

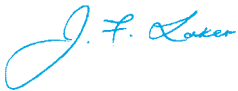
# Financial statements

# 8

## Statement by Members

In our opinion, the attached financial statements for the year ended 30 June 2007 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Authority will be able to pay its debts as and when they become due and payable.



Dr John F. Laker  
Chairman  
30 August 2007



Mr K. Ross Jones  
Deputy Chairman  
30 August 2007



Mr John Trowbridge  
Member  
30 August 2007



**Income Statement** for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>Income</b>			
<b>Revenue</b>			
Revenue from Government	4A	97,832	81,637
Sale of goods and rendering of services	4B	5,306	6,937
Interest	4C	3,608	2,573
Rental income		737	816
Other revenue	4D	645	3,089
<b>Total revenue</b>		<b>108,128</b>	95,052
<b>Gains</b>			
Sale of assets	4E	11	–
Other gains	4F	22	–
<b>Total gains</b>		<b>33</b>	–
<b>Total income</b>		<b>108,161</b>	95,052
<b>Expenses</b>			
Employee benefits	5A	61,001	60,051
Suppliers	5B	26,737	26,981
Depreciation and amortisation	5C	3,272	3,934
Finance costs	5D	–	234
Write-down and impairment of assets	5E	24	908
Losses from asset disposals	5F	28	–
<b>Total expenses</b>		<b>91,062</b>	92,108
<b>Operating surplus</b>		<b>17,099</b>	2,944

The above statement should be read in conjunction with the accompanying Notes.

## Balance Sheet for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>Assets</b>			
<b>Financial assets</b>			
Cash and cash equivalents	6A, 17B	46,626	13,432
Trade and other receivables	6B, 17B	1,892	2,803
Investments (s18 CAC Act)	6C, 17B	–	14,848
<b>Total financial assets</b>		<b>48,518</b>	31,083
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	7A, 7B	5,102	4,426
Intangibles	7C, 7D	3,419	3,510
Other non-financial assets	7E	902	741
<b>Total non-financial assets</b>		<b>9,423</b>	8,677
<b>Total assets</b>		<b>57,941</b>	39,760
<b>Liabilities</b>			
<b>Payables</b>			
Suppliers	8A, 17B	–	2,788
Other payables	8B, 17B	3,511	1,587
Unearned fees and charges	8B, 17B	2,079	674
<b>Total payables</b>		<b>5,590</b>	5,049
<b>Provisions</b>			
Employee provisions	9A	17,245	16,054
Other provisions	9B	2,303	2,954
<b>Total provisions</b>		<b>19,548</b>	19,008
<b>Total liabilities</b>		<b>25,138</b>	24,057
<b>Net assets</b>		<b>32,803</b>	15,703
<b>Equity</b>			
Contributed equity		3,155	3,155
Reserves		6,368	367
Retained surpluses		23,280	12,181
<b>Total equity</b>		<b>32,803</b>	15,703
<b>Current assets</b>		<b>49,420</b>	31,824
<b>Non-current assets</b>		<b>8,521</b>	7,936
<b>Current liabilities</b>		<b>20,347</b>	19,226
<b>Non-current liabilities</b>		<b>4,791</b>	4,831

The above statement should be read in conjunction with the accompanying Notes.

## Statement of Changes in Equity for the year ended 30 June 2007

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
	Accumulated results		Asset revaluation reserve		Contingency Enforcement Fund		Contributed equity		Total equity	
<b>Opening balance</b>	12,181	9,649	367	1,123			3,155	6,155	15,703	16,927
Adjustment for errors <sup>1</sup>		(412)								(412)
<b>Adjusted opening balance</b>	12,181	9,237	367	1,123			3,155	6,155	15,703	16,515
<b>Income and expense</b>										
Revaluation adjustment			1 <sup>4</sup>	(756) <sup>2</sup>					1	(756)
<b>Sub-total income and expenses recognised directly in equity</b>			1	(756)					1	(756)
Surplus (deficit) for the period	17,099	2,944							17,099	2,944
<b>Total income and expenses</b>	17,099	2,944	1	(756)					17,100	2,188
Transfers to reserves	(6,000)				6,000 <sup>5</sup>					-
<b>Transaction with owners</b>										
<b>Distribution to owners</b>										
Returns on capital										
Other								(3,000) <sup>3</sup>		(3,000)
<b>Contributions by owners</b>										
Appropriation (equity injection)										
<b>Sub-total transactions with owners</b>	(6,000)				6,000			(3,000)		(3,000)
<b>Closing balance at 30 June</b>	23,280	12,181	368	367	6,000		3,155	3,155	32,803	15,703

The above statement should be read in conjunction with the accompanying Notes.

<sup>1</sup> Relates to an accounting error in 2004/05

<sup>2</sup> Refers to the write-off of fit-outs in Head Office and Melbourne Office

<sup>3</sup> Return of capital appropriation received in 2004/05 to fund the licensing of superannuation fund trustees

<sup>4</sup> Revaluation of Canberra Office fit-out.

<sup>5</sup> The Contingency Enforcement Fund has been set up to fund large and unexpected investigation and enforcement activities. The Fund will only be drawn on under the rules agreed with the Minister.

## Statement of Cash Flows for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>Operating activities</b>			
<b>Cash received</b>			
Appropriations		96,551	81,715
Goods and services		9,489	7,645
Interest		3,553	2,506
Net GST received		2,017	1,439
Rental income		737	815
Other cash received		673	3,089
<b>Total cash received</b>		<b>113,020</b>	<b>97,209</b>
<b>Cash used</b>			
Employees		(59,810)	(59,637)
Suppliers		(32,134)	(28,110)
<b>Total cash used</b>		<b>(91,944)</b>	<b>(87,747)</b>
<b>Net cash from operating activities</b>	10	<b>21,076</b>	<b>9,462</b>
<b>Investing activities</b>			
<b>Cash received</b>			
Investments		14,849	–
Proceeds from sale of assets		11	–
<b>Total cash received</b>		<b>14,860</b>	<b>–</b>
<b>Cash used</b>			
Purchase of plant and equipment		(1,282)	(2,108)
Investments (s18 CAC Act)		–	(4,929)
Purchase of intangibles		(1,460)	(1,017)
<b>Total cash used</b>		<b>(2,742)</b>	<b>(8,054)</b>
<b>Net cash from investing activities</b>		<b>12,118</b>	<b>(8,054)</b>
<b>Financing activities</b>			
<b>Cash used</b>			
Return 2004/05 appropriation (unused 2001/02 appropriation) to the Official Public Account		–	(3,000)
<b>Total cash used</b>		<b>–</b>	<b>(3,000)</b>
<b>Net cash used by financing activities</b>		<b>–</b>	<b>(3,000)</b>
<b>Net increase/(decrease) in cash held</b>		<b>33,194</b>	<b>(1,592)</b>
Cash at the beginning of the reporting period		13,432	15,024
<b>Cash at the end of the reporting period</b>	6A	<b>46,626</b>	<b>13,432</b>

The above statement should be read in conjunction with the accompanying Notes.

## Schedule of Commitments as at 30 June 2007

	2007 \$'000	2006 \$'000
<b>By type<sup>1</sup></b>		
<b>Capital commitments</b>	–	–
<b>Total capital commitments</b>	–	–
<b>Other commitments</b>		
Operating leases	11,136	15,820
Operating sub-leases <sup>2</sup>	(56)	(725)
GST receivable	1,108	1,510
<b>Total other commitments</b>	<b>12,188</b>	16,605
<b>Net commitments by type</b>	<b>12,188</b>	16,605
<b>Operating lease commitments</b>		
One year or less	5,805	5,626
From one to five years	5,103	8,585
Over five years	172	884
GST receivable	1,108	1,510
<b>Total operating lease commitments</b>	<b>12,188</b>	16,605
<b>Net commitments by maturity</b>	<b>12,188</b>	16,605

Operating leases are non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Leases for office accommodation	Lease payments are subject to annual review to prevailing market rates. Office leases, with current expiry dates shown in brackets, are current for space in Sydney (various levels 2007 to 2008), Canberra (2007), Melbourne (2012), Adelaide (2009), Brisbane (2008) and Perth (2009).
Leases of office equipment – photocopiers	Lease payments are set for the period of the lease. APRA does not have the option to purchase the asset at the conclusion of the lease period.

The above schedule should be read in conjunction with the accompanying Notes.

<sup>1</sup> Commitments are GST-inclusive where relevant

<sup>2</sup> Comprises amounts receivable from other bodies for sub-leasing of office accommodation

## Schedule of Contingencies as at 30 June 2007

	Note	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
				Claims for damages/costs	Total
<b>Contingent assets</b>	11B				
Balance from previous period		-	26	-	26
New		-	-	-	-
Re-measurement		-	-	-	-
Assets crystallised		-	(26)	-	(26)
Expired		-	-	-	-
<b>Total contingent assets</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent liabilities</b>	11A				
Balance from previous period		<b>(1,330)</b>	(940)	<b>(1,330)</b>	(940)
New		-	(250)	-	(250)
Re-measurement		-	(140)	-	(140)
Liabilities crystallised		-	-	-	-
Obligations expired		-	-	-	-
<b>Total contingent liabilities</b>		<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>
<b>Net contingent assets/(liabilities)</b>		<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>

Details of each class of contingent liabilities and assets, including those not disclosed above because they cannot be quantified or are considered remote, are shown in Note 11: *Contingent liabilities and assets*.

The above schedule should be read in conjunction with the accompanying Notes.

## Schedule of Administered Items

	Note	2007 \$'000	2006 \$'000
<b>Income administered on behalf of Government</b>			
for the year ended 30 June 2007			
<b>Taxation revenue</b>			
Financial Institutions Supervisory Levies	18A	113,010	98,302
Financial Assistance Levy	18A	(34)	3,042
<b>Total taxation revenue</b>		<b>112,976</b>	101,344
<b>Total revenues administered on behalf of Government</b>		<b>112,976</b>	101,344
<b>Expenses administered on behalf of Government</b>			
for the year ended 30 June 2007			
Supervisory Levy waivers and write-offs	18B	447	126
Other		308	(7)
<b>Total expenses administered on behalf of Government</b>		<b>755</b>	119
<b>Assets administered on behalf of Government</b>			
as at 30 June 2007			
<b>Financial assets</b>			
Cash	18C	–	–
Receivables – Supervisory Levies	18C	1,287	7
– Financial Assistance Levy	18C	(6)	315
Other	18C	–	(2)
<b>Total assets administered on behalf of Government</b>		<b>1,281</b>	320
<b>Liabilities administered on behalf of Government</b>			
as at 30 June 2007			
<b>Total liabilities administered on behalf of Government</b>		<b>–</b>	–

## Schedule of Administered Items (continued)

	Note	2007 \$'000	2006 \$'000
<b>Administered cash flows</b>			
for the year ended 30 June 2007			
<b>Operating activities</b>			
<b>Cash received</b>			
Financial Institutions Supervisory Levies		110,974	98,481
Financial Assistance Levy		286	6,690
Cash received from Official Public Account for refunds		78	292
<b>Total cash received</b>		<b>111,338</b>	105,463
<b>Cash used</b>			
Refunds of overpayments of levies		(78)	(292)
<b>Total cash used</b>		<b>(78)</b>	(292)
<b>Net cash from operating activities</b>		<b>111,260</b>	105,171
<b>Investing activities</b>			
		-	-
<b>Financing activities</b>			
Net increase (decrease) in cash held		111,260	105,171
<b>Cash at the beginning of the reporting period</b>		-	246
		111,260	105,417
Cash to Official Public Account		(111,260)	(105,417)
<b>Cash at the end of the reporting period</b>		<b>-</b>	-
APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levy on behalf of the Government. While the revenues from Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to be used by APRA for its own purposes. All administered collections are remitted to the Government's Official Public Account (see Note 1.20). Transactions and balances relating to levies are reported in Note 18 as <i>Administered items</i> .			
<b>Administered reconciliation table</b>			
for the year ended 30 June 2007			
Opening administered assets less administered liabilities		320	4,220
<b>Plus</b> administered revenues		112,976	101,344
<b>Minus</b> administered expenses		(755)	(119)
Administered transfers to/from Australian Government:			
Net transfers to Official Public Account		(111,260)	(105,125)
Closing administered assets less administered liabilities		1,281	320

The above schedule should be read in conjunction with the accompanying Notes.

**Notes to and Forming Part of the Financial Statements** for the year ended 30 June 2007

<b>Note</b>	<b>Description</b>
1	Summary of significant accounting policies
2	Events after the balance sheet date
3	Calculation of APRA Special Appropriation
4	Income
5	Operating expenses
6	Financial assets
7	Non-financial assets
8	Payables
9	Provisions
10	Cash flow reconciliation
11	Contingent liabilities and assets
12	Remuneration of APRA Members
13	Related party disclosures
14	Executive remuneration
15	Remuneration of auditors
16	Average staffing levels
17	Financial instruments
18	Administered items
19	Appropriations
20	Compensation and debt relief
21	Assets held in trust
22	Special account
23	Reporting of outcomes

## Note 1. Summary of significant accounting policies

### 1.1 Basis of preparation of the financial statements

These financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general purpose financial report.

The continued existence of the Authority in its present form and with its present program is dependent on Government policy and on continuing appropriations by Parliament for the Authority's administration and programs.

The statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs), being the *Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2006)*; and
- Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The *Income Statement, Balance Sheet and Statement of Changes in Equity* have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the *Schedule of Commitments* and the *Schedule of Contingencies* (other than unquantifiable or remote contingencies, which are reported at Note 11).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the *Income Statement* when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets, liabilities and cash flows reported in the *Schedule of Administered Items* and related notes are accounted for on the same basis and using the same policies as for Authority items, except where stated in Note 1.20.

### 1.2 Significant accounting judgments and estimates

In the process of applying the accounting policies listed in this note, APRA has made the following judgments that have the most significant impact on the amounts recorded in the financial statements:

- the fair value of leasehold improvements has been taken to be the market value of similar installations as determined by an independent valuer in 2005 and reviewed at year end. Canberra leasehold improvements were valued at market value by an independent valuer in June 2007.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

### 1.3 Statement of compliance

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRS) to be made where the financial report complies with these standards. Some Australian equivalents to IFRS and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements. APRA is a not-for-profit entity and has applied these requirements. Hence, this financial report complies with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRS), but not fully with IFRS.

No accounting standard has been adopted earlier than the effective date in the current period. APRA is required to disclose Australian Accounting Standards that have not been applied, and standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards. These amendments are denoted by year and then number. For example, 2005-01 indicates amendment 1 issued in 2005.

The table below gives a description of the standards and amendments that will need to be adopted by APRA in the future. The nature of the impending changes within the table has been abbreviated and users should consult the full version available on the AASB's website to obtain the full impact of the change. The expected impact on the financial report of adoption of these standards is based on APRA's initial assessment at this date, but may change. APRA intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-10	AASB132, AASB101, AASB114, AASB117, AASB133, AASB139, AASB1, AASB1023 and AASB1038	1 Jan 2007	Amends requirements subsequent to the issuing of AASB7.	No expected impact.
2006-10	AASB7 Financial instruments: disclosures	1 Jan 2007	Revises the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact.

\* Application date is for annual reporting periods beginning on or after the date shown

### 1.4 Revenue

Revenue from the sale of goods, if any, is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the seller retains no managerial involvement nor effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transactions costs incurred can be reliably measured; and
- the probable economic benefits associated with the transaction will flow to the entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30-day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in AASB139.

### Revenues from Government

APRA is funded primarily through levies imposed on the industries it supervises. While these levies, known as the Financial Institutions Supervisory Levies, are administered transactions collected on behalf of the Government and paid into the Consolidated Revenue Fund (CRF), an amount equal to the net levy revenue, less an amount specified by the Minister in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), is payable to APRA as a Special Appropriation, in accordance with subsections 50(2), (3) and (5) of the APRA Act. The amounts specified in the Minister's Determinations are retained in the CRF to cover the costs of providing market integrity and consumer protection functions for prudentially regulated institutions, functions that are conducted by other Australian Government entities. The calculation of the Special Appropriation is shown at Note 3.

Amounts appropriated for departmental (Authority) outputs for the year (adjusted for any formal additions and reductions) are recognised as revenue, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

### Resources received free of charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition.

There were no resources received free of charge in 2006/07 (2005/06: \$Nil).

## 1.5 Transactions with the Government as owner

### Equity injections

Amounts appropriated as 'equity injections' for a year (less any formal reductions) are recognised directly in contributed equity in that year. APRA received a cash injection of \$3 million in 2004/05 to fund superannuation licensing activities. This temporary funding was returned to the Government in 2005/06.

### Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

## 1.6 Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short term employee benefits' (as defined in AASB119) and termination benefits due within twelve months are measured at their nominal amounts.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

### Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of APRA is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Authority's employer superannuation contribution rates, to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

### Separation and redundancy

Provision is made for separation and redundancy benefit payments in cases where APRA has developed a detailed formal plan for the terminations and has informed the employees affected that it will carry out the terminations.

### Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap). The CSS and PSS are defined benefit schemes for the Commonwealth. The PSSap is a defined contribution scheme. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. APRA makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of APRA's employees.

APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund for former employees of the Reserve Bank of Australia now employed by APRA.

For all other employees, employer contributions are made to other superannuation (accumulation) funds, as nominated by the employee (see Note 5A).

The liability for superannuation recognised at 30 June 2007 represents outstanding contributions for the final fortnight of the year.

## 1.7 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability recognised at the same time for the same amount. Leased assets are amortised over the period of the lease.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight-line basis that is representative of the pattern of benefits derived from the leased assets.

## 1.8 Borrowing costs

All borrowing costs are expensed as incurred.

## 1.9 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

## 1.10 Financial risk management

APRA's activities expose it to normal commercial financial risk. As a result of the nature of APRA's business and internal and Australian Government policies dealing with the management of financial risk, APRA's exposure to market, credit, liquidity, cash flow and interest rate risk is considered to be low.

## 1.11 Investments

Investments are initially measured at cost.

After initial recognition, financial assets are measured at their fair values except for:

- receivables which are measured at amortised cost using the effective interest method; and
- held-to-maturity investments which are measured at amortised cost using the effective interest method.

## 1.12 Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity and the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

## 1.13 Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

### Financial assets held at amortised cost

If there is objective evidence that an impairment loss has been incurred for receivables or held-to-maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective future interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the *Income Statement*.

### Financial assets held at cost

If there is objective evidence that an impairment loss has been incurred that is not carried at fair value because it cannot be reliably measured, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the future cash flows discounted at the current market rate for similar assets.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

### 1.14 Supplier and other payables

Supplier and other payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

### 1.15 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the *Balance Sheet* but are discussed in the relevant Schedules and Notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. A liability or asset is recognised when its existence is confirmed by a future event, settlement becomes probable or reliable measurement becomes possible.

### 1.16 Acquisition of assets

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

### 1.17 Property (infrastructure), plant and equipment

#### Asset recognition threshold

Purchases of infrastructure, plant and equipment are recognised initially at cost in the *Balance Sheet*, except for purchases costing less than \$5,000, which are expensed in the year of acquisition.

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by APRA where there exists an obligation to restore the property to its original condition. These costs are included in the value of APRA's leasehold improvements with a corresponding provision for the 'make good' taken up.

#### Revaluations

Infrastructure, plant and equipment are carried at fair value, being revalued with sufficient frequency such that the carrying amount of each asset is not materially different, at reporting date, from its fair value. Valuations undertaken in each year are as at 30 June.

Fair values for each class of assets are determined as shown below:

Asset class	Fair value measured at:
Leasehold improvements	Depreciated replacement cost
Computer hardware and office equipment	Market selling price

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through the *Income Statement*. Revaluation decrements for a class of assets are recognised directly through the *Income Statement* except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

### Depreciation and amortisation

Depreciable plant and equipment assets are written off to their estimated residual values over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

Asset class	2007	2006
Computer hardware and office equipment	3 to 12 years	3 to 12 years
Leasehold improvements	Lesser of 10 years or lease term	Lesser of 10 years or lease term

### Impairment

All assets were assessed for impairment at 30 June 2007. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if APRA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

No indicators of impairment were found for assets at fair value.

### 1.18 Intangibles

APRA's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of APRA's software are the lesser of five years or assessed useful life (2006: Lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment at 30 June 2007.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

### 1.19 Taxation

APRA is exempt from all forms of taxation except fringe benefits tax and the 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; and
- except for receivables and payables.

### 1.20 Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the *Schedule of Administered Items* and related Notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for Authority items, including the application of Australian Accounting Standards.

#### Administered cash transfers to and from the Official Public Account

Revenue collected by APRA for use by the Government rather than by the Authority is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Administration. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by the Authority on behalf of the Government and reported as such in the *Administered Cash Flows*, in the *Schedule of Administered Items* and in the *Administered reconciliation table* in Note 18D. Thus the *Schedule of Administered Items* largely reflects the Government's transactions through the Authority with parties outside the Government.

#### Revenue

All administered revenues relate to the core operating activities performed by the Authority on behalf of the Australian Government. These revenues are not directly available to be used by the Authority for its own purposes and are remitted to the OPA.

APRA undertakes the collection of certain levies on behalf of the Government. These comprise Financial Institutions Supervisory Levies, the Financial Assistance Levy and levy late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*. In addition, APRA still collects some late lodgement penalties in relation to certain superannuation returns that were due by 31 October 1999. These administered items are distinguished from Authority items throughout these financial statements by background shading.

Administered revenue arising from levies on superannuation entities (including the Financial Assistance Levy) is recognised upon issue of invoice while administered revenue in respect of levies on all other entities is recognised on the date it becomes due and payable to APRA or on the date the payment is received, whichever occurs first. Levies are recognised at the nominal amounts due less any provision for bad or doubtful debts. The collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more, likely.

#### Expenses

Administered expenses arising from waiver and write-off of levy debts are recognised at the time of approval by delegated Authority officers.

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 20, as required by the FMOs. Waivers generally occur due to a change of status of a supervised entity during the year, resulting in the annual levy being wholly or partly waived.

## Note 2. Events after the balance sheet date

From 1 July 2007, APRA will cease to operate under the *Commonwealth Authorities and Companies Act 1997* and instead will operate under the *Financial Management and Accountability Act 1997* (FMA Act). The *Australian Prudential Regulation Act 1998* has been amended to establish a Special Account in accordance with section 21 of the FMA Act.

As a result of this change, APRA liquidated all its investments and transferred all cash (\$46.6m) to the Consolidated Revenue Fund on 29 June 2007. This cash became the opening balance of the Special Account as at 1 July 2007.

## Note 3. Calculation of APRA Special Appropriation

The APRA Special Appropriation is calculated in accordance with the provisions of s50 of the APRA Act as outlined at Note 1.4.

Details are as follows:

	2007 \$'000	2006 \$'000
<b>Table 1: Summary</b>		
Current year levies and penalties (see note 18A, Table 1)	113,010	98,302
Less: Waivers, write-offs and doubtful debts (see Note 18B)	(755)	(126)
Net current year levies and penalties (see Table 2 below)	112,255	98,176
Less: Amounts retained in the CRF (see Table 3 below)	(16,900)	(17,539)
<b>Total APRA Special Appropriation</b> (see Table 4 below)	<b>95,355</b>	<b>80,637</b>
<b>Table 2: Net current year levies and penalties by levy type</b>		
Superannuation funds	48,588	41,476
Authorised deposit-taking institutions	33,068	30,099
Life insurers and friendly societies	9,048	9,752
General insurers	21,551	16,849
<b>Total net current year levies and penalties</b>	<b>112,255</b>	<b>98,176</b>
<b>Table 3: Amounts retained in the CRF by levy type<sup>1</sup></b>		
Superannuation funds	(12,008)	(12,089)
Authorised deposit-taking institutions	(1,984)	(2,210)
Life insurers and friendly societies	(1,580)	(1,760)
General insurers	(1,328)	(1,480)
<b>Total amount retained in CRF</b>	<b>(16,900)</b>	<b>(17,539)</b>
<b>Table 4: Equivalent amounts of levy payable to APRA under the APRA Special Appropriation by levy type</b>		
Superannuation funds	36,580	29,387
Authorised deposit-taking institutions	31,084	27,889
Life insurers and friendly societies	7,468	7,992
General insurers	20,223	15,369
<b>Total APRA Special Appropriation</b>	<b>95,355</b>	<b>80,637</b>

<sup>1</sup> As determined by the Minister in accordance with subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998*.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 4. Income**

	2007 \$'000	2006 \$'000
<b>Note 4A. Revenue from Government</b>		
Special Appropriation (see Note 3)	95,355	80,637
Other	2,477	1,000
<b>Total revenue from Government</b>	<b>97,832</b>	<b>81,637</b>
<b>Note 4B. Sale of goods and rendering of services</b>		
Rendering of services – related entities	1,372	766
Rendering of service – external entities	3,934	6,171
<b>Total rendering of services</b>	<b>5,306</b>	<b>6,937</b>
<b>Note 4C. Interest</b>		
Deposits	828	654
Commonwealth and State Government securities	2,780	1,919
<b>Total interest</b>	<b>3,608</b>	<b>2,573</b>
<b>Note 4D. Other Revenue</b>		
Licence fees from finance sector entities	438	227
Superannuation trustee applications	60	2,662
Fees from foreign bank representative offices	113	70
Other revenue relating to recovery of prior year court costs and prior year compensation matters	–	6
Recovery from Reserve Bank of Australia for Scholarship	17	14
Other recoveries	17	110
<b>Total other revenue</b>	<b>645</b>	<b>3,089</b>
<b>Note 4E. Sale of assets</b>		
Sale of assets	11	–
<b>Total sale of assets</b>	<b>11</b>	<b>–</b>
<b>Note 4F. Other gains</b>		
Writeback of makegood expense	22	–
<b>Total other gains</b>	<b>22</b>	<b>–</b>

## Note 5. Operating expenses

	2007 \$'000	2006 \$'000
<b>Note 5A. Employee benefits</b>		
Salaries and wages	49,529	50,333
Superannuation	8,882	7,146
Leave and other entitlements	2,033	2,041
Separation and redundancy	88	311
Other employee expenses (see Note 1.6)	469	220
<b>Total employee expenses</b>	<b>61,001</b>	<b>60,051</b>
<b>Note 5B. Supplier expenses</b>		
Provision of goods – external entities	3,435	2,930
Rendering of services – related entities	3,883	5,564
Rendering of services – external entities	12,860	12,089
Operating lease rentals:		
– Minimum lease payments	6,299	6,177
Workers' compensation premiums	260	221
<b>Total supplier expenses</b>	<b>26,737</b>	<b>26,981</b>
<b>Note 5C. Depreciation and amortisation</b>		
<b>Depreciation</b>		
Computer hardware	486	741
Leasehold improvements	1,240	1,272
<b>Amortisation</b>		
Intangibles – computer software	1,546	1,921
<b>Total depreciation and amortisation</b>	<b>3,272</b>	<b>3,934</b>
<b>Note 5D. Finance costs</b>		
Unwinding of discount	–	234
<b>Total finance costs</b>	<b>–</b>	<b>234</b>
<b>Note 5E. Write-down and impairment of assets</b>		
Impairment of internally developed software	5	461
Write-down of infrastructure, plant and equipment	19	447
<b>Total write-down and impairment of assets</b>	<b>24</b>	<b>908</b>
<b>Note 5F. Losses from assets disposal</b>		
Computer hardware	19	–
Office fit-out	9	–
<b>Total losses from assets disposal</b>	<b>28</b>	<b>–</b>

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 6. Financial assets**

	2007 \$'000	2006 \$'000
<b>Note 6A. Cash and cash equivalents</b>		
Cash on hand	46,626	13,431
Deposits at call	–	1
<b>Total cash and cash equivalents</b>	<b>46,626</b>	<b>13,432</b>
<b>Note 6B. Trade and other receivables</b>		
Goods and services	134	2,264
Special Appropriation	1,614	26
	1,748	2,290
GST receivable from the Australian Taxation Office	259	376
Interest receivable	211	157
<b>Total trade and other receivables (gross)</b>	<b>2,218</b>	<b>2,823</b>
Less: allowance for doubtful debts -		
Goods and services	–	(1)
Special Appropriation	(326)	(19)
<b>Total trade and other receivables (net)</b>	<b>1,892</b>	<b>2,803</b>
<b>Receivables are aged as follows:</b>		
Not overdue	1,892	1,311
Overdue by:		
– less than 30 days	–	1,486
– 30 to 60 days	–	1
– 60 to 90 days	–	1
– more than 90 days	326	24
	326	1,512
<b>Total receivables (gross)</b>	<b>2,218</b>	<b>2,823</b>
<b>The allowance for doubtful debts is aged as follows:</b>		
Not overdue	–	–
Overdue by:		
– less than 30 days	–	–
– 30 to 60 days	–	–
– 60 to 90 days	–	–
– more than 90 days	(326)	(20)
<b>Total allowance for doubtful debts</b>	<b>(326)</b>	<b>(20)</b>

## Note 6. Financial assets (continued)

	2007 \$'000	2006 \$'000
<b>Note 6B. Trade and other receivables (continued)</b>		
Receivables are represented by		
Current	1,892	2,803
Non-current	–	–
<b>Total trade and other receivables (net)</b>	<b>1,892</b>	<b>2,803</b>
<b>Note 6C. Investments under s18 of the CAC Act</b>		
Securities of Australian Government, States and Territories (see Note 2)		
	–	14,848
<b>Total investments</b>	<b>–</b>	<b>14,848</b>

## Note 7. Non-financial assets

	2007 \$'000	2006 \$'000
<b>Note 7A. Infrastructure, plant and equipment</b>		
<b>Computer hardware and office equipment</b>		
– fair value	1,780	1,307
– accumulated depreciation	(987)	(526)
– work in progress	1,276	192
<b>Total computer hardware and office equipment</b>	<b>2,069</b>	<b>973</b>
<b>Leasehold improvements</b>		
– fair value	4,969	4,536
– accumulated amortisation	(2,099)	(1,120)
– work in progress	163	37
<b>Total leasehold improvements</b>	<b>3,033</b>	<b>3,453</b>
<b>Total infrastructure, plant and equipment (non-current)</b>	<b>5,102</b>	<b>4,426</b>

All assets were assessed for impairment at 30 June 2007 using internal expertise. The fit-out of Canberra Office was valued in June 2007 by an independent valuer owing to renewal of the lease.

No indicators of impairment were found for infrastructure, plant and equipment.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 7. Non-financial assets (continued)**

	\$'000	\$'000	\$'000
	Computer hardware and office equipment	Leasehold improvements	Total

**Note 7B. Reconciliation of infrastructure, plant and equipment at valuation****As at 1 July 2006**

Gross book value	1,499	4,573	6,072
Accumulated depreciation/amortisation	(526)	(1,120)	(1,646)
<b>Net book value 1 July 2006</b>	<b>973</b>	<b>3,453</b>	<b>4,426</b>

## Additions:

by purchase	1,601	847	2,448
Net revaluation increment/(decrement)	–	1	1
Depreciation/amortisation expense	(486)	(1,240)	(1,726)
Disposals:			
Other disposals by sale and write-off (net book value )	(19)	(28)	(47)

**As at 30 June 2007**

Gross book value	3,056	5,132	8,188
Accumulated depreciation/amortisation	(987)	(2,099)	(3,086)
<b>Closing net book value</b>	<b>2,069</b>	<b>3,033</b>	<b>5,102</b>

2007	2006
\$'000	\$'000

**Note 7C. Intangible assets****Computer software at cost:**

– internally developed – in progress	880	82
– purchased – in progress	–	195
– internally developed – in use	7,517	7,427
– purchased – in use	3,538	2,883
	<b>11,935</b>	10,587
Accumulated amortisation	(8,516)	(7,077)
<b>Total intangibles (non-current)</b>	<b>3,419</b>	3,510

**Note 7. Non-financial assets (continued)**

	\$'000	\$'000	\$'000
	Computer software internally developed	Computer software purchased	Total
<b>Note 7D. Reconciliation of intangibles</b>			
<b>As at 1 July 2006</b>			
Gross book value	7,509	3,078	10,587
Accumulated amortisation	(5,415)	(1,662)	(7,077)
<b>Net book value 1 July 2006</b>	<u>2,094</u>	<u>1,416</u>	<u>3,510</u>
Additions:			
Purchase or internally developed	889	571	1,460
Amortisation	(1,071)	(475)	(1,546)
Disposals:			
Other disposals	–	(5)	(5)
<b>As at 30 June 2007</b>			
Gross book value	<b>8,397</b>	<b>3,538</b>	<b>11,935</b>
Accumulated amortisation	<b>(6,485)</b>	<b>(2,031)</b>	<b>(8,516)</b>
<b>Closing net book value</b>	<u><b>1,912</b></u>	<u><b>1,507</b></u>	<u><b>3,419</b></u>
			<b>2007</b>
			<b>\$'000</b>
			2006
			\$'000

**Note 7E. Other non-financial assets**

Prepayments	<b>902</b>	741
<b>Total other non-financial assets</b>	<u><b>902</b></u>	<u>741</u>

All other non-financial assets are current assets.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 8. Payables**

	2007 \$'000	2006 \$'000
<b>Note 8A. Suppliers</b>		
Trade creditors	–	2,788
<b>Total supplier payables</b>	<u>–</u>	<u>2,788</u>

All supplier payables are current liabilities.

**Note 8B. Other payables**

Accrued expenses	3,485	1,481
Unearned fees and charges	2,079	674
GST payable to the ATO	26	106
<b>Total other payables</b>	<u>5,590</u>	<u>2,261</u>

All other payables are current liabilities.

**Note 9. Provisions**

	2007 \$'000	2006 \$'000
<b>Note 9A. Employee provisions</b>		
Salaries and wages	3,438	3,120
Leave	13,721	12,910
Other	86	24
<b>Total employee provisions</b>	<u>17,245</u>	<u>16,054</u>
Current	14,345	13,640
Non-current	2,900	2,414
	<u>17,245</u>	<u>16,054</u>

**Note 9B. Other provisions**

Lease incentive	612	1,153
Provisions for 'make good'	1,691	1,801
<b>Total other provisions</b>	<u>2,303</u>	<u>2,954</u>
Current	412	537
Non-current	1,891	2,417
	<u>2,303</u>	<u>2,954</u>

## Note 9. Provisions (continued)

	\$'000	\$'000	\$'000
	Lease incentive	Provision for 'make good'	Total
<b>Carrying amount 1 July 2006</b>	1,153	1,801	2,954
Additional provisions made	–	23	23
Amounts used	(541)	(88)	(629)
Amounts reversed	–	(45)	(45)
<b>Closing balance 30 June 2007</b>	<b>612</b>	<b>1,691</b>	<b>2,303</b>

APRA leases premises in Sydney, Melbourne, Canberra, Brisbane, Perth and Adelaide.

In the lease conditions of all locations except Canberra, Adelaide and Level 17, 400 George Street Sydney, there is a requirement for APRA, upon expiration of the lease, to restore the premises to the condition they were in at commencement of the lease. The required level of 'make good' provision is being accumulated for each location over the term of the various leases.

## Note 10. Cash flow reconciliation

	2007 \$'000	2006 \$'000
<b>Reconciliation of cash as per Balance Sheet to Statement of Cash Flows:</b>		
Cash at year-end as per <i>Statement of Cash Flows</i>	46,626	13,432
<i>Balance Sheet</i> items comprising the above cash:		
'Financial asset – cash and cash equivalents'	46,626	13,432
<b>Reconciliation of operating result to net cash from operating activities:</b>		
Operating result	17,099	2,944
<b>Non-cash items</b>		
Depreciation/amortisation	3,272	3,934
Net write-down of non-financial assets	19	1,236
Prior year adjustment	–	(412)
Net loss on disposal of assets	22	–
(Increase)/decrease in net receivables	938	196
(Increase)/decrease in prepayments	(161)	(222)
(Increase)/decrease in accrued revenue	(27)	(6)
Increase/(decrease) in revenue in advance	1,404	526
Increase/(decrease) in employees' provisions	1,191	635
Increase/(decrease) in suppliers' payables	(1,951)	(781)
Increase/(decrease) in other provisions	(730)	1,412
<b>Net cash from operating activities</b>	<b>21,076</b>	<b>9,462</b>

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

### Note 11. Contingent liabilities and assets

#### Note 11A. Quantifiable contingent liabilities

At 30 June 2007, the Authority was engaged in a number of legal actions brought against it by various parties relating to disqualification of persons as trustees or to hold positions of responsibility in the general insurance industry, review of decisions by the Administrative Appeals Tribunal and actions brought by APRA against parties in relation to enforcement of the requirements of the legislation administered by APRA. The costs that might be incurred relate mainly to legal counsel and those associated with the legal proceedings. The quantum of the liabilities has been based on estimates provided by the legal practitioners representing the Authority.

#### Note 11B. Quantifiable contingent assets

As stated in Note 11A, the Authority is engaged in a number of legal cases at 30 June 2007. The contingent asset represents an estimate of the legal costs arising from these actions likely to be recovered by APRA. The estimates have been provided by the legal practitioners representing the Authority or on judgments already entered.

#### Unquantifiable contingencies

Of the legal matters unresolved at 30 June 2007, a number of the cases were at a stage where it was not possible to quantify the amounts of any eventual payments that may be required in relation to these claims.

### Note 12. Remuneration of APRA Members

APRA Members are appointed by the Governor-General under Part 3 of the *Australian Prudential Regulation Authority Act 1998* and remuneration is set by the Remuneration Tribunal under the *Remuneration Tribunal Act 1973*. Total remuneration as determined by the Tribunal for 2006/07 was Chairman \$554,950 (2005/06: \$531,470); Deputy Chairman \$464,340 (2005/06: \$444,700); and Member \$441,700 (2005/06: \$423,010). Any difference between the Tribunal determination and the cost to APRA reported below is due to: changes in unused annual and long service leave entitlements accumulated in the year; funding changes to defined benefit superannuation schemes where relevant; and the commencement of the new Member from August 2006. Prior year amounts have been restated to provide consistency with the treatment of superannuation in 2006/07.

## Note 12. Remuneration of APRA Members (continued)

	2007 Number	2006 Number
The remuneration of APRA Members, measured in terms of the cost to APRA, is shown below in the relevant remuneration bands:		
\$390,000 - \$404,999	–	1
\$420,000 - \$434,999	1	–
\$480,000 - \$494,999	–	1
\$510,000 - \$524,999	1	–
\$570,000 - \$584,999	–	1
\$650,000- \$664,999	1	–
<b>Total number of APRA Members</b>	<b>3</b>	<b>3</b>
	<b>\$</b>	<b>\$</b>
Total remuneration of APRA Members, measured in terms of the cost to APRA:	<b>1,590,530</b>	<b>1,465,143</b>

## Note 13. Related party disclosures

### Transactions with APRA Member-related entities

There were no related entity transactions in 2006/07 (2005/06: \$Nil) in respect of APRA Members.

### Loans to APRA Members and Member-related entities

There were no loans made to APRA Members or Member-related entities in 2006/07 (2005/06: \$Nil).

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 14. Executive remuneration**

Prior year amounts have been restated to provide consistency with the treatment of superannuation in 2006/07.

	2007 Number	2006 Number
The remuneration of officers, measured in terms of the cost to APRA, is shown below in the relevant income bands:		
\$175,000 – \$189,999	–	1
\$190,000 – \$204,999	–	1
\$205,000 – \$219,999	1	5
\$220,000 – \$234,999	5	4
\$235,000 – \$249,999	7	6
\$250,000 – \$264,999	6	4
\$265,000 – \$279,999	–	1
\$280,000 – \$294,999	1	–
\$295,000 – \$309,999	–	–
\$310,000 – \$324,999	–	1
\$325,000 – \$339,999	1	1
\$340,000 – \$354,999	–	2
\$355,000 – \$369,999	2	1
\$370,000 – \$384,999	1	–
\$385,000 – \$399,999	–	–
\$430,000 – \$444,999	1	1
<b>Total</b>	<b>25</b>	<b>28</b>
	\$	\$
Total remuneration of executives, measured in terms of the cost to APRA:	<b>6,760,180</b>	7,258,033

**Note 15. Remuneration of auditors**

	2007 \$'000	2006 \$'000
The cost of financial statement audit services provided to the Authority was:		
Australian National Audit Office	<b>110</b>	96

No other services were provided by the Auditor-General.



## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 17. Financial instruments (continued)****Note 17B. Fair values of financial assets and liabilities**

	Note	2007 \$'000	2007 \$'000	2006 \$'000	2006 \$'000
		Total carrying amount	Aggregate fair value	Total carrying amount	Aggregate fair value
<b>Financial assets</b>					
Cash	6A	46,626	46,626	13,432	13,432
Government securities	6C	–	–	14,848	14,848
Receivables for goods and services	6B	1,892	1,892	2,803	2,803
<b>Total financial assets</b>		<b>48,518</b>	<b>48,518</b>	31,083	31,083
<b>Financial liabilities (recognised)</b>					
Trade creditors	8A,8B	3,511	3,511	4,375	4,375
Revenue in advance	8B	2,079	2,079	674	674
<b>Total financial liabilities (recognised)</b>		<b>5,590</b>	<b>5,590</b>	5,049	5,049

**Note 17C. Credit risk exposures**

APRA's maximum exposure to credit risk at reporting date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the *Balance Sheet*.

The Authority has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

This note also applies to APRA's administered financial instruments and is therefore not reproduced at Note 18.

## Note 18: Administered items (continued)

### Note 18A. – Income administered on behalf of Government

	2007 \$000	2006 \$000
<b>Revenues</b>		
<b>Taxation</b>		
Financial Institutions Supervisory Levies:		
Current year levies and penalties (see Table 1) <sup>1</sup>	113,010	98,302
Current year levies recognised in previous period	–	–
	<u>113,010</u>	<u>98,302</u>
Financial Assistance Levy and penalties (see Table 2)	(34)	3,042
<b>Total revenues administered on behalf of Government</b>	<u>112,976</u>	<u>101,344</u>
<b>Table 1: Financial Institutions Supervisory Levies revenue by levy type – Current year levies and penalties<sup>2</sup></b>		
Levy:		
Superannuation funds	49,191	41,528
Authorised deposit-taking institutions	33,068	30,099
Life insurers and friendly societies	9,048	9,752
General insurers	21,551	16,849
<b>Total levies</b>	<u>112,858</u>	<u>98,228</u>
Late payment penalties:		
Superannuation funds	152	69
<b>Total late payment penalties</b>	<u>152</u>	<u>69</u>
Late lodgement penalties:		
Superannuation funds	–	5
<b>Total late lodgement penalties</b>	<u>–</u>	<u>5</u>
<b>Total current year levies and penalties</b>	<u>113,010</u>	<u>98,302</u>

<sup>1</sup> Current year levies and penalties include amounts for past years' levies and penalties invoiced in the current year.

<sup>2</sup> Table 1 provides revenue details by levy type for the current and past years' levies (including where applicable current year amounts paid and recognised in the previous year).

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 18: Administered items (continued)****Note 18A. – Income administered on behalf of Government**

	2007 \$000	2006 \$000
<b>Table 2: Financial Assistance Levy and penalties</b>		
Levy No. 2001/02:1 (Superannuation)		
Levy	–	(1)
Penalties	–	–
		<u>(1)</u>
Levy No. 2001/02:2 (Superannuation)		
Levy	–	(14)
Penalties	–	–
		<u>(14)</u>
Levy No. 2002/03:1 (Superannuation)		
Levy	–	(174)
Penalties	–	26
		<u>(148)</u>
Levy No. 2003/04:1 (Superannuation)		
Levy	(2)	(29)
Penalties	–	–
	<u>(2)</u>	<u>(29)</u>
Levy No. 2004/05:1 (Superannuation)		
Levy	(35)	3,229
Penalties	3	5
	<u>(32)</u>	<u>3,234</u>
<b>Total Financial Assistance Levy and penalties</b>	<u>(34)</u>	<u>3,042</u>

## Note 18. Administered items (continued)

### Note 18B. Expenses administered on behalf of Government

	2007 \$000	2006 \$000
<b>Expenses:</b>		
<b>Net write-down of assets</b>		
Financial Institutions Supervisory Levies		
Levies and late payment penalties waived (Table 1) and Note 20	(447)	(111)
Levies and late payment penalties written-off (Table 2)	-	(15)
Other (doubtful debts)	(308)	7
<b>Total expenses administered on behalf of Government</b>	<b>(755)</b>	<b>(119)</b>
<b>Table 1: Levies and late payment penalties waived by levy type</b>		
Superannuation funds	(447)	(111)
	(447)	(111)
<b>Table 2: Levies and late payment penalties written-off by levy type</b>		
Superannuation funds	-	(15)
	-	(15)

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 18. Administered items (continued)****Note 18C. – Assets administered on behalf of Government**

	2007 \$000	2006 \$000
<b>Financial assets</b>		
<b>Cash</b>		
Cash on hand	–	–
<b>Receivables</b>		
Financial Institutions Supervisory Levies		
Superannuation levies	1,613	26
Financial Assistance Levy	(6)	315
Other	–	(2)
<b>Total receivables (gross)</b>	<b>1,607</b>	<b>339</b>
Less: allowance for doubtful debts	(326)	(19)
<b>Total financial assets (net)</b>	<b>1,281</b>	<b>320</b>
<b>Total assets administered on behalf of Government</b>	<b>1,281</b>	<b>320</b>
<b>Receivables are aged as follows:</b>		
Not overdue	1,287	1
Overdue by:		
– less than 30 days	(6)	309
– 30 to 60 days	–	1
– 60 to 90 days	–	1
– more than 90 days	326	29
<b>Total receivables (gross)</b>	<b>1,607</b>	<b>341</b>
<b>The allowance for doubtful debts is aged as follows:</b>		
Not overdue	–	–
Overdue by:		
– less than 30 days	–	–
– 30 to 60 days	–	–
– 60 to 90 days	–	–
– more than 90 days	(326)	(19)
<b>Total allowance for doubtful debts</b>	<b>(326)</b>	<b>(19)</b>

## Note 18. Administered items (continued)

### Note 18D. – Administered reconciliation table

	2007 \$'000	2006 \$'000
<b>Opening administered assets less administered liabilities at 1 July</b>	<b>320</b>	4,220
Plus administered revenues	112,976	101,344
Less administered expenses	(755)	(119)
Plus transfers from Official Public Account for refunds	78	292
Less transfers to Official Public Account	(111,338)	(105,417)
<b>Closing administered assets less administered liabilities as at 30 June</b>	<b>1,281</b>	320

### Note 18E. - Administered financial instruments

#### Administered interest rate risk

		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Financial instrument				Non-interest bearing	Total
<b>Financial assets</b>					
Cash	18C	–	–	–	–
Receivables	18C	1,281	322	1,281	322
Other	18C	–	(2)	–	(2)
<b>Total financial assets (recognised)</b>		<b>1,281</b>	320	<b>1,281</b>	320
<b>Total assets</b>		<b>1,281</b>	320	<b>1,281</b>	320
<b>Financial liabilities</b>		–	–	–	–

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 19. Appropriations**

The tables in Note 19A and Note 19B report on appropriations made by the Parliament out of the Consolidated Revenue Fund (CRF) in respect of the Authority. When received by the Authority, the payments made are legally the money of the Authority and do not represent any balance remaining in the CRF. Note 19C relates to a Special Appropriation, which is administered on behalf of the Government.

**Note 19A. Acquittal of Authority to draw cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations**

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Particulars		Departmental outputs		Total
<b>Appropriation Act No. 1 (2006/07)</b>				
<b>Purpose: funding of APRA – Outcome 1</b>				
Balance carried forward from previous year	–	–	–	–
Available for payments from CRF	3,687	1,000	3,687	1,000
Cash payments made out of CRF	(3,687)	(1,000)	(3,687)	(1,000)
<b>Balance carried forward to next year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**Note 19B. Acquittal of Authority to draw cash from the Consolidated Revenue Fund - Special Appropriations (limited amount)**

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Particulars		Outcome 1		Total
<b>Australian Prudential Regulation Authority Act 1998 – section 50</b>				
<b>Purpose: funding of APRA</b>				
Amount available carried from previous period	27	105	27	105
Prior year balance adjustment	(20)	(306)	(20)	(306)
Appropriation for reporting period	95,355	80,637	95,355	80,637
Available for payments	95,362	80,436	95,362	80,436
Cash payments made during the year	(94,075)	(80,409)	(94,075)	(80,409)
<b>Amount available carried to the next period</b>	<b>1,287</b>	<b>27</b>	<b>1,287</b>	<b>27</b>
Represented by: Appropriations receivable	1,287	27	1,287	27

## Note 19. Appropriations (continued)

### Note 19C. Acquittal of Authority to draw cash from the Consolidated Revenue Fund – Special Appropriations (refund provisions)

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Particulars		Administered		Total
<b>Financial Management and Accountability Act 1997 – section 28<sup>1</sup></b>				
<b>Purpose: to refund overpayments of levies by financial institutions</b>				
Cash payments made during the year	(78)	(292)	(78)	(292)
Total charged to Special Appropriation	(78)	(292)	(78)	(292)

## Note 20. Compensation and debt relief

	2007 \$	2006 \$
77 waivers of amounts owing to the Commonwealth were made pursuant to section 12 of the <i>Financial Institutions Supervisory Levies Collection Act 1998</i> (2006:20)	447,429	111,639
	<u>447,429</u>	<u>111,639</u>

## Note 21. Assets held in trust

### Services for other Governments and non-agency bodies account

This account existed under the predecessor agency, the Insurance and Superannuation Commission. Upon transformation of that agency to APRA on 1 July 1998, there was a nil balance in that account and no transactions have occurred since that time. Balance at 30 June 2007 is nil.

<sup>1</sup> Department of Finance and Administration is responsible for this Special Appropriation.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

### Note 21. Assets held in trust (continued)

#### Tunstall Bond Superannuation Fund Trust Account

This account was established by APRA following a Deed of Settlement entered into between APRA and the former Trustees of the Tunstall Bond Superannuation Fund, arising from legal proceedings against the former *Trustee under the Superannuation Industry (Supervision) Act 1993*. Under the Deed the former Trustees are required to pay certain amounts to APRA to be held in trust by APRA until ordered by the court to disperse the funds in a manner to be determined. Total receipts include interest earned on the amounts paid by the former Trustee.

	2007 \$'000	2006 \$'000
Total held at beginning of period	–	369
Total receipts during reporting period	–	43
Total payments during reporting period	–	(412)
<b>Total held by APRA at the end of the reporting period (cash)</b>	<b>–</b>	<b>–</b>

### Note 22. Special account

#### Superannuation Protection Account

This account was established under section 234 of the *Superannuation Industry (Supervision) Act 1993* to facilitate the payment and recovery of financial assistance provided to superannuation fund members suffering adverse outcomes resulting from fraud and misappropriation by fund trustees. There were no transactions to this account in 2006/07 (2005/06: \$Nil). All financial assistance payments by Treasury and recoveries by APRA made to date have been transacted directly from and to the Consolidated Revenue Fund.

### Note 23. Reporting of outcomes

#### Note 23A – Outcomes of the Authority

APRA is structured to meet the following outcome:

Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation, which balances financial safety and efficiency, competition, contestability and competitive neutrality.

Only one output group is identified for the outcome. The output group consists of three outputs: policy development, surveillance program and prudential advice.

## Note 23. Reporting of outcomes (continued)

### Note 23B. – Net cost of outcome delivery

	2007 \$'000	2006 \$'000
		Outcome 1
<b>Expenses</b>		
Administered	755	119
Departmental	91,062	92,108
<b>Total expenses</b>	<b>91,817</b>	<b>92,227</b>
<b>Costs recovered from provision of goods and services to the non-government sector:</b>		
Administered	–	–
Departmental	4,545	9,130
<b>Total costs recovered</b>	<b>4,545</b>	<b>9,130</b>
<b>Other external revenues</b>		
Administered:		
Financial Institutions Supervisory Levies	113,010	98,302
Financial Assistance Levy	(34)	3,042
Total Administered	<b>112,976</b>	<b>101,344</b>
Departmental:		
Sale of goods and services – to related entities	1,372	766
Interest	3,608	2,574
Revenue from sale of assets	–	–
Rental recoveries	737	815
Insurance recoveries and other revenue	645	130
Total Departmental (Authority)	<b>6,362</b>	<b>4,285</b>
<b>Total other external revenues</b>	<b>119,338</b>	<b>105,629</b>
<b>Net cost/(contribution) of outcome</b>	<b>(32,066)</b>	<b>(22,532)</b>

The output reporting is derived from the APRA internal activity system which captures the time spent by each employee on the three published outputs: policy development, surveillance program and prudential advice. Expenses are tracked for each cost centre and aggregated for each output. Expenses relating to the HIH Royal Commission are treated under prudential advice. Revenue is apportioned based on the weighted average percentages for each output.

The net costs shown include intra-government costs that would be eliminated in calculating the actual budget outcome.

## Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

**Note 23. Reporting of outcomes (continued)****Note 23C. – Departmental (Authority) revenues and expenses by output groups and outputs**

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Outcome Group 1	Output 1.1.1 Policy development		Output 1.1.2 Surveillance program		Output 1.1.3 Prudential advice		Total	
<b>Operating expenses</b>								
Employees	7,503	7,987	51,424	50,262	2,074	1,802	61,001	60,051
Suppliers	3,289	3,588	22,539	22,584	909	809	26,737	26,981
Finance costs	–	31	–	196	–	7	–	234
Depreciation and amortisation	402	523	2,758	3,293	112	118	3,272	3,934
Write-down of assets	6	121	44	760	2	27	52	908
<b>Total operating expenses</b>	<b>11,200</b>	12,250	<b>76,765</b>	77,095	<b>3,097</b>	2,763	<b>91,062</b>	92,108
<b>Funded by:</b>								
Revenues from Government	12,033	10,858	82,472	68,330	3,326	2,449	97,831	81,637
Sale of goods and services	653	923	4,473	5,806	180	208	5,306	6,937
Rent recoveries	91	109	621	683	25	24	737	816
Interest	444	342	3,042	2,154	123	77	3,609	2,573
Other revenues	84	411	571	2,585	23	93	678	3,089
<b>Total operating revenues</b>	<b>13,305</b>	12,643	<b>91,179</b>	79,558	<b>3,677</b>	2,851	<b>108,161</b>	95,052

The Authority's outcome and outputs are described at Note 23A.

The net costs shown include intra-government costs that would be eliminated in calculating the actual Budget outcome.

## Note 23. Reporting of outcomes (continued)

### Note 23D. – Administered revenues and expenses by outcome

	2007 \$'000	2006 \$'000
		Outcome1
<b>Administered revenues</b>		
Financial Institutions Supervisory Levies	113,010	98,302
Financial Assistance Levy	(34)	3,042
<b>Total administered revenues</b>	<b>112,976</b>	<b>101,344</b>
<b>Administered expenses</b>		
Levies waived	447	111
Levies written-off	-	15
Financial Assistance Levy written-off	-	-
Other	308	(7)
<b>Total administered expenses</b>	<b>755</b>	<b>119</b>

The Authority's outcome and outputs are described at Note 23A.

The net costs shown include intra-government costs that would be eliminated in calculating the actual Budget outcome.



## INDEPENDENT AUDITOR'S REPORT

To the Minister for Revenue and Assistant Treasurer

### Scope

We have audited the accompanying financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2007. The financial statements comprise: a statement by Members; income statement; balance sheet; statement of changes in equity; statement of cash flows; schedules of commitments, contingencies and administered items; a summary of significant accounting policies, and other explanatory notes.

### *The Responsibility of the Members for the Financial Statements*

The Members are responsible for the preparation and fair presentation of the financial statements in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and Australian Accounting Standards (including Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial statements based on our audit. Our audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Prudential Regulation Authority's preparation and fair presentation of the financial statements in designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Prudential Regulation Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Members, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Independence***

In conducting the audit, we have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

**Auditor's Opinion**

In my opinion, the financial statements of the Australian Prudential Regulation Authority;

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and Australian Accounting Standards (including Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Prudential Regulation Authority's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office



P Hinchey  
Senior Director  
Delegate of the Auditor-General

Sydney  
30 August 2007