



2013

ANNUAL REPORT

LGFA
Your Local
Government
Finance
Authority
of South Australia

Member Councils as at June 30 2013

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, Payneham and St. Peters
City of Onkaparinga
District Council of Orroroo/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
Corporation of the City of Unley
City of Victor Harbor
Wakefield Regional Council
Corporation 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



Mr Tony Pederick OAM

Chairman

*Chairman,
Forerunner Computer Systems*



Cr John Frogley

Deputy Chairman

*Councillor,
City of Norwood, Payneham
and St Peters*



Ms Wendy Campana

*Chief Executive Officer,
Local Government Association
of South Australia
Deputy: Mr Chris Russell,
Director, Communications,
Local Government Association
of South Australia*



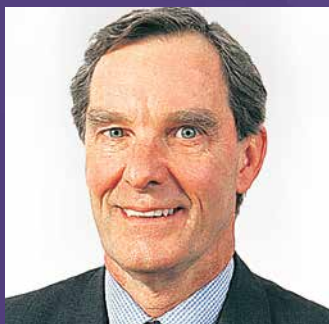
Mr David Posaner

*Director Corporate
Governance & Planning,
South Australian Government
Financing Authority (SAFA)
Appointee of the Treasurer*



Ms Susan McCormick

*Director,
Office for the Southern Suburbs,
Department for Communities
and Social Inclusion.
Appointee of the Minister
for State/Local Government
Relations*



Cr John Sanderson

*Councillor,
City of Mitcham*



Mr Jeff Tate

Jeff Tate Consulting Pty Ltd

Chairman's Review

The Local Government Finance Authority of South Australia (LGFA) continued to fulfil its vision of being the leading provider of finance to South Australian Councils and Prescribed Local Government Bodies in 2012/13. Despite strong competition from banks and other financial institutions, we wrote 100% of all loan business and we estimate our share of available deposits was in excess of 75%. Thank you Members for your continued support.

On 26 March 2014, we will be celebrating 30 years of success. LGFA has been profitable since inception and all Councils in South Australia have either borrowed money from or deposited money with the LGFA over that time. In fact, in 2012/13 every Council in South Australia transacted business with us.

The level of Local Government debt in South Australia remained low over the year and the average rate paid by Members and Prescribed Local Government Bodies for loan funds remained relatively low. With more and more Councils utilising floating rate debt to fund working capital requirements, borrowers have benefited from low short term interest rates. Infrastructure projects were mainly financed by fixed longer term debt.

We again managed to exceed plan in terms of profitability generating \$4.350M before tax. An income tax equivalent of \$1.305M will be paid to the State Government for use by Local Government to fund Research and Development projects. A bonus to Councils and Prescribed Local Government Bodies of \$1.74M has been approved for payment by the Board of Trustees. It was pleasing to note that margins have remained reasonably steady over the year, which highlights the benefits of better interest rate risk management in the balance sheet.

**WE AGAIN MANAGED
TO EXCEED PLAN
IN TERMS OF
PROFITABILITY
GENERATING \$4.350M
BEFORE TAX.**

ECONOMIC CONDITIONS

Financial conditions remained challenging over the year. European economic weakness and uncertainty about the future of the European single currency dominated the first half of the year. This weakness and uncertainty resulted in highly volatile financial markets globally. The Australian dollar appreciated significantly in this period as global investors sought to buy Australian government bonds and other highly rated Australian debt.

The second half of the year saw more stability in global financial markets. United States economic data suggested that the quantitative easing programme being undertaken by the US government, was creating jobs and delivering growth to the US economy. However some of the global optimism was dampened by a continued weaker growth outlook for China. The Australian dollar fell from recent highs to around \$0.92 US dollars at the time of writing, on the back of speculation about the US ending their quantitative easing programme and a market view that the Reserve Bank of Australia will need to lower interest rates even further in the future.

The Reserve Bank of Australia cut interest rates in 2012/13 by 0.75% to help support demand in the Australian Economy.

The unemployment rate in Australia crept up over the last year from 5.1% to 5.7%. Many economic commentators believed that the higher unemployment rate was attributed to the persistently high Australian dollar hurting exporters (which has since moderated) and the capital expenditure phase of the Australian mining boom coming to an end.

Wholesale funding markets and wholesale credit spreads improved in the second half of the year. The improved wholesale conditions helped banks improve their margins, but did not moderate the high rates being paid to retail and middle market depositors.

LENDING ACTIVITIES

This year has seen Councils able to continue to access relatively cheap fixed and floating rate funding to provide the myriad of functions and services their communities now desire.

Total loans outstanding at balance date were \$591.6M, which comprised \$414.3M of fixed rate mainly "Credit Foncier" loans, and \$177.3M of Cash Advance Debenture loans. This is another record for the Authority from last year's total level of \$581.2M.

Councils seem to be taking advantage of the flexibility associated with the Cash Advance Debenture suite of products which introduces floating rate debt into lending portfolios. The total Cash Advance Debenture limits as at 30/6/2013 increased by \$33M during the year to \$533M (Councils \$505M, Prescribed Local Government Bodies \$28M) and outstandings at balance date were \$177M which was a \$23M increase from last year.

Fixed Term lending rates are off their "lows" which occurred in the first half of the financial year. However 10 and 15 year fixed rates can still be accessed in the low to mid 5.0% range which we believe represents excellent long term value. New fixed rate drawdowns for the year were just over \$41M.

Councils can be assured that with their continued support of the Authority's deposit service which allows us access to funding, we will continue to provide fee-free, low interest rate funding options to our Council clients.

INVESTMENT ACTIVITY

Over the year interest rates in Australia have fallen to generational lows. Challenging economic conditions in Australia and a benign inflation outlook gave scope for the Reserve Bank of Australia to cut interest rates.

At call funds deposited with the LGFA currently attract the official Reserve Bank of Australia cash rate. Over the last year the rate received for 24 hour call deposits reduced from 3.5% to 2.75%, which was in line with movements of the official cash rate.

Wholesale funding markets did improve over the year in review, but the improved wholesale conditions did not moderate the high rates being offered to retail and middle market depositors. In a competitive deposit market the LGFA was able to substantially grow the deposit base to an average daily deposit level of \$424M (2012 \$375M). The competitive deposit market currently seen in Australia is likely to remain the status quo for the foreseeable future, as APRA regulation reduces the effectiveness of banks borrowing from interbank and wholesale markets. The LGFA will need to remain competitive over the coming year so that we firstly maintain our existing deposit base, and secondly to give us the opportunity to grow our deposit base.

**IN A COMPETITIVE
DEPOSIT MARKET
THE LGFA WAS ABLE
TO SUBSTANTIALLY
GROW THE DEPOSIT
BASE TO AN AVERAGE
DAILY DEPOSIT LEVEL
OF \$424M (2012 \$375M).**



NEW PREMISES

As our existing lease at 16 Hutt Street was unable to be extended in April this year, we sought alternate accommodation in the immediate area.

Space was not available in the new LGA Building in Frome Street and other lease arrangements were expensive and not particularly ideal.

After careful consideration and a detailed financial analysis, approval was sought to purchase floor space in the Aurora Building, 147 Pirie Street. We purchased 274 square metres under Community Title on the 12th floor and moved in after the fit-out was completed on Monday 22 April 2013.

We are extremely happy in the new premises and confident that this decision will prove to be a very worthwhile investment.

**OUR NEW OFFICES
ARE LOCATED ON THE
12TH FLOOR OF THE
AURORA BUILDING
AT 147 PIRIE STREET.**

INFORMATION TECHNOLOGY

The move to our new offices in the Aurora Building prompted an upgrade of most of our office equipment. The new office fit-out included new workstation computers, Cisco internet telephony and a networked colour copier/printer/scanner. The workstation computer software included the Windows 7 operating system and Microsoft Office 2013 for our documents.

The LGFA webpage was upgraded during the year to provide client account balances and monthly statements. We hope to provide more information to clients utilising the webpage in the future.



COMPLIANCE

The Board of Trustees established an Audit Committee during the year to further enhance the corporate governance of the Authority. The Audit Committee has its own charter and is intended to oversee the extensive auditing programme which the Authority is required to undergo to comply with the Treasurer's Instructions and the Auditor General's Department.

The Authority is required to comply with Treasurer's Instruction (TI) 2 Financial Management and TI 28 Financial Management Compliance Program (FMCP). The FMCP was completed satisfactorily again this year by Bentleys and a report detailing the audit results was delivered to the Authority and the Auditor General's Department.

A review of the Authority's compliance with the new Work Health and Safety legislation was conducted by Beckman and Associates during the year. Recommendations from this review were provided to the Board of Trustees and management have incorporated them into the fit-out of our new office in the Aurora Building.

THE BOARD

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

Two trustees are nominated by the Local Government Association of South Australia (LGA), one trustee is the CEO of the LGA, two members are elected by Councils, one trustee is appointed by the Treasurer and the other is the Minister's representative. We currently have no independent trustees.

Every two years the Board is subject to the election, appointment or re-appointment of various members. Effective 1 January 2013, I was re-appointed to the Board as one of the LGA's two representatives.

Jeff Tate (former CEO of Onkaparinga Council) was the other appointee of the LGA, replacing Paul Cohen who had been a Board Trustee for 14 years. Paul made an outstanding contribution to the Authority, and was Chairman for 6 years. Paul's strong treasury background and knowledge of financial products was greatly appreciated during some reasonably challenging years.

Sue McCormick was re-appointed as the Minister's representative until 31 December 2014.

The Board re-elected me as Chairman and John Frogley as Deputy Chairman, at a Board Meeting held on 19 February 2013.

BOARD MEETINGS ATTENDED BY BOARD MEMBERS

NUMBER OF MEETINGS HELD: 11

Mr Anthony Pederick	11
Mr Paul Cohen	3 (Eligible 8)
Councillor John Frogley	10
Ms Wendy Campana	6
Ms Sue McCormick	11
Mr David Posaner	11
Councillor John Sanderson	11
Mr Jeff Tate	3 (Eligible 3)
Mr Chris Russell (Deputy for Ms Wendy Campana)	3

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 best possible outcomes from dealings with the Authority.

Our staff has again made a significant contribution to the success of the Authority during 2012/2013 and I take this opportunity to thank them for their efforts and loyalty.

On the 1 May 2013 we farewelled Ryan Easton, our popular and energetic Manager Lending. Ryan accepted a senior position with BT Financial Group. Although only here for two years, he made a significant contribution and we wish him all the best in his new role.

Following Ryan's departure, management took the opportunity to re structure the office slightly and recruit a new Money Market Manager. Bob Hardy assumed his new role as Senior Manager Financial Markets (with emphasis on lending) and reporting to him Davin Lambert (ex Bendigo & Adelaide Bank) was recruited as the Money Market Manager.

Kristen Spehr joined the Authority on 3 December 2012 to take on the role of Business Support Officer.

With CEO Paul Slater agreeing to stay on for a further five years, the team looks to be well settled and keen to assist our customers in the years ahead.

OUR STAFF HAS AGAIN MADE A SIGNIFICANT CONTRIBUTION TO THE SUCCESS OF THE AUTHORITY DURING 2012/2013.



TONY PEDERICK OAM
CHAIRMAN

SEPTEMBER 2013



Authority Profile

THE AUTHORITY

The Local Government Finance Authority of South Australia, 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.

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.

MEMBERS

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

**THE AUTHORITY
IS A STATUTORY
AUTHORITY
ESTABLISHED FOR
THE BENEFIT OF
COUNCILS AND
OTHER PRESCRIBED
LOCAL GOVERNMENT
BODIES WITHIN THE
STATE.**



INCOME TAX EQUIVALENTS

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.

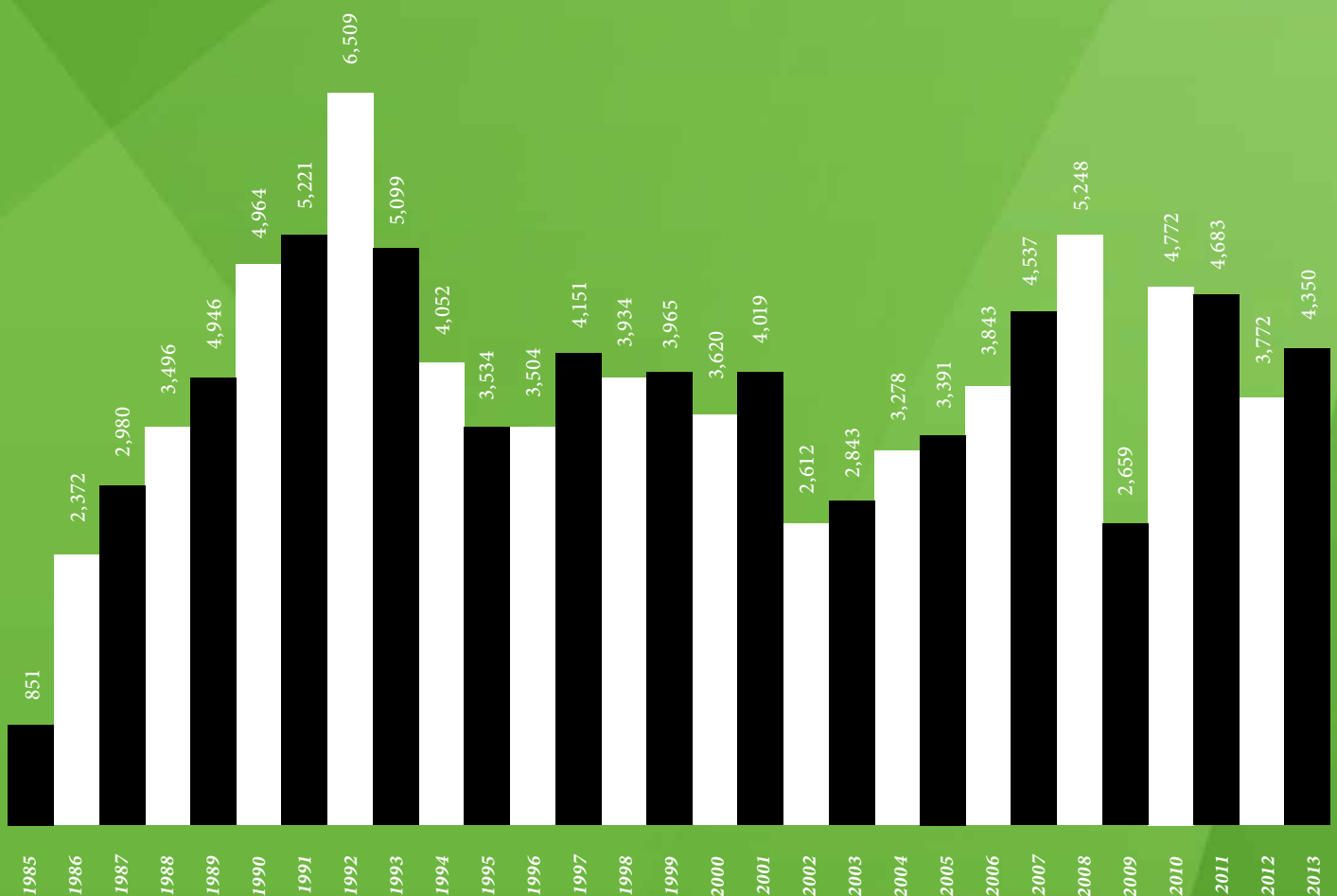
Since its introduction in 1985 an amount of \$29.925M has been distributed with a further \$1.74M to be paid in respect of the year ended 30 June 2013. This year's payment of \$1.74M when combined with previous special allocations for local government purposes of \$2.875M will result in overall payments benefiting the local government community of \$34.54M.

In line with past practise 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 \$1.28M with the balance of \$460,000 allocated to loans and thereby maintaining percentage levels similar to previous years.

Profit Before Income Tax Equivalents

The following graph illustrates Profit before Income Tax Equivalents for the Local Government Finance Authority of South Australia since 1985.
(all profits as \$'000)

**\$112 MILLION
TOTAL PROFIT**



Case Studies



COWANDILLA DRAINAGE SYSTEM – RAIN GARDENS

Large areas of the suburbs of Brooklyn Park, Cowandilla, and Mile End were originally established with an absence of underground stormwater drainage infrastructure. Investigations undertaken by the City of West Torrens in the late 1980s identified and outlined a master plan for the installation of a new major trunk stormwater drainage system to establish an appropriate level of underground stormwater drainage through these suburbs.

**THE TOTAL
INVESTMENT IN THESE
STAGES OF THE PROJECT
IS APPROXIMATELY
\$4.75M**

Stages 9 through 12 of this network resulted in the installation of new stormwater drainage within the streets of Mile End, providing improved stormwater management to a dozen streets using in excess of 3,000 metres of new stormwater pipe work of varying sizes.

The adoption of best practice stormwater management principles were also an important and highly successful element of the design and implementation of these stages of the stormwater network extension. A large proportion of the stormwater runoff from the streets being serviced by these new works is collected through the utilisation of "Rain gardens". These collection devices are a form of Water Sensitive Urban Design (WSUD) which improves stormwater runoff quality, make passive use of stormwater runoff, provide some detention and reduction of stormwater flows and improves street aesthetics and amenity through the provision of a sustainable landscape.

**THE CITY OF WEST
TORRENS SOUGHT LOAN
FUNDS FROM LGFA
FOR PART FUNDING
OF THE COWANDILLA
DRAINAGE SYSTEM.**



NARACOORTE REGIONAL LIVESTOCK EXCHANGE

The Naracoorte Lucindale Council owns the Naracoorte Regional Livestock Exchange (NRLE) which is located on the Wimmera Hwy, 2 kilometres east of Naracoorte. Naracoorte is a regional service centre located in the Limestone Coast, 330km South East of Adelaide.

The NRLE operates as a stand-alone business unit within Council and is overseen by the NRLE Board (a section 41 Committee of Council). The NRLE is the premier livestock selling facility in the Limestone Coast. In 2011 / 2012, 105,000 cattle and 471,000 sheep were sold through the NRLE.

Throughout, the NRLE's 39 year history many upgrades and expansions have occurred.

In 2012 Council completed the Reclaimed Water Reuse Project which resulted in the installation of a waste water treatment plant and the construction of a roof over the cattle selling yards.

The sale yards has greatly reduced the volume of water extracted from the aquifer and meets Environment Protection Authority (EPA) guidelines for disposal of waste water, as well as greatly improving the cattle selling operations.

This project has multiple benefits such as producing high value reuse options for animal effluent at reduced ongoing costs, reduced groundwater take from the aquifer, increased rainwater use within the facility, improved animal welfare and increased comfort for users of the facility.

The NRLE contributes significant direct and indirect economic benefits to the Naracoorte Lucindale community; providing local livestock growers with a facility close to their operations, transport operators who move stock and purchase fuel, locals who work there, agents who use the yards and the businesses in Naracoorte who support the NRLE operations and its users.

The Naracoorte Regional Livestock Exchange Reclaimed Water Reuse Project has provided an excellent opportunity for the Naracoorte Lucindale Council to review operations at the Naracoorte Regional Livestock Exchange and look at the future of the facility. This project has provided a state of the art waste water treatment plant which includes technology from around the world along with a stand out roof over the cattle selling yards.

**THIS PROJECT WAS POSSIBLE
DUE TO A \$1.85M GRANT
COUNCIL RECEIVED FROM THE
AUSTRALIAN GOVERNMENT
THROUGH THE NATIONAL
WATER SECURITY PLAN FOR
CITIES AND TOWNS. THE GRANT
WAS MATCHED WITH COUNCIL
FUNDS AS A RESULT OF A LOAN
FROM THE LGFA.**



MOONTA COMMUNITY WASTEWATER MANAGEMENT SCHEME (CWMS)

The Copper Coast Council commenced the construction of the Moonta CWMS Stage 1 project in February 2013. To date a third of the linear pipe laying has been completed as well as two of the five new pump stations. As part of the project the contractors, CME Civil, have procured two rock saws specifically to suit the conditions of the project. These have been utilised successfully on the project thus far protecting houses within the project that are very old with suspect or non-existent foundation structure. The circular blade transfers the vibration laterally causing very little vibration transfer.

**LOAN FUNDS FROM
LGFA CONTRIBUTED TO
THE FUNDING OF THIS
PROJECT.**

Financial Report

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$'000	2012 \$'000
INCOME			
Interest on Investments	2 (c)	2,274	2,744
Interest on Loans and Advances	2(c)	49,280	55,366
Other Income	2(f), 2(h), 3	598	155
TOTAL INCOME		52,152	58,265
EXPENSES			
Interest on Deposits from Councils and Local Government Bodies	2(d)	15,313	17,866
Interest on Borrowings	2(d)	29,410	33,347
Fees for the Guarantee of the Treasurer of SA on Liabilities	24	1,135	1,113
Administration Expenses	4	1,944	1,750
Other Expenses	2(f), 2(h), 5	-	417
TOTAL EXPENSES		47,802	54,493
PROFIT BEFORE INCOME TAX EQUIVALENTS		4,350	3,772
Income Tax Equivalent Expense	2(e)	1,305	1,132
PROFIT AFTER INCOME TAX EQUIVALENTS		3,045	2,640
TOTAL COMPREHENSIVE RESULT		3,045	2,640

The profit after income tax equivalents and comprehensive result 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 2013

	NOTE	2013 \$'000	2012 \$'000
ASSETS			
Cash and Liquid Assets	6	7	-
Accrued Interest Receivable	7	3,743	4,276
Investment Securities	2(f), 8	82,790	40,526
Other Assets	9	111	92
Net Loans and Advances	2(g), 10	629,988	630,206
Property, Plant & Equipment	2(j), 11	2,336	275
TOTAL ASSETS		718,975	675,375
LIABILITIES			
Deposits from Councils and Local Government Bodies	2(k), 12	428,315	396,149
Accrued Interest Payable	13	3,800	4,651
Borrowings	14	200,002	178,745
Derivatives	2(i), 15	27,078	37,660
Provisions	2(l), 16	2,757	2,471
Other Liabilities	17	237	218
TOTAL LIABILITIES		662,189	619,894
NET ASSETS		56,786	55,481
EQUITY			
General Reserve	2(m)	56,300	55,000
Retained Profits		486	481
TOTAL EQUITY		56,786	55,481
The equity is attributable to the owners.			

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2013

	GENERAL RESERVE \$'000	RETAINED PROFITS \$'000	TOTAL \$'000
BALANCE AT 1 JULY 2011	54,000	581	54,581
Profit After Income Tax equivalents for 2011/12	-	2,640	2,640
TOTAL COMPREHENSIVE RESULT FOR 2011/12	-	2,640	2,640
Transfer to Bonus Payment Provision	-	(1,740)	(1,740)
Transfer to General Reserve	1,000	1,000	-
BALANCE AT 30 JUNE 2012	55,000	481	55,481
Profit After Income Tax equivalents for 2012/13	-	3,045	3,045
TOTAL COMPREHENSIVE RESULT FOR 2012/13	-	3,045	3,045
Transfer to Bonus Payment Provision	-	1,740	(1,740)
Transfer to General Reserve	1,300	1,300	-
BALANCE AT 30 JUNE 2013	56,300	486	56,786

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 2013

	NOTE	2013 \$'000 INFLOWS/ (OUTFLOWS)	2012 \$'000 INFLOWS/ (OUTFLOWS)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and Bill Discounts Received		52,739	58,177
Interest Paid		(45,732)	(51,537)
Fees Paid re Guarantee provided by Treasurer of SA		(1,129)	(1,107)
Cash Payments to Suppliers and Employees		(1,859)	(1,738)
Fees Received		140	153
Income Tax Equivalents Paid		(995)	(1,392)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19(c)	3,164	2,556
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to Councils and Local Government Bodies		(10,436)	(16,513)
Investment Securities		(42,000)	5,000
Payments for Property, Plant & Equipment		(2,210)	(86)
Proceeds from Sale of Property, Plant & Equipment		27	25
NET CASH USED IN INVESTING ACTIVITIES		(54,619)	(11,574)
CASH FLOWS FROM FINANCING ACTIVITIES			
Promissory Notes		(5,232)	(6,980)
Deposits from Councils and Local Government Bodies		32,166	37,635
Short Term Money Market Facilities		26,515	(29,260)
Fixed Term Borrowings		-	9,600
Bonus Payment to Councils and Local Government Bodies		(1,740)	(1,740)
Other		(221)	(432)
NET CASH PROVIDED BY FINANCING ACTIVITIES		51,488	8,823
NET INCREASE/(DECREASE) IN CASH HELD		33	(195)
Cash/(bank overdraft) at 1 July		(26)	169
CASH/(BANK OVERDRAFT) AT 30 JUNE	19(a)	7	(26)

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 2013

1

OBJECTIVES OF THE LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

The Local Government Finance Authority of South Australia (the Authority) is a Public Authority and 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.

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.

INTERESTS 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 in accordance with the provisions of AASB 139. Changes in the fair value of these investments are normally recorded in an available-for-sale asset valuation reserve in equity. Impairment losses incurred in relation to these investments are initially recorded in equity and, where they continue, are transferred to the Statement of Comprehensive Income. Gains in relation to these investments which reverse impairment losses previously recognised in the Statement of Comprehensive Income are recognised as revenue to the extent that they reverse prior impairment losses. Any subsequent gains in excess of prior impairment losses are recognised in the available-for-sale asset valuation reserve in equity.

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 \$36.3 million as at 30/6/13) 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 AND EQUIPMENT

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

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

Office Equipment	3 Years
Office Furniture	5 Years
Computer Software	2.5 Years
Motor Vehicles	4.5 Years to 6.7 Years
Building Floorspace	70 Years

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. PROVISIONS

EMPLOYEE BENEFITS

A provision is made in respect of the Authority's liability for annual leave and long service leave as at balance date. Long service leave is accrued for all employees from the date of commencement of service. The amount included in the accounts is the undiscounted amount expected to be paid.

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

BONUS PAYMENT

A provision is made for the annual bonus to clients which is based on their average account balances for loans and deposits during the financial year. This payment is made pursuant to Section 22(2)(b) of the Local Government Finance Authority Act 1983.

A reconciliation of movements in this provision is provided at Note 16(i).

INCOME TAX EQUIVALENTS

A provision is made for Tax Equivalents payable as at 30 June 2013 (Note 2(e) Refer).

A reconciliation of movements in this provision is provided at Note 16(ii).

m. GENERAL RESERVE

The General Reserve has been accumulated from profits earned in previous years. The purpose of the reserve is to provide the Authority with a strong financial position and to safeguard against any future adverse conditions that may be encountered. Further profits are earned through the reinvestment of the reserve funds.

n. 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.

o. 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.

p. ROUNDING

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

q. NEW AND REVISED ACCOUNTING STANDARDS

The Authority did not voluntarily change any of its accounting policies during 2012-13.

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 2013.

The Authority has assessed the impact of AASB 13 Fair Value Measurement and considers that there will be a financial impact which will be quantified upon implementing the standard in the year ending 30 June 2014.

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 2016.

3 OTHER INCOME

	2013 \$'000	2012 \$'000
Gain on Impaired Available-for-Sale Assets Revaluation	269	-
Gain on Fair Value Hedges Revaluation (Hedge Accounting)	196	-
Fee Income	133	155
TOTAL	598	155

4 ADMINISTRATION EXPENSES

	2013 \$'000	2012 \$'000
Audit Fees	97	71
Consultancy Fees	47	40
Depreciation	116	103
Occupancy Expenses	115	107
Salaries & On-Costs	987	904
Software License Fees	78	73
Sponsorships	87	75
Other Administration Expenses	417	377
TOTAL	1,944	1,750

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. *	55	45
Financial Management Compliance Program by an external audit firm.	42	26
TOTAL	97	71

* No other services were provided by the Auditor General's Department.

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

	NO.		NO.
Below \$10,000	3	12	1
\$10,000 to \$50,000	1	35	2
TOTAL		47	40

5 OTHER EXPENSES

	2013 \$'000	2012 \$'000
Loss on Impaired Available-for-Sale Assets Revaluation	-	299
Loss on Fair Value Hedges Revaluation (Hedge Accounting)	-	118
TOTAL	-	417

6 CASH AND LIQUID ASSETS

	2013 \$'000	2012 \$'000
Cash at Bank	7	-

7 ACCRUED INTEREST RECEIVABLE *

	2013 \$'000	2012 \$'000
Interest Receivable - Loans to Councils and Local Government Bodies	2,775	3,028
Interest Receivable - Investment Securities	968	1,248
TOTAL	3,743	4,276

* 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

	2013 \$'000	2012 \$'000
Deposits and Securities issued by Banks	84,000	42,000
Accrued Interest Receivable	18	23
Fair Value Loss on Impaired Available-for-Sale Assets*	(1,228)	(1,497)
TOTAL	82,790	40,526

* 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.

9 OTHER ASSETS

Sundry Debtors and Prepayments

2013	2012
\$'000	\$'000

111	92
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10 NET LOANS AND ADVANCES

Advances

Term Loans

LOANS AND ADVANCES - AT COST

Fair Value Adjustment (Hedge Accounting)

NET LOANS AND ADVANCES

165,062	136,187
---------	---------

426,550	444,988
---------	---------

591,612	581,175
---------	---------

38,376	49,031
--------	--------

629,988	630,206
---------	---------

UNRECOGNISED COMMITMENTS - LOANS AND ADVANCES

Unused Cash Advance facilities

Term loans approved not advanced

TOTAL

355,655	345,348
---------	---------

436	3,600
-----	-------

356,091	348,948
---------	---------

11 PROPERTY, PLANT AND EQUIPMENT

Plant, Equipment, and Motor Vehicles:

- at cost

less, accumulated depreciation

Building Floorspace

- at cost

less, accumulated depreciation

TOTAL PROPERTY, PLANT & EQUIPMENT

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

Carrying Amount at 1 July

Acquisitions

Disposals

Depreciation

CARRYING AMOUNT AT 30 JUNE

2013	2012
\$'000	\$'000

1,084	1,006
-------	-------

(542)	(731)
-------	-------

1,799	-
-------	---

(5)	-
-----	---

2,336	275
-------	-----

275	317
-----	-----

2,210	86
-------	----

(33)	(25)
------	------

(116)	(103)
-------	-------

2,336	275
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12 DEPOSITS FROM COUNCILS AND LOCAL GOVERNMENT BODIES

	2013 \$'000	2012 \$'000
Deposits from Councils and Local Government Bodies	428,315	396,149

13 ACCRUED INTEREST PAYABLE

	2013 \$'000	2012 \$'000
Interest Payable on:		
Deposits from Councils and Local Government Bodies	3,300	4,011
Borrowings *	500	640
TOTAL	3,800	4,651

* 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

	2013 \$'000	2012 \$'000
Bank Overdraft	-	26
Short Term Money Market Facility	162,115	135,600
Fixed Term Borrowings	9,600	9,600
Promissory Notes	28,287	33,519
TOTAL	200,002	178,745

15 DERIVATIVES

	2013 \$'000	2012 \$'000
Swap Principal Receivable	(9,289)	(9,068)
Interest Receivable - Interest Rate Swaps	(1,537)	(2,028)
Interest Payable - Interest Rate Swaps	4,422	4,580
Fair Value Adjustment	33,482	44,176
INTEREST RATE SWAPS *	27,078	37,660

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

16 PROVISIONS

	2013 \$'000	2012 \$'000
Employee Benefits	260	284
Fringe Benefits Tax	18	18
Bonus Payment to Councils and Local Government Bodies	1,740	1,740
Provision for Income Tax Equivalents	739	429
TOTAL	2,757	2,471

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)
Closing Balance 30 June	1,740	1,740

(ii) Provision for Income Tax Equivalents

Opening Balance 1 July	429	689
Increase in Provision	1,305	1,132
Amounts Paid	(995)	(1,392)
Closing Balance 30 June	739	429

17 OTHER LIABILITIES

	2013 \$'000	2012 \$'000
Employee On-costs	29	29
Sundry Creditors	208	189
TOTAL	237	218

18 SUPERANNUATION COMMITMENTS

The Authority contributes to superannuation funds as chosen by individual employees. 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.

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:

Cash/(Bank Overdraft) and Liquid Assets	6, 14	7	(26)
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(b) CASH FLOWS PRESENTED ON A NET BASIS

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

- (i) Client Deposits and Withdrawals;
- (ii) Sales and Purchases of Money Market Securities;
- (iii) Drawdown and Repayment of Loans and Investments; and
- (iv) Fees Paid and Received

(c) RECONCILIATION OF NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES TO PROFIT AFTER INCOME TAX EQUIVALENTS

	2013 \$'000	2012 \$'000
PROFIT AFTER INCOME TAX EQUIVALENTS	3,045	2,640
Decrease/(Increase) in Interest Receivable	1,185	75
Decrease/(Increase) in Sundry Debtors	(18)	6
Increase/(Decrease) in Interest Payable	(1,009)	(333)
Increase/(Decrease) in Sundry Creditors	20	(40)
Increase/(Decrease) in Provisions	286	(312)
Depreciation	116	103
Revaluation Loss/(Gain)	(196)	118
Impairment Loss/(Gain)	(269)	299
Loss/(Gain) on Disposal of Fixed Assets	4	-
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	3,164	2,556

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
Councillor John Frogley
Ms Wendy Campana
Mr Paul Cohen
Ms Susan McCormick
Mr David Posaner
Councillor John Sanderson
Mr Jeff Tate

Mr Paul Cohen was replaced as a Local Government Association appointed Representative Board Member by Mr Jeff Tate effective 1 January 2013. Mr Anthony Pederick OAM was elected as Chairman and Councillor John Frogley was elected as Deputy Chairman at a Board Meeting held on 19 February 2013. Ms Susan McCormick was re-appointed as the Appointee of the Minister for State/Local Government Relations until 31 December 2014.

Board Members are entitled to receive an allowance.

Payment of allowances in respect of members appointed by the Minister, Treasurer or Chief Executive Officer 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 Chief Executive Officer 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 2013 was \$51,695 (\$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:

	2013 \$'000	2012 \$'000
\$20,001 - \$30,000	1	-
\$10,001 - \$20,000	-	2
\$1 - \$10,000	5	3
No remuneration	2	2

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

* Resigned effective 1 May 2013

(b) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	2013 \$'000	2012 \$'000
\$360,000 - \$369,999	1	-
\$350,000 - \$359,999	-	1
\$170,000 - \$179,999	1	-
\$160,000 - \$169,999	-	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 \$138,000 (\$134,000), 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 \$691,111 (\$670,541).

CONTINGENT ASSETS AND LIABILITIES

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 2013 the total liabilities guaranteed was \$662.189 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 Workcover 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 2013 the amount guaranteed was \$30.496 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 2013 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 Environmental Protection Authority and Urban Renewal Authority. As at 30 June 2013 the amount guaranteed was \$2.0 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 2013 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.

FINANCIAL RISK MANAGEMENT

(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.

(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.

	PRINCIPAL BALANCE 30/06/13 \$'000	+0.5% \$'000	-0.5% \$'000	PRINCIPAL BALANCE 30/06/12 \$'000	+0.5% \$'000	-0.5% \$'000
VARIABLE RATE FINANCIAL ASSETS						
Investment Securities	64,000	320	(320)	22,000	110	(110)
Advances	165,062	825	(825)	136,987	685	(685)
VARIABLE RATE FINANCIAL LIABILITIES						
Council Deposits	382,670	(1,913)	1,913	307,934	(1,540)	1,540
Short Term Money Market Facility	162,115	(811)	811	135,600	(678)	678
Promissory Notes	28,287	(141)	141	33,520	(168)	168
VARIABLE RATE DERIVATIVES						
Interest Rate Swaps (Notional Principal)	417,408	2,087	(2,087)	425,740	2,129	(2,129)
PROFIT/(LOSS) INTEREST RATE SENSITIVITY		367	(367)		538	(538)

(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.

(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 RATING			LONG TERM RATING				NR	TOTAL
	A1+	A1	A2	AA-	A+	A	A-		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2013									
Cash and Liquid Assets	7	-	-	-	-	-	-	-	7
Investment Securities	55,000	5,000	-	20,000	2,000	-	2,000	-	84,000
Loans and Advances	-	-	-	-	-	-	-	591,612	591,612
Derivatives	-	-	-	600	-	4,700	-	-	5,300
TOTAL	55,007	5,000	-	20,600	2,000	4,700	2,000	591,612	680,919
2012									
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
TOTAL	-	23,000	5,000	10,000	2,000	5,500	2,000	581,182	628,682

(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:

	CARRYING AMOUNT \$'000	CONTRACTED CASH FLOWS \$'000	0 - 3 MONTHS \$'000	3 - 12 MONTHS \$'000	1 - 5 YEARS \$'000	> 5 YEARS \$'000
2013						
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	431,615	(431,615)	(385,970)	(10,645)	(35,000)	-
Borrowings	200,502	(200,991)	(190,959)	(10,032)	-	-
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	445,976	(533,815)	(13,038)	(56,445)	(231,651)	(232,681)
Interest Rate Swaps - Inflow	(418,898)	479,495	15,245	42,984	199,978	221,288
2012						
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

TRANSACTIONS WITH SOUTH AUSTRALIAN GOVERNMENT

The following expense transactions were undertaken during the financial year between the Authority and the South Australian Government:

	2013 \$'000	2012 \$'000
Interest Paid - Short Term Money Market Facility	3,507	6,228
Interest Paid - Fixed Term Borrowings	432	362
Interest Paid - Promissory Notes	1,000	1,728
Fees for the Guarantee of the Treasurer of SA on Liabilities	1,135	1,113
Income Tax Equivalents Expense	1,305	1,132
Audit Fees	55	45
Payroll Tax	21	18

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	162,115	135,600
Fixed Term Borrowings	9,600	9,600
Promissory Notes	28,287	33,519
Interest Payable - Short Term Money Market Facility	361	439
Interest Payable - Fixed Term Borrowings	30	30
Interest Payable - Promissory Notes	109	171
Audit Fees	50	45

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.

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.

		2013		2012	
		BOOK VALUE \$'000	FAIR VALUE \$'000	BOOK VALUE \$'000	FAIR VALUE \$'000
FINANCIAL ASSETS	CATEGORY (NOTE 2(b) REFER)				
Investment Securities	Available-for-Sale Financial Assets	2,790	2,790	2,526	2,526
Investment Securities	Loans and Receivables	80,968	81,451	39,247	39,663
Net Loans and Advances	Loans and Receivables	186,786	199,974	167,799	181,175
Net Loans and Advances	Fair Value Hedge	445,976	445,976	465,436	465,436
FINANCIAL LIABILITIES	CATEGORY (NOTE 2(b) REFER)				
Deposits from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	431,615	431,918	400,160	401,025
Borrowings	Financial Liabilities at Amortised Cost	200,502	200,644	179,385	179,633
Derivatives	Fair Value Hedge	27,078	27,078	37,660	37,660

(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.

	LEVEL 1 \$'000	LEVEL 2 \$'000	LEVEL 3 \$'000	TOTAL \$'000
2013				
FINANCIAL ASSETS				
Investment Securities	2,790	81,451	-	84,241
Net Loans and Advances	-	645,950	-	645,950
FINANCIAL LIABILITIES				
Deposits from Councils and Prescribed Bodies	-	431,918	-	431,918
Borrowings	-	200,644	-	200,644
Derivatives	-	27,078	-	27,078
2012				
FINANCIAL ASSETS				
Investment Securities	2,526	39,663	-	42,189
Net Loans and Advances	-	646,611	-	646,611
FINANCIAL LIABILITIES				
Deposits from Councils and Prescribed Bodies	-	401,025	-	401,025
Borrowings	-	179,633	-	179,633
Derivatives	-	37,660	-	37,660

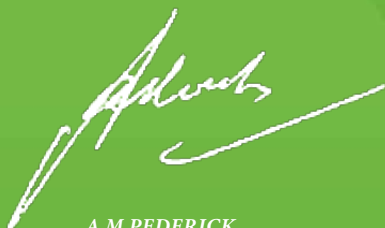
Certification of the Financial Statements

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

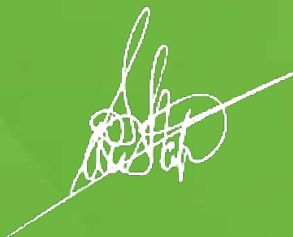
- comply with relevant Treasurer's instructions issued under section 41 of the Public Finance and Audit Act 1987, the Local Government Finance Authority Act, 1983 and relevant Australian accounting standards;
- are in accordance with the accounts and records of the authority; and
- present a true and fair view of the financial position of the Local Government Finance Authority of SA as at 30 June 2013 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 CORPORATE SERVICES

Independent Auditor's Report

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 2013. The financial report comprises:

- A Statement of Comprehensive Income for the year ended 30 June 2013
- A Statement of Financial Position as at 30 June 2013
- A Statement of Changes in Equity for the year ended 30 June 2013
- A Statement of Cash Flows for the year ended 30 June 2013
- Notes to and forming part of the financial statements
- A Certificate from the Chairman, the Chief Executive Officer and the Manager, Corporate Services.

THE BOARD OF TRUSTEES RESPONSIBILITY FOR THE FINANCIAL REPORT

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 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.

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 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 2013, 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 and Australian Accounting Standards.



S O'NEILL
AUDITOR-GENERAL

11 September 2013



FINANCIAL SERVICES