Total other revenues	**534**	**373**

	2007 $m	2006 $m

11. Employee benefit costs

Salaries and wages	**4 337**	4 241
Annual leave	**475**	287
Long service leave	**180**	180
Sick leave	**29**	25
TVSP payments	**—**	21
Board fees	**10**	9
Superannuation expense (refer Note 30)	**- 292**	- 276
Other employee related expenses	**61**	80
Total employee benefits costs	**4 800**	**4 567**

12. Depreciation and amortisation

Depreciation		
Buildings	**277**	249
Plant, equipment and vehicles	**185**	189
Infrastructure:		
water, sewerage and drainage	**142**	130
road network, rail and bus tracks	**137**	116
Other depreciation	**2**	2
Total depreciation	**743**	**686**
Amortisation		
Buildings and improvements under finance lease	**3**	4
Plant, equipment and vehicles under finance lease	**3**	3
Intangible assets	**15**	8
Other amortisation	**1**	1
Total amortisation	**22**	**16**
Total depreciation and amortisation	**765**	**702**

13. Supplies and services

Rental expense on operating leases	**63**	34
Consultancy expenses	**23**	23
Contract service expenses	**438**	610
Computing and communication expenses	**225**	202
Repairs and maintenance expenses	**324**	319
Other supplies and services	**2 320**	2 171
Total supplies and services	**3 393**	**3 359**

14. Finance costs

	2007 $m	2006 $m
Interest on borrowings	**653**	614
Finance charges on finance leases	**19**	19
Other finance cost expenses	**2**	12
Total finance costs	**674**	**645**

15. Grants and subsidies

Recurrent grants	**755**	772
Capital grants	**25**	10
Subsidies	**283**	293
Other current transfer payments	**618**	539
Other capital transfer payments	**10**	13
Total grants and subsidies	**1 691**	**1 627**

16. Other expenses

Imputed expense of increased liability in respect of superannuation fund deposits[(a)]	**1 990**	1 509
Self-insurance claims	**407**	387
Income / capital and redemption related workers compensation payments	**301**	338
Revaluation of workers compensation liabilities	**409**	216
Gambling prizes/dividends	**211**	209
Medical related workers compensation payments	**95**	100
Remuneration of judiciary and members of Parliament	**29**	27
Bad and doubtful debts	**37**	21
Revaluations	**99**	21
Assets donated	**4**	6
Other expenses	**356**	226
Total other expenses	**3 938**	**3 060**

(a) The whole of Funds SA's operating surplus is payable to the superannuation plans. This is recognised as an increase in liability of Funds SA to the superannuation plans. In 2006-07, as in 2005-06, Funds SA incurred operating profits, which have been recognised above as expenses.

	2007 $m	2006 $m

17. Receivables

Current		
Charges for goods and services	**236**	250
Accrued investment income	**58**	78
Loans	**6**	3
GST receivable	**66**	67
Other taxes collectable	**68**	41
Prepayments	**55**	57
Other receivables	**195**	136
	684	**632**
Less provision for doubtful debts	**34**	37
Total current receivables	**650**	**595**
Non-current		
Loans	**1 226**	1 226
Other receivables	**82**	145
	1 308	**1 371**
Less provision for doubtful debts	**13**	18
Total non-current receivables	**1 295**	**1 353**
Total receivables	**1 945**	**1 948**

18. Other financial assets

Current		
Marketable debt securities	**2 323**	1 506
Non-marketable debt securities	**—**	18
Australian dollar term deposits	**67**	53
Other investments	**615**	439
Total current other financial assets	**3 005**	**2 016**
Non-current		
Shares at cost or market value	**11 546**	9 093
Marketable debt securities	**3 225**	3 080
Non-marketable debt securities	**1 114**	954
Other investments	**808**	631
Other non-current financial assets	**23**	33
Total non-current other financial assets	**16 716**	**13 791**
Total other financial assets	**19 721**	**15 807**

	2007 $m	2006 $m

19. Inventories

Current		
Work in progress	**44**	54
Raw materials and stores	**45**	42
Finished goods	**24**	24
Land held for resale	**21**	9
Other inventories	**52**	8
Total current inventories	**186**	**137**
Non-current		
Work in progress	**36**	1
Land held for resale	**63**	56
Total non-current inventories	**99**	**57**
Total inventories	**285**	**194**
The above inventories were held as follows:		
Held for consumption by government controlled entities	**18**	6
Held for distribution at no / nominal cost	**37**	41
Held for other than distribution at no / nominal cost	**230**	147
Total inventories	**285**	**194**
Inventory write-downs:		
Inventory write-downs to net realisable value:	**0.4**	**3.7**

20. Non-current assets classified as held for sale

Current		
Land	**28**	32
Buildings	**24**	17
Plant, equipment and vehicles	**3**	5
Total non-current assets classified as held for sale	**55**	**54**

21. Investment properties

	2007 $m	2006 $m
Land	**41**	37
Buildings	**249**	177
Total investment properties	**290**	**214**
Movements in investment properties during the year were as follows:		
Carrying amount — opening balance	**214**	176
Additions	**74**	24
Capitalised subsequent expenditure	**2**	2
Disposals	**- 11**	- 1
Transfers in / (-out)	**- 5**	—
Net gain (loss) from fair value adjustment (revaluations)	**16**	13
Carrying amount — closing balance	**290**	**214**
The following amounts were recognised in profit and loss for investment property:		
Rental income	**35**	25
Direct operating expenses from property that generated rental income	**- 10**	- 9
Total amount recognised in profit and loss	**25**	**16**

Valuation basis:

Investment properties are measured at fair value being the amounts for which the properties could be exchanged between willing parties in an arms length transaction, based on current prices in an active market for similar properties. The 2007 revaluations were based on independent assessments made by members of the Australian Property Institute and or independent qualified valuers.

22. Land and improvements

	2007 $m	2006 $m
Land		
Site land at fair value	**5 832**	5 580
National parks and other 'land only' holdings at fair value	**832**	757
Total land	**6 664**	**6 337**
Improvements (buildings)		
Buildings at fair value	**12 748**	11 799
Accumulated depreciation	**-3 952**	-3 322
	8 796	**8 477**
Buildings under finance lease	**78**	71
Accumulated amortisation	**- 28**	- 23
	50	**48**
Buildings and improvements under construction	**253**	281
Total improvements (buildings)	**9 099**	**8 806**
Total land and improvements	**15 763**	**15 143**
Movements in land and improvements during the year were as follows:		
Carrying amount — opening balance	**15 143**	13 608
Additions	**272**	136
Capitalised subsequent expenditure	**109**	217
Disposals	**- 77**	- 217
Transfers in / (– out)	**- 72**	- 30
Net revaluation increments	**727**	1 557
Recoverable amount write-downs or impairment losses	**- 1**	- 1
Depreciation and amortisation expense	**- 280**	- 253
Other movements	**- 58**	126
Carrying amount — closing balance	**15 763**	**15 143**

23. Plant, equipment and infrastructure

	2007 $m	2006 $m
Plant, equipment and vehicles under finance lease at cost	**12**	13
Accumulated amortisation	**- 9**	- 11
	3	**2**
Plant, equipment and vehicles at fair value	**2 486**	2 537
Accumulated depreciation	**-1 302**	-1 310
	1 184	**1 227**
Infrastructure: Water, sewerage and drainage assets at fair value	**12 665**	11 475
Accumulated depreciation	**-5 081**	-4 585
	7 584	**6 890**
Infrastructure: Road network, bus and rail tracks at fair value	**9 322**	9 329
Accumulated depreciation	**-4 570**	-4 425
	4 752	**4 904**
Infrastructure: Harbour and port facilities	**12**	—
Plant, equipment and infrastructure under construction	**404**	261
Total plant, equipment and infrastructure	**13 939**	**13 284**
Movements in plant, equipment and infrastructure during the year were as follows:		
Carrying amount — opening balance	**13 284**	12 737
Additions	**427**	532
Capitalised subsequent expenditure	**263**	105
Disposals	**- 70**	- 130
Transfers in / (– out)	**74**	45
Net revaluation increments	**550**	583
Recoverable amount write-downs or impairment losses	**- 22**	- 52
Depreciation and amortisation expense	**- 467**	- 440
Other movements	**- 100**	- 96
Carrying amount — closing balance	**13 939**	**13 284**

	2007 $m	2006 $m

24. Heritage assets

Heritage assets at fair value	**847**	851
Accumulated amortisation	**- 6**	- 7
Total heritage assets	**841**	**844**
Movements in heritage assets during the year were as follows:		
Carrying amount — opening balance	**844**	747
Additions	**2**	7
Transfers in / (–out)	**6**	—
Net revaluation increments	**1**	82
Amortisation expense	**—**	- 1
Other movements	**- 12**	9
Carrying amount — closing balance	**841**	**844**

25. Biological assets

Growing timber (commercial forests)	**613**	590
Other plants and livestock	**3**	3
Total biological assets	**616**	**593**
Movements in biological assets during the year were as follows:		
Carrying amount — opening balance	**593**	611
Additions (ie new plantings, acquisitions)	**3**	4
Disposals (ie harvesting)	**- 73**	- 77
Recognition of (physical) growth changes	**68**	67
Net revaluation increments / (**–** decrement) (ie price changes)	**25**	- 12
Total biological assets	**616**	**593**

Growing timber (Commercial forests)

Growing timber is valued at fair value (net market value). Net market value is determined as the amount that could be expected to be received from the disposal of the existing mix of forest products in an active and liquid market.

The volume of growing timber is estimated using a model that simulates forest growth. Actual growth will invariably differ to some extent from growth predicted by the model resulting in periodic adjustments to net market value for these growth variations. The model uses sample inventory data as the base line from which to start growth simulations. Inventory data is continuously being collected from sample inventory plots with the complete forest estate being covered in about five yearly intervals. The inventory master database is updated every three to five years and on these occasions the model simulations are repeated. For the Green Triangle forests the master database was last updated as at June 2004, affecting the growing timber valuation as at 30 June 2005. For the Mount Lofty forests and the Mid North forests the master database was last updated in 2006, affecting the growing timber valuation as at 30 June 2006.

The method used to determine the volume of timber contained in the radiata and non-radiata plantations is standing volume (the volume of wood in the stem of trees which is potentially useable)

less an allowance for residues incurred under current harvesting practice. This ensures that the net market value is based upon realisable volumes.

The difference between the net market value of the inventory of growing timber held at the reporting date and the net market value at the previous reporting date is recognised as revenue or expense in the Income Statement. The revenue brought to account in 2006-07 was $23 million (compared with an expense of $19 million brought to account in the previous financial year).

26. Intangible assets

	2007 $m	2006 $m
Intangible assets	**188**	174
Accumulated amortisation	**- 97**	- 76
Total intangible assets	**91**	**98**
Components of intangible assets are as follows:		
Externally acquired intangibles	**160**	138
Accumulated amortisation	**- 83**	- 40
Total externally acquired intangibles	**77**	**98**
Internally developed intangibles	**28**	36
Accumulated amortisation	**- 14**	- 36
Total internally developed intangibles	**14**	**—**
Carrying amount — closing balance	**91**	**98**
Movements in intangible assets during the year were as follows:		
Carrying amount — opening balance	**98**	62
Additions	**6**	20
Capitalised subsequent expenditure	**4**	17
Disposals	**- 10**	—
Transfers in / (–out)	**4**	10
Net revaluation increments	**9**	—
Amortisation expense	**- 15**	- 8
Other movements	**- 5**	- 3
Carrying amount — closing balance	**91**	**98**

	2007 $m	2006 $m

27. Payables

Current		
Creditors	**352**	394
Accruals	**401**	285
GST payable	**10**	14
Other payables	**57**	41
Total current payables	**820**	**734**
Non-current		
Creditors and accruals	**51**	34
Other payables	**47**	1
Total non–current payables	**98**	**35**
Total payables	**918**	**769**

28. Interest-bearing liabilities

Current		
Bank overdraft (refer Note 35(a))	**—**	—
Deposits at call	**476**	468
Debt securities	**1 702**	604
Lease liability (refer Note 37)	**12**	8
Loan liability	**2**	4
Interest rate swaps	**31**	—
Total current interest bearing liabilities	**2 223**	**1 084**
Non-current		
Debt securities	**3 966**	4 583
Term deposits	**—**	11
Lease liability (refer Note 37)	**173**	205
Loan liability	**4**	13
Interest rate swaps	**10**	—
Total non-current interest bearing liabilities	**4 153**	**4 812**
Total interest-bearing liabilities	**6 376**	**5 896**
These liabilities are due for repayment as follows:		
not longer than one year	**2 223**	1 084
longer than one year but not longer than five years	**1 714**	3 609
longer than five years	**2 439**	1 203
Total interest-bearing liabilities	**6 376**	**5 896**

29. Employee benefits

	2007 $m	2006 $m
Current		
Accrued wages and salaries	**102**	82
Annual leave	**357**	330
Long service leave	**125**	121
Other employee benefits	**11**	13
Total current employee benefits	**595**	**546**
Non-current		
Long service leave	**965**	898
Other employee benefits	**2**	42
Total non–current employee benefits	**967**	**940**
Total employee benefits	**1 562**	**1 486**

30. Unfunded superannuation liabilities

	2007 $m	2006 $m
Current	**235**	252
Non–current	**4 840**	5 894
Total unfunded superannuation liabilities	**5 075**	**6 146**

Superannuation related assets and liabilities are material in the context of the Government's financial position as shown in the table below.

Reconciliation of Funds SA's assets and fully funded liabilities is as follows:		
Assets		
Funds SA investment assets	**13 146**	**10 326**
Liabilities		
Superannuation related liabilities:		
Superannuation plans[(a)]	**12 641**	10 223
Superannuation post-retirement products	**168**	67
Total superannuation related liabilities	**12 809**	**10 290**
Other products:		
Other prescribed authorities[(b)]	**279**	**—**
Other liabilities of Funds SA	**58**	36
Total other products	**337**	**36**
Total Funds SA liabilities	**13 146**	**10 326**
Reconciliation of total government's superannuation liabilities is as follows:		
Total Funds SA liabilities	**13 146**	10 326
Other products	**- 337**	**- 36**
Total Funds SA superannuation related liabilities	**12 809**	**10 290**
Unfunded superannuation liabilities	**5 075**	**6 146**
Total government superannuation liabilities[(c)]	**17 884**	**16 436**

(a) At 30 June 2007 superannuation plan liabilities was backed by assets held of $12.6 billion ($10.2 billion), comprised $7.1 billion ($6 billion) held against defined benefit plans, and $5.5 billion ($4.2 billion) held against defined contribution plans. Funds SA's investment assets include $136 million ($122 million) of assets held with other government agencies.

(b) During the 2006-07 financial year and pursuant to Superannuation Funds Management Corporation of South Australia Act 1995, a number of entities have been declared as prescribed authorities for the purpose of investing funds with Funds SA. These liabilities are eliminated upon consolidation of the whole of government accounts.

(c) Of the total government superannuation liabilities, $17.9 billion ($16.4 billion), $12.1 billion ($12.1 billion) represents accrued benefits within defined benefit plans and $5.8 billion ($4.3 billion) represents defined contribution plans.

The government and its controlled entities contribute, for their employees, to a number of defined benefit and defined contribution superannuation plans. Under accounting standards the government does not control these superannuation plans and therefore are not included in the consolidated financial report. However, all of the superannuation plans' investment funds are lodged with Funds SA for investing on their behalf.

As the government controls Funds SA, both its superannuation assets, $13.1 billion ($10.3 billion), comprising investments made on behalf of the superannuation plans, and its superannuation liabilities, $12.8 billion ($10.3 billion), principally the funds available to the plans, are included in the consolidated financial report. The government has a liability to the defined benefit plans for any excess of the estimated future payments to employees arising from membership of the plans over the fair value of the plans' assets. The present value of this unfunded superannuation liability is also recognised in the consolidated financial report.

Details of the funding status of defined benefit plans as at reporting date, as determined by the Department of Treasury and Finance or by trustees of the various plans, are set out below.

Funding status of defined benefit plans ($ million)

Defined benefit plans	Vested benefits		Accrued benefits		Fair value of plan's assets		SA Govt liability (i.e. deficit) to the plans	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Government administered schemes[a]								
State scheme	**9 024**	9 654	**9 838**	9 862	**5 484**	4 686	**4 354**	5 176
Police scheme	**1 379**	1 308	**1 652**	1 680	**913**	743	**739**	937
Parliamentary super scheme	**172**	172	**155**	158	**143**	138	**12**	20
Judges pension scheme	**112**	105	**153**	150	**145**	135	**8**	15
Governors pension scheme	**1**	1	**1**	1	**1**	1	**—**	—
Total Government administered schemes	**10 688**	**11 240**	**11 799**	**11 851**	**6 686**	**5 703**	**5 113**	**6 148**
Other schemes[b]	**333**	297	**333**	297	**371**	299	**- 38**	- 2
Total	**11 021**	**11 537**	**12 132**	**12 148**	**7 057**	**6 002**	**5 075**	**6 146**

(a) The assets of these schemes are managed / invested by Funds SA.

(b) Schemes administered by statutory authorities, health units and public trading enterprises.

Calculations, including the calculation of the government's liability (i.e. deficit) to the plans, are made on the basis that employment terms continue through as a 'going concern', i.e. accrued benefits only. Vested benefits represent an immediate 'resignation benefit', measuring amounts that would be paid out if the scheme was wound up and employee's benefits were paid based on calculations at that point in time.

Accrued benefits assume employment benefits and conditions calculated as a 'going concern' and are measured as the present value of estimated future payments to employees arising from membership of the plan up to the reporting date. As at 30 June 2007 the present value of estimated future benefit payments to employees was calculated using a discount rate of 6.3 per cent, in line with the Commonwealth Government's long term bond rate at 30 June 2007. As at 30 June 2006 the present value of estimated future benefit payments to employees was calculated using a discount rate of 5.9 per cent, in line with the Commonwealth Government's long term bond rate at 30 June 2006.

The higher discount rate applied for 2006-07 (6.3 per cent) compared with the discount rate applied for 2005-06 (5.9 per cent) resulted in a significant decrease ($558 million) in the estimated present value of future superannuation obligations.

The excess of accrued benefits over the fair value of a defined benefit plan's assets has been recognised as a liability in the Balance Sheet. Any liability in respect of defined contribution plans has been measured as the amount of the government's contribution that, under the terms of the plan, has accrued or is payable to the plan at reporting date.

	2007 $m	2006 $m
Reconciliation of movement in unfunded superannuation liability is as follows:		
Opening balance of unfunded superannuation liability	**6 146**	7 227
Closing balance of unfunded superannuation liability	**5 075**	6 146
Movement in unfunded superannuation liability	**-1 071**	**-1 081**
Comprising		
Superannuation expense (refer Note 11):		
nominal interest expense on unfunded superannuation liability	**316**	344
current year employer expense	**528**	545
variation in superannuation expense from difference in (higher) actual investment returns from the long term expected return	**- 657**	- 505
impact of change in discount rate assumption[(a)]	**- 558**	-1 048
impact of change in actuarial assumption / other changes	**79**	388
Total superannuation expense	**- 292**	**- 276**
Cash–flow items:		
current year employer contributions	**- 528**	- 545
past service contributions	**- 252**	- 260
Other movements (rounding)	**1**	—
Equals movement in total unfunded superannuation liability	**-1 071**	**-1 081**

(a) A risk free discount rate based on the Commonwealth Government's long-term bond rate of 6.3% has been used to value superannuation liabilities, compared with 5.9% in 2005-06.

31. Superannuation fund deposit liabilities

Current

Liability of Funds SA to all superannuation plans and other prescribed authorities[(a)]	**12 809**	10 290
Total superannuation fund deposit liabilities	**12 809**	**10 290**

(a) Total funds lodged with Funds SA by the various superannuation schemes for investing on their behalf.

32. Provisions (other than employee benefits)

	2007 $m	2006 $m
Current		
Workers compensation:		
Workcover Corporation workers compensation provisions	**452**	384
Other Agencies workers compensation provisions	**79**	75
Total Workers compensation provisions	**531**	**459**
Insurance claims:		
Motor Accident Commission (MAC) motor vehicle compensation insurance claim provisions	**369**	327
South Australian Government (SAICORP) insurance and risk management fund (SAGIRM) provisions	**27**	37
Other Agencies insurance claims	**16**	15
Total insurance claims	**412**	**379**
Other current provisions	**18**	8
Total current provisions (other than employee benefits)	**961**	**846**
Non Current		
Workers compensation:		
Workcover Corporation workers compensation provisions	**1 891**	1 552
Other Agencies workers compensation provisions	**268**	250
Total Workers compensation provisions	**2 159**	**1 802**
Insurance claims:		
MAC motor vehicle compensation insurance claim provisions	**1 169**	1 122
SAICORP insurance and risk management fund (SAGIRM) provisions	**160**	190
Other Agencies insurance claims	**73**	80
Total insurance claims	**1 402**	**1 392**
Other non-current provisions	**37**	26
Total non-current provisions	**3 598**	**3 220**
Total provisions (other than employee benefits)	**4 559**	**4 066**

Movements in provisions during the year were as follows:

2006-07	Workcover workers compensation provisions	MAC motor vehicle compensation provisions	SAICORP SAGIRM provisions	Other provisions	Total
	$m	**$m**	**$m**	**$m**	**$m**
Carrying amount — opening balance	1 936	1 449	227	454	4 066
Additional (- reduction in) provisions	831	487	- 19	—	1 299
Payments	- 424	- 398	- 21	—	- 843
Other movements	—	—	—	37	37
Carrying amount — closing balance	**2 343**	**1 538**	**187**	**491**	**4 559**

	2007 $m	2006 $m

33. Other liabilities

Current		
Unearned revenue	**241**	203
Other liabilities	**210**	276
Total current other liabilities	**451**	**479**
Non Current		
Unearned revenue	**527**	550
Other liabilities	**269**	4
Total non–current other liabilities	**796**	**554**
Total other liabilities	**1 247**	**1 033**

34. Additional financial instrument disclosures

(a) Foreign currency risk

Foreign currency risk arises when the value of financial assets and liabilities fluctuate due to changes in foreign exchange rates.

It is government policy that where possible exposures should be hedged with the exception of certain financial corporations.

The Superannuation Funds Management Corporation of South Australia (Funds SA) has a policy that 33 ⅓ per cent of their international equities exposure is hedged. This has the capacity to reduce overall portfolio volatility associated with movements in the value of foreign currencies in the absence of these instruments. The net unhedged market value of Funds SA's total portfolio as at 30 June 2007 was $2.588 billion ($2.369 billion).

The Motor Accident Commission hedges certain financial assets and claims liabilities denominated in foreign currencies but does not hedge foreign equity investments. The value of these investments as at 30 June 2007 was $200 million ($154 million).

SAFA utilises foreign exchange contracts (spot and forward) to manage foreign exchange risk associated with foreign currency borrowings and to manage exposures arising from foreign exchange hedging services provided to public sector clients and to hedge profits from overseas subsidiaries. SAFA entered into forward foreign exchange contracts /transactions totalling $29.2 million in face value as at 30 June 2007 ($26.8 million).

No other material exposures existed in other public sector entities as at 30 June 2007.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments as they fall due.

In order to manage liquidity risk, agencies such as SAFA have in place liquidity management guidelines, which require them to trade with approved exchanges and counterparties or to hold base levels of liquidity comprising highly marketable financial assets. Liquid assets include cash, promissory notes, Commonwealth notes, floating rate notes and negotiable discount securities. In

order to counter such risk the government's public financial institutions have concentrated derivative activities in highly liquid markets. Adherence to guidelines enables the government to be in a position to meet the forecast 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.

(c) Credit risk exposures

Credit risk is the risk of a financial loss arising from another party to a contract/ financial position failing to discharge a financial obligation.

The credit risk on financial assets that have been recognised in the Balance Sheet, other than investments in shares, is generally the fair value of the assets.

Recognised financial assets include amounts receivable arising from unrealised gains on derivative financial instruments. For off-balance sheet financial instruments, including derivatives, that are deliverable, credit risk also arises from the potential failure of counter-parties to meet their obligations under the respective contracts at maturity. Exposure also arises from forward exchange contracts in the event that counter-parties fail to deliver the contracted amount. However, to minimise the potential for credit loss, transactions are diversified between counter-parties and limited to dealing with highly rated banking and governmental institutions worldwide. There are no off-balance sheet financial instruments in existence at the reporting date.

(d) Interest rate risk exposures

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The government is exposed to interest rate risk through primary financial assets and liabilities, modified through derivative financial instruments such as interest rate futures contracts, interest rate swaps, interest rate options and forward rate agreements.

SAFA, as the government's central borrowing authority, is charged with the responsibility of raising funding for the majority of government agencies, debt management, cash management and investment services. Limits on measures of interest rate risk for SAFA's portfolios are approved by the Treasurer, while limits on interest rate risk for portfolios managed on behalf of clients are set after consultation with the clients. Interest rate risk is managed by portfolios rather than from a total operations perspective. The current policy benchmark duration for the Treasurer's managed portfolio is between 1 and 1.5 years.

Funds SA accepts deposits from the various superannuation schemes to invest on behalf of these schemes. Funds SA aims to earn the highest possible return on its investments for an appropriate level of risk. The whole of Funds SA's net income from operating activities (i.e. operating surplus) is payable to the superannuation schemes. On consolidation, this is recognised as an increase in liability to the superannuation plans. In 2006-07, as in 2005-06, Funds SA generated operating profits, which, for consolidation purposes, have been recognised as expenses (see Note 16).

The government has an indirect interest rate exposure in respect of its superannuation liabilities to various superannuation schemes (see Note 30). The risk is primarily due to possible adverse movements in the assets and liabilities of the superannuation schemes as a result of fluctuations in financial markets.

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

Interest rate exposures ($ million)

2007	Fixed interest maturing in:						
	Up to 3 months	Over 3 to 12 months	Over 1 to 5 years	More than 5 years	Non interest bearing[a]	Total	Weighted average interest rate (%)
Financial assets							
Cash and cash equivalents	325	92	—	—	27	444	6.0
Loan Receivables	701	25	12	416	78	1 232	8.2
Other Receivables	10	6	7	—	682	705	—
Other financial assets	2 264	848	889	1 016	14 704	19 721	5.9
Total financial assets	3 300	971	908	1 432	15 491	22 102	
Financial liabilities							
Bank overdrafts and loans	—	—	—	—	—	—	—
Payables	5	—	—	—	913	918	N/A
Deposits[b]	408	197	—	—	12 680	13 285	6.2
Debt securities	329	1 332	2 276	1 729	2	5 668	6.1
Lease liability	—	10	68	103	4	185	10.1
Loan liability	—	2	—	4	—	6	5.8
Interest rate swaps[c]	1 548	- 79	-1 096	- 332	—	41	N/A
Total financial liabilities	2 290	1 462	1 248	1 504	13 599	20 103	
Net financial assets (–liabilities)	1 010	- 491	- 340	- 72	1 892	1 999	

2006	Fixed interest maturing in:						
	Up to 3 months	Over 3 to 12 months	Over 1 to 5 years	More than 5 years	Non interest bearing[a]	Total	Weighted average interest rate (%)
Financial assets							
Cash and cash equivalents	389	7	1	—	221	618	1.7
Receivables	1 256	17	21	11	641	1 946	3.6
Other financial assets	1 891	360	1 374	1 985	10 197	15 807	5.0
Total financial assets	3 536	384	1 396	1 996	11 059	18 371	
Financial liabilities							
Bank overdrafts and loans	—	—	—	—	—	—	—
Payables	39	53	35	—	642	769	6.7
Deposits[b]	380	31	—	—	10 358	10 769	6.1
Debt securities	545	36	3 577	1 021	8	5 187	6.3
Lease liability	—	38	26	147	2	213	10.2
Loan liability	—	8	6	—	3	17	5.0
Interest rate swaps[c]	-1 724	- 306	2 397	- 367	—	—	N/A
Total financial liabilities	- 760	- 140	6 041	801	11 013	16 955	
Net financial assets (–liabilities)	4 296	524	-4 645	1 195	46	1 416	

(a) Includes equity investments

(b) Includes at-call and short term as well as liabilities to superannuation plans

(c) Market value less accruals

(e) Fair values of financial assets and liabilities

(i) On-balance sheet

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

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows using the relevant yield curve derived from observable rates in the financial markets.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the fair value is an assessment based on the underlying net assets and future maintainable earnings.

(ii) Off-balance sheet

The majority of off-balance sheet financial instruments, except for financial futures and exchange traded interest rate options, cannot be readily traded on organised markets in standardised form.

The carrying amounts and fair values of financial assets and liabilities at balance date are given in the following table:

	2007 Carrying amount $m	2007 Fair value $m	2006 Carrying amount $m	2006 Fair value $m
On-balance sheet financial instruments				
Financial assets				
Cash and cash equivalents	**444**	**444**	618	618
Loan receivables	**1 232**	**1 232**	1 229	1 229
Other receivables	**705**	**705**	717	717
Other financial assets	**19 721**	**19 721**	15 807	15 807
Total financial assets	**22 102**	**22 102**	**18 371**	**18 371**
Financial liabilities				
Bank overdrafts and loans	**—**	**—**	—	—
Payables	**918**	**918**	769	769
Deposits[(a)]	**13 285**	**13 285**	10 769	10 769
Debt securities	**5 668**	**5 668**	5 187	5 187
Lease liability	**185**	**185**	213	213
Loan liability	**6**	**6**	17	17
Interest rate swaps	**41**	**41**	—	—
Total financial liabilities	**20 103**	**20 103**	**16 955**	**16 955**
Off-balance sheet financial instruments	**—**	**—**	**—**	**—**

(a) Includes at-call and short term as well as liabilities to superannuation plans.

35. Cash flows

(a) Reconciliation of cash

For the purpose of the Cash Flow Statement, the government considers cash to include cash on hand, in banks and investments in money market instruments. Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

	2007 $m	2006 $m
Cash on hand		
Cash from:		
Public financial corporations	**11**	62
other sectors	**293**	277
	304	**339**
Deposits at call from:		
Public financial corporations	**82**	202
other sectors	**58**	77
	140	**279**
Total cash on hand	**444**	**618**
The above figures are reconciled to cash at the end of the financial year as shown in the Cash Flow Statement as follows:		
balances as above	**444**	618
less bank overdrafts (refer Note 28)	**—**	—
Balances per Cash Flow Statement	**444**	**618**

(b) Non-cash financing and investing activities

There were no material non-cash financing and investing activities entered into during the reporting period.

(c) Reconciliation of net cash used in operating activities to net result

	2007 $m	2006 $m
Net surplus	**1 194**	**1 167**
Non-cash items in net surplus		
Depreciation and amortisation	**765**	702
Assets received free of charge	**- 76**	- 77
Loss on revaluation of property, plant and equipment	**—**	14
Gain on sale of property, plant and equipment	**- 34**	- 33
Gain on sale of investments	**- 546**	- 500
Gain on revaluation of investments	**- 129**	- 846
Loss on write-off of assets	**25**	10
Loss on write-down of assets	**13**	12
Loss on revaluation of financial assets and liabilities	**9**	—
Loss on foreign currency exchange differences	**1**	1
Other revaluation increments	**- 28**	2
	—	**- 715**
Movements in assets and liabilities		
(–Increase) / decrease in inventories	**- 91**	- 43
Increase / (-decrease) in employee benefits: unfunded superannuation	**-1 071**	-1 081
Increase in employee benefits: other	**97**	99
Change in other assets and liabilities	**146**	542
	- 919	**- 483**
Less: public financial corporation operating activities cash flows	**-1 414**	- 291
Net cash provided by operating activities	**1 689**	**260**

(d) Reconciliation of net cash flows from public financial corporations

	2007 inflows (-outflows) $m	2006 inflows (-outflows) $m
Cash flows from operating activities		
Receipts:		
Regulatory fees	**951**	857
Interest received	**1 046**	535
Dividends received	**639**	—
Charges for goods and services	**—**	8
GST reimbursed	**—**	7
Other receipts	**99**	618
Cash generated from operating activities	**2 735**	**2 025**
Payments:		
Interest and other finance costs paid	**- 708**	- 743
Supplies and services	**- 129**	- 173
Employee benefits payments	**- 451**	- 240
Income / capital and redemption related workers compensation payments	**- 301**	- 338
Worker's medical and rehabilitation costs	**- 95**	- 100
GST payments	**- 2**	- 2
Other payments	**-2 463**	- 720
Cash used in operating activities	**-4 149**	**-2 316**
Net cash (-outflows) / inflows from operating activities	**-1 414**	**- 291**
Cash flows from investing activities		
Receipts:		
Proceeds from sale/ maturing debt securities	**1 583**	1 240
Advances repaid	**181**	1
Sale of property, plant and equipment	**17**	20
Cash generated from investing activities	**1 781**	**1 261**
Payments:		
Purchase of investment securities	**- 865**	33
Net increase in customer loans	**- 360**	—
Property, plant and equipment	**- 92**	- 45
Cash used in investing activities	**-1 317**	**- 12**
Net cash inflows (–outflows) from investing activities	**464**	**1 249**
Cash flows from financing activities		
Net increase / (-decrease) in deposits	**184**	-1 137
Repayment of other borrowing	**550**	- 88
Net cash inflows (–outflows) from financing activities	**734**	**-1 225**
Net cash inflows (–outflows) from public financial corporations	**- 216**	**- 267**

36. Aged commitments

	2007 $m	2006 $m
(a) Aged commitments – capital		
At the reporting date, the Government had entered into contracts for the following capital expenditures. These obligations have not been recognised as liabilities due for payment:		
not longer than one year	**489**	477
longer than one year but not longer than five years	**184**	411
longer than five years	**2**	13
Total aged commitments - capital	**675**	**901**
(b) Aged commitments – operating		
At the reporting date, the Government had entered into contracts for the following other expenditures. These obligations have not been recognised as liabilities due for payment:		
not longer than one year	**563**	456
longer than one year but not longer than five years	**626**	1 038
longer than five years	**200**	5
Total aged commitments - operating	**1 389**	**1 499**
Total aged commitments	**2 064**	**2 400**
The major aged commitments relate to the following agencies:		
Department of Transport, Energy and Infrastructure	**925**	1 002
South Australian Water Corporation	**416**	298
Department of Health	**152**	196
Incorporated Health Services	**100**	—
Land Management Corporation	**84**	19
South Australian Housing Trust	**58**	36
Department of Water, Land and Biodiversity Conservation	**49**	111
Department of the Premier and Cabinet	**46**	34
Attorney General's Department	**37**	48
Department of Correctional Services	**26**	30
South Australian Motor Sport Board	**21**	—
Government Schools	**16**	76
Superannuation Funds Management Corporation (Funds SA)	**4**	374
Other Agencies	**130**	176
	2 064	**2 400**

Discussion of major aged commitments:

Department for Transport, Energy and Infrastructure: The Department has entered into a number of contracts with service providers of metropolitan and country transport services. The Department also has commitments for aggregate capital expenditure predominately on construction projects relating to road networks.

SA Water Corporation: Expenditure commitments exist pursuant to the contract to operate, manage and maintain the Adelaide metropolitan water and waste water treatment plants. The costs for the commitments include the service charge payable to United Water International Pty Ltd and the costs incurred by United Water International Pty Ltd in performing services, which are reimbursed by the Corporation. The costs are reported for the total period of the contract and include an estimate for escalation charges.

Department of Health: As at 30 June 2007 the Department had operating expenditure commitments of $140.2 million. Included in the other expenditure commitments is $12.74 million (2006 $16.5 million), which is the GST component of the Other expenditure commitments. The Department also has commitments to provide funding to various non-government organisations in accordance with negotiated service agreements. The value of these commitments as at 30 June 2007 has not been quantified.

Incorporated Health Services: Operating expenditure is predominately for the payment for contracts in Central Northern Adelaide Health Service of $38 million and a minimum service payment to private hospitals from Southern Adelaide Health Service of $24 million. Capital expenditure is for land and improvements and plant and equipment of $9 million.

Land Management Corporation: The increase in capital expenditure commitments is the result of the Corporation commencing construction of the Inghams and Bio Innovation projects. The other major commitment is for the Port Adelaide Waterfront Redevelopment project.

South Australian Housing Trust: The Trust has entered into a number of construction projects and development opportunities and better neighbourhood programs. There is also a new commitment for the Affordable Housing Initiative Fund.

37. Finance lease liabilities

	2007 $m	2006 $m
Finance lease liabilities		
At the reporting date, the Government had the following obligations under finance leases (the total obligation net of future lease finance charges has been recognised as a liability in the balance sheet):		
not longer than one year	**28**	34
longer than one year but not longer than five years	**102**	114
longer than five years	**279**	347
Minimum lease payments	**409**	**495**
deduct future finance charges	**224**	282
Total finance lease liabilities	**185**	**213**
The finance leases are reported in the balance sheet, classified as:		
current (refer Note 28)	**12**	8
non-current (refer Note 28)	**173**	205
	185	**213**
The major finance lease obligations relate to the following agencies:		
South Australian Water Corporation	**126**	129
Incorporated Health Services	**54**	60
Department of Administrative and Information Services	**—**	22
Other	**5**	2
	185	**213**

Discussion of finance lease obligations:

SA Water Corporation: Future finance lease payments are amounts contracted with private sector providers to construct, own and operate water and wastewater treatment facilities. The leases comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the consumer price and related indexes.

Incorporated Health Services: Future finance lease payment obligations relating to the lease of buildings and improvements, as well as plant and equipment. The lease obligations primarily relate to periods beyond 1 year.

38. Operating lease obligations

	2007 $m	2006 $m
At the reporting date, the Government had the following obligations under non-cancellable operating leases (these obligations have not been recognised as liabilities):		
not longer than one year	**144**	96
longer than one year but not longer than five years	**340**	222
longer than five years	**326**	230
Total operating lease obligations	**810**	**548**
The major operating lease obligations relate to the following agencies:		
Department of Transport, Energy and Infrastructure	**280**	8
South Australia Police	**133**	139
SA Water	**116**	—
Motor Accident Commission	**73**	—
Courts Administration Authority	**43**	45
Department of Families and Communities	**37**	—
Department for Environment and Heritage	**23**	31
Department of Administrative and Information Services	**—**	250
WorkCover Corporation	**—**	19
South Australian Asset Management Corporation	**—**	10
Other Agencies	**105**	46
	810	**548**

Discussion of major operating lease obligations:

Department for Transport, Energy and Infrastructure: The Department's operating leases are for motor vehicles, accommodation, office equipment and some items of plant and equipment. Commercial accommodation leases are non-cancellable with terms ranging from one to ten years. Rental is payable in advance with no contingent rental provisions. Residential accommodation leases are cancellable with varying terms and have no option to renew. Motor vehicle leases are cancellable, rentals are paid monthly in arrears and no contingent rentals provisions exist within the agreement. Motor vehicle lease terms may be for three years (or 60 000 kms., whichever comes first) or five years (or 100 000 kms., whichever comes first). Photocopier leases are non-cancellable with terms of four years, with rentals paid monthly. In 2005-06 the majority of these obligations were managed and disclosed by the Department of Administrative and Information Services.

South Australia Police: Operating lease payment obligations relate to the non-cancellable property and vehicle rentals payable in advance. Contingent rental provisions within the lease agreements require minimum lease payments to be increased periodically and generally in line with Consumer Price Index movements and market conditions. Options exist to renew property leases at the end of the term of the leases. Operating lease commitments include commitments for Public Private Partnership leases related to SAPOL occupancies only. These leases are for a 25 year duration

SA Water. The operating lease commitments relate to property leases which are non cancellable leases. The rental is payable monthly with reviews indexed every two years. These bi annual reviews alternate between CPI indexation and Market Value. Options exist to renew the leases at the end of the term of the leases.The Corporation has an operating lease commitment for the relocation of accommodation effective from 2008-09 which is non cancellable and expires after 15 years with a renegotiation in year 10. The lease has escalation clauses and no purchase options.

Motor Accident Commission: These lease obligations are for commercial rental properties that are owned by the Motor Accident Commission.

39. Contingent assets and contingent liabilities

At the reporting date, the government had the following liabilities, or possible liabilities, that have not been recognised in the Balance Sheet because they have been assessed as being not likely to give rise to a future sacrifice of economic benefits or they cannot be measured reliably or the existence of a liability will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the government.

(a) Contingent Assets

A contingent assets is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. These can be classified into either quantifiable, where the potential economic benefit is known, or non-quantifiable.

No material quantifiable contingent assets have been reported**.**

(b) Contingent Liabilities

A contingent liability is:

- a possible obligation that arises from past events where and whose existence will be confirmed only be the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognized because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are also classified as either quantifiable or non-quantifiable.

(i) Quantifiable contingent liabilities: Generic guarantee of government businesses' liabilities

The Treasurer generally explicitly guarantees the liabilities of government businesses under the enabling legislation for each of the entities. The *Public Corporations Act 1993* provides that the Treasurer guarantees all liabilities of public corporations. As at 30 June 2007, total liabilities, net of superannuation, of the public financial corporations sector (PFC) were $13.07 billion ($11.47 billion) and total liabilities of the public non-financial corporations sector (PNFC) were $4.10 billion ($3.84 billion).

	2007 $m	2006 $m
ii) Quantifiable contingent liabilities		
Guarantees:		
Treasurer's guarantee re — LGFA guarantees	**450**	406
Treasurer's guarantee re — Osborne Cogeneration Pty Ltd	**200**	200
Other guarantees	**44**	68
Total guarantees	**694**	**674**
Indemnities / Legal	**12**	11
Other contingent liabilities	**20**	11
Total quantifiable contingent liabilities	**726**	**696**

Discussion of quantifiable contingent liabilities:

Treasurer's guarantee of Local Government Finance Authority loans and other liabilities

Pursuant to the *Local Government Finance Authority Act 1983*, liabilities incurred or assumed by the Local Government Finance Authority (LGFA) are guaranteed by the Treasurer. These liabilities include bank loans, loans provided by the South Australian Government Financing Authority and other liabilities including deposits or loans from councils and prescribed local government bodies.

The total value of loans and liabilities as at 30 June 2007was $424.4 million ($393.3 million)

The LGFA has also issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of 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 2007, the amount of the liability was $15.6 million ($12.4 million)

Osborne Cogeneration Pty Ltd: In 1996, the then ETSA Corporation entered into arrangements with Osborne Cogeneration Pty Ltd (OCPL) for the generation of electricity at the Osborne Generation Plant. As part of these arrangements, ETSA Corporation entered into a Power Purchase Agreement and a Gas Sale Agreement with OCPL requiring ETSA Corporation, in general terms to purchase prescribed amounts of electricity from OCPL and to sell prescribed amounts of gas to OCPL for the respective terms of those agreements.

Over the life of the Power Purchase Agreement and Gas Sale Agreement (Osborne Arrangements) it was estimated that ETSA Corporation would incur losses representing, in general terms, the difference between:

- the contracted purchase price under the Power Purchase Agreement and forecast pool prices in the electricity market; and
- the contracted sale price under the Gas Sale Agreement and the wholesale price for gas available in the market to ETSA Corporation to comply with its gas supply commitments.

The Osborne Arrangements, and the underlying exposures, were subsequently transferred to Flinders Power Pty Ltd (Flinders Power). When NRG Energy Inc purchased the operations of Flinders Power as part of the then government's program for privatisation of the state's electricity assets, the Osborne Arrangements (together with the underlying exposures) were transferred to NRG Energy Inc.'s subsidiary Flinders Osborne Trading Pty Ltd (FOT).

As part of the privatisation of the operations of Flinders Power (Flinders Operations), the Treasurer provided a guarantee to OCPL in respect of the obligations of FOT under the Osborne Arrangements (Treasurer's Guarantee). In turn NRG Energy Inc indemnified the Treasurer if the Treasurer's Guarantee was called upon by OCPL (NRG Indemnity).

In August 2006, NRG Energy sold the Flinders Operations to Babcock and Brown Power, a listed investment fund. The sale of the Flinders Operations to Babcock and Brown Power included the contracts under the Osborne Arrangements, with NRG Energy Inc being replaced in the NRG Indemnity by Babcock and Brown Power and a related company.

(iii) Discussion of major non-quantifiable contingent liabilities

The possibility of an outflow of resources embodying economic benefits, for the following cases, is considered to be remote-

Generation Lessor Corporation: Generation Lessor Corporation (GLC) has entered into a leasing arrangement over generation assets located at Port Augusta, South Australia with unrelated overseas-based investors. As part of these arrangements, GLC has provided limited indemnities to these operators.

In the unlikely event that GLC defaults under the Torrens Island Generating Plant leases, Synergen Generating Unit Lease, Northern and Playford Generating Unit Leases, the Leigh Creek Township Lease and the Leigh Creek Railway Sub-Lease, with respect to limited specified undertakings resulting in the lessees termination of any of these leases by the lessees, GLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the relevant lessee. The likelihood of these defaults occurring is considered highly remote.

The rent refund under the above leases as at 30 June 2007 is $472.2 million ($482.5 million)

Distribution Lessor Corporation: In the unlikely event that Distribution Lessor Corporation (DLC) defaults under the Distribution Network Lease with respect to limited specified undertakings resulting in the termination of the lease by the lessor, DLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the lessee. The likelihood of these defaults occurring is considered highly remote.

Under the terms of the distribution network leases, the lessee can elect to own new assets constructed during the term of the lease which qualify as 'qualifying projects' or 'geographical extensions' as well as land on which those assets are located.

The lessee is also entitled to terminate the Distribution Network Lease, and obtain a partial refund of prepaid rent, where there is the destruction or permanent incapacity of at least 65 per cent of the power lines making up the distribution network as a result of an uninsurable event such as war, terrorism or the release of nuclear ionisation. The likelihood of this occurring is considered highly remote.

Qualifying projects are a discrete replacement, modification, alteration, addition or renewal to the network which is outside the ordinary course of maintenance, modification, alteration or renewal and, at the time effected, cost greater than a qualifying threshold of $2 million indexed in accordance with the lease documentation. Geographical extensions are extensions beyond the outer extremities of the distribution network as at the commencement date of the lease. At the expiry of the lease, qualifying projects will be automatically transferred and vested in DLC or a body nominated by DLC for a price equal to the regulatory value of the qualifying projects as at the lease end date. Geographical extensions receive the same treatment if DLC so elects, but not otherwise.

To date, the lessee has not notified DLC of any geographic extensions to the distribution network. The lessee has notified DLC of four qualifying projects which the lessee has elected to own, and

which DLC is required to pay for at the expiry of the Distribution Network Lease on 28 January 2200. It is not possible at this time to quantify the regulatory value of these qualifying projects.

The rent refund as at 30 June 2007 is $3 billion ($3 billion)

Transmission Lessor Corporation: Transmission Lessor Corporation (TLC) has guaranteed certain payments and other obligations to third parties in relation to a leasing arrangement in respect of the transmission network. As part of these arrangements, TLC has provided limited indemnities to third parties.

In the unlikely event that TLC defaults under the Transmission Network Lease with respect to limited specified undertakings resulting in the termination of the lease by the lessor, TLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the lessee. The likelihood of these defaults occurring is considered highly remote.

The rent refund as at 30 June 2007 is $613.7 million ($652.2 million)

Alice Springs to Darwin Railway: The AustralAsia Railway Corporation (the Corporation), the Northern Territory (NT) and South Australian (SA) Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back basis.

Both the SA and NT Governments guarantee the obligations of the Corporation. This guarantee is a joint guarantee, but SA and NT each accept responsibility for breach of an indemnity that is caused by its act or omission. Where the event giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both the SA and NT caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, SA and NT accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites, and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific Transport Pty Ltd. In certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all these events the cure is within the control of either the Corporation or the governments.

While the Department of the Premier and Cabinet is not signatory to these arrangements, the SA Government has assigned responsibility for these arrangements to the Department. If a subsequent event were triggered such that the SA Government had to honour a commitment under the agreement, the SA Government would have to fund that commitment and the payment would be made through the Department.

The prospect of any one of these contingent liabilities arising is considered to be extremely remote.

40. Events after balance date

There were no events occurring after balance date that had material financial implications on these financial statements.

41. Details of controlled entities

For the 2006-07 financial year the entities listed below are controlled by the government and their income, expenses, assets, liabilities and equity have been included in the consolidated financial report. Some of these entities control other entities, in which case the consolidated accounts include the entity's consolidated financial information:

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
2007 World Police and Fire Games Corporation	*		
Aboriginal Housing Authority		*	
Adelaide Cemeteries Authority		*	
Adelaide Convention Centre Corporation		*	
Adelaide Entertainments Corporation (trading as Adelaide Entertainment Centre)		*	
Adelaide Festival Centre Trust		*	
Adelaide Festival Corporation	*		
Adelaide Film Festival	*		
Adelaide and Mount Lofty Ranges Natural Resources Management Board	*		
Alinytjara Wilurara Natural Resources Management Board	*		
Administrative and Information Services, Department for	*		
Art Gallery Board, The	*		
Attorney-General's Department	*		
Auditor-General's Department	*		
Australian Children's Performing Arts Company (trading as Windmill Performing Arts)	*		
Bio Innovation SA	*		
Carrick Hill Trust	*		
Correctional Services, Department for	*		
Courts Administration Authority	*		
Dairy Authority of South Australia	*		
Distribution Lessor Corporation		*	
Education Adelaide	*		
Education and Children's Services, Department of	*		
Electricity Supply Industry Planning Council	*		
Environment and Heritage, Department for	*		
Environment Protection Authority	*		
Essential Services Commission of SA	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
Eyre Peninsula Natural Resources Management Board	*		
Families and Communities, Department for	*		
Further Education, Employment, Science and Technology, Department of	*		
Generation Lessor Corporation		*	
Government Schools	*		
Health, Department of	*		
History Trust of South Australia	*		
HomeStart Finance			*
Independent Gambling Authority	*		
Incorporated Disability Services	*		
Incorporated Health Services	*		
Justice, Department of	*		
Kangaroo Island Natural Resources Management Board	*		
Land Management Corporation		*	
Libraries Board of South Australia	*		
Lotteries Commission of South Australia		*	
Motor Accident Commission			*
Museum Board	*		
Natural Gas Authority of South Australia		*	
Northern and Yorke Natural Resources Management Board	*		
Office of Public Employment	*		
Outback Areas Community Development Trust	*		
Playford Centre	*		
Port Adelaide Maritime Corporation	*		
Premier and Cabinet, Department of the	*		
Primary Industries and Resources, Department of	*		
Public Trustee		*	
RESI Corporation		*	
Senior Secondary Assessment Board of South Australia	*		
South Australia Police (aka South Australian Police Department, SAPOL)	*		
South Australian Ambulance Service	*		
South Australian Arid Lands Natural Resources Management Board	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
South Australian Asset Management Corporation			*
South Australian Centre for Trauma and Injury Recovery Incorporated (trading as TRACsa)	*		
South Australian Community Housing Authority			*
South Australian Country Arts Trust	*		
South Australian Country Fire Service	*		
South Australian Film Corporation	*		
South Australian Fire and Emergency Services Commission (trading as SAFECOM)	*		
South Australian Forestry Corporation (trading as Forestry SA)		*	
South Australian Government Captive Insurance Corporation (trading as SAICORP)	*		
South Australian Government Employee Residential Properties		*	
South Australian Government Financing Authority (trading as SAFA)			*
South Australian Housing Trust		*	
South Australian Infrastructure Corporation		*	
South Australian Local Government Grants Commission	*		
South Australian Metropolitan Fire Service	*		
South Australian Motor Sport Board		*	
South Australian Murray Darling Basin Natural Resources Management Board	*		
South Australian State Emergency Service (trading as SES)	*		
South Australian Tourism Commission	*		
South Australian Water Corporation (trading as SA Water)		*	
South East Natural Resources Management Board	*		
South Eastern Water Conservation and Drainage Board	*		
State Electoral Office	*		
State Governor's Establishment	*		
State Opera of South Australia	*		
State Procurement Board	*		
State Theatre Company of South Australia	*		
Superannuation Funds Management Corporation of South Australia (trading as Funds SA)			*
Trade and Economic Development, Department of	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
TransAdelaide		*	
Transmission Lessor Corporation		*	
Transport, Energy and Infrastructure, Department for	*		
Treasury and Finance, Department of	*		
Venture Capital Board, Office of the	*		
Venue Management, Office of	*		
Water, Land and Biodiversity Conservation, Department of	*		
West Beach Trust (trading as Adelaide Shores)		*	
WorkCover Corporation of South Australia			*
Zero Waste SA, Office of	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
Changes to controlled entities / reporting structures since the previous Consolidated Financial Report:			
Dissolved Entities:			
Office of Public Employment (effective from 1 October 2006)	*		
South Australian Government Captive Insurance Corporation (trading as SAICORP)	*		
This organisation was amalgamated with the South Australian Government Financing Authority (SAFA, a public financial corporation) on 1 July 2006. SAICORP has been dissolved through the *Public Corporations (Dissolution of South Australian Government Captive Insurance Corporation) Regulations 2006*, and its assets, rights and liabilities transferred to SAFA. The insurance function of the former SAICORP has now been established as a division of SAFA, which in turn will continue to trade in the captive insurance business using the SAICORP brand name. The operations of the amalgamated entity are classified to the public financial corporations sector.			
Future Changes of Significance:			
Administrative and Information Services, Department for	*		
On 28 September 2006 a major restructure was announced that the functions of this agency would, effective from 1 October 2006 be transferred to other general government entities, namely the Department of Treasury and Finance, the Department of the Premier and Cabinet, the Department for Transport, Energy and Infrastructure, and the Attorney–General's Department. It is envisaged that these changes will be finalised within the next 12 months.			
Aboriginal Housing Authority (AHA), South Australian Community Housing Authority (SACHA) and the South Australian Housing Trust (SAHT) The *Statutes Amendment (Affordable Housing) Act* was enacted on 1 July 2007, consolidating the AHA (a public non-financial corporation), SACHA (a public financial corporation) and SAHT (a public non-financial corporation) and into a single public non-financial corporation sector entity. The new business unit, Housing SA, which was created within the Department for Families and Communities on 1 July 2006 will provide a single entry point for integrated waiting list, tenancy management and rental programs.		*	
Port Adelaide Maritime Corporation - Renamed as Defence SA (operational from 1 September 2007)	*		

STATEMENT BY THE TREASURER AND UNDER TREASURER

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The Whole of Government Consolidated Financial Report ('the consolidated financial report') for the year ended 30 June 2007 for the State of South Australia has been prepared by the Department of Treasury and Finance through the consolidation of audited financial information provided by South Australian public sector controlled reporting entities.

In our opinion, the consolidated financial report set out on pages 9 to 68:

— has been prepared in accordance with Australian Accounting Standards, in particular AAS 31 *Financial Reporting by Governments*, applicable Australian Accounting Standards, Treasurer's Instructions, Accounting Policy Frameworks and the *Public Finance and Audit Act 1987*, as amended;

— presents fairly the equity and financial position of the Government of South Australia as at 30 June 2007 and the results of its operations and its cash flows for the year then ended.

(signed)

Kevin Foley

Treasurer

/ 12 / 2007

(signed)

Jim Wright

Under Treasurer

/ 12 / 2007

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STATEMENT AND COMMENTARY BY THE AUDITOR-GENERAL

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Ref: A07/314

21 December 2007

Mr J Wright
Under-Treasurer
Department of Treasury and Finance
Level 8, State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

Dear Mr Wright,

WHOLE-OF-GOVERNMENT FINANCIAL REPORT
YEAR ENDED 30 JUNE 2007

The audit of the South Australian whole-of-government financial report for the year ended 30 June 2007 has recently been completed.

Background

The basis for preparation of the whole-of-government financial report is the Australian Accounting Standard AAS31 *Financial Reporting by Governments* which became mandatory for reporting periods ending on or after 30 June 1999.

The whole-of-government financial reports are an essential component of the various information presented on the State's finances and financial position and are useful to management, governing bodies and other users for making and evaluating decisions about the allocation of resources. Users are not able to obtain this overview by analysing all of the individual financial reports of the many entities which the government controls.

Audit Mandate and Auditor's Report

As previously reported to you and the Parliament there is at present no requirement under the *Public Finance and Audit Act 1987* or other legislation to provide an independent auditor's report on the preparation of whole-of-government financial reports. Until relevant legislative provisions are passed in relation to the audit of whole-of-government financial reports, I am unable to issue a formal independent auditor's report containing an audit opinion.

Notwithstanding the absence of a mandate to issue a formal auditor's report in respect of such information, I consider it both valuable and within the ambit of wider public expectation that such financial information should be subject to some form of independent review regarding its credibility and validity. As a result, Audit has undertaken sufficient work to provide the following observations in respect to the whole-of-government financial report for the year ended 30 June 2007.

Scope of Audit

The whole-of-government financial report that has been reviewed comprises:

- a Consolidated Income Statement
- a Consolidated Balance Sheet
- a Consolidated Statement of Changes in Equity
- a Consolidated Cash Flow Statement
- Notes to the Financial Report
- a Statement by the Treasurer and Under-Treasurer.

The key features of the audit undertaken of the whole-of-government financial report included a review of:

- the principles adopted in the definition of the economic entity for whole-of-government purposes;
- controls and procedures within the Department of Treasury and Finance (DTF) for evaluating the reliability and validity of data forwarded by agencies;
- the adequacy and reliability of the Hyperion database as a medium for the preparation of the whole-of-government financial report;
- the preparation of the whole-of-government general purpose financial report; and
- compliance with appropriate legislation and accounting frameworks.

The audit was conducted in accordance with Australian Auditing Standards to obtain reasonable assurance as to whether the whole-of-government financial report was free of material misstatement.

The audit procedures involved both an assessment of the controls operating over the preparation of the whole-of-government financial report and an examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report. This included an evaluation of accounting policies and significant accounting estimates made within the whole-of-government financial report and compliance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions promulgated under the *Public Finance and Audit Act 1987*.

Audit Findings and Comments

The audit of the 2006-07 whole-of-government financial report revealed a number of reporting matters that would need to be addressed in order to provide an unqualified independent auditor's report should legislative changes require the Auditor-General to provide an audit opinion.

The matters identified include:

- completeness and accuracy of whole-of-government financial report items;
- inclusion of unaudited data;
- matters relating to the cash flow statement.

The 2006-07 whole-of-government financial report was submitted to Audit for verification on 29 October 2007, a significant improvement on the submission date of the 2005-06 and 2004-05 reports (22 February 2007 and 16 December 2005 respectively). There remain some further opportunities for improvement which will facilitate earlier finalisation of preparation and audit of the whole-of-government financial report.

These matters have been discussed with relevant officers in DTF and are set out in the attachment to this letter.

Other Matters

I would like to pass on my appreciation to your staff for the assistance provided to my officers during the conduct of the review.

I trust that the matters raised will be of assistance to the continual improvement of whole-of-government financial reporting. Should you wish to discuss any matter in relation to this letter, please contact Mr Andrew Richardson (8226 9660) and/or Mr Bill Sierros (8226 9663) at your convenience.

Your comments in relation to the matters in this letter would be appreciated by 18 January 2008.

Yours sincerely,

(signed)
S O'Neill
AUDITOR-GENERAL

ATTACHMENT

WHOLE-OF-GOVERNMENT FINANCIAL REPORT – AUDIT FINDINGS AND COMMENTS

1. Matters that Would Cause Qualification to an Independent Auditor's Report

1.1 Completeness and Accuracy of Financial Statements

Issues that arose during the audit of individual agency 2006-07 financial reports that impact on the completeness and accuracy of particular whole-of-government financial report items include:

- *South Australian Forestry Corporation*

  In relation to the Corporation's forestry operations, a market based method of valuation was adopted for the non-current asset Growing Timber. As has been the case for a number of years, Audit was not in a position to form an opinion on the reasonableness of the estimation of the value of the asset ($613 million).

- *Department for Environment and Heritage*

  The Statement of Administered Assets and Liabilities excludes Unallocated Crown Land, as the Department has not been able to formulate a suitable methodology for determining a reliable measure of the value of these holdings. In addition, limitations exist on the reliability of the base information used to determine the valuation of Property, Plant and Equipment of the Crown ($71 million), as reported in the Statement of Administered Assets and Liabilities.

I qualified each of the relevant financial reports. As a result I am unable to form an opinion, in aggregate, of the impact of those matters on the whole-of-government financial report for the year ended 30 June 2007.

Please also note that the following agency Audit qualifications were deemed immaterial for whole-of-government financial report purposes for the year ended 30 June 2007:

- *Department for Transport, Energy and Infrastructure*
- *2007 World Police and Fire Games Corporation*
- *South Australian Motor Sport Board.*

1.2 Inclusion of Unaudited Data

The preparation of the 2006-07 whole-of-government financial report involved the electronic transfer (*upstreaming*) of agency June 2007 general ledger balances.

Upstreaming initially occurred on 13 August 2007 and later on 31 August 2007. Changes to submitted agency data could only occur after 31 August via journal requests authorised by agency chief finance officers. Journals were requested mainly for:

- material adjustments as a result of the agency audit process
- account code mapping errors that cause incorrect reporting in Hyperion.

Agency journals ceased to be processed by DTF in mid October 2007.

This process was designed to ensure that the agency data used in the preparation of the financial report did not vary materially to the audited agency annual financial statements.

The whole-of-government financial report captures health services (incorporated under the *South Australian Health Commission Act 1976*). Many health services do not meet the DTF deadline for finalising financial statements. Health service financial statements not finalised at the time of this letter include:

- Central Northern Adelaide Health Service
- Institute of Medical and Veterinary Science
- Southern Adelaide Health Service
- Children Youth and Women's Health Service
- Julia Farr Services.

Unaudited health services' data was used in the preparation of the 2006-07 whole-of-government financial report.

1.3 Cash Flows

1.3.1 Reporting on a Net Basis

AASB 107 *Cash Flow Statements* requires cash flows from operating, investing and financing activities to be reported on a gross basis, except for certain specific cash flows.

The following operating activity cash flow items have been presented on a net basis, contrary to AASB 107:

- Other receipts
- Finance costs
- Other payments
- Other payments – refer note 35(d)
- GST payments – refer note 35(d).

1.3.2 Interest and Dividends

AASB 107 requires cash flows from interest and dividends received and paid to be disclosed separately.

Cash flows from interest and dividends received and paid is not reported separately in the Cash Flow Statement. Instead these cash flows form part of finance costs.

It is noted that appropriate reporting of interest and dividend cash flows has occurred for public financial institutions – refer note 34(d).

1.3.3 Reconciliation of Net Cash Used in Operating Activities to Net Result

An amount of $146 million is reported as Changes in Other Assets and Liabilities in Note 35(c) Reconciliation of Net Cash Used in Operating Activities to Net Result.

This amount included a manual adjustment of $159 million.

There is no objective information that supports the adjustment made.

1.4 Other

1.4.1 Gain on Revaluation of Property, Plant and Equipment

Consistent with AASB 101 *Presentation of Financial Statements*, the Statement of Changes in Equity reports the gain on revaluation of property, plant and equipment.

When comparing the amount reported in the Statement of Changes in Equity to amounts disclosed in relevant notes to the financial report the following was observed:

	2007 $m	2006 $m
Gain on revaluation of property, plant and equipment: per Statement of Changes in Equity	1,115	2,380
Net Revaluation Increments per Notes:		
22 - Land and improvements	727	1,557
23 - Plant, equipment and infrastructure	550	583
24 - Heritage assets	1	82
	1,278	2,222
Variance	(163)	158

DTF could not explain the variance.

1.4.2 Interest-bearing Liabilities Disclosure

Note 28 *Interest-bearing liabilities* discloses information by repayment due date. Current liabilities equal the amount due no longer than one year, but non-current liabilities are stated in bands comprising:

- longer than one year but not longer than five years
- longer than five years.

The basis of dissection of non-current liabilities changed this year.

In 2005-06 the dissection of non-current liabilities was based on the average dissection in the previous 5 years.

The dissection of 2006-07 non-current liabilities was provided by agencies via the Budget and Monitoring System (BMS) and reconciled with information reported in the audited agency financial statements.

The 2005-06 amounts disclosed was a quantifiable issue.

1.4.3 Financial Instruments – Weighted Average Interest Rate Disclosure

Paragraph 67(b) of AASB 132 Financial Instruments: Presentation requires the disclosure of effective interest rates for each class of financial asset and financial liability.

There was no objective information supporting the weighted average interest rates disclosed in note 34(d) for 2005-06 financial assets and financial liabilities.

2. Other Matters

2.1 Timeliness of the Preparation of the Whole-Of-Government Financial Report

Paragraph 18.1 of Australian Accounting Standard AAS31 *Financial Reporting by Governments* states that

> "a *general purpose financial report* must be prepared at least annually and be made readily available to users on a timely basis."

In previous letters Audit noted that there were a number of practical difficulties in preparing whole-of-government financial reports on a timely basis, eg reliance (to some extent) on agencies providing accurate data to DTF within a specified timeframe.

Audit notes that other interstate jurisdictions were able to finalise their whole-of-government financial reports as follows:

State	Independent Auditor's Report Signed
Western Australia	24 September 2007
Victoria	27 September 2007
Northern Territory	11 October 2007
New South Wales	15 October 2007
Australian Capital Territory	25 October 2007
Queensland	26 October 2007

Preparation principles vary between the States.

It is important that DTF continue to identify mechanisms to facilitate earlier finalisation of preparation and audit of the whole-of-government financial report.

Audit suggests consideration be given to:

- obtaining and reconciling supporting documentation for non general ledger sourced Hyperion balances submitted by agencies, eg Incorporated Health Services, Government Schools, DTF Administered Items, Treasurer's Ledger;
- improving quality control processes, eg ensuring consistency of statements and notes, reviewing working performed by inexperienced officers.

Given the principles that are used to prepare the South Australian whole-of-government financial report, a reasonable and practical target for completion would be by the end of November annually.