

**Your  
Local  
Government  
Finance  
Authority of  
South  
Australia.**

# Member Councils as at June 30 2012.

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Adelaide City Council  
Adelaide Hills Council  
Alexandrina Council  
The Barossa Council  
District Council of Barunga West  
Berri Barmera Council  
City of Burnside  
Campbelltown City Council  
District Council of Ceduna  
City of Charles Sturt  
Clare and Gilbert Valleys Council  
District Council of Cleve  
District Council of Coober Pedy  
Coorong District Council  
District Council of Copper Coast  
District Council of Elliston  
The Flinders Ranges Council  
District Council of Franklin Harbour  
Town of Gawler  
Goyder Regional Council  
District Council of Grant  
Holdfast Bay City Council  
Kangaroo Island Council  
District Council of Karoonda East Murray  
District Council of Kimba  
Kingston District Council  
Light Regional Council  
District Council of Lower Eyre Peninsula  
District Council of Loxton Waikerie  
District Council of Mallala  
Corporation of the City of Marion  
Mid Murray Council  
City of Mitcham  
District Council of Mount Barker  
City of Mount Gambier  
District Council of Mount Remarkable  
Rural City of Murray Bridge  
Naracoorte Lucindale Council  
Northern Areas Council  
City of Norwood, Payheham and St. Peters  
City of Onkaparinga  
District Council of Orreroo/Carrieton  
District Council of Peterborough  
City of Playford  
City of Port Adelaide Enfield  
Port Augusta City Council  
City of Port Lincoln  
Port Pirie Regional Council  
City of Prospect  
Renmark Paringa Council  
District Council of Robe  
Municipal Council of Roxby Downs  
City of Salisbury  
Southern Mallee District Council  
District Council of Streaky Bay  
Tatiara District Council  
City of Tea Tree Gully  
District Council of Tumby Bay  
Corperation of the City of Unley  
City of Victor Harbor  
Wakefield Regional Council  
Corperation of the Town of Walkerville  
Wattle Range Council  
City of West Torrens  
City of Whyalla  
Wudinna District Council  
District Council of Yankalilla  
District Council of Yorke Peninsula

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# Board of Trustees.

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**Mr Tony Pederick OAM**  
**Chairman**

Chairman, Forerunner  
Computer Systems



**Mr Paul Cohen**  
**Deputy Chairman**

Retired - Former First  
Vice-President, General Manager  
Treasury and Trade, Bank One NA



**Ms Wendy Campana**  
**Chief Executive Officer**

Local Government Association of  
South Australia  
Deputy: Mr Chris Russell, Strategic  
Advisor, Policy and Communications,  
Local Government Association  
of South Australia.



**Cr John Frogley**  
**Councillor**

City of Norwood Payneham  
and St Peters



**Mr David Posaner**  
**Director Corporate**  
**Governance and Planning**

South Australian Government Financing  
Authority (SAFA)



**Ms Susan McCormick**  
**Director**

Office for the Southern Suburbs  
Appointee of the Minister for State/  
Local Government Relations



**Cr John Sanderson**  
**Councillor**

City of Mitcham

# Chairman's Review.

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**“Despite the strong competition, LGFA was able to remain profitable”**

**The following key items are highlighted for the 2012 results:**

Taxation Equivalent Expense is held in trust by the State Government and is granted to the Local Government Association of SA for local government development purposes. A bonus payment to be distributed by the Authority amongst participating Councils and Prescribed Local Government Bodies of \$1.74 M has been approved by the Board of Trustees.

Financial markets remained extremely tight during the year under review. The European debt crisis continued to dominate and volatility was high. Interest rate differentials between the USA and Australia and high commodity prices saw the AUD climb during the year and at the time of writing was around \$1.05 USD.

The Reserve Bank of Australia reduced interest rates by 1.25%pa over the year in response to the uncertainty in Global markets. Most commentators are now expecting an “on-hold” policy for the remainder of the year.

## Financial Performance

Profit Before Income Tax Equivalents was \$3.772M for the year ended 30 June 2012. This result was after taking into account write downs of \$417,000 for Available-for-Sale Assets and Fair Value Hedges required by the Australian Accounting Standards. The value of these asset and hedge transactions will fluctuate over time but the underlying profit remains stable.

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Profit Before Income Tax Equivalents	\$3.772M
Taxation Equivalent Expense	\$1.132M
Bonus Payment Provision	\$1.740M
Total Assets	\$675.4M
Total Equity	\$55.5M

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Australian banks continued to find raising AUD debt difficult with offshore markets inaccessible. This is causing an increase in the cost of funds for all financial institutions including LGFA, which is squeezing margins.

Despite this strong competition, LGFA was able to remain profitable and was again the leading provider of financial services to South Australian Councils and Prescribed Local Government Bodies in 2011-12.

## Lending Activities

Councils have continued to access the comprehensive range of lending products the Authority has offered throughout the year. Focusing on creating and maintaining long term financial plans for their Councils, the Authority is continuing to offer structuring advice to Councils to ensure they are accessing the best possible funding arrangements available to maximise return to their respective communities.

During the year, there has been a considerable turnover of staff within Local Government, both at CEO level and within Council Finance teams. Management at the LGFA has continued its visitation program and is meeting as many new staff members as possible.

Loan rates eased considerably throughout the year with 10 & 15 Year rates averaging between 5.00-5.30% during the last quarter, down over 1.00% on last year's average.

This year the Authority saw new fixed rate loans exceed \$59.0 M. With the reduction in existing loan balances due to principal payments of \$49.0 M, the overall net gain for the year was \$10.0 M. In respect of floating rate debt we saw an increase of \$7.0 M in outstandings.

The Cash Advance Debenture suite of products continued to be accessed, with a net increase in limits of \$96.3 M achieved. Total limits have now increased to \$500.0 M. Councils and Prescribed Bodies are utilising the flexibility of the Cash Advance Debenture product to assist with cash flow management and to achieve a balance of floating and fixed interest rates.

At the end of the year, total loans outstanding were \$581.2 M (comprised of \$426.5 M fixed and floating rate loans of \$154.7 M). This is another record for the Authority.

In conjunction with support from Councils and Prescribed Bodies in terms of investments, we were able to keep loan rates at low levels compared with our competitors. With your continued support over the coming financial year, we will continue to provide fee-free, low interest rate funding options to clients.

## Investment Activities

This year has seen investment rates fall across the board to levels not seen for several years. Financial markets have been quite unsettled throughout the year as economic developments in Europe continued to dominate world news.

As a result of slowing economies around the world the Reserve Bank of Australia (RBA) dropped the official cash rate four times this year. The RBA adjusted the official cash rate in November and December 2011 by 0.25% each time, in May 2012 by 0.5% and again in June 2012 by 0.25%.

This resulted in the investment return on Councils' 24 hour call investments falling from 4.75% at the start of the year to 3.5% at balance date.

While competition for Councils' deposit funds remains strong, we are pleased to report a steady average daily deposit level of \$375M (slightly in excess of last year.) We will ensure we remain competitive in this market in an effort to grow our market share. This also allows LGFA to provide extremely cost effective loan funds to Councils from our deposit base.

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**“This year has seen investment rates fall across the board to levels not seen for several years”**

## Information Technology

The Authority launched its website in February 2012, providing local government clients with access to a range of resources in an electronic format. Clients can now access their account balances and other useful information directly from the website. It is anticipated that further enhancements to the website will be made in the future. We would like to extend our thanks to The Kingdom Advertising for their professional work on the development of this system.

A further extension to our contract for the Reval hedge accounting software was agreed to during the year. This will ensure our compliance with the requirements of AASB 139 Financial Instruments: Recognition and Measurement until the introduction of AASB 9 Financial Instruments in the financial year ending 30 June 2014. It is anticipated that any changes required to the current methodology which may arise from the new standard AASB 9 Financial Instruments will be included in future upgrades to this system.

## Compliance

The Authority is required to comply with Treasurer’s Instruction (TI) 2 Financial Management and TI 28 Financial Management Compliance Program (FMCP). Bentleys was selected from the State Procurement Board Panel Contract for the Provision of Audit and Related Services to conduct the FMCP. The FMCP was completed satisfactorily in June 2012 and a report detailing the audit results was delivered to the Authority and the Auditor General’s Department.

The Auditor-General’s Department has placed some reliance on the report provided by Bentleys, which has reduced the auditing work required by the Auditor-General and accordingly their estimated fee for the reporting period. Therefore the overall cost of our audit program has not increased greatly.

The continuing development of AASB 9 Financial Instruments has not provided any significant simplification of the current hedge accounting requirements applicable to the Authority. Therefore the Authority will wait to review any further changes that may arise before it is due to be adopted, which is currently scheduled for the financial year ending 30 June 2014.

## The Board

Late last year Paul Cohen, our Chairman for the last five years, took ill and following his inability to make some Board meetings, decided to step down from the Chairman's role. I was subsequently elected Chairman at the February 2012 Board meeting and Paul was elected Deputy Chair. It is pleasing to report that Paul's health has improved considerably in recent times and he is now keenly attending meetings and making a very worthwhile contribution to LGFA's ongoing success.

The Authority is managed by a Board of Trustees which consists of seven members, plus up to two independent members, appointed by the Board from time to time and as required.

Two Trustees are nominated by the Local Government Association of South Australia, one Trustee is the Chief Executive Officer of the Local Government Association of South Australia (LGA), two members are elected by Councils, one Trustee is appointed by the Treasurer and the other is the Minister's representative.

Every two years the Board is subject to elections or the appointment / re-appointment of various members. Paul Cohen and I are up for re-appointment by the LGA for a further two years commencing 1 January 2013. John Frogley and John Sanderson will stand for re-election later this year.

## Board Meetings attended by Board Members

Number of meetings held: 6

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Mr Anthony Pederick	5
Mr Paul Cohen	4
Ms Wendy Campana	3
Councillor John Frogley	5
Ms Sue McCormick	6
Mr David Posaner	4
Councillor John Sanderson	5
Mr Chris Russell (Deputy for Ms Wendy Campana)	3

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**During the year Board Members  
attended several other meetings.**

## Staff

The organisation has a small team of professional and enthusiastic people who all contribute to the excellent results achieved. They ensure Members receive the very best possible outcomes from dealings with the Authority.

The Board in August 2012 approved Paul Slater as its Chief Executive Officer for a further period of five years when his current contract expires on the 4th of November 2012.

During the year Kaye McNicol, Personal Assistant left the Authority after 28 years of loyal service in July 2012

Joanne Fraser joined the Authority as Business Support Officer in August 2012.

Our staff has again made a significant contribution to the success of the Authority during 2011/12 and I take this opportunity to thank all staff for their efforts and loyalty.



**Tony Pederick OAM**  
Chairman

August 2012





# Authority Profile.

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## The Authority

The Local Government Finance Authority of South Australia (the Authority), a body corporate, was established in January 1984 under the Local Government Finance Authority Act 1983 and is managed and administered by a Board of Trustees.

The Authority is a statutory authority established for the benefit of Councils and other Prescribed Local Government Bodies within the state. It is not a part of the Crown, nor is it an agency or instrumentality of the Crown.

## Members

All local authorities are automatically members of the Finance Authority, but use of the Authority for investment and loans is entirely voluntary.

## Guarantee

In accordance with Section 24 of the Local Government Finance Authority Act, 1983 all the liabilities of the Authority (including monies accepted on deposit from the local authorities) are guaranteed by the Treasurer of South Australia.

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## Income Tax

LGFA makes payments equivalent to Company Income Tax. The equivalent liability is calculated/applied on an accounting profits basis and the amounts are paid into an account established with the State Treasurer entitled the "Local Government Taxation Equivalents Fund". The funds are then available for local government development purposes as recommended by the Local Government Association of South Australia and agreed to by the Minister for Local Government.

## Bonus

The bonus payment is a mechanism which enables the Authority to share its success with Member Councils and Prescribed Local Government Bodies.

Since its introduction in 1985 an amount of \$28.185 M has been distributed with a further \$1.740 M to be paid in respect of the year ended 30 June 2012.

In line with practice the bonus payment has been calculated to relate to average deposit and loan levels held with the Authority during the course of the financial year. The deposit activity was recognised by an allocation of \$1.180 M with the balance of \$560,000 allocated to loans, thereby maintaining percentage levels similar to previous years.

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**It is to be noted that LGFA is required to be at arm's length in any dealings with, or control of, the funds.**

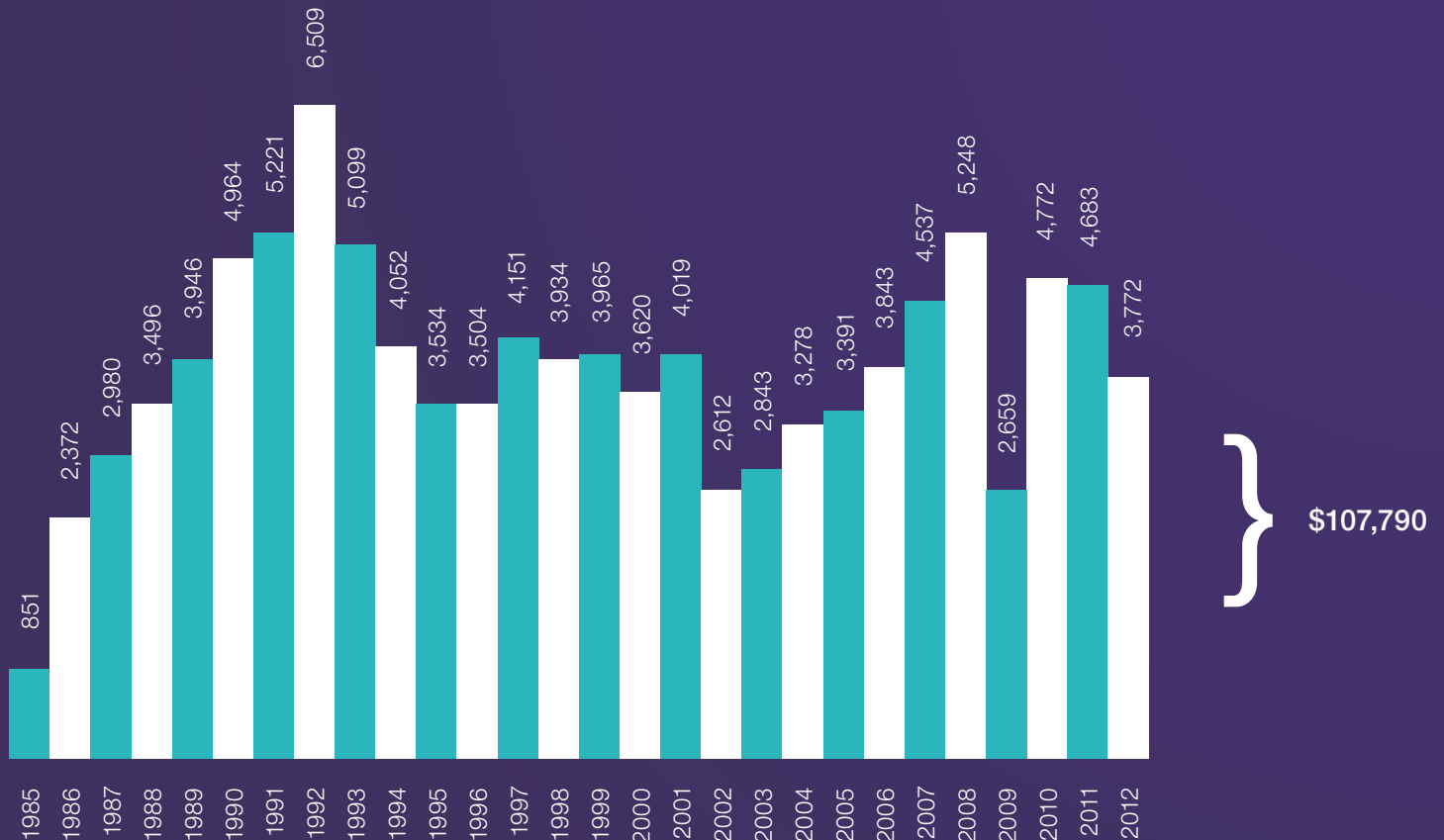
**“Since its introduction in 1985 an amount of \$28.158 M has been distributed with a further \$1.740 M to be paid in respect of the year ended 30 June 2012”**

# Profit Before Tax.

The following shows profits for the  
Local Government Finance Authority of  
South Australia since 1985, before tax:

(All profits as \$'000)

Your  
Local  
Government  
Finance  
Authority of  
South  
Australia



# Case Studies.

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## Port Macdonald Complex

The construction of the new complex area and renovations of the original building were recently completed utilising loan borrowings from the District Council of Grant (provided by LGFA). This now enables the community access to a wide range of services that previously were unavailable.

The library, maritime museum, bank agencies, youth area, gallery, meeting room and council office are just some of the services now available.

The Complex incorporates cutting edge technology and environmentally sustainable solutions to reduce its carbon footprint and flexible spaces to meet the needs of the community in the future. The Complex has experienced a surge in members of the community accessing the library since its opening in June 2011.





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## Goolwa Aquatic Centre

The Goolwa Aquatic Club, with loan borrowings from Alexandrina Council (sought from the LGFA), has recently undergone a \$1.2million dollar upgrade. The original club building was built in the 1960s, with extensions in the late 60s and early 70s.

The new upgrade includes full glass windows and a 60-metre balcony, taking advantage of the river views. The building will now seat 240, making it the largest function venue in the area.

The Goolwa Aquatic Club is accessible to the whole community and has a strong club atmosphere. Community spirit has helped the project with reduced trade rates and many members working on the building as volunteers.

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**“The upgrade to the Goolwa Aquatic Club is an asset to Goolwa and wider communities”**

# “It was a major project which rejuvenated the character and facilities of Dunstone Grove - Linde Reserve”

## Dunstone Grove - Linde Reserve

The City of Norwood, Payneham & St Peters borrowed funds from the LGFA to complete the redevelopment of Dunstone Grove – Linde Reserve in Stepney.

Completed in October 2011, it was a major project which rejuvenated the character and facilities of Dunstone Grove – Linde Reserve, with an integrated design to meet the needs of the community.

The redevelopment placed design, sustainability, local art, culture and play, back at the heart of the local community, creating a unique meeting place which encompasses environmental initiatives, open space and recreation areas, a community Garden and community facilities.

Key features of the Reserve include the state-of-the-art Stormwater Bio-Filtration Harvesting & Re-Use System to capture stormwater to irrigate the Reserve; integrated open space areas to increase opportunities for recreational activity, including new pathways for dual-use by pedestrians and cyclists and a basketball ring; an impressive outdoor amphitheatre, incorporating function space and catering facilities, for use by citizens and community groups; and an interactive children’s playground.



# Financial Report.

# Statement of Comprehensive Income.

For the Year Ended 30 June 2012

		2012	2011
<b>Income</b>	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Interest on Investments	2(c)	2,744	3,314
Interest on Loans and Advances	2(c)	55,366	51,877
Other Income	2(f), 2(h), 3	155	515
<b>Total Income</b>		<b>58,265</b>	<b>55,706</b>
<b>Expenses</b>			
Interest on Deposits from Councils and Local Government Bodies	2(d)	17,866	18,442
Interest on Borrowings	2(d)	33,347	29,810
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	24	1,113	1,022
Administration Expenses	4	1,750	1,749
Other Expenses	2(f), 2(h), 5	417	-
<b>Total Expenses</b>		<b>54,493</b>	<b>51,023</b>
<b>Profit Before Income Tax Equivalents</b>		<b>3,772</b>	<b>4,683</b>
Income Tax Equivalent Expense		1,132	1,405
<b>Profit After Income Tax Equivalents</b>	2(e), 24	<b>2,640</b>	<b>3,278</b>
<b>Total Comprehensive Result</b>		<b>2,640</b>	<b>3,278</b>

The profit after income tax equivalents and comprehensive results are attributable to the owners.

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



# Statement of Financial Position.

As at 30 June 2012

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	Note	2012 \$'000	2011 \$'000
<b>Assets</b>			
Cash and Liquid Assets	6	-	169
Accrued Interest Receivable	7	4,276	4,027
Investment Securities	2(f), 8	40,526	45,831
Other Assets	9	92	268
Net Loans and Advances	2(g), 10	630,206	579,331
Property, Plant & Equipment	2(j), 11	275	317
<b>Total Assets</b>		<b>675,375</b>	<b>629,943</b>
<b>Liabilities</b>			
Deposits from Councils and Local Government Bodies	2(k), 12	396,149	358,514
Accrued Interest Payable	13	4,651	5,137
Borrowings	14	178,745	205,360
Derivatives	2(i), 15	37,660	3,190
Provisions	2(l), 16	2,500	2,812
Other Liabilities	17	189	349
<b>Total Liabilities</b>		<b>619,894</b>	<b>575,362</b>
<b>Net Assets</b>		<b>55,481</b>	<b>54,581</b>
<b>Equity</b>			
General Reserve		55,000	54,000
Retained Profits		481	581
<b>Total Equity</b>		<b>55,481</b>	<b>54,581</b>
<b>The equity is attributable to the owners</b>			
Contingent Assets and Liabilities	22		

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

# Statement of Changes in Equity.

For the Year Ended 30 June 2012

	General Reserve	Retained Profits	Total
	\$'000	\$'000	\$'000
<b>Balance at 1 July 2010</b>	<b>52,400</b>	<b>643</b>	<b>53,043</b>
Profit After Income Tax equivalents for 2010/11	-	3,278	3,278
<b>Total Comprehensive Result for 2010/11</b>	<b>-</b>	<b>3,278</b>	<b>3,278</b>
Transfer to Bonus Payment Provision	-	(1,740)	(1,740)
Transfer to General Reserve	1,600	(1,600)	-
<b>Balance at 30 June 2011</b>	<b>54,000</b>	<b>581</b>	<b>54,581</b>
Profit After Income Tax equivalents for 2011/12	-	2,640	2,640
<b>Total Comprehensive result for 2011/12</b>	<b>-</b>	<b>2,640</b>	<b>2,640</b>
Transfer to Bonus Payment Provision	-	(1,740)	(1,740)
Transfer to General reserve	1,000	(1,000)	-
<b>Balance at 30 June 2012</b>	<b>55,000</b>	<b>481</b>	<b>55,481</b>

All changes in equity are attributable to the owners.

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

# Statement of Cash Flows.

For the Year Ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
		Inflows (Outflows)	Inflows (Outflows)
Cash Flows From Operating Activities			
Interest and Bill Discounts Received		58,177	53,988
Interest Paid		(51,537)	(47,610)
Fees Paid re Guarantee provided by Treasurer of S.A.		(1,107)	(1,018)
Cash Payments to Suppliers and Employees		(1,738)	(1,626)
Fees Recieved		153	202
Income Tax Paid		(1,392)	(1,749)
<b>Net Cash Provided by Operating Activities</b>	<b>19</b>	<b>2,556</b>	<b>2,187</b>
Cash Flows From Investing Activities			
Loans to Councils and Local Government Bodies		(16,513)	(51,977)
Investment Securities		5,000	16,000
Payment for Property, Plant & Equipment		(86)	(189)
Proceeds from Sale of Property, Plant & Equipment		25	79
<b>Net Cash Used in Investing Activities</b>		<b>(11,574)</b>	<b>(36,087)</b>
Cash Flows from Financing Activities			
Promissory Notes		(6,980)	(1,600)
Deposits from Councils and Local Government Bodies		37,635	(6,648)
Short Term Money Market Facilities		(29,260)	44,230
Fixed Term Borrowings		9,600	-
Bonus Payment to Councils and Local Government Bodies		(1,740)	(1,740)
Other		(432)	(655)
<b>Net Cash Provided by Financing Activities</b>		<b>8,823</b>	<b>33,587</b>
Net (Decrease)/ Increase in Cash Held		(195)	(313)
Cash as at 1 July		169	482
<b>(Bank Overdraft)/ Cash at 30 June</b>	<b>19</b>	<b>(26)</b>	<b>169</b>

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

# Notes To and Forming Part of the Financial Statements.

For the Year Ended 30 June 2012

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## 1. Objectives of the Local Government Finance Authority of South Australia.

The Local Government Finance Authority of South Australia (the Authority) was established pursuant to the Local Government Finance Authority Act, 1983. The functions of the Authority are as follows:

- (a) to develop and implement borrowing and investment programmes for the benefit of councils and prescribed local government bodies; and
- (b) to engage in such other financial activities as are determined by the Minister, after consultation with the Local Government Association, to be in the interests of local government.

## 2. Statement of Accounting Policies

### (a) Basis of Accounting

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

The Authority's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain financial instruments that were valued in accordance with the valuation policy applicable.

The Statement of Cash Flows has been prepared on a cash basis.

### (b) Classification of Financial Instruments

Management determines the classification of its investments at initial recognition and at each reporting date in accordance with AASB 139 Financial Instruments: Recognition and Measurement. The Authority classifies its investments into the following categories, which determines the applicable accounting treatment:

#### Loans and receivables

Measured at amortised cost. The Authority classifies Loans and Advances, Accrued Interest Receivable, Cash and Liquid Assets and Other Assets under this category.

**“The Authority has not incurred any bad debts since its inception in 1984”**

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#### **Held to maturity financial assets**

Measured at amortised cost. The Authority did not have any assets in this category at balance date.

#### **Available-for-sale financial assets**

Measured at fair value with fair value changes taken to Equity and impairment losses and gains taken to the Statement of Comprehensive Income. The Authority classifies certain investment securities (Note 2 (f) Refer) under this category, which are not held for trading but can be disposed of in an existing market if required

#### **Financial assets or financial liabilities at fair value through profit and loss**

Measured at fair value with fair value changes taken to the Statement of Comprehensive Income. The Authority classifies derivative instruments that are not classified as effective hedging instruments under this category (Note 2 (i) Refer).

#### **Fair Value Hedge**

Measured at fair value with hedge accounting adjustments taken to the Statement of Comprehensive Income. The Authority classifies derivatives which are effective hedging instruments (Note 2 (i) Refer) and the corresponding hedged items (Note 2 (h) Refer), which are all fixed rate debenture loans under this category.

#### **Financial Liabilities at amortised cost**

The Authority classifies all liabilities under this category, other than derivative instrument liabilities which are not classified as effective hedging instruments (Note 2 (i) Refer).

## **(c) Interest Income**

### **Interest on Investments**

This item includes interest income from assets which are classified as Available-for-sale financial assets and Financial assets at fair value through profit and loss and deposits held with financial institutions during the year. The interest income is calculated on an accruals basis.

### **Interest on Loans and Advances**

This item includes interest income from assets classified as Loans and Advances as well as interest income from derivatives that are classified under the Fair Value Hedge category. The interest income is calculated on an accruals basis.

## **(d) Interest Expense**

### **Interest on Deposits from Councils and Local Government Bodies**

This item includes interest paid to Councils and Local Government Bodies and is calculated on an accruals basis.

### **Interest on Borrowings**

This item includes interest expense on other liabilities used in funding lending activity and interest expense on derivative instruments, and is calculated on an accruals basis.

## **(e) Income Tax Equivalents**

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

## **(f) Investment Securities**

The Authority has investments that are categorised as Available-for-sale financial assets which have therefore been recorded at fair value with the change in fair value being adjusted against Equity on the Statement of Financial Position. Where such investments are subsequently deemed to be impaired under the provisions of AASB 139 then the impaired amount is transferred from Equity to the Statement of Comprehensive Income.

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# “The majority of loan agreements are secured by debentures, providing a charge over Council general revenue”

## (g) Loans and Advances

The majority of loan agreements are secured by debentures, providing a charge over Council general revenue. Loans to Prescribed Local Government Bodies (totalling \$33.5 million as at 30/6/12) are predominantly to Council subsidiaries and rely upon the constitutional obligations of Councils in the guarantee of the liabilities incurred or assumed by subsidiaries as per Schedule 2 of the Local Government Act 1999.

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

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

## (h) Hedge Accounting

Loans which are not effectively hedged by a derivative financial instrument are recorded in the accounts on the basis of historical cost. Loans which are effectively hedged by a derivative financial instrument are recorded using hedge accounting.

The Authority uses interest rate swaps to hedge the interest rate risk associated with long term fixed rate debenture loans to Councils and Prescribed bodies. Hedge Accounting is used where it has been determined that the hedge is highly effective and has been documented according to AASB 139.

The hedges used by the Authority are classified as Fair Value Hedges and the hedged items are all long term fixed rate debenture loans. The hedged amount of the loan is recorded at fair value with the non interest rate risk component or credit margin recorded on an accrual accounting basis.

## (i) Derivative Transactions

The Authority has entered into agreements with high credit status organisations to swap certain rights and obligations (Note 23 - Financial Risk Management refer). Interest Rate Swaps are categorised as Fair Value Hedges and Futures Contracts are categorised as Financial assets or financial liabilities at fair value through profit and loss.

## (j) Property, Plant & Equipment

Property, Plant & Equipment are brought to account at cost less, where applicable, any accumulated depreciation.

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

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Office Equipment	3 Years
Office Furniture	5 Years
Computer Software	2.5 Years
Motor Vehicles	4.5 - 6.7 Years

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## **(k) Concentrations of Deposits**

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

## **(l) Employee Benefits**

A provision is made in respect of the Authority's liability for annual leave, long service leave and related on-costs as at balance date. Long service leave is accrued for all employees from the date of commencement of service.

No provision is made in the accounts for sick leave entitlements.

## **(m) Accounting Judgements, Estimates and Assumptions**

### **Significant accounting judgements**

In the process of applying the Authority's accounting policies, management has made judgements in the classification of financial instruments which has had a significant effect on the amounts recognised in the financial statements. In particular, the classification of derivatives and long term fixed rate debenture loans as Fair Value Hedges has enabled management to utilise the hedge accounting provisions of AASB 139 Financial Instruments: Recognition and Measurement.

### **Significant accounting estimates and assumptions**

The fair values of Available-for-sale financial assets, hedged long term fixed rate debenture loans and derivatives are based on observable market rates as at balance date and therefore, no significant estimates or assumptions are used in their calculation.

## **(n) Comparative Information**

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and accounting policy statements have required a change.

Where presentation or classification of items in the financial statements has been amended, comparative amounts have been reclassified unless reclassification is impracticable.

The restated comparative amounts do not replace the original financial statements for the preceding period.

## **(o) Rounding**

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

## **(p) New and Revised Accounting Standards**

The Authority did not voluntarily change any of its accounting policies during 2011-12.

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Authority for the period ending 30 June 2012.

The Authority has assessed the impact of AASB 9 Financial Instruments and considers there will be no financial impact when it is due to be adopted in the financial year ending 30 June 2014.



	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>3. Other Income</b>		
Gain on Impaired Available-for-Sale Assets Revaluation	-	294
Gain on Fair Value Hedges Revaluation (Hedge Accounting)	-	69
Fee Income.	155	152
<b>Total</b>	<b>155</b>	<b>515</b>

#### 4. Administration Expenses

Salaries & On-Costs	904	910
Depreciation	103	102
Audit Fees	71	80
Consultancy Fees	40	26
Other Expenses	632	631
<b>Total</b>	<b>1,750</b>	<b>1,749</b>

The amounts received, or due and receivable in respect of this financial year by the Auditors in connection with:

Auditing the accounts by the Auditor General's Department.	45	59
Financial Management Compliance Program by an external audit firm.	26	21
<b>Total</b>	<b>71</b>	<b>80</b>

The number and dollar amount of consultancies paid/payable that fell within the following bands:

	<b>No.</b>		<b>No.</b>	
Below \$10,000	1	2	1	6
\$10,000 to \$50,000	2	38	2	20
<b>Total</b>		<b>40</b>		<b>26</b>

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>5. Other Expenses</b>		
Loss on Impaired Available-for-Sale Assets Revaluation	299	-
Loss on Fair Value Hedges Revaluation (Hedge Accounting)	118	-
<b>Total</b>	<b>417</b>	<b>-</b>

## 6. Cash and Liquid Assets

Cash at Bank	-	169
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## 7. Accrued Interest Receivable\*

Interest Receivable - Loans to Councils and Local Government Bodies	3,028	2,800
Interest Receivable - Investment Securities	1,248	1,227
<b>Total</b>	<b>4,276</b>	<b>4,027</b>

\* The accrued interest receivable on Investment Securities, Net Loans and Advances and Derivatives which are required to be recorded at fair value have been transferred to the respective line item.

## 8. Investment Securities

Deposits and Securities issued by Banks	42,000	47,000
Accrued Interest Receivable	23	29
Fair Value Loss on Impaired Available-for-Sale Assets*	(1,497)	1,198
<b>Total</b>	<b>40,526</b>	<b>45,831</b>

\*The unrealised impairment loss relates to the market value of perpetual floating rate capital notes, which fluctuates with the quoted price on the Australian Stock Exchange. Whilst the market value will fluctuate over time the return on the initial investment of \$4.0 million remains constant at 75 - 100 basis points over the 90 day BBSW interest rate on the face value of the notes.

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	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>9. Other Assets</b>		
Sundry Debtors and Prepayments	92	268
<b>10. Net Loans and Advances</b>		
Advances	136,187	130,049
Term Loans	444,988	434,614
<b>Loans and Advances - at Cost</b>	<b>581,175</b>	<b>564,663</b>
Fair Value Adjustment (Hedge Accounting)	49,031	14,668
<b>Net Loans and Advances</b>	<b>630,206</b>	<b>579,331</b>
<b>Unrecognised Commitments - Loans and Advances</b>		
Unused Cash Advance facilities	345,348	268,241
Term loans approved not advanced	3,600	2,652
<b>Total</b>	<b>348,948</b>	<b>270,893</b>
<b>11. Property, Plant &amp; Equipment</b>		
Plant, Equipment, and Motor Vehicles: at cost	1,006	1,016
less, accumulated depreciation	(731)	(699)
<b>Total</b>	<b>275</b>	<b>317</b>
<b>Reconciliation of Property, Plant &amp; Equipment</b>		
Carrying Amount at 1 July	317	319
Acquisitions	86	189
Disposals	(25)	(89)
Depreciation	(103)	(102)
<b>Carrying Amount at 30 June</b>	<b>275</b>	<b>317</b>

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	2012	2011
	\$'000	\$'000
<b>12. Deposits from Councils and Local Government Bodies</b>		
Deposits from Councils and Local Government Bodies	396,149	358,514

### 13. Accrued Interest Payable

Interest Payable on :

- Deposits from Councils and Local Government Bodies	4,011	4,2910
- Borrowings*	640	847
<b>Total</b>	<b>4,651</b>	<b>5,137</b>

\* The accrued interest payable on interest rate swaps which are required to be recorded at fair value has been transferred to the Derivatives line item.

### 14. Borrowings

Bank Overdraft	26	-
Short Term Money Market Facility	135,600	164,860
Fixed Term Borrowings	9,600	-
Promissory Notes	33,519	40,500
<b>Total</b>	<b>178,745</b>	<b>205,360</b>

### 15. Derivatives

Swap Principal Receivable	(9,068)	(8,587)
Interest Receivable - Interest Rate Swaps	(2,028)	(2,486)
Interest Payable - Interest Rate Swaps	4,580	4,428
Fair Value Adjustment	44,176	9,847
<b>Interest Rate Swaps*</b>	<b>37,660</b>	<b>3,202</b>
Futures Contracts	-	(12)
<b>Total</b>	<b>37,660</b>	<b>3,190</b>

\* Interest rate swaps are shown as the net of the fixed rate leg and the floating rate leg.

	2012	2011
	\$'000	\$'000
<b>16. Provisions</b>		
Employee Benefits	313	367
Fringe Benefits Tax	18	16
Bonus Payment to Councils and Local Government Bodies	1,740	1,740
Provision for Income Tax	429	689
<b>Total</b>	<b>2,500</b>	<b>2,812</b>

#### Movements of major provisions during the year

##### (i) Bonus Payment to Councils and Local Government Bodies

Opening Balance 1 July	1,740	1,740
Increase in Provision	1,740	1,740
Amounts Paid	(1,740)	(1,740)
<b>Closing Balance 30 June</b>	<b>1,740</b>	<b>1,740</b>

##### (ii) Provision for Income Tax

Opening Balance 1 July	689	1,033
Increase in Provision	1,132	1,405
Amounts Paid	(1,392)	(1,749)
<b>Closing Balance 30 June</b>	<b>429</b>	<b>689</b>

	2012	2011
Note	\$'000	\$'000
<b>17. Other Liabilities</b>		
Sundry Creditors	189	229
Payments Due to South Australian Government Financing Authority	-	120
<b>Total</b>	<b>189</b>	<b>349</b>

## 18. Superannuation Commitments

The Authority contributes to the local government superannuation fund, Local Super, in accordance with the rules of that fund.

The fund provides benefits in the form of lump sum payments for retirement, death, total and permanent disability, and temporary disability.

There is no liability for payments to beneficiaries as they have been assumed by the superannuation scheme. The only liability outstanding at reporting date relates to any contributions due but not yet paid to Local Super.

## 19. Notes to Statement of Cash Flows

### (a) Reconciliation of Cash

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

(Bank Overdraft) / Cash and Liquid Assets	6,14	(26)	169
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	2012	2011
	\$'000	\$'000
<b>(b) Cash Flows Presented on a Net Basis</b>		
Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:		
<b>(i)</b>	Client Deposits and Withdrawals;	
<b>(ii)</b>	Sales and Purchases of Money Market Securities;	
<b>(iii)</b>	Drawdown and Repayment of Loans and Investments; and	
<b>(iv)</b>	Fees Paid and Received	
<b>(c) Reconciliation of Net Cash Provided by/(Used in Operating Activities to Profit After Income Tax Equivalents</b>		
<b>Profit After Income Tax Tax Equivalents</b>	<b>2,640</b>	<b>3,278</b>
Decrease/(Increase) in Interest Receivable	75	(1,213)
Decrease/(Increase) in Sundry Debtors	6	53
Increase/(Decrease) in Interest Payable	(333)	651
Increase/(Decrease) in Sundry Creditors	(40)	28
Increase/(Decrease) in Provisions	(312)	(358)
Depreciation	103	102
Revaluation Loss/(Gain)	118	(69)
Impairment Loss/(Gain)	299	(294)
Loss/(Gain) on Disposal of Fixed Assets	-	9
<b>Net Cash Provided by/(Used in) Operating Activities</b>	<b>2,556</b>	<b>2,187</b>

## 20. Remuneration of Board Members

The Authority operates independently under its own legislation and has no other controlled entities. The name of each person holding the position of Board Member during the year is as follows:

Mr Anthony Pederick OAM

Mr Paul Cohen

Ms Wendy Campana

Councillor John Frogley

Ms Susan McCormick

Mr David Posaner

Councillor John Sanderson

Mr Paul Cohen stepped down from the role of Chairman to become Deputy Chairman effective from 21 February 2012. Mr Anthony Pederick OAM accepted the role of Chairman effective 21 February 2012.

Board Members are entitled to receive an allowance. Payment of allowances in respect of members appointed by the Minister, Treasurer or Executive Director of the Local Government Association of South Australia are made in accordance with Section 13 of the Local Government Finance Authority Act, 1983. The Appointee of the Minister and the Appointee of the Treasurer presently do not seek fees. The amount payable in respect of the Executive Director of the Local Government Association of South Australia is paid to the Local Government Association of South Australia.

The total amount paid or payable to Board Members for the financial year ended 30 June 2012 was \$49,577 which includes salary and superannuation.

Unless otherwise disclosed, transactions between members are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

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

	<b>2012</b>	<b>2011</b>
\$10,001 - \$20,000	2	1
\$1 - \$10,000	3	4
No Remuneration	2	3



## 21. Remuneration of Employees

### (a) Key Management Personnel

The following persons held authority and responsibility for management of the activities of the Authority, directly or indirectly during the financial year:

Mr Paul Slater - Chief Executive Officer

Mr Robert Hardy - Manager Treasury

Mr Ryan Easton - Manager Lending

### (b) Key Management Personnel Remuneration

**2012**

**2011**

The number of employees whose remuneration received or receivable falls within the following bands:

\$350,000 - \$359,999	1	-
\$330,000 - \$339,999	-	1
\$160,000 - \$169,999	1	1
\$150,000 - \$159,999	1	1

The table above includes all employees who received remuneration equal to or greater than the base executive remuneration level of \$134,012 (2011 \$130,744), as determined by the Department of Treasury and Finance. The remuneration comprises salary, employer's superannuation costs including superannuation guarantee charge, motor vehicle package and associated fringe benefits tax, car parking and associated fringe benefits tax and living away from home allowance. The total remuneration received by these employees for the year was \$670,541 (2011 \$660,969).

# 22. Contingent Assets and Liabilities.

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

## (a) Contingent Assets

Under Section 24 of the Local Government Finance Authority Act, 1983, all financial obligations incurred or assumed by the Authority are guaranteed by the Treasurer on behalf of the State of South Australia. As at 30 June 2012 the total liabilities guaranteed was \$619.894 million.

## (b) Contingent Liabilities

### (i) Financial Guarantee

The Authority has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of Work cover Corporation of South Australia. 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 2012 the amount guaranteed will not was \$27.068 million.

### (ii) Performance Bond/Guarantees

#### (i) Northern Adelaide Waste Management Authority

The Authority has issued a performance bond/guarantee on behalf of the prescribed local government body, Northern Adelaide Waste Management Authority, a regional subsidiary of the City of Playford, Corporation of the Town of Gawler and City of Salisbury in favour of the Environment Protection Authority. As at 30 June 2012 the amount guaranteed was \$350,000.

#### (ii) Western Region Waste Management Authority

The Authority has issued a performance bond/guarantee on behalf of the prescribed local government body, Western Region Waste Management Authority, a regional subsidiary of the City of Charles Sturt, City of Holdfast Bay, City of Port Adelaide Enfield and City of West Torrens in favour of the Environment Protection Authority and Urban Renewal Authority. As at 30 June 2012 the amount guaranteed was \$12.0 million.

#### (iii) City of Charles Sturt

The Authority has issued a performance bond/guarantee on behalf of the City of Charles Sturt in favour of the Commonwealth of Australia represented by the Department of Families, Housing, Community Services and Indigenous Affairs. As at 30 June 2012 the amount guaranteed was \$12.0 million.

Note: Pursuant to Schedule 2 of the Local Government Act 1999, liabilities incurred or assumed by a regional subsidiary are guaranteed by the constituent councils.

# 23. Financial Risk Management.

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## **(a) Risk Management Policies and Procedures**

The Treasurer issued a revised consent dated 28 October 2010, for the Authority to enter into a range of financial instruments as part of its normal operations of providing borrowing and investment services to Local Government in South Australia and for managing the associated risks.

All financial instrument transactions and internal control activities are conducted within a Board approved Risk Policy document. A Treasury Management System is in place which provides comprehensive accounting and reporting of financial instrument transactions which in turn allows for compliance with the Risk Policy to be monitored closely.

The risk management process is subject to regular and close senior management scrutiny, including regular Board and other management reporting. An Asset and Liability Committee (ALCO) has been appointed to direct and monitor risk management operations in accordance with the Risk Policy and is accountable to the Board.

## **(b) Market Risk**

Market risk for the Authority is primarily through interest rate risk and other price risk. There is no exposure to foreign currency risk.

### **(i) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to interest rate risk arises where mismatches occur between the maturities of financial assets and financial liabilities. In order to mitigate this risk the Authority has entered into interest rate swap contracts and interest rate futures contracts to hedge actual financial transactions.

#### **(i) Fair Value Sensitivity Analysis for Fixed Rate Instruments**

The Authority had a number of fair value hedges in place at the reporting date. As the hedging instrument and hedged items have matching fixed rate positions which directly offset each other there would be no material effect on profit or loss if interest rates change.

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(ii) Sensitivity Analysis for Variable Rate Instruments

It is estimated that a change of 50 basis points applied to the risk exposures in existence at the reporting date would have increased/(decreased) profit for the reporting period by the amounts shown below. For the purpose of this analysis variable rate instruments include all variable rate interest bearing financial instruments which are due to be repriced within 90 days of the reporting date.

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(ii) Other Price Risk

The Authority holds investments issued by Australian banks known as Floating Rate Capital Notes, which are traded on the Australian Stock Exchange and are therefore classified as Available-for-sale assets. These investments are subject to price variations caused by factors other than interest rate fluctuations.

	<b>Principal Balance 30/06/12 \$'000</b>	<b>+0.5% \$'000</b>	<b>-0.5% \$'000</b>	<b>Principal Balance 30/06/11 \$'000</b>	<b>+0.5% \$'000</b>	<b>-0.5% \$'000</b>
<b>Variable Rate Financial Assets</b>						
Investment Securities	22,000	110	(110)	19,000	95	(95)
Advances	136,987	685	(685)	131,730	659	(659)
<b>Variable Rate Financial Liabilities</b>						
Council Deposits	307,934	(1,540)	1,540	285,795	(1,429)	1,429
Short Term Money Market Facility	135,600	(678)	678	164,860	(824)	824
Promissory Notes	33,520	(168)	168	40,500	(203)	203
<b>Variable Rate Derivatives</b>						
Interest Rate Swaps (Notional Principal)	425,740	2,129	(2,129)	411,212	2,056	(2,056)
Futures (Notional Principal/Bond Formula)	-	-	-	3,000	120	(120)
<b>Profit/(Loss) Interest Rate Sensitivity</b>		<b>538</b>	<b>(538)</b>		<b>474</b>	<b>(474)</b>

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## (c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Authority's exposure to credit risk arises from the potential default by counterparties with whom financial assets are held.

Included in the Authority's Risk Policy document is a Credit Risk Limits policy which stipulates counterparty credit limits as follows:

(i) Investments and Derivatives - Individual counterparties are assessed based on Standard & Poor's Credit Ratings and a limit applied based on that rating. Specific approvals are given for counterparties that are outside of this criteria. Regular reporting of investment and derivative credit exposures are provided to the Board and management.

(ii) Loans and Advances – Credit limits are applied to individual councils based on debt servicing levels not exceeding Board approved percentages. Debt servicing levels are analysed on receipt of each loan application and the Board approved

percentages are reviewed annually. Credit risk is considered minimal as the majority of loan agreements are secured by debentures providing a charge over the Council's general revenue.

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

A concentration of credit risk occurs in relation to loans and advances as under the Local Government Finance Authority Act, 1983, loans and advances made are restricted to Councils and Local Government Bodies (Note 2(g) Refer).

Non-derivative financial assets are shown below at face value or amortised cost and derivative financial assets are shown at their fair value plus the credit conversion factors in line with the APRA Guidelines. The Authority uses Standard and Poor's credit ratings to assess the credit quality of the counterparties it invests with. Loans to Councils and Local Government bodies are shown as No Rating (NR) in the following analysis as they are not required to be rated in this manner.

	Short Term			Long Term				Total	
	Rating			Rating					
	A1+	A1	A2	AA-	A+	A	A-		NR
2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	-	-	-	-	-	-	-	-	-
Investment Securities	-	23,000	5,000	10,000	2,000	-	2,000	-	42,000
Loans and Advances	-	-	-	-	-	-	-	581,175	581,175
Derivatives	-	-	-	-	-	5,500	-	7	5,507
<b>Total</b>	<b>-</b>	<b>23,000</b>	<b>5,000</b>	<b>10,000</b>	<b>2,000</b>	<b>5,550</b>	<b>2,000</b>	<b>581,182</b>	<b>628,682</b>

	Short Term			Long Term				Total	
	Rating			Rating					
	A1+	A1	A2	AA	A+	A	BBB+		NR
2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	169	-	-	-	-	-	-	-	169
Investment Securities	-	15,000	5,000	10,000	10,000	-	7,000	-	47,000
Loans and Advances	-	-	-	-	-	-	-	564,663	564,663
Derivatives	-	-	-	-	-	5,400	-	177	5,577
<b>Total</b>	<b>169</b>	<b>15,000</b>	<b>5,000</b>	<b>10,000</b>	<b>10,000</b>	<b>5,400</b>	<b>7,000</b>	<b>564,840</b>	<b>617,409</b>

## (d) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Authority's exposure to liquidity risk arises where a mismatch of cash flows between short term financial liabilities and long term financial assets exists.

The Authority has a State Government Guarantee covering all liabilities which enables it to borrow funds as required from the financial markets at favourable rates. In order to cover seasonal shortfalls in funding the Authority has access to short term borrowing arrangements with the South Australian Government Financing Authority (SAFA).

A liquidity policy is included in the Authority's Risk Policy document which provides for regular management reporting in order to closely monitor the liquidity position. The Risk Policy requires that sufficient funds are available at all times to meet any reasonable calls on its liabilities.

The following are the remaining contractual maturities of financial liabilities, including estimated interest payments:

	<b>Carrying Amount \$'000</b>	<b>Contracted Cash Flows \$'000</b>	<b>0-3 Months \$'000</b>	<b>3-12 Months \$'000</b>	<b>1-5 Years \$'000</b>	<b>&gt;5 Years \$'000</b>
<b>2012</b>						
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	400,160	(400,160)	(311,945)	(83,215)	(5,000)	-
Borrowings	179,385	(180,358)	(169,894)	(432)	(10,032)	-
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	465,436	(554,759)	(12,888)	(60,310)	(234,632)	(246,929)
Interest Rate Swaps - Inflow	(427,776)	504,238	15,462	47,580	206,258	234,938
	<b>Carrying Amount \$'000</b>	<b>Contracted Cash Flows \$'000</b>	<b>0-3 Months \$'000</b>	<b>3-12 Months \$'000</b>	<b>1-5 Years \$'000</b>	<b>&gt;5 Years \$'000</b>
<b>2011</b>						
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	362,804	(362,804)	(290,085)	(51,719)	(21,000)	-
Borrowings	206,206	(206,488)	(206,488)	-	-	-
Other Liabilities	120	(124)	-	(124)	-	-
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	416,845	(544,884)	(11,770)	(55,865)	(226,842)	(250,407)
Interest Rate Swaps - Inflow	(413,643)	513,155	15,851	45,635	209,771	241,898

# 24. Transactions with South Australian Government.

The following expense transactions were undertaken during the financial year between the Authority and the South Australian Government:	2012 \$'000	2011 \$'000
Interest Paid - Short Term Money Market Facility	6,228	4,700
Interest Paid - Fixed Term Borrowings	362	-
Interest Paid - Promissory Notes	1,728	2,021
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,113	1,022
Income Tax Equivalent Expense	1,132	1,405
Audit Fees	45	59
Payroll Tax	18	16

The following financial liabilities were outstanding at the end of the financial year between the Authority and the South Australian Government:

Short Term Money Market Facility	135,600	164,860
Fixed Term Borrowings	9,600	-
Promissory Notes	33,519	40,500
Interest Payable - Short Term Money Market Facility	439	584
Interest Payable - Fixed Term Borrowings	30	-
Interest Payable - Promissory Notes	171	263
Audit Fees	45	59
Payroll Tax	-	16

## 25. Fair Value of Financial Instruments

The book value of financial assets and financial liabilities shown in the table below includes principal, accrued interest and, where applicable, a fair value adjustment. The distribution of accrued interest to asset and liability categories which are recorded at amortised cost in the accounts will cause the amounts shown as book values to differ from those shown on the Statement of Financial Position.

All Derivative Financial Instruments and Available-for-sale financial assets (Investment Securities) have been recorded at fair value, including accrued interest, in the accounts. A portion of Net Loans and Advances has been recorded at fair value using hedge accounting with the remainder recorded at amortised cost.

The fair value of Other Assets and Other Liabilities is not required as the book value is a reasonable approximation of fair value.

### (a) Fair value of Financial Assets and Financial Liabilities

The following methods and assumptions are used to determine the fair values of financial assets and liabilities:

#### Investment Securities

The fair value of Floating Rate Capital Notes is based on current market rates as quoted on the Australian Stock Exchange. The fair value of Fixed Term Deposits held with Banks is estimated based on a discounted cash flow analysis utilising a zero coupon curve which is representative of the market rates used for unwinding such instruments.

#### Other Assets

The carrying amount of sundry debtors is estimated to approximate fair value. Prepayments are not classified as Financial Assets and are therefore excluded from this analysis.

#### Net Loans and Advances

The fair value is estimated based on a discounted cash flow analysis utilising a zero coupon curve which is representative of the market rates used for unwinding such instruments.



**Deposits from Councils and Prescribed Local Government Bodies**

The fair value is estimated using discounted cash flow analysis based on current market rates for deposits having substantially the same terms and conditions.

**Borrowings**

The fair value is estimated using discounted cash flow analysis based on current market rates for borrowings having substantially the same terms and conditions.

**Derivatives**

The fair value of interest rate swaps is estimated based on a discounted cash flow analysis utilising a zero coupon curve which is representative of the market rates used for unwinding such instruments. The fair value of futures contracts is based on current market rates as quoted on the Sydney Futures Exchange.

		2012		2011	
		Book Value	Fair Value	Book Value	Fair Value
		\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>	<b>Category (Note2(b) Refer)</b>				
Investment Securities	Available - for- Sale Fiancial Assets	2,526	2,526	2,831	2,831
Investment Securities	Loans and Recievables	39,247	39,663	44,227	44,596
Net Loans and Advances	Loans and Recievables	167,799	181,175	165,284	171,455
Net Loans and Advances	Fair Value Hedge	465,436	465,436	416,845	416,845
<b>FinancialLiabilities</b>	<b>Category (Note2(b) Refer)</b>				
Depostis from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	400,160	401,025	362,803	362,383
Borrowings	Financial Liabilities at Amortised Cost	179,385	179,633	206,207	206,178
Derivatives	Fair Value Hedge	37,660	37,660	3,202	3,202
Derivatives	Financial Assets at Fair Value	-	-	(12)	(12)

## (b) Fair Value Hierarchy

The recognised fair values of financial assets and liabilities are classified according to the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 – fair values that reflect unadjusted quoted prices in active market for identical assets/liabilities.

Level 2 – fair values that are based on inputs that are directly or indirectly observable for the asset/liability (other than unadjusted quoted price).

Level 3 – fair values that are derived from data not observable in a market. The Authority does not have any financial assets or liabilities which are required to be valued using this method.

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	Level 1	Level 2	Level 3	Total
2012	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>				
Investment Securities	2,526	39,663	-	42,189
Net Loans and Advances	-	646,611	-	646,611
<b>Financial Liabilities</b>				
Deposits from Councils and Prescribed Bodies	-	401,025	-	401,025
Borrowings	-	179,633	-	179,633
Derivatives	-	37,660	-	37,660
<b>2011</b>				
<b>Financial Assets</b>				
Investment Securities	2,831	44,596	-	47,427
Net Loans and Advances	-	588,300	-	588,300
<b>Financial Liabilities</b>				
Deposits from Councils and Prescribed Bodies	-	362,383	-	362,383
Borrowings	-	206,178	-	206,178
Derivatives	(12)	3,202	-	3,190

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# Certification of the Financial Statements.

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We certify that the attached general purpose financial statements for the Local Government Finance Authority of SA:

- comply with relevant Treasurer's instructions issued under section 41 of the *Public Finance and Audit Act 1987*, the *Local Government Finance Authority Act, 1983* and relevant Australian accounting standards;
- are in accordance with the accounts and records of the authority; and
- present a true and fair view of the financial position of the Local Government Finance Authority of SA as at 30 June 2012 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by the Local Government Finance Authority of SA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe the authority will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the board members.



**A M Pederick, Chairman**



**P A Slater, Chief Executive Officer**



**G C Hollitt, Manager Finance**

27 August 2012

# Independent Auditor's Report.

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## To the Chairman of the Board of Trustees Local Government Finance Authority of South Australia

As required by section 31(1) (b) of the *Public Finance and Audit Act 1987* and section 33 (2) of the *Local Government Finance Authority Act 1983*, I have audited the accompanying financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2012. The financial report comprises:

- A Statement of Comprehensive Income for the year ended 30 June 2012
- A Statement of Financial Position as at 30 June 2012
- A Statement of Changes in Equity for the year ended 30 June 2012
- A Statement of Cash Flows for the year ended 30 June 2012
- Notes to and forming part of the financial statements
- A Certificate from the Chairman, the Chief Executive Officer and the Manager Finance.

## The Board of Trustees Responsibility for the Financial Report

The members of the Board of Trustees are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, the *Local Government Finance Authority Act 1983* and Australian Accounting Standards, and for such internal control as the members of the Board of Trustees determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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## Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the members of the Board of Trustees, as well as the overall presentation of the financial report.

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

## Opinion

In my opinion the financial report gives a true and fair view of the financial position of the Local Government Finance Authority of South Australia as at 30 June 2012, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, the *Local Government Finance Authority Act 1983* and Australian Accounting Standards.



S O'Neill  
Auditor-General  
4 September 2012