2005|06

CONSOLIDATED FINANCIAL REPORT

AS AT 30 JUNE 2006

Presented by the Honourable Kevin Foley MP
Deputy Premier and Treasurer of South Australia

Government
of South Australia

Government of South Australia

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

Prepared by the
DEPARTMENT OF TREASURY AND FINANCE

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Contents

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OVERVIEW OF THE FINANCIAL REPORT

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Foreword

This document contains the consolidated financial report of the Government of South Australia ('the Government') for the financial year ended 30 June 2006. The report has been prepared in accordance with applicable Australian Accounting Standards Board Framework and Standards, Treasurer's Instructions and Accounting Policy Framework Standards, and is consistent with Australian Accounting Standard (AAS) 31 *Financial Reporting by Governments.*

The Auditor-General has reviewed the financial report 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.

Information on the Government's financial performance, and its assets and liabilities, is also published each year as part of the Budget and Final Budget Outcome documents and various Australian Bureau of Statistics (ABS) publications. Budget outcomes are prepared in accordance with the *Uniform Presentation Framework* (UPF) agreed by the Commonwealth and all State and Territory Governments. The consolidated financial report presented here differs from these other publications in several aspects.

An example of the technical differences between financial reports prepared under AAS and UPF publications is the treatment of superannuation. In the report presented here all superannuation expenses are recognised in the Income Statement (previously referred to as the Statement of Financial Performance), including the growth in the liability representing the unwinding of the discount on previously accrued benefits, as the benefit payments are now one year closer to settlement, and revisions to superannuation liability due to actuarial re-assessments. The UPF treatment of superannuation is that only expenses relating to liabilities incurred in the current period and the net impact of the nominal superannuation interest expense on previously accrued benefits and the expected earnings on superannuation assets, are recognised in the Income Statement. Revisions to the superannuation liability relating to actuarial reassessment are treated as a revaluation and thereby recorded in the Statement of Other Economic Flows. The overall impact of these differences in treatment is that UPF revenues and expenses are not impacted by revaluation increments and decrements for superannuation liabilities, however the AAS operating result varies significantly as the income or expense impacts of revaluation are taken to the operating result in the year they occur.

While the financial report is presented for the Government as a whole, Note 2 to the financial report discloses the financial performance and the financial position of the three major sectors: 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 $1.151 billion for the financial year ended 30 June 2006.**

- **The operating surplus for 2005-06 was significantly impacted upon by an increase in the discount rate used to value the unfunded superannuation liability, from 5.2 per cent to 5.9 per cent. The revised discount rate reduced the estimated unfunded liability by $1 billion.**

- **Excluding the effect of volatile revaluations, impacts from actuarial assumptions relating to superannuation and dividends from financial corporations, the underlying consolidated operating result was a surplus of $29 million in 2005-06.**

- **Net assets of the Government as at 30 June 2006 were $19.2 billion, comprising assets of $48.9 billion and liabilities of $29.7 billion.**

- **The Government's balance sheet continues to reflect a strong financial position and is consistent with the State's triple-A credit rating. The triple-A credit rating was recently re-affirmed by international credit rating agencies Moody's Investor Services, and Standard & Poor's.**

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. For the year ended 30 June 2006 the result was a surplus of $1.151 billion. The components of the Government's ordinary revenue and expenses for 2005-06 are shown in Figure 1 and Figure 2 respectively.

Excluding the effect of volatile revaluations, impacts from actuarial assumptions relating to superannuation and dividends from financial corporations, the underlying consolidated operating result was a surplus of $29 million in 2005-06.

Figure 1: Components of revenue for 2005-06 ($15.1b)

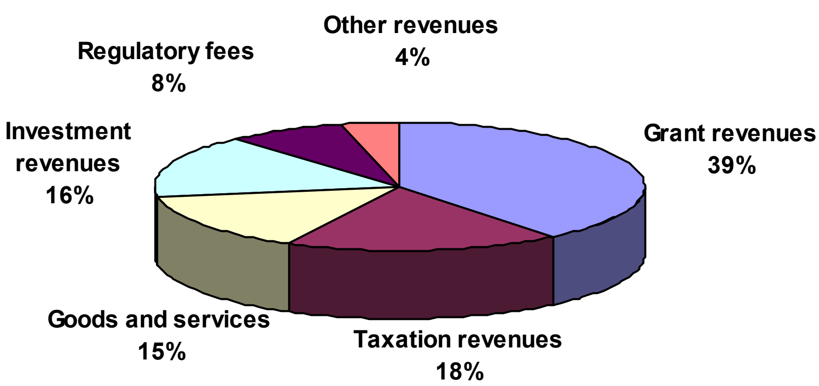
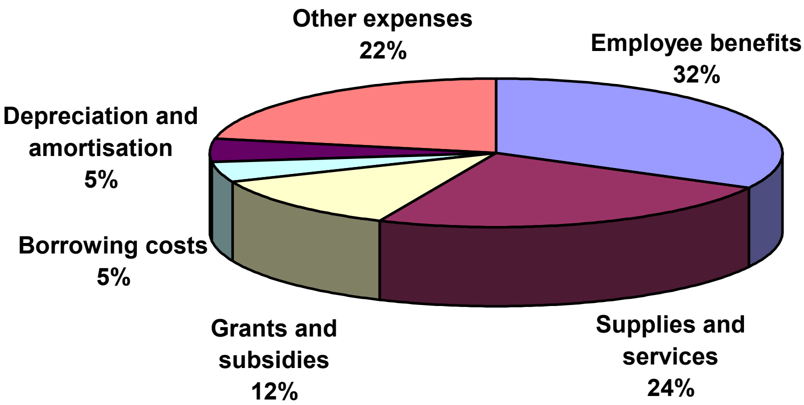


Figure 2: Components of expenses for 2005-06 ($14b)



Summary of financial performance

Consolidated Income Statements have been prepared since 1996. Table 1 shows summary information for the last five years.

Table 1 Operating results ($ million)

Item	30 June 2006	30 June 2005	30 June 2004	30 June 2003	30 June 2002
Incomes					
Grants revenues	5 956	5 589	5 289	5 010	4 807
Taxation revenues	2 779	2 760	2 651	2 285	2 037
Goods and services	2 251	2 095	2 143	1 914	2 084
Investment revenues	2 396	1 737	1 757	878	811
Other incomes	1 749	2 031	1 918	1 905	1 560
Total revenues	**15 131**	**14 212**	**13 758**	**11 992**	**11 299**
Expenses					
Employee benefits	4 570	6 710	6 057	5 032	4 942
Supplies and services	3 359	2 307	2 305	2 713	2 665
Grants and subsidies	1 644	1 661	1 466	1 395	1 380
Borrowing costs	645	688	737	761	757
Depreciation and amortisation	702	692	660	617	593
Other expenses	3 060	3 632	3 196	2 383	1 988
Total expenses	**13 980**	**15 690**	**14 421**	**12 901**	**12 325**
Surplus (–deficit)	**1 151**	**–1 478**	**–663**	**–909**	**–1 026**

Significant items of income and expense

The most significant item of income remains grant revenue received (approximately 39 per cent of total income), primarily, from the Commonwealth Government reflecting South Australia's share of Goods and Services Tax (GST) as calculated by the Commonwealth Grants Commission. The steady growth over the previous 3 years in the Government's own-source taxation revenue, as reflected by a buoyant state economy with strong employment growth and property values, has tapered off somewhat and accounts for approximately 18 per cent of total income. Investment revenues also remained strong, primarily as a result of high returns on superannuation assets.

The most significant expense related to employee benefits, at approximately 32 per cent of total expenses. However, given the factors outlined below per the discussion under 'Superannuation expense', the proportion of employee related expenses to total expenses fell markedly in 2005-06. Supplies and services also are a major component of the Government's operating expenses (approximately 24 per cent of total expenses). The increase in supplies and services expense when compared to 2004-05 reflects the impact of reclassifications of expenditure from other expenses. Unclassified other expenses fell by $572 million from the level reported in 2004-05.

Superannuation expense

A significant item affecting each year's operating result from operations has been increases and decreases in expenses associated with the Government's unfunded superannuation liability. The superannuation expense for 2005-06 was negative (-) $276 million, compared with actual expenses of $2.31 billion in 2004-05, $1.89 billion in 2003-04, $1.05 billion in 2002-03 and $1.28 billion in 2001-02.

In 2005-06 the main impacts on the (negative) superannuation expense was a movement in the discount rate (from 5.2 per cent to 5.9 per cent) and earnings on superannuation assets, which was well above long-term expected earnings rates. The total movement in the unfunded superannuation liability for the year was -$1.08 billion.

In 2004-05 the superannuation expense reflected a movement in the discount rate, from 6 per cent to 5.2 per cent, reflecting fluctuations in the Commonwealth Government bond rate ($1 billion impact) as well as the impact of the findings of the South Australian Superannuation Actuarial Report, 2004 ($0.7 billion impact). These changes resulted in an increase to the unfunded superannuation liability and superannuation expense of $1.7 billion in 2004-05. The total movement in the unfunded superannuation liability for the year was $1.6 billion.

The superannuation expense in 2003-04 reflected the adoption of a revised discount rate assumption (from 7.5 per cent to 6 per cent) for valuing superannuation liabilities. This change was made to be consistent with the forthcoming new accounting standard for employee benefits. The new standard, based on the corresponding International Accounting Standard (IAS 19), required superannuation liabilities to be valued using the national government bond rate (or similar rate). This change resulted in an increase to the unfunded superannuation liability and superannuation expense of $1.4 billion in 2003-04.

The superannuation expenses in 2001-02 and 2002-03 reflected the poor performance of international financial markets and equity markets in those years giving rise to substantial negative returns on superannuation investments.

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

Table 2 Superannuation summary

Factor	30 June 2006	30 June 2005	30 June 2004	30 June 2003	30 June 2002
Long term earnings assumption on superannuation assets (%)	7.0	7.0	7.0	7.5	7.5
Actual return on superannuation assets (%)	19.2	15.0	17.3	–0.6	–5.5
Discount rate (%) [(a)]	5.9	5.2	6.0	7.5	7.5
Superannuation expense ($b)	(0.28)	2.31	1.89	1.05	1.28
Impact on superannuation expense arising from change in discount rate ($b)	(1.0)	1.0	1.4	n/a	n/a
Movement in unfunded superannuation liability ($b)	(1.081)	1.559	1.223	0.458	0.738

(a) From June 2004 the Government adopted a risk free rate as the discount rate in accordance with International Accounting Standard requirements.

Balance sheet

The Balance Sheet (previously referred to as the Statement of Financial Position) provides an indication, at a point in time, of the nature and value of assets controlled by the Government, together with the liabilities incurred. At 30 June 2006 the net assets (net worth) of the Government was $19.2 billion, compared to $15.6 billion at 30 June 2005. The components of the Government's assets and liabilities are illustrated in Figure 3 and Figure 4 respectively.

Figure 3: Components of assets as at 30 Jun 2006 ($48.9b)

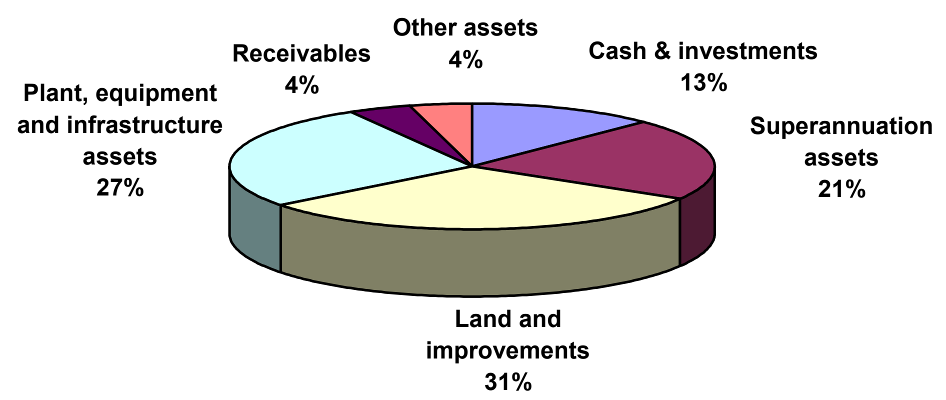
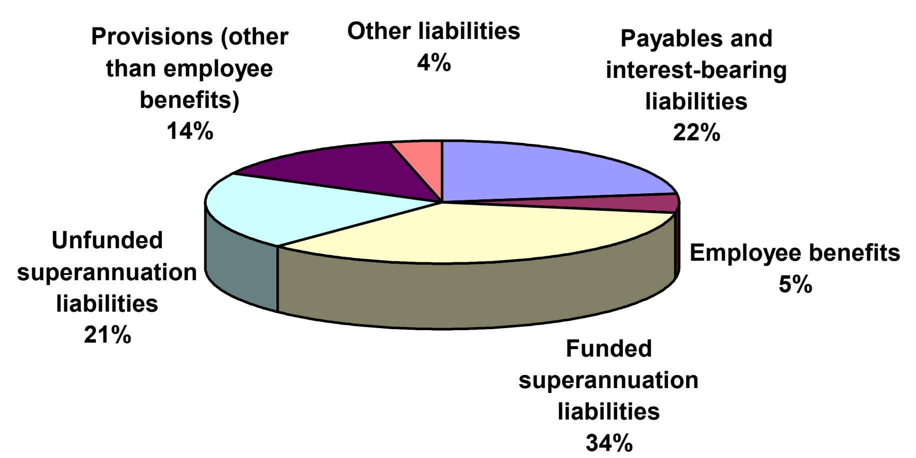


Figure 4: Components of liabilities as at 30 June 2006 ($29.7b)



Summary of financial position

Consolidated balance sheets, reflecting the Government's financial position at each financial year-end, have been prepared since 1996. Table 3 shows summary information for the last five years.

Table 3 Summary of financial position ($ million)

Item	30 June 2006	30 June 2005	30 June 2004	30 June 2003	30 June 2002
Assets					
Cash and investments	6 099	6 154	6 643	6 289	4 658
Superannuation investment assets	10 326	7 934	6 635	5 411	5 057
Land and improvements	15 125	13 608	11 428	10 344	9 426
Plant, equipment and infrastructure assets	13 292	12 737	12 321	12 384	11 990
Receivables	2 016	1 830	1 750	1 983	2 393
Other assets	2 029	1 787	1 631	1 586	1 272
Total assets	**48 887**	**44 050**	**40 408**	**37 997**	**34 796**
Liabilities					
Payables and other interest-bearing liabilities	6 685	7 277	7 418	8 526	8 306
Employee benefits	1 486	1 387	1 595	1 440	1 208
Funded superannuation liabilities	10 290	7 901	6 599	5 372	5 145
Unfunded superannuation liabilities	6 146	7 227	5 668	4 445	3 987
Provisions (other than employee benefits)	4 066	3 706	3 040	2 764	1 360
Other liabilities	1 049	919	1 033	946	862
Total liabilities	**29 722**	**28 417**	**25 353**	**23 493**	**20 868**
Net Assets	**19 165**	**15 633**	**15 055**	**14 504**	**13 928**

Key changes in financial position

In 2005-06 the Government's net assets increased by $3 532 million, from $15 633 million to $19 165 million. In 2004-05 the Government's net assets increased by $578 million, from $15 055 million to $15 633 million.

Assets increased in value by $4.8 billion (11 per cent) during 2005-06. This compares favourably to the increase of $3.6 billion (9 per cent) in 2004-05. Higher asset values were largely reflected in greater holdings of financial assets ($2.5 billion) and upward non-current asset revaluation adjustments ($2.2 billion). The growth in non-current physical assets was mainly attributable to net revaluations of land and improvements, ($1.5 billion), reflecting the continued strong growth in residential and other property values, and other infrastructure assets.

Increases in asset holdings were partly offset by the overall increase in the Government's liabilities ($1.3 billion). This was primarily due to the overall increase in superannuation liabilities (funded and unfunded).

Superannuation assets and liabilities

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

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

As Funds SA is controlled by the Government, both its superannuation assets, of $10.3 billion, comprising investments made on behalf of the superannuation plans, and its superannuation liabilities, of $10.3 billion, principally the funds available to the plans, are included in the 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 net fair value of the plans' assets. The present value of this unfunded superannuation liability is also recognised in the financial report.

The overall reduction in the unfunded superannuation liability for 2005-06 largely reflects changes to the discount rate (discussed previously). However this large decrease was offset by the impact of findings of the 2005 Police Superannuation Scheme review that increased the net present value (NPV) of the unfunded liability by $182 million. A further $207 million increase resulted from other actuarial changes. Earnings on superannuation assets being significantly higher than the long term expected rate offset these increases by $505 million.

Analysis of composition of changes in net assets

Conventionally reported AAS and GFS financial results can vary significantly due to factors such as the influence of valuation effects; gains and losses from disposal of businesses and assets; fluctuating circumstances of public sector financial corporations; and the first time recognition of assets and liabilities. Table 4 is designed to aid identification of an underlying operating result attributable to core government activities.

After being in deficit in earlier years Table 4 shows that the operating result of the public sector, other than financial corporations and before volatile revaluation items, moved into a surplus position of $512 million in 2003-04. The table shows that for the past two years there has been a moderate surplus achieved, $29 million in 2005-06 and $38 million in 2004-05.

Table 4 Composition of change in net assets ($ million)

	30 June 2006	30 June 2005	30 June 2004	30 June 2003	30 June 2002
Net surplus / (-deficit) of the Government of South Australia (per Income Statement)	**1 151**	**–1 478**	**–663**	**–909**	**–1 026**
Amounts recognised directly in equity	2 380	2 053	1 214	1 485	668
Total change in equity of the Government of South Australia (per Statement of Changes in Equity)	**3 531**	**575**	**551**	**576**	**–358**
Less Prior year adjustments and items brought to account for the first time	–	–19	–20	–10	3
All Sectors increase (–decrease) in net assets occurring in the current year	**3 531**	**594**	**571**	**586**	**–361**
Comprising:					
Operating surplus of the non-financial public sector before net interest, depreciation and revaluations and excluding dividends from financial corporations	1 196	1 232	1 709	960	951
Net interest and financing expenses	–129	–197	–185	–252	–258
Nominal interest expense on unfunded superannuation liability [(a)]	–344	–307	–354	–299	–244
Depreciation and amortisation expenses	–694	–690	–658	–614	–593
Sub-total: Operating result of the public non-financial sector before volatile revaluation items and excluding dividends from public financial corporations	**29**	**38**	**512**	**–205**	**–144**
Variation in superannuation expense from changes in actuarial assumptions	–388	–777	–12	–102	–263
Variation in superannuation expense deriving from variation in actual investment returns from the long term expected return	505	291	325	–249	–441
Gain / (-loss) on revaluation of superannuation liability due to change in discount rate assumption	1 048	–1 017	–1 418	—	—
Net revaluation increments taken to reserve	2 134	1 998	1 124	1 425	618
Net gains (–losses) on disposal/revaluation of physical and financial assets (including stamp duty received) taken to operating statement and consolidation adjustments	58	–82	–243	–2	–194
Sub-total: Valuation items in the non-financial public sector	3 357	413	–224	1 072	–280
Sub-total: Change in net assets of the non-financial public sector occurring in the current year (excluding dividends from the public financial corporations)	3 386	451	288	867	–424
Change in net assets of public financial corporations (PFC) occurring in the current year (excluding dividends paid or payable to the general government sector)					
- WorkCover corporation	–42	–75	–1	–396	—
- Other public financial corporations	187	218	284	115	63
Sub-total: Change in net assets of PFCs occurring in the current year (excluding dividends paid or payable to the general government sector)	145	143	283	–281	63
All Sectors increase (–decrease) in net assets occurring in the current year	**3 531**	**594**	**571**	**586**	**–361**

(a) The nominal interest expense represents the increase during the year in the present value of defined benefit obligations in excess of superannuation assets, which arises because future benefits payable to retired employees are one period closer to being paid.

Cash flows

The Government's cash position as at 30 June 2006 was $618 million, a decrease of $191 million from the previous year's $809 million reflecting a reduction in cash and cash equivalents held by public financial corporations. The components of the Government's cash inflows and cash outflows, after eliminating inter – sector transactions, are illustrated in Figure 5 and Figure 6 respectively.

Figure 5: Components of cash inflows for 2005-06 ($15.7b)

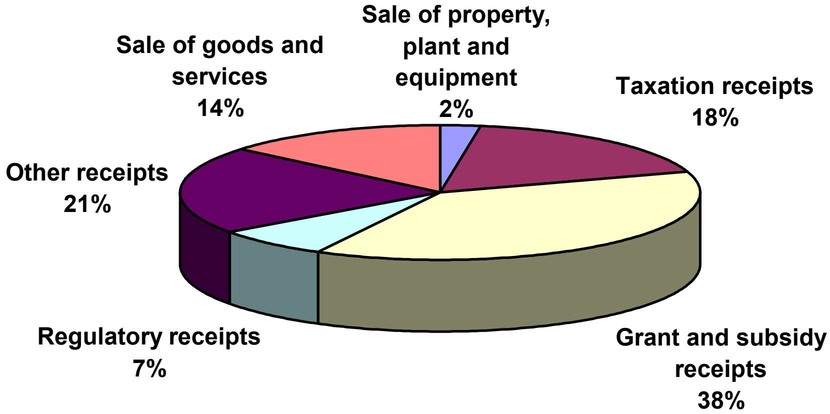
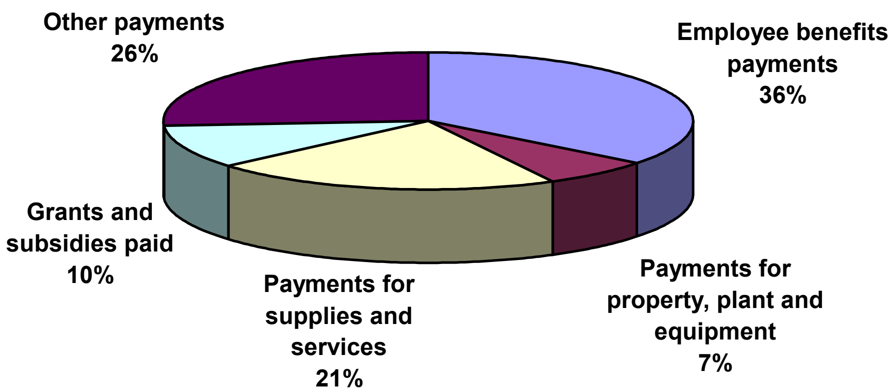


Figure 6: Components of cash outflows for 2005-06 ($15.9b)



Significant components of cash flow items

The most significant cash flow items continue to be those associated with operating activities – such as grant and subsidies revenues ($5.9 billion, up from $5.5 billion) and taxation revenues (steady at $2.8 billion). Government charges for goods and services increased (to $2.2 billion, up from $1.8 billion). These inflows are offset by major operating outflows – such as payments to employees ($5.6 billion, up from $5 billion) and payments for supplies and services ($3.4 billion, up from $3.2 billion). Grant and subsidies paid by the Government have been steady, at $1.6 billion.

Movements in cash position

Annual cash balances and movements vary over the years reflecting a number of factors, but principally the level of cash and cash equivalents held by public financial corporations for debt management purposes. After increasing its cash position in the last couple of years, the Government experienced a reduction in its cash position in 2005-06. Table 5 shows that the cash position and movement thereof during the last five years.

Table 5 Changes in cash position ($ million)

Item	30 June 2006	30 June 2005	30 June 2004	30 June 2003	30 June 2002
Overall cash position at year-end	618	809	696	535	569
Change in cash held during the year	–191	113	161	–34	–63

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CONSOLIDATED FINANCIAL REPORT

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Income Statement	Note	2006 $m	2005 $m
INCOMES			
Taxation revenues	3	**2 779**	2 760
Grants revenues	4	**5 956**	5 589
Charges for goods and services	5	**2 251**	2 095
Regulatory fees / levies	6	**1 203**	1 137
Investment revenues	7	**2 396**	1 737
Net gains from disposal of non–current assets	8	**33**	–
Fair values of assets and services received free of charge or for nominal consideration	9	**77**	62
Fines and penalties		**63**	73
Other revenues	10	**373**	759
Total income		**15 131**	**14 212**
EXPENSES			
Employee benefits costs	11	**4 570**	6 710
Depreciation and amortisation	12	**702**	692
Supplies and services	13	**3 359**	2 307
Borrowing costs	14	**645**	688
Grants and subsidies	15	**1 644**	1 661
Other expenses	16	**3 060**	3 632
Total expenses		**13 980**	**15 690**
Net Surplus (–Deficit)		**1 151**	**–1 478**

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

Balance Sheet	Note	2006 $m	2005 $m
CURRENT ASSETS			
Cash and cash equivalents	35(a)	**618**	809
Receivables	17	**661**	565
Other financial assets	18	**2 016**	2 034
Inventories	19	**137**	108
Other current assets		**32**	8
		3 464	3 524
Non-current assets classified as held for sale	20	**54**	32
Total current assets		**3 518**	**3 556**
NON-CURRENT ASSETS			
Receivables	17	**1 355**	1 265
Other financial assets	18	**13 791**	11 245
Inventories	19	**57**	43
Investment properties	21	**214**	176
Land and improvements	22	**15 125**	13 608
Plant, equipment and infrastructure	23	**13 292**	12 737
Heritage assets	24	**844**	747
Biological assets	25	**593**	611
Intangible assets	26	**98**	62
Total non-current assets		**45 369**	**40 494**
TOTAL ASSETS		**48 887**	**44 050**
CURRENT LIABILITIES			
Payables	27	**734**	650
Interest-bearing liabilities	28	**1 105**	2 034
Employee benefits	29	**546**	491
Unfunded superannuation	30	**252**	250
Superannuation fund deposits	31	**10 290**	7 901
Provisions (other than employee benefits)	32	**846**	800
Other current liabilities	33	**479**	279
Total current liabilities		**14 252**	**12 405**
NON-CURRENT LIABILITIES			
Payables	27	**35**	20
Interest-bearing liabilities	28	**4 811**	4 573
Employee benefits	29	**940**	896
Unfunded superannuation	30	**5 894**	6 977
Provisions (other than employee benefits)	32	**3 220**	2 906
Other non–current liabilities	33	**570**	640
Total non–current liabilities		**15 470**	**16 012**
TOTAL LIABILITIES		**29 722**	**28 417**
NET ASSETS		**19 165**	**15 633**

BALANCE SHEET (CONTINUED)	Note	2006 $m	2005 $m
EQUITY			
Retained earnings		**3 096**	**1 748**
Asset revaluation reserve		**15 390**	**13 191**
Other reserves		**679**	**694**
TOTAL EQUITY		**19 165**	**15 633**
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	**Asset Revaluation Reserves $ m**	**Other Reserves $ m**	**Retained Earnings $ m**	**Total $ m**
Balance at 30 June 2004	**11 224**	**718**	**3 113**	**15 055**
Changes in accounting policy	—	—	–45	–45
Error correction	35	–1	14	48
Restated balances at 30 June 2004	**11 259**	**717**	**3 082**	**15 058**
Net income / expense recognised directly in equity for 2004–05				
Gain / (loss) on revaluation of property, plant and equipment during 2004–05	2 053	—	—	2 053
Transfers to / from in reserves during 2004–05	–121	–23	144	—
	1 932	–23	144	2 053
Net surplus (–deficit) for 2004–05	—	—	–1 478	–1 478
Total recognised income and expenses for 2004–05	**1 932**	**–23**	**–1 334**	**575**
Restated balance at 30 June 2005	**13 191**	**694**	**1 748**	**15 633**
Net income / expense recognised directly in equity for 2005–06				
Gain / (loss) on revaluation of property, plant and equipment during 2005–06	2 380	—	—	2 380
Transfers to / from reserves during 2005–06	–182	–14	196	—
	2 198	–14	196	2 380
Net surplus (–deficit) 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**

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	Note	2006 inflows (–outflows) $m	2005 inflows (–outflows) $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows (receipts):			
Taxation		**2 768**	2 756
Grants and subsidies		**5 934**	5 547
Charges for goods and services		**2 176**	1 796
GST reimbursed		**289**	589
Gambling product receipts		**349**	329
Royalties		**125**	102
Fines and penalties		**59**	73
Regulatory fees		**249**	238
Interest and dividend received		**–**	28
Other receipts		**682**	975
Cash generated from operating activities		***12 631***	*12 433*
Cash outflows (payments):			
Employee benefits payments		**–5 423**	–5 008
Supplies and services		**–3 234**	–3 167
Borrowing costs		**–181**	–19
Grants and subsidies paid		**–1 642**	–1 578
GST payments		**–273**	–591
Gambling prizes and dividends		**–266**	–262
Other payments		**–1 352**	–571
Cash used in operating activities		***–12 371***	*–11 196*
Net Cash Inflows from Operating Activities	35(c)	**260**	**1 237**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows (proceeds):			
Sale of property, plant and equipment		**360**	224
Sale of investment securities		**13**	14
Net loans repaid		**35**	26
Maturing term deposits		**5**	5
Cash generated from investing activities		***413***	***269***
Cash outflows (payments):			
Property, plant and equipment		**–1 000**	–972
Investment securities		**–25**	–41
Advances granted		**–1**	—
Australian dollar deposits		**–4**	—
Cash used in investing activities		***–1 030***	***–1 013***
Net Cash Outflows from Investing Activities		**–617**	**–744**

CASH FLOW STATEMENT (CONTINUED)	Note	2006 inflows (–outflows) $m	2005 inflows (–outflows) $m
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from deposits		364	–14
Net decrease in borrowings		–1	–383
Net payment of dividends		88	–25
Finance lease principal repayments		–18	–55
Net inflows (–outflows) cash outflows from financing activities		**433**	**–477**
Sub total: Cash flows by Government, excluding Public Financial Corporations sector		**76**	**16**
NET CASH INFLOWS (–OUTFLOWS) FROM PUBLIC FINANCIAL CORPORATIONS	35(e)	**–267**	**97**
NET (–DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**–191**	113
Cash and cash equivalents at the beginning of the financial year		**809**	696
CASH AT THE END OF THE FINANCIAL YEAR	35(a)	**618**	**809**

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

NOTES TO THE FINANCIAL REPORT

1. Significant accounting policies

To assist in the understanding of the financial information presented, 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*.

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

The disclosures required by AASB 1 *First- time Adoption of Australian Equivalents to International Financial Reporting Standards* concerning the transition from previous Generally Accepted Accounting Principles (GAAP) to AIFRS are provided in Note 40.

The adoption of AIFRS resulted in no material impact to the financial statements (Income Statement or Balance Sheet). However, for completeness, reconciliation tables of impacts have been prepared and disclosed in Note 40.

The proposed harmonisation of Generally Accepted Accounting Principles and Government Finance Statistics (AASB 1049 *Financial Reporting of General Government Sectors by Governments*) may result in additional changes to reporting requirements that will further impact on 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 2005 to 30 June 2006. 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 42.

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) Sectors

Assets, liabilities, incomes and expenses that are reliably attributable to each broad sector of activities of the Government are set out below. The broad sectors have been determined in accordance with the standards set out in the Government Financial Statistics (GFS) Standards, per the Australian Bureau of Statistics, follow:

- **General government** (GG) 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) are 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) are bodies primarily engaged in providing financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (eg 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.

(e) Basis of measurement

The financial report adopts the following basis of measurement:

- Non-current 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 Treasurer's 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 borrowing 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 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, changes to accounting policies are applied retrospectively unless specific transitional provisions apply.

(f) 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 Treasurer's Accounting Policy Framework (APF) III *Asset Accounting Framework* estimates of remaining useful lives are made 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 them.

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 typical estimated useful lives for the different asset classes:

Asset class	Useful life
• Land	Not depreciated
• Buildings and improvements	3–140 years
• Plant and equipment	1–100 years
• Leased plant and equipment	2–15 years
• Water, sewerage and drainage	7–160 years
• Road network	15–200 years
• Rail and bus tracks	4–120 years
• Heritage assets	Indeterminate
• Intangible assets	1–20 years

(g) 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.

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.

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

Trade accounts receivable are carried at amounts due.

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 economic entity 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.

(i) 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 requires that long service leave benefits due later than one year after the reporting date are measured at the net present value of expected future cash outflows. The standard also 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 Treasurer's Accounting Policy Framework (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, which can be use 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 services 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.

(j) 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 incident 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 to expense over the period during which the Government is expected to benefit from use of the leased assets. Minimum lease payments are allocated between interest 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.

(k) Inventories

All inventories are classified as current assets on the Balance Sheet. 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 which the State 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.

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

All non-current assets classified as held for sale are classified 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.

(m) Investment properties

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.

(n) Intangible assets

An intangible is an indefinable non-monetary asset without physical substance. All intangible assets are classified 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 AASB 138 *Intangible Assets* and Treasurer's Accounting Policy Framework (APF) III Asset Accounting Framework.

(o) 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 accounted for by directly crediting an asset revaluation reserve unless they are reversing a previous decrement.

Grant funding received is accounted for as revenue at the time control over the asset passes to Government. A material economic dependence, of approximately 40 per cent of the Government's revenue base, exists in terms of the receipt of grants funded by the Commonwealth (relevant for both 2005–06 and 2004–05). These grants represent the Government's share of GST, which is distributed in accordance with the Principle of Fiscal Equalisation exercised 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, is, 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

(p) 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 revenue recognised, 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.

(q) Derivative financial instruments

Derivative financial instruments are employed, primarily by financial sector institutions, 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, 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 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(p). Further disclosures about financial instruments are outlined in Note 34.

(r) 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(o) paid by State Government controlled entities to other Government agencies are eliminated upon consolidation from the financial statements presented here.

(s) 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.

(t) 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.

(u) 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 audited 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 Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments.* This standard applies to annual reporting periods beginning on or after 1 July 2008.

(v) Comparatives

The presentation and classification of items in the consolidated financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change. Comparative figures have been restated on an AIFRS basis. The comparatives have been restated to assist users' understanding of the current reporting period and do not replace the original financial report for the reporting period.

(w) 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	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
INCOME										
Taxation revenues	3 002	2 964	—	—	—	—	–223	–204	**2 779**	2 760
Income tax equivalent	151	131	—	—	—	—	–151	–131	**—**	—
Grants revenues	5 946	5 574	437	382	29	28	–456	–395	**5 956**	5 589
Charges for goods and services	925	806	1 600	1 549	7	8	–281	–268	**2 251**	2 095
Regulatory fees / levies	277	263	—	—	930	879	–4	–5	**1 203**	1 137
Investment revenues	608	488	50	46	2 599	1 982	–861	–779	**2 396**	1 737
Net revenue from disposal of non-current assets	—	–18	32	18	1	—	—	—	**33**	—
Fair values of assets received free of charge or for nominal consideration	11	12	67	46	—	4	–1	—	**77**	62
Fines and penalties	63	73	—	—	—	—	—	—	**63**	73
Other revenues	326	397	35	181	41	233	–29	–52	**373**	759
Total Income	11 309	10 690	2 221	2 222	3 607	3 134	–2 006	–1 834	**15 131**	**14 212**
EXPENSES										
Employee benefits costs	4 339	6 494	248	190	40	40	–57	–14	**4 570**	6 710
Depreciation and amortisation	455	459	239	231	9	2	–1	—	**702**	692
Supplies and services	2 751	2 042	643	555	116	98	–151	–388	**3 359**	2 307
Borrowing costs	223	248	153	142	743	792	–474	–494	**645**	688
Grants and subsidies	2 113	2 045	11	8	2	3	–482	–395	**1 644**	1 661
Income tax equivalent expense	—	—	134	122	17	9	–151	–131	—	—
Other expenses	215	835	496	717	2 574	2 103	–225	–23	**3 060**	3 632
Total Expenses	10 096	12 123	1 924	1 965	3 501	3 047	–1 541	–1 445	**13 980**	**15 690**
Net Surplus / (-Deficit)	1 213	–1 433	297	257	106	87	–465	–389	**1 151**	**–1 478**

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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
ASSETS										
Current assets										
Cash and cash equivalents	2 157	1 898	306	304	316	502	–2 161	–1 895	**618**	809
Receivables	487	416	151	185	538	364	–515	–400	**661**	565
Other financial assets	153	153	2	8	1 912	1 937	–51	–64	**2 016**	2 034
Inventories	47	25	90	83	—	—	—	—	**137**	108
Other current assets	12	6	11	1	9	3	—	–2	**32**	8
Non-current assets classified as held for sale	44	25	10	7	—	—	—	—	**54**	32
Total current assets	2 900	2 523	570	588	2 775	2 806	–2 727	–2 361	**3 518**	**3 556**
Non-current assets										
Receivables	897	966	1 028	125	5 212	5 988	–5 782	–5 814	**1 355**	1 265
Other financial assets	681	727	66	85	13 479	10 966	–435	–533	**13 791**	11 245
Inventories	1	1	56	42	—	—	—	—	**57**	43
Investment properties	5	5	89	84	120	87	—	—	**214**	176
Land and improvements	6 832	5 965	7 558	6 950	735	693	—	—	**15 125**	13 608
Plant, equipment and infrastructure	6 016	5 626	7 271	7 136	5	4	—	–29	**13 292**	12 737
Heritage assets	838	740	7	7	—	—	–1	—	**844**	747
Biological assets	3	2	590	608	—	—	—	1	**593**	611
Intangible assets	45	24	53	34	—	—	—	4	**98**	62
Total non-current assets	15 318	14 056	16 718	15 071	19 551	17 738	–6 218	–6 371	**45 369**	**40 494**
Total Assets	**18 218**	**16 579**	**17 288**	**15 659**	**22 326**	**20 544**	**–8 945**	**–8 732**	**48 887**	**44 050**
LIABILITIES										
Current liabilities										
Payables	522	462	158	160	176	224	–122	–196	**734**	650
Interest-bearing liabilities	333	332	107	114	3 105	5 028	–2 440	–3 440	**1 105**	2 034
Employee benefits	517	464	23	22	5	6	1	–1	**546**	491
Unfunded superannuation	252	250	—	—	—	—	—	—	**252**	250
Superannuation fund deposits	—	—	—	—	10 290	7 901	—	—	**10 290**	7 901
Provisions (other than employee benefits)	121	112	9	9	717	680	–1	–1	**846**	800
Other current liabilities	8	61	186	86	887	197	–602	–65	**479**	279
Total current liabilities	1 753	1 681	483	391	15 180	14 036	–3 164	–3 703	**14 252**	**12 405**
Non-current liabilities										
Payables	532	525	24	48	2	9	–523	–562	**35**	20
Interest-bearing liabilities	2 839	2 844	2 158	2 204	3 864	3 640	–4 050	–4 115	**4 811**	4 573
Employee benefits	877	859	57	36	6	2	—	–1	**940**	896
Unfunded superannuation	5 894	6 977	—	—	—	—	—	—	**5 894**	6 977
Provisions (other than employee benefits)	516	476	23	13	2 680	2 415	1	2	**3 220**	2 906
Other non-current liabilities	163	131	1 092	608	32	25	–717	–124	**570**	640
Total non-current liabilities	10 821	11 812	3 354	2 909	6 584	6 091	–5 289	–4 800	**15 470**	**16 012**
Total Liabilities	**12 574**	**13 493**	**3 837**	**3 300**	**21 764**	**20 127**	**–8 453**	**–8 503**	**29 722**	**28 417**
NET ASSETS	**5 644**	**3 086**	**13 451**	**12 359**	**562**	**417**	**–492**	**–229**	**19 165**	**15 633**

	2006 $m	2005 $m

3. Taxation revenues

	2006 $m	2005 $m
Taxes on employers' payroll and labour force	**798**	748
Financial institutions' transaction taxes [(a)]	**6**	61
Taxes on property:		
Stamp duties	**703**	679
Land tax	**159**	163
Emergency services levy	**73**	68
Water catchment levy	**21**	23
River Murray levy	**20**	19
Total taxes on property	**976**	**952**
Taxes on the provision of goods and services:		
Gambling	**325**	327
Stamp duties on insurance	**284**	283
Gas levy and other	**6**	5
Total taxes on the provision of goods and services	**615**	**615**
Taxes on use of goods and performance of activities:		
Motor vehicle registration	**357**	357
Other taxes on motor vehicles	**27**	27
Total taxes on use of goods and performance of activities	**384**	**384**
Total taxation revenues	**2 779**	**2 760**

(a) Financial institutions' transaction taxes were abolished in 2005-06.

4. Grants revenues

	2006 $m	2005 $m
Commonwealth general purpose grants	**3 521**	3 340
Commonwealth specific purpose grants to the State	**1 553**	1 446
Commonwealth specific purpose grants through the State	**574**	506
Other grant revenues	**308**	297
Total grants revenues	**5 956**	**5 589**

	2006 $m	2005 $m

5. Charges for goods and services

	2006 $m	2005 $m
Goods:		
Gambling items (Lotteries Commission)	**348**	349
Forestry products (Forestry SA)	**122**	121
Other goods	**69**	73
Total charges for goods	**539**	543
Services:		
Water and wastewater related rates and charges (SA Water)	**536**	530
Health services	**223**	242
House rentals (South Australian Housing Trust)	**212**	195
Education services (incl. TAFE Colleges)	**129**	148
MetroTicket public transport sales (Office of Public Transport)	**77**	58
Other services	**535**	379
Total charges for services	**1 712**	1 552
Total charges for goods and services	**2 251**	**2 095**
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:	**341**	409

6. Regulatory fees / levies

	2006 $m	2005 $m
Compulsory Third Party Premiums	**386**	378
Drivers licences	**21**	21
Other Regulatory fees	**252**	237
Workers compensation levies	**544**	501
Total regulatory fees / levies	**1 203**	**1 137**

	2006 $m	2005 $m

7. Investment revenues

	2006 $m	2005 $m
Interest earnings: South Australian Government Financing Authority	**391**	444
Interest earnings: other agencies	**278**	193
Dividends	**316**	85
Investment property rentals	**53**	34
Gains on sale of investments	**500**	155
Gains on revaluation of investments	**846**	826
Other investment revenue	**12**	—
Total investment revenues	**2 396**	**1 737**

8. Net gain from disposal of non-current assets

	2006 $m	2005 $m
Disposals of property, plant and equipment:		
Proceeds from disposal	**203**	154
Less written-down value of assets sold	**170**	154
Net revenues from disposal of non-current assets	**33**	**—**

No Government businesses were sold in 2005–06, nor in 2004–05

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

	2006 $m	2005 $m
Land	**1**	4
Plant, equipment, and vehicles	**6**	4
Water, sewerage and drainage assets	**65**	45
Other assets	**5**	9
Total fair values of assets and services received free of charge or for nominal consideration	**77**	**62**

10. Other revenues

	2006 $m	2005 $m
Royalties	**124**	101
Gas sales [(a)]	—	150
Revaluation increments	**4**	263
Net revenue from the correction of a fundamental error	—	3
Other revenues	**245**	242
Total other revenues	**373**	**759**

(a) The Natural Gas Authority of South Australia had previously entered into a contract for the sale and purchase of natural gas. This contract expired on 31 December 2005.

	2006 $m	2005 $m

11. Employee benefit costs

	2006 $m	2005 $m
Salaries and wages	**4 241**	3 855
Annual leave	**287**	247
Long service leave	**180**	155
Sick leave	**25**	18
Workers compensation [(a)]	**—**	86
TVSP payments	**21**	2
Board fees	**9**	7
Superannuation expense (refer Note 30)	**–276**	2 305
Other employee related expenses	**83**	35
Total employee expenses	**4 570**	**6 710**

(a) Includes payments made directly by agencies to their employees, excludes payments made by WorkCover Corporation.

12. Depreciation and amortisation

	2006 $m	2005 $m
Depreciation		
Buildings	**249**	236
Plant, equipment and vehicles	**189**	187
Infrastructure:		
water, sewerage and drainage	**130**	113
road network, rail and bus tracks	**116**	128
Other	**2**	—
Total depreciation	**686**	**664**
Amortisation		
Buildings and improvements under finance lease	**4**	—
Plant, equipment and vehicles under finance lease	**3**	20
Intangible assets	**8**	5
Other	**1**	3
Total amortisation	**16**	**28**
Total depreciation and amortisation	**702**	**692**

13. Supplies and services

	2006 $m	2005 $m
Rental expense on operating leases	**34**	130
Consultancy expenses	**23**	22
Contract service expenses	**610**	560
Computing and communication expenses	**202**	271
Repairs and maintenance expenses	**319**	351
Other supplies and services	**2 171**	973
Total supplies and services	**3 359**	**2 307**

	2006 $m	2005 $m

14. Borrowing costs

	2006 $m	2005 $m
Interest on borrowings	**614**	666
Finance charges on finance leases	**19**	19
Other borrowing cost expenses	**12**	3
Total borrowing costs	**645**	**688**

15. Grants and subsidies

	2006 $m	2005 $m
Recurrent grants	**782**	626
Capital grants	**17**	9
Subsidies	**293**	286
Other current transfer payments	**539**	711
Other capital transfer payments	**13**	29
Total grants and subsidies	**1 644**	**1 661**

16. Other expenses

	2006 $m	2005 $m
Imputed expense of increased liability in respect of superannuation fund deposits (a)	**1 509**	1 009
Self-insurance claims	**387**	358
Income / capital and redemption related workers compensation payments	**338**	278
Revaluation of workers compensation liabilities	**216**	227
Gambling prizes/dividends	**209**	207
Medical related workers compensation payments	**100**	89
Remuneration of judiciary and members of Parliament	**27**	38
Bad and doubtful debts	**21**	36
Revaluation decrements – property, plant and equipment	**14**	40
Losses on revaluation of investments	**1**	10
Losses on foreign exchange	**1**	11
Losses on sale of investments	—	40
Gas purchases (b)	—	150
Other expenses	**237**	1 139
Total other expenses	**3 060**	**3 632**

(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 2005-06, as in 2004-05, Funds SA incurred operating profits, which have been recognised above as expenses.

(b) The Natural Gas Authority of South Australia had previously entered into a contract for the sale and purchase of natural gas. This contract expired on 31 December 2005.

	2006 $m	2005 $m

17. Receivables

	2006 $m	2005 $m
Current		
Charges for goods and services	**250**	158
Accrued investment income	**112**	52
Loans	**35**	17
GST receivable	**67**	75
Other taxes collectable	**41**	23
Prepayments	**57**	64
Other receivables	**136**	208
	698	597
Less provision for doubtful debts	**37**	32
Total current receivables	**661**	**565**
Non-current		
Loans	**1 228**	1 096
Other receivables	**145**	193
	1 373	1 289
Less provision for doubtful debts	**18**	24
Total non-current receivables	**1 355**	**1 265**
Total receivables	**2 016**	**1 830**

18. Other financial assets

	2006 $m	2005 $m
Current		
Marketable debt securities	**1 506**	1 883
Non-marketable debt securities	**18**	9
Australian dollar term deposits	**53**	49
Other current investments	**439**	93
Total current other financial assets	**2 016**	**2 034**
Non-current		
Shares at cost or market value	**9 093**	7 309
Marketable debt securities	**3 080**	2 828
Non-marketable debt securities	**954**	961
Other non current investments	**631**	105
Other non-current financial assets	**33**	42
Total non-current other financial assets	**13 791**	**11 245**
Total other financial assets	**15 807**	**13 279**

	2006 $m	2005 $m

19. Inventories

	2006 $m	2005 $m
Current		
Work in progress	**54**	45
Raw materials and stores	**42**	36
Finished goods	**24**	2
Land held for resale	**9**	25
Other inventories	**8**	—
Total current inventories	**137**	**108**
Non-current		
Work in progress	**1**	—
Land held for resale	**56**	43
Total non-current inventories	**57**	**43**
Total inventories	**194**	**151**
The above inventories were held as follows:		
Held for consumption by government controlled entities	**6**	44
Held for distribution at no / nominal cost	**41**	—
Held for other than distribution at no / nominal cost	**147**	107
Total inventories	**194**	**151**

Inventory write-downs:

The total inventories balance incorporates a write-down of $3.7 million to net realisable value in the current reporting period ($4.6 million).

20. Non-current assets classified as held for sale

	2006 $m	2005 $m
Current		
Land	**32**	22
Buildings	**17**	8
Plant, equipment and vehicles	**5**	2
Total non-current assets classified as held for sale	**54**	**32**

21. Investment properties

	2006 $m	2005 $m
Land	**37**	35
Buildings	**177**	141
Total investment properties	**214**	**176**
Movements in investment properties during the year were as follows:		
Carrying amount — opening balance	**176**	171
Additions	**24**	—
Capitalised subsequent expenditure	**2**	1
Disposals	**–1**	—
Net gain (loss) from fair value adjustment (revaluations)	**13**	4
Carrying amount — closing balance	**214**	**176**
The following amounts were recognised in profit and loss for investment property:		
Rental income	**25**	19
Direct operating expenses from property that generated rental income	**–9**	–7
Total amount recognised in profit and loss	**16**	**12**

Valuation basis:

Investment properties are measured at fair value being the amounts for which the properties could be exchanged between willing parties in an arms length transaction, based on current prices in an active market for similar properties. The 2006 revaluations were based on independent assessments made by members of the Australian Property Institute and or independent qualified valuers.

22. Land and improvements

	2006 $m	2005 $m
Land		
Site land at fair value	**5 580**	5 313
National parks and other 'land only' holdings at fair value	**757**	304
Total land	**6 337**	**5 617**
Improvements (buildings)		
Buildings at fair value	**11 781**	11 620
Accumulated depreciation	**–3 322**	–3 823
Carrying value of completed buildings	**8 459**	7 797
Buildings under finance lease	**71**	**—**
Accumulated amortisation	**–23**	**—**
Carrying value of completed buildings	**48**	—
Buildings and improvements under construction	**281**	194
Total improvements (buildings)	**8 788**	**7 991**
Total land and improvements	**15 125**	**13 608**
Movements in land and improvements during the year were as follows:		
Carrying amount — opening balance	**13 608**	11 974
Additions	**136**	531
Capitalised subsequent expenditure	**217**	—
Disposals	–**217**	–334
Transfers in / (**–** out)	**–48**	—
Acquisition of entities or operations	—	20
Net revaluation increments	**1 557**	1 662
Depreciation and amortisation expense	**–253**	–236
Other movements	**125**	–9
Carrying amount — closing balance	**15 125**	**13 608**

23. Plant, equipment and infrastructure

	2006 $m	2005 $m
Plant, equipment and vehicles under finance lease at cost	**13**	326
Accumulated amortisation	**–11**	–136
	2	**190**
Plant, equipment and vehicles at fair value	**2 545**	2 604
Accumulated depreciation	**–1 310**	–1 351
	1 235	**1 253**
Infrastructure: Water, sewerage and drainage assets at fair value	**11 475**	10 436
Accumulated depreciation	**–4 585**	–4 185
	6 890	**6 251**
Infrastructure: Road network, bus and rail tracks at fair value	**9 329**	8 674
Accumulated depreciation	**–4 425**	–4 192
	4 904	**4 482**
Plant, equipment and infrastructure under construction	**261**	561
Total plant, equipment and infrastructure	**13 292**	**12 737**

Movements in plant, equipment and infrastructure during the year were as follows:

	2006 $m	2005 $m
Carrying amount — opening balance	**12 737**	12 319
Additions	**532**	930
Capitalised subsequent expenditure	**105**	—
Disposals	**–130**	–113
Acquisitions of entities or operations	**—**	1
Net revaluation increments	**583**	293
Recoverable amount write-downs or impairment losses	**–52**	–1
Depreciation and amortisation expense	**–440**	–448
Other movements	**–43**	–244
Carrying amount — closing balance	**13 292**	**12 737**

	2006 $m	2005 $m

24. Heritage assets

Heritage assets at fair value (refer Note 1(f))	**851**	747
Accumulated amortisation	**–7**	—
	844	747

Movements in heritage assets during the year were as follows:		
Carrying amount — opening balance	**747**	740
Additions	**7**	6
Net revaluation increments	**82**	1
Amortisation expense	**–1**	–3
Other movements	**9**	3
Carrying amount — closing balance	**844**	**747**

25. Biological assets

Self-generating and regenerating assets		
Growing timber (commercial forests)	**590**	609
Livestock	**2**	2
Other plants	**1**	—
Total biological assets	**593**	**611**

Movements in biological assets during the year were as follows:		
Carrying amount — opening balance	**611**	636
Additions (i.e. new plantings, acquisitions)	**4**	3
Disposals (i.e. harvesting)	**–77**	–69
Recognition of (physical) growth changes	**67**	50
Net revaluation increments / (– decrement) (i.e. price changes)	**–12**	–9
Total biological assets	**593**	**611**

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 South Eastern forests the master database was last updated as at June 2004, affecting the growing timber valuation as at 30 June 2005. For the Central forests and the Northern 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 expense brought to account in 2005-06 was $19 million (compared with an expense of $24 million brought to account in the previous financial year).

26. Intangible assets

	2006 $m	2005 $m
Intangible assets	**174**	94
Accumulated amortisation	**–76**	–32
Total intangible assets	**98**	**62**
Components of intangible assets are as follows:		
Externally acquired intangibles	**138**	94
Accumulated amortisation	**–40**	–32
Total externally acquired intangibles	**98**	**62**
Internally developed intangibles	**36**	—
Accumulated depreciation	**–36**	—
Total internally developed intangibles	**—**	—
Carrying amount — closing balance	**98**	**62**
Movements in intangible assets during the year were as follows:		
Carrying amount — opening balance	**62**	23
Additions	**20**	25
Capitalised subsequent expenditure	**17**	5
Transfers in / (–out)	**10**	8
Amortisation expense	**–8**	–5
Other movements	**–3**	6
Carrying amount — closing balance	**98**	**62**

27. Payables

	2006 $m	2005 $m
Current		
Creditors	**394**	408
Accruals	**285**	212
GST payable	**14**	—
Other current payables	**41**	30
Total current payables	**734**	650
Non-current		
Creditors and accruals	**34**	20
Other non–current payables	**1**	—
Total non–current payables	**35**	20
Total payables	**769**	**670**

28. Interest-bearing liabilities

	2006 $m	2005 $m
Current		
Bank overdraft (refer Note 35(a))	**—**	—
Deposits at call	**468**	860
Debt securities	**604**	1 152
Lease liability (refer Note 37(a))	**8**	22
Loan liability	**25**	—
Total current interest bearing liabilities	**1 105**	2 034
Non-current		
Debt securities	**4 583**	4 300
Term deposits	**11**	76
Lease liability (refer Note 37(a))	**205**	187
Loan liability	**12**	10
Total non-current interest bearing liabilities	**4 811**	4 573
Total interest-bearing liabilities	**5 916**	**6 607**
These liabilities are due for repayment as follows:		
not longer than one year	**1 105**	2 034
longer than one year but not longer than five years	**3 608**	2 770
longer than five years	**1 203**	1 803
Total interest-bearing liabilities	**5 916**	**6 607**

	2006 $m	2005 $m
29. Employee benefits		
Current		
Accrued wages and salaries	**82**	72
Annual leave	**330**	283
Long service leave	**121**	95
Other current employee benefits	**13**	41
Total current employee benefits	**546**	**491**
Non-current		
Long service leave	**898**	830
Other non–current employee benefits	**42**	66
Total non–current employee benefits	**940**	**896**
Total employee benefits	**1 486**	**1 387**

	2006 $m	2005 $m
30. Unfunded superannuation liabilities		
Current	252	250
Non–current	5 894	6 977
Total unfunded superannuation liabilities	**6 146**	**7 227**

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

Reconciliation of the State's superannuation assets and liabilities is as follows:

	2006 $m	2005 $m
Assets		
Funds SA investment assets	**10 326**	**7 934**
Liabilities		
Liability of Funds SA to -		
Superannuation plans[(a)]	10 223	7 895
Superannuation post-retirement products	67	6
Liability of Funds SA to all superannuation plans (refer Note 31)	10 290	7 901
Other liabilities of Funds SA	36	33
	10 326	7 934
Unfunded superannuation liabilities	6 146	7 227
Total State superannuation liabilities [(b)]	**16 472**	**15 161**

(a) At 30 June 2006 superannuation plan liabilities was backed by assets held of $10.2 billion ($7.9 billion), comprised $5.7 billion ($4.4 billion) held against defined benefit plans, and $4.5 billion ($3.5 billion) held against defined contribution plans. Funds SA's investment assets include $122 million ($120 million) of assets held with other government agencies.

(b) Of the total State superannuation liabilities, $16.5 billion ($15.2billion), $12.0 billion ($11.7 billion) represents accrued benefits within defined benefit plans and $4.5 billion ($3.5 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, $10.3 billion ($7.9 billion), comprising investments made on behalf of the superannuation plans, and its superannuation liabilities, $10.3 billion ($7.9 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 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	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Government administered schemes [(a)]								
State scheme	**9 654**	9 460	**9 862**	9 757	**4 686**	3 540	**5 176**	6 217
Police scheme	**1 308**	1 393	**1 680**	1 545	**743**	596	**937**	949
Parliamentary super scheme	**172**	183	**158**	169	**138**	135	**20**	34
Judges pension scheme	**105**	104	**150**	157	**135**	129	**15**	28
Governors pension scheme	**1**	1	**1**	1	**1**	1	**—**	—
Total Government administered schemes	**11 240**	11 141	**11 851**	11 629	**5 703**	4 401	**6 148**	7 228
Other schemes [(b)]	**297**	277	**297**	277	**299**	278	**–2**	–1
Total	**11 537**	11 418	**12 148**	11 906	**6 002**	4 679	**6 146**	**7 227**

(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 SA 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 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. As at 30 June 2005 the present value of estimated future benefit payments to employees was calculated using a discount rate of 5.2 per cent, in line with the Commonwealth Government's long term bond rate at 30 June 2005.

The higher discount rate applied for 2005-06 (5.9 per cent) compared with the discount rate applied for 2004-05 (5.2 per cent) resulted in a significant decrease ($1 048 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.

	2006 $m	2005 $m
Reconciliation of movement in unfunded superannuation liability is as follows:		
Opening balance of unfunded superannuation liability	7 227	5 668
Closing balance of unfunded superannuation liability	6 146	7 227
Movement in unfunded superannuation liability	**–1 081**	**1 559**
Comprising		
Superannuation expense (refer Note 11):		
nominal interest expense on unfunded superannuation liability	**344**	307
current year employer expense	**545**	495
variation in superannuation expense from difference in (higher) actual investment returns from the long term expected return	**–505**	–291
impact of change in discount rate assumption [(a)]	**–1 048**	1 017
impact of change in actuarial assumption / other changes	**388**	777
Total superannuation expense	**–276**	**2 305**
Cash–flow items:		
current year employer contributions	–545	–495
past service contributions	–260	–250
Other movements (rounding)	—	–1
Equals movement in total unfunded superannuation liability	**–1 081**	**1 559**

(a) A risk free discount rate based on the Commonwealth Government's long-term bond rate of 5.9% has been used to value superannuation liabilities, compared with 5.2% in 2004-05.

31. Superannuation fund deposit liabilities

	2006 $m	2005 $m
Current		
Deposits at call – superannuation funds [(a)]	10 290	7 901
Total superannuation fund deposit liabilities	**10 290**	**7 901**

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

32. Provisions (other than employee benefits)

	2006 $m	2005 $m
Current		
Workers compensation		
Workcover Corporation workers compensation provisions	384	395
Other Agencies	75	69
Insurance claims		
Motor Accident Commission (MAC) motor vehicle compensation insurance claim provisions	327	285
South Australian Government (SAICORP) insurance and risk management fund (SAGIRM) provisions	37	29
Other Agencies	15	11
Other current provisions	8	11
Total current provisions (other than employee benefits)	**846**	**800**
Non Current		
Workers compensation		
Workcover Corporation workers compensation provisions	1 552	1 329
Other Agencies	250	239
Insurance claims		
MAC motor vehicle compensation insurance claim provisions	1 122	1 083
SAICORP insurance and risk management fund (SAGIRM) provisions	190	164
Other Agencies	80	85
Other non-current provisions	26	6
Total non-current provisions	**3 220**	**2 906**
Total provisions (other than employee benefits)	**4 066**	**3 706**

Movements in provisions during the year were as follows:

	Workcover workers compensation provisions $m	MAC motor vehicle compensation provisions $m	SAICORP SAGIRM provisions $m	Other provisions $m	Total $m
Carrying amount — opening balance	1 724	1 368	193	421	**3 706**
Additional provisions recognised	685	450	78	—	1 213
Reductions in provisions and payments	–473	–369	–44	—	–886
Other movements	—	—	—	33	33
Carrying amount — closing balance	**1 936**	**1 449**	**227**	**454**	**4 066**

	2006 $m	2005 $m
33. Other liabilities		
Current		
Unearned revenue [(a)]	**203**	224
Other current liabilities	**276**	55
Total current other liabilities	**479**	279
Non Current		
Unearned revenue [(b)]	**566**	550
Other non–current liabilities	**4**	90
Total non–current other liabilities	**570**	640
Total other liabilities	**1 049**	**919**

(a) Primarily includes recognition of premium revenue by the Motor Accident Commission. Unearned premium is determined by apportioning the premiums written prior to year-end on a daily pro-rata basis.

(b) Primarily includes pre-paid land rentals on sites containing electricity related infrastructure and also pre-paid rentals on former Ports Corporation sites.

34. Additional financial instrument disclosures

(a) Amounts receivable and payable denominated in foreign currencies: exposures on items not effectively hedged

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 2006 was $2.369 billion ($1.785 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 2006 was $154 million ($141 million).

The SA Government Captive Insurance Corporation's (SAICORP) investment strategy is such that part of its overseas equities investments are hedged. SAICORP's risk associated with these equities as at 30 June 2006 was $53 million ($41 million).

No other material exposures existed in other public sector entities as at 30 June 2006.

(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 the South Australian Government Financing Authority (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 State's financial institutions have concentrated derivative activities in highly liquid markets. Adherence to guidelines enables the State to be in a position to meet the forecast cash demands and any unanticipated funding requirements of the South Australian public sector.

(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 economic entity 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 State'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 2005-06, as in 2004-05, 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:

Fixed interest maturities ($ million)

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	709	2 014	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	11 127	18 439	
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	—	13	6	15	3	37	5.0
Total financial liabilities	964	171	3 644	1 183	11 013	16 975	
Net financial assets (–liabilities)	2 572	213	–2 248	813	114	1 464	

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

2005	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	492	37	—	—	280	809	4.6
Receivables	890	46	206	—	680	1 822	7.5
Other financial assets	120	610	2 533	2 218	7 798	13 279	5.3
Total financial assets	1 502	693	2 739	2 218	8 758	15 910	
Financial liabilities							
Bank overdrafts and loans	—	—	—	—	—	—	—
Payables	28	134	20	—	488	670	6.7
Deposits [(b)]	736	139	16	—	7 946	8 837	6.1
Debt securities	938	214	2 682	1 618	—	5 452	6.3
Lease liability	1	22	91	95	—	209	9.4
Loan liability	—	—	5	3	2	10	8.4
Total financial liabilities	1 703	509	2 814	1 716	8 436	15 178	
Net financial assets (–liabilities)	–201	184	–75	502	322	732	

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

(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:

	2006 Carrying amount $m	2006 Fair value amount $m	2005 Carrying amount $m	2005 Fair value amount $m
On-balance sheet financial instruments				
Financial assets				
Cash and cash equivalents	**618**	**618**	809	809
Loan receivables	**1 263**	**1 263**	1 113	1 113
Other receivables	**751**	**751**	709	709
Other financial assets	**15 807**	**15 807**	13 279	13 279
Total financial assets	**18 439**	**18 439**	**15 910**	**15 910**
Financial liabilities				
Bank overdrafts and loans (refer also Notes 30 and 37(a))	—	—	—	—
Payables	**769**	**769**	670	670
Deposits [(a)]	**10 769**	**10 769**	8 837	8 837
Debt securities	**5 187**	**5 187**	5 452	5 452
Lease liability	**213**	**213**	209	209
Loan liability	**37**	**37**	10	10
Total financial liabilities	**16 975**	**16 975**	**15 178**	**15 178**
Off-balance sheet financial instruments [(b)]	**—**	**—**	—	—

(a) Includes at-call and short term as well as liabilities to superannuation plans.
(b) Public financial corporations record major derivative instruments at a fair value (mark-to-market) in the financial report (i.e. on - balance sheet).

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:

	2006 $m	2005 $m
Cash on hand		
Cash from:		
Public financial corporations	**62**	87
other sectors	**277**	254
	339	**341**
Deposits at call from:		
Public financial corporations	**202**	372
other sectors	**77**	96
	279	**468**
Total cash on hand	**618**	**809**

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	**618**	809
less bank overdrafts (refer also Note 26)	—	—
Balances per Cash Flow Statement	**618**	**809**

(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

	2006 $m	2005 $m
Net surplus (-deficit)	**1 151**	**–1 478**
Non-cash items in operating result		
Depreciation and amortisation	**702**	692
Assets received free of charge	**–77**	–61
Loss on revaluation of property, plant and equipment	**14**	40
Gain on sale of property, plant and equipment	**–33**	—
Gain on sale of investments	**–500**	–115
Gain on revaluation of investments	**–846**	–815
Loss on write-off of assets	**10**	—
Loss on write-down of assets	**12**	221
Loss on revaluation of financial assets and liabilities	**—**	3
Loss on foreign currency exchange differences	**1**	11
Other revaluation increments	**2**	–206
	–715	**–230**
Movements in assets and liabilities		
(–Increase) / decrease in inventories	**–43**	–31
Increase / (-decrease) in employee benefits: unfunded superannuation (per Note 30)	**–1 081**	1 559
Increase in employee benefits: other	**99**	104
Change in other operating assets and liabilities	**558**	1 463
	–467	**3 095**
Less: public financial corporation operating activities cash flows (per Note 35(e))	**–291**	**150**
Net cash provided by operating activities	**260**	**1 237**

(d) Cash flows presented on a net basis

Cash flows arising from the following activities with respect to controlled public financial corporations are presented on a net basis in the reconciliation of the net cash flows from public financial corporations (Note 35 (e)):

- customer deposits and withdrawals from deposit accounts
- customer loans granted and repaid.

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

	2006 inflows (-outflows) $m	2005 inflows (-outflows) $m
Cash flows from operating activities		
Receipts:		
Regulatory receipts	**857**	887
Interest received	**535**	424
Dividends received	—	71
Charges for goods and services	**8**	57
GST receipts	**7**	—
Other receipts	**618**	21
Cash generated from operating activities	**2 025**	1 460
Payments:		
Interest and other finance costs paid	**–743**	–431
Suppliers and employees	**–413**	–123
Worker's income maintenance payments	**–193**	–177
Worker's medical and rehabilitation costs	**–100**	–89
Worker's redemption and lump sum payments	**–145**	–101
GST payments	**–2**	–16
Other payments	**–720**	–373
Cash used in operating activities	**–2 316**	–1 310
Net cash (-outflows) / inflows from operating activities	**–291**	**150**
Cash flows from investing activities		
Receipts:		
Proceeds from maturing debt securities	**1 240**	22 049
Sale of investment securities	—	4 702
Advances repaid	**1**	11
Sale of property, plant and equipment	**20**	1
Cash generated from investing activities	**1 261**	26 763
Payments:		
Purchase of investment securities	**33**	–27 031
Net increase in customer loans	**—**	–404
Property, plant and equipment	**–45**	–35
Cash used in investing activities	**–12**	–27 470
Net cash inflows (–outflows) from investing activities	**1 249**	**–707**
Cash flows from financing activities		
Net increase / (-decrease) in deposits	–1 137	1 027
Repayment of other borrowing	–88	–373
Net cash inflows (–outflows) from financing activities	**–1 225**	**654**
Net cash inflows (–outflows) from financial corporations	**–267**	**97**

36. Aged commitments

(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:

	2006 $m	2005 $m
not longer than one year	**477**	306
longer than one year but not longer than five years	**411**	358
longer than five years	**13**	8
Total aged commitments - capital	**901**	**672**

(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:

	2006 $m	2005 $m
not longer than one year	**456**	343
longer than one year but not longer than five years	**1 038**	712
longer than five years	**5**	29
Total aged commitments - operating	**1 499**	**1 084**
Total aged commitments	**2 400**	**1 756**

The major aged commitments relate to the following agencies:

	2006 $m	2005 $m
Department of Transport, Energy and Infrastructure	**1 002**	597
Superannuation Funds Management Corporation (Funds SA)	**374**	281
South Australian Water Corporation	**298**	363
Department of Health – Consolidated	**196**	208
Department of Water, Land and Biodiversity Conservation	**111**	16
Department of Education and Children's Services – Schools	**76**	62
South Australian Housing Trust	**36**	32
Other Agencies	**307**	197
	2 400	**1 756**

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. This increased significantly from 2003-04 due to the Metropolitan Bus Contract being re-tendered and new leases entered into during 2004-05 as the old leases were due to expire on 23 April 2005, and the Rail Contracts were due to expire on 1 July 2005. Further increase in 2005-06 was due to new contracts for bus and rail services, civil engineering and construction contracts and photo-id services. The Department also has commitments for aggregate capital expenditure predominately on construction projects relating to road networks.

Superannuation Funds Management Corporation (Funds SA): Other than transactions which had been provided for in the financial report as unsettled purchases of investments, the Corporation had capital commitments associated with future capital calls on private equity investments entered into before balance date.

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 – Consolidated: Commitments are primarily for the provision of (non-capital) funding to various non-government organisations in accordance with negotiated service agreements.

Department of Water, Land and Biodiversity Conservation: Primarily relates to future payments to the Murray Darling Basin Commission for the State's contribution to the Commission ($94 million for 2005-06). The balance of commitments in 2005-06 and 2004-05 relate to commitments for contract staff.

Department of Education and Children's Services: Capital works projects involve mainly the construction or upgrade of school buildings and facilities. Included in capital commitments is an amount of $10.6 million relating to new capital works for 2005-06 which are in the design phase and have incurred some expenditure but have not yet gone to tender.

	2006 $m	2005 $m

37. Finance lease liabilities

(a) Capitalised 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):

	2006 $m	2005 $m
not longer than one year	**34**	48
longer than one year but not longer than five years	**114**	108
longer than five years	**347**	347
Minimum lease payments	**495**	**503**
deduct future finance charges	**282**	**294**
Total capitalised finance lease liabilities	**213**	**209**
The finance leases are reported in the balance sheet, classified as:		
current (refer Note 28)	**8**	22
non-current (refer Note 28)	**205**	187
	213	**209**
The major finance lease obligations relate to the following agencies:		
South Australian Water Corporation	**129**	113
Department of Health – Consolidated	**60**	62
Department of Administrative and Information Services	**22**	34
Other Agencies	**2**	—
	213	**209**

Discussion of capitalised 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, primarily in regional South Australia. The leases comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the Consumer Price Index (CPI) and related indexes.

Department of Health - Concolidated: 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.

Department of Administrative and Information Services: Finance lease commitments as at 30 June 2006 primarily relate to lease commitments for accommodation facilities. Light motor vehicle fleet finance lease commitments as at 30 June 2006 were zero. This reflected a complete write-down in the residual value of the Government's motor vehicle sale and leaseback facility managed by the Commonwealth Bank of Australia. A voluntary termination and progressive wind down and sale of the vehicle fleet was agreed over a 24-month period from 10 July 2003 to 10 July 2005 (residual value was $14 million as at 30 June 2005).

(b) Finance lease liabilities – not yet capitalised

At the reporting date, the Government had the following obligations under finance leases (the total obligation net of future lease finance charges not yet recognised as a liability in the balance sheet):

	2006 $m	2005 $m
not longer than one year	—	2
longer than one year but not longer than five years	—	11
longer than five years	—	53
Minimum lease payments	—	66
deduct future finance charges	—	47
Total finance lease liabilities	**—**	**19**

<u>Discussion of finance lease obligations not yet capitalised:</u>

SA Water Corporation: SA Water had finance lease expenditure commitments contracted for at balance date 2005 relating to a wastewater treatment plant. This plant was commissioned in December 2005 and hence details are now included in the 2006 finance lease commitments disclosure in Note 37(a).

38. Operating lease obligations

At the reporting date, the Government had the following obligations under non-cancellable operating leases (these obligations have not been recognised as liabilities):

	2006 $m	2005 $m
not longer than one year	**96**	90
longer than one year but not longer than five years	**222**	231
longer than five years	**230**	181
Total operating lease obligations	**548**	**502**
The major operating lease obligations relate to the following agencies:		
Department of Administrative and Information Services	**250**	267
South Australia Police	**139**	111
Courts Administration Authority	**45**	1
Department for Environment and Heritage	**31**	36
WorkCover Corporation	**19**	21
South Australian Asset Management Corporation	**10**	14
Department of Transport, Energy and Infrastructure	**8**	21
Other Agencies	**46**	31
	548	**502**

Discussion of major operating lease obligations:

Department of Administrative and Information Services: Operating leases are for office accommodation and car-parking facilities at the State Centre Car Park. The department has numerous lease arrangements with private sector companies for office accommodation. The terms of these leases range from monthly to 10 years depending on the lease agreements. Generally, the leases are cancellable however for those that are fixed term leases, significant financial penalties are attached. Terms for renewal vary between monthly and 5 years.

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

Courts Administration Authority (CAA): The increase in the operating lease commitments since 30 June 2005 is the result of CAA entering into leases under Public Private Partnership arrangements. These leases are for a 25 year duration.

Department for Environment and Heritage: Operating leases are mainly property leases with penalty clauses equal to the amount of the residual payments remaining for the lease terms. The leases are payable one month in advance and the Department has the right of renewal. There are no existing or contingent rental provisions.

WorkCover Corporation: The Corporation leases property, primarily the head-office site, under non-cancellable operating leases expiring from 1 to 10 years. Leases provide the Corporation with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index. WorkCover also leases motor vehicles under non-cancellable operating leases expiring from between one to three years.

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 2006, total liabilities, net of superannuation, of the public financial corporations sector (PFC) were $11.47 billion ($12.23 billion) and total liabilities of the public non-financial corporations sector (PNFC) were $3.84 billion ($3.3 billion).

(ii) Quantifiable contingent liabilities

	2006 $m	2005 $m
Guarantees		
Treasurer's guarantee re — LGFA guarantees	**406**	384
Treasurer's guarantee re — NRG Energy Inc	**200**	200
Other guarantees	**68**	78
Total guarantees	**674**	662
Indemnities / Legal	**11**	12
Other contingent liabilities	**11**	16
Total quantifiable contingent liabilities	**696**	**690**

Discussion of quantifiable contingent liabilities:

LGFA Guarantees: Pursuant to the *Local Government Finance Authority Act 1983*, the Treasurer guarantees liabilities incurred or assumed by the LGFA. 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 2006 was $393.3 million ($372.3 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 favor 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 2006, the amount of the liability was $12.4 million ($11.5 million).

NRG Energy Inc: 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 as part of the former Government's electricity industry reforms. When NRG Energy Inc purchased the operations of Flinders Power Pty Ltd (Flinders Power) as part of the former 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, the former 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 OCPL called upon the Treasurer's Guarantee.

NRG Energy Inc has operated successfully since its exit from US Chapter 11 bankruptcy proceedings in December 2003 and has received a credit rating of B+ from Standard and Poors. The likelihood of OCPL calling upon the Treasurer's Guarantee has significantly reduced since December 2003.

The forecast as at 30 June 2006 is that the net present value of the contingent liability could range from $150 million to $200 million. $200 million has been disclosed in this note. These values are unchanged from the previous year.

(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 third parties.

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 terminating the lease, 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 lessees.

The likelihood of these defaults occurring is considered remote and accordingly no amount has been recognised.

The rent refund under the above leases as at 30 June 2006 was estimated to be approximately $482.5 million ($573 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 lessor terminating the lease, 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 and accordingly no amount has been recognised.

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.

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 three 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 2006 was estimated to be approximately $3 billion ($3.1 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 and accordingly no amount has been recognised.

The rent refund as at 30 June 2006 was estimated to be approximately $652.2 million ($1.08 billion).

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. Impacts of transition to Australian equivalents to International Financial Reporting Standards

The presentation of the financial statements is fully Australian equivalents to International Financial Reporting Standards (AIFRS) compliant, including past-year comparative figures.

a. Reconciliation of Equity reported under previous Australian Generally Accepted Accounting principles to Equity prepared under AIFRS - at 1 July 2004 and 30 June 2005

		1/7/2004			30/6/2005		
Balance Sheet	**Notes**	**Previous AGAAP $m**	**Adjustments $m**	**AIFRS $m**	**Previous AGAAP $m**	**Adjustments $m**	**AIFRS $m**
Assets							
Current Assets							
Cash and cash equivalents		696	—	696	809	—	809
Receivables	(a)	638	13	651	451	114	565
Other financial assets		2 747	—	2 747	2 034	—	2 034
Inventories	(b)	101	—	101	124	–16	108
Other current assets	(c)	54	—	54	72	–64	8
Non-current assets classified as held for sale	(d)	—	32	32	—	32	32
Total Current Assets		**4 236**	**45**	**4 281**	**3 490**	**66**	**3 556**
Non-Current Assets							
Receivables	(e)	1 112	–24	1 088	1 265	—	1 265
Inventories		35	—	35	43	—	43
Other financial assets	(f)	9 835	–584	9 821	11 940	–695	11 245
Investment properties	(g)	—	171	171	—	176	176
Land and improvements	(h)	11 428	384	11 242	13 062	546	13 608
Plant, equipment and infrastructure	(i)	12 321	–17	12 304	12 776	–39	12 737
Heritage assets		740	—	740	747	—	747
Biological assets	(j)	636	—	636	608	3	611
Intangible assets	(k)	—	23	23	—	62	62
Other non-current assets	(l)	65	–23	42	100	–100	—
Total Non-Current Assets		**36 172**	**–70**	**36 102**	**40 541**	**–47**	**40 494**
Total Assets		**40 408**	**–25**	**40 383**	**44 031**	**19**	**44 050**

Reconciliation of Equity reported under previous Australian Generally Accepted Accounting principles to Equity prepared under AIFRS - at 1 July 2004 and 30 June 2005 (continued)-

		1/7/2004			30/6/2005		
Balance Sheet	**Notes**	**Previous AGAAP $m**	**Adjustments $m**	**AIFRS $m**	**Previous AGAAP $m**	**Adjustments $m**	**AIFRS $m**
Liabilities							
Current Liabilities							
Payables	(m)	613	3	616	651	–1	650
Interest bearing liabilities	(n)	2 195	—	2 195	2 007	27	2 034
Employee benefits	(o)	560	—	560	563	–72	491
Unfunded Superannuation		241	—	241	250	—	250
Superannuation fund deposits		6 599	—	6 599	7 901	—	7 901
Provisions	(p)	661	—	661	732	68	800
Other current liabilities	(q)	348	—	348	306	–27	279
Total Current Liabilities		**11 217**	**3**	**11 220**	**12 410**	**–5**	**12 405**
Non–Current Liabilities							
Payables		24	—	24	20	—	20
Interest bearing liabilities	(r)	4 586	17	4 603	4 554	19	4 573
Employee benefits	(s)	1 035	—	1 035	1 136	–240	896
Unfunded Superannuation		5 427	—	5 427	6 977	—	6 977
Provisions	(t)	2 379	—	2 379	2 665	241	2 906
Other non–current liabilities	(u)	685	—	685	659	–19	640
Total Non–Current Liabilities		**14 136**	**17**	**14 153**	**16 011**	**1**	**16 012**
Total Liabilities		**25 353**	**20**	**25 373**	**28 421**	**–4**	**28 417**
Net Assets		**15 055**	**–45**	**15 010**	**15 610**	**23**	**15 633**
Equity							
Retained Earnings	(v)	3 113	–45	3 068	1 760	–12	1 748
Asset Revaluation Reserve	(w)	11 224	—	11 224	13 156	35	13 191
Other Reserves		718	—	718	694	—	694
Total Equity		**15 055**	**–45**	**15 010**	**15 610**	**23**	**15 633**

Notes to the reconciliation-

The above table indicates that at a whole of government level, some changes did occur upon the adoption of the AIFRS. Specific references to the adjustments are as follows-

(a) Receivables- Change by +$13m in 2004 is largely an estimate based on overall movements. Change by +$114m in 2005, primarily comprised of prepayments (+$64m) added to this reporting category.

(b) Inventories- Change by - $16m in 2005 is primarily comprised of movements to other asset classes.

(c) Other current assets- Change by - $64m in 2005 is primarily comprised of movements to other asset classes.

(d) Other non-current assets classified as held for sales- Change by +$32m in 2004 and +$32m in 2005 is primarily comprised of reclassifications into this new asset class from land and buildings.

(e) Receivables (non-current) - Change by - $24m in 2004 is largely an estimate based on overall movements.

(f) Other financial assets (non-current) - Change by -$874 in 2004 and -$695m in 2005 is primarily comprised of reclassifications into other asset classes (land and improvements), due to a reclassification of debenture stock by the South Australian Community Housing Authority, to land and buildings. This reclassification was made pursuant to the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation*.

(g) Investment properties- Change by +$171m in 2004 and +$176m in 2005 is comprised of reclassifications into this new asset class from land and buildings.

(h) Land and improvements- Change by +$384m in 2004 is comprised of two major reclassifications to/ from other asset classes. An increase of +$570m relates to a reclassification of debenture stocks (Other financial assets) by the South Australian Community Housing Authority (SACHA). This was partly offset by a reclassification, -$186m, to Investment properties, a new asset class. The movement of +$546m in 2005 is primarily comprised of SACHA's reclassification of financial assets into this asset class ($650m), less movements of land and improvements to other asset classes (-$89m to Investment properties, and -$15m to Non current assets classified as held for sale).

(i) Plant, equipment and infrastructure- Change by -$17m in 2004 is largely an estimate based on overall movements; the movement of -$39m in 2005 is primarily comprised of reclassifications into new asset classes (non-current assets held for sale).

(j) Biological assets - Change by +$3m in 2005 is a minor change based on revised data.

(k) Intangible assets - Change by +$23m in 2004 is a reclassification from another asset class (other current assets); change by +$62m in 2005 is also a reclassification from another asset class (other current assets). Movements in both years are as a result of complying with AIFRS.

(l) Other non-current assets - Change by -$23m in 2004 is a reclassification from another asset class (intangibles); the movement of -$100m in 2005 is a reclassifications into other asset classes (-$62m to intangibles and –$42m to other assets).

(m) Payables- Change by +$3m in 2004 is largely an estimate based on overall current liability movements. Change by -$1m in 2005, essentially a general rounding movement.

(n) Interest bearing liabilities- Change by +$27m in 2005 is largely a movement from another asset class (other current liabilities).

(o) Employee benefits- Change by -$72m in 2005 is largely a movement from another asset class (provisions).

(p) Provisions- Change by +$682m in 2005 is largely a movement from another asset class (employee benefits).

(q) Other current liabilities- Change by -$27m in 2005 is largely a movement from another asset class (interest bearing liabilities).

(r) Interest bearing liabilities (non-current)- Change by -$17m in 2004 is largely an estimate based on overall movements for the year. The change by +$19m in 2005 is comprised of other a movement from other current liabilities.

(s) Employee benefits (non-current)- Change by -$240m in 2005 is largely a movement from another asset class (provisions, non-current).

(t) Provisions (non-current)- Change by +$241m in 2005 is largely a movement from another asset class (employee benefits, non-current).

(u) Other liabilities (non-current)- Change by -$19m in 2005 is comprised of other a movement from interest bearing liabilities (non-current).

(v) Retained earnings- Change by -$45m in 2004 and by -$12m in 2005 is the net impact upon this balance, taken directly to equity, per the movements reflected in the balance sheet.

(w) Asset revaluation reserve- Change by +$35m in 2005 is the net impact upon this balance, taken directly to equity, per the movements reflected in non current assets in the balance sheet.

b. Reconciliation of Profit for the year ended 30 June 2005.

Income Statement	Previous AGAAP $m	Adjustments $m	AIFRS $m
Revenues			
Taxation revenues	2 760	—	2 760
Grants revenues	5 589	—	5 589
Goods and services	2 095	—	2 095
Regulatory fees / levies	1 137	—	1 137
Investment revenues	1 737	—	1 737
Net gains from disposal of n-c assets	0	—	0
F.V of free assets	61	1	62
Fines and penalties	73	—	73
Other income	759	—	759
Total Revenues	**14 211**	**1**	**14 212**
Expenses			
Employee benefits costs	6 710	—	6 710
Depreciation & amortisation	692	—	692
Supplies and services	2 307	—	2 307
Borrowing costs	688	—	688
Grants and subsidies	1 661	—	1 661
Other expenses	3 632	—	3 632
Total Expenses	**15 690**	—	**15 690**
Net Surplus (–Deficit)	**–1 479**	**1**	**–1 478**

The above table indicates that at a whole of government level, no material changes reported. Some agencies did report changes in the presentation to the above statement in their own published actuals for 2005-06; but upon consolidation, no material differences arose in reporting.

c. Reconciliation of Cash Flows

The adoption of AIFRS did not result in any adjustments to the Cash Flow Statement for the year ended 30 June 2005.

41. Events after balance date

On 21 September 2006 the Government handed down the 2006-07 State Budget. A major agency restructure was announced whereby a major controlled entity, the Department for Administrative and Information Services, would be abolished and its functions transferred to the portfolios of Premier and Cabinet, Trade and Economic Development, Treasury and Finance, Justice and Transport Energy and Infrastructure, effective from 1 January 2007. With the exception of a possible reduction in the Asset Revaluation Reserve and offsetting increase in Retained Earnings, this restructure is not expected to have any material impact on the consolidated financial report.

42. Details of controlled entities

For the 2005-06 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	*		
Animal and Plant Control Commission	*		
Arid Areas Catchment Water Management Board	*		
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	*		
Emergency Services Administrative Unit	*		
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 Catchment Water Management Board	*		
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 Adelaide and Barossa Catchment Water Management Board	*		
Northern and Yorke Natural Resources Management Board	*		
Office of Public Employment	*		
Onkaparinga Catchment Water Management Board	*		
Outback Areas Community Development Trust	*		
Patawalonga Catchment Water Management Board	*		
Playford Centre	*		
Port Adelaide Maritime Corporation	*		
Premier and Cabinet, Department of the	*		
Primary Industries and Resources, Department of	*		
Public Trustee		*	
RESI Corporation		*	
River Murray Catchment Water Management Board	*		
Senior Secondary Assessment Board of South Australia	*		
South Australia Police (aka South Australian Police Department, SAPOL)	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
South Australian Ambulance Service	*		
South Australian Arid Lands Natural Resources Management Board	*		
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 Catchment Water Management Board	*		
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)			*

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
Torrens Catchment Water Management Board..........................	*		
Trade and Economic Development, Department of	*		
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:			
New Entities:			
The following eight Natural Resources Management Boards were established on 9 December 2004, but progressively became operational throughout the course of the 2005-06 financial year:			
Adelaide and Mount Lofty Ranges Natural Resources Management Board	*		
Alinytjara Wilurara Natural Resources Management Board	*		
Eyre Peninsula Natural Resources Management Board	*		
Kangaroo Island Natural Resources Management Board	*		
Northern and Yorke Natural Resources Management Board	*		
South Australian Arid Lands Natural Resources Management Board	*		
South Australian Murray Darling Basin Natural Resources Management Board	*		
South East Natural Resources Management Board	*		
Organisations established during 2005-06 financial year:			
Port Adelaide Maritime Corporation (effective from 01 December 2005)	*		
South Australian Centre for Trauma and Injury Recovery Incorporated (trading as TRACsa) (effective from 20 April 2006)	*		
South Australian Fire and Emergency Services Commission (trading as SAFECOM) (effective from 01 October 2005)	*		
South Australian State Emergency Service (trading as SES) (effective from 01 October 2005)	*		
Name Changes:			
Playford Centre was previously known as the Information Industries Development Centre (operational from 19 May 2005)	*		
State Procurement Board was previously known as the State Supply Board (assented to on 29 July 2004, effective from 04 October 2005)	*		
Transport, Energy and Infrastructure, Department for was previously known as the Department of Transport and Urban Planning (proclaimed 30 June 2005, effective from 30 May 2005)	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
Dissolved Entities:			
Animal and Plant Control Commission (effective from 25 January 2006)	*		
Arid Areas Catchment Water Management Board (effective from 25 January 2006))	*		
Emergency Services Administrative Unit (effective from 31 December 2005)	*		
Eyre Peninsula Catchment Water Management Board (effective from 25 January 2006)	*		
Northern Adelaide and Barossa Catchment Water Management Board (effective from 25 January 2006)	*		
Onkaparinga Catchment Water Management Board (effective from 25 January 2006)	*		
Patawalonga Catchment Water Management Board (effective from 25 January 2006)	*		
River Murray Catchment Water Management Board (effective from 25 January 2006)	*		
South East Catchment Water Management Board (effective from 25 January 2006)	*		
Torrens Catchment Water Management Board (effective from 25 January 2006)	*		
Other Reporting Changes of Significance:			
Financial data from the following areas are included in the consolidated financial report:			
Board of the Botanic Gardens and State Herbarium (included as a reporting entity within the Department for Environment and Heritage)	*		
Government Consolidated Schools...	*		
Incorporated Health Services...	*		
Incorporated Disability Services..	*		
Office of Public Transport (became a reporting Division within the Department for Transport, Energy and Infrastructure, approved 26 June 2006) …..	*		
Future Changes of Significance:			
Administrative and Information Services, Department for, and the Office of Public Employment. On 28 September 2006 it was announced that these general government classified entities were to be dissolved. Effective from 1 October 2006 functions of these entities are being 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..	*		

Organisation Name	General Government Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
The South Australian Government Captive Insurance Corporation (trading as SAICORP). This general government classified entity was dissolved, effective from 1 July 2006, and was amalgamated with the South Australian Government Financing Authority (SAFA) from that date. 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 (continued):			
Subject to legislative change, the Aboriginal Housing Authority (public non-financial corporation), South Australian Housing Trust (public non-financial corporation) and South Australian Community Housing Authority (public financial corporation) are expected to be legally merged into a single public non-financial corporation sector entity in 2006-07, or later. This entity will form a new business unit, Housing SA, which was created within the Department for Families and Communities on 1 July 2006. Housing SA now provides a single entry point for integrated waiting list, tenancy management and rental programs	*	*	*
Natural Gas Authority of South Australia has finalised its contractual obligations for gas contracts. As it now no longer trades in the purchase and sale of natural gas, it is envisaged that the entity will be dissolved in the coming months. ……...		*	
South Australian Infrastructure Corporation, dissolved from 15 March 2007		*	

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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 2006 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 15 to 79:

i) has been prepared in accordance with Australian Accounting Standards, in particular AAS31 *Financial Reporting by Governments*, applicable Australian Accounting Standards, Treasurer's Instructions, Accounting Policy Frameworks and the *Public Finance and Audit Act 1987*, as amended;

ii) presents fairly the equity and financial position of the Government of South Australia as at 30 June 2006 and the results of its operations and its cash flows for the year then ended.

(signed)
Kevin Foley
Treasurer

2 / 7 / 2007

(signed)
Jim Wright
Under Treasurer

25 / 06 / 2007

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STATEMENT AND COMMENTARY BY THE AUDITOR-GENERAL

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5 July 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 2006

The audit of the South Australian whole-of-government financial report for the year ended 30 June 2006 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 essential components 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 Opinion

As I have 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 audit opinion 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 audit report containing an audit opinion.

Notwithstanding the absence of a mandate to issue a formal audit 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 2006.

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 and Forming Part of the Financial Report
- 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, in particular Australian Accounting Standards, Urgent Issues Group Consensus Views, Treasurer's Instructions and other professional reporting requirements.

The audit was conducted in accordance with Australian Auditing Standards to provide 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, other mandatory professional reporting requirements and the Treasurer's Instructions promulgated under the *Public Finance and Audit Act 1987*.

Audit Findings and Comments

The process of preparing the whole-of-government financial report underwent significant change in 2005-06. These changes included:

- a new chart of accounts for the Hyperion database;
- electronic transfer (*upstreaming*) of agency general ledger balances;
- submission of supplementary agency data via the Budget and Monitoring System (BMS);
- requirement to prepare the report in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

These changes created operational issues not experienced in prior years and were the main factor resulting in the time taken to complete the 2005-06 whole-of-government financial report and audit thereof.

The audit of the 2005-06 whole-of-government financial report revealed a number of reporting and procedural matters, including some that would need to be addressed in order to provide an unqualified independent audit report should legislative changes require the Auditor-General to provide an audit opinion.

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

- timeliness of preparation of the whole-of-government financial report;
- completeness and accuracy of whole-of-government financial report items;
- reliability of comparative information;
- matters relating to submitted 2005-06 agency information;
- matters relating to the cash flow statement.

I acknowledge that DTF have a project underway to facilitate earlier preparation of the whole-of-government financial report from 2006-07. As discussed with your officers, some of the observations in this letter will be relevant to that project.

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 27 July 2007.

Yours sincerely,

(signed)
Simon O'Neill
ACTING AUDITOR-GENERAL

ATTACHMENT

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

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.

The 2005-06 whole-of-government financial report was submitted to Audit for verification on 22 February 2007, 67 days later than the date the 2004-05 report was submitted and 96 days later than the date the 2003-04 report was submitted.

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

State	Independent Audit Report Signed
Western Australia	25 September 2006
Victoria	27 September 2006
Northern Territory	13 October 2006
Queensland	17 October 2006
New South Wales	18 October 2006
Australian Capital Territory	18 October 2006
Tasmania	22 December 2006

Preparation principles vary between the States.

For information in whole-of-government financial reports to be useful and relevant to users of such reports, it is important that DTF continue to identify mechanisms to reduce preparation time of the whole-of-government financial report.

2. Completeness and Accuracy of Financial Statements

Issues that arose during the audit of individual entities' 2005-06 financial reports that impact on the completeness and accuracy of particular financial statement 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 ($590 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 ($133 million), as reported in the Statement of Administered Assets and Liabilities.

- *Department for Transport, Energy and Infrastructure*

  The Department's Balance Sheet includes liabilities ($100 million) representing Commonwealth Government grants received in advance (reported as Deferred Income). The grants meet the recognition criteria of income as specified in AASB 1004 *Contributions* and the Department of Treasury and Finance Accounting Policy Framework V *Income Framework* and as such should be recognised as income in the Income Statement.

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 2006.

Please also note that the following entity Audit qualifications were deemed immaterial for whole-of-government financial report purposes for the year ended 30 June 2006:

- *Central Northern Adelaide Health Service*
- *South Australian Motor Sport Board*
- *HomeStart Finance.*

3. Reliability of Comparative Information

Financial reports for 2005-06 are the first financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Previous financial reports were prepared in accordance with Australian Generally Accepted Accounting Principles (AGAAP).

Paragraph 36 of Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires comparative information to be consistent with AIFRS. Furthermore, paragraph 38 of AASB 1 requires the disclosure of how the transition from AGAAP to AIFRS affected the reporting entity's financial position, financial performance and cash flows. Paragraphs 39 and 41 of AASB 1 prescribes the format of reconciliations to explain the transition.

Note 40 to the whole-of-government financial report discloses the impact of AIFRS. Audit review of the reconciliations in note 40(a) and 40(b) revealed:

- there is insufficient description of adjustments to enable users of the financial report to understand the adjustments to the balance sheet and income statement (as required by paragraph 40 of AASB 1);

- reconciliations do not distinguish between correction of errors detected under AGAAP and changes in accounting policies resulting from adopting AIFRS (as required by paragraph 41 of AASB 1);

- there is no objective information that supports the majority of the adjustments identified in the reconciliations.

Audit did not have the necessary information to quantify the difference in restated comparative information presented in the financial report for the balance sheet, income statement, statement of changes in equity and related disclosures.

4. 2005-06 Agency Data

In previous years information required for preparation of the whole-of-government financial report was obtained from agency submission of information via the Data Collection System (DCS).

In 2005-06 agency information was provided as follows:

- agency general ledger balances were electronically transferred (*upstreamed)* into Hyperion;
- supplementary agency data was submitted via the Budget and Monitoring System (BMS).

4.1 Critical Cut-off Dates

4.1.1 Electronic Transferring (*Upstreaming*)

The majority of agencies submitting data are required to publish audited annual financial statements by 30 September. The audit process often results in journal adjustments being processed to agency general ledgers so that the ledger balances agree with audited financial statements. Often these adjustments are not processed in agency general ledgers prior to 30 September.

The cut-off date for *upstreaming* of agency balances was 22 September. The early cut-off date resulted in considerable adjusting journals being processed in Hyperion.

If the basis of the whole-of-government financial report is to continue to be audited agency financial data the upstream cut-off date needs to be reassessed.

4.1.2 Hyperion Adjustments (agency level)

Any errors detected as a result of review of agency *upstreamed* data can be corrected in Hyperion via a journal at an agency level. The advantage of journal adjustments at an agency level is that they enable verification of final Hyperion agency balances to audited agency balances.

The cut-off for processing of Hyperion adjustments at an agency level was early December 2006. All adjustments processed after this date were at a sector level.

Processing of Hyperion sector journals to correct agency errors resulted in considerable additional audit work to reconcile Hyperion agency balances to audited agency balances.

Audit recommends all agency errors detected in future be corrected in Hyperion at an agency level.

4.2 Mapping of Agency Balances

The change in data submission processes required agencies to map their general ledger balances using the Hyperion whole-of-government chart of accounts.

Complicating this process was a new chart of accounts used for whole-of-government purposes in 2005-06.

DTF held a number of information sessions to advise agencies of the changes in the chart of accounts and the need for agencies to map their general ledgers for whole-of-government reporting purposes.

DTF review of upstreamed agency balances revealed significant mapping errors. The majority of mapping errors were corrected. However, due to time constraints, it was not possible to correct mapping in respect of the following 2005-06 note items:

- Supplies and Services – Other Supplies and Services
- Other Expenses – Other Expenses.

Due to upstream cut-off (refer item 4.1.1) mapping corrections required journaling in Hyperion. The investigation and correction of mapping errors was very time consuming and was the principal factor causing the delay in preparation.

It is critical that agencies be advised of whole-of-government mapping errors detected during 2005-06 and appropriate remedial action so that these errors do not continue in 2006-07.

Furthermore, as agencies themselves often change their chart of accounts, the mapping of agency balances must continue to be given focussed attention by DTF.

4.3 Supplementary Agency Information

Supplementary agency data is submitted via the Budget and Monitoring System (BMS) to enable preparation of notes to the whole-of-government financial report.

Audit review revealed many instances where the BMS information did not agree with Hyperion information. These differences were due mainly to:

- BMS not being updated by DTF for journals processed in Hyperion.

- input errors by agencies, eg instances where agency figures were entered as millions and not thousands (as required).

There is a need for focussed attention to the completeness and accuracy of BMS information.

5. 2005-06 Cash Flows

In previous years the cash flow statement figures were based on information provided by agencies via the Data Collection System (DCS), consistent with their audited financial statements.

The 2005-06 cash flow figures were derived from reports generated from Hyperion at an account level.

Audit review of the derivation rules for each line item in the cash flow statement revealed they were generally satisfactory, though in some areas the rules result in an inconsistent treatment compared to previous years, i.e. disclosure on a net basis, rather than the gross basis. Examples of this are:

- Interest and dividend received have been netted off borrowing costs.
- Proceeds from maturing debt securities (Note 35(e)).
- Purchase of investment securities (Note 35(e)).

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 netting of Interest and dividend received against borrowing costs is not consistent with AASB 107.

While the disclosure of Proceeds from maturing debt securities and Purchase of investment securities on a net basis is consistent with AASB 107, prior year figures for these items have not been restated on a net basis to enable effective comparison.

Audit does not have the necessary information to quantify the difference.

6. Other

6.1 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.

In previous years the dissection of non-current liabilities was based on information provided by agencies via the Data Collection System (DCS), consistent with their audited financial statements. This data was then adjusted for journals processed in the Hyperion database.

In 2005-06 data was provided by agencies via the Budget and Monitoring System (BMS). Due to time constraints BMS data was not adjusted for journals processed in the Hyperion database. The dissection of non-current liabilities was instead based on the average dissection in the previous 5 years.

Audit does not have the necessary information to quantify the difference.

6.2 Financial Instruments – Weighted Average Interest Rate Disclosure

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

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

Audit does not have the necessary information to quantify the difference.

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of South Australia