



FINANCIAL SERVICES

ANNUAL REPORT 2014

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

Member Councils

as at June 30 2014

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 Walkerie
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

Deputy: Mr Craig Fowler
Director, Finance,
South Australian Government
Financing Authority (SAFA)



Ms Susan McCormick

Director,
Southern Suburbs and
Community Partnerships.
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



Tony Pederick OAM
Chairman

In March this year, the LGFA celebrated 30 years of successful operation, continuing to fulfill its vision of being the leading provider of finance to South Australian Councils and Prescribed Local Government Bodies in 2013/14.

We were hosted at a celebratory Local Government dinner by the LGA in April, where past and current Trustees and staff enjoyed a most successful evening. Thanks to the LGA for promoting and staging the event.

Despite strong competition from banks and other financial institutions, we continued to write 100% of the loan business and estimate our share of available deposits was in excess of 75%. Thank you again Members for your continued support.

With more and more Councils utilising floating rate debt to fund working capital requirements, our borrowers have benefited from record low short term interest rates. Infrastructure projects were mainly financed by fixed rate longer term debt.

Financial performance this year has been excellent, with a \$5.122M pre-tax profit being generated. This achievement ranks in the top four of all time for the 30 years the LGFA has been in existence. The income tax equivalent of \$1.537M 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 \$2M has been approved for payment by the Board of Trustees.

We wish to acknowledge the continuing support of Government by way of short term funding and the Treasurer's guarantee of our liabilities.

Chairman's Review

Economic Conditions and Lending Activities

Economic Conditions

Financial markets were relatively stable over the past year. Markets were driven by the perceived strength of the Global economic recovery and speculation on when the US Federal Reserve would end its quantitative easing programme.

Over the past year the US economy continued to improve with the unemployment rate falling and Gross Domestic Production rising. In February the Federal Reserve announced that it would start to taper its quantitative easing program which initially moved US Treasury bond yields higher. During the year there were some concerns about the strength of the Chinese economy however the Chinese economy grew by 7.4% last year, which is high compared to most other economies. The European economy continued to underperform last year with many areas of the zone hampered by high levels of unemployment.

In Australia rising unemployment and the announcement that a number of high profile manufacturers were planning to leave Australia weighed on consumer and business sentiment. The AUD ranged between \$0.87 USD and \$0.97 USD over the year in review. The AUD is currently trading at around \$0.94 USD.

The Reserve Bank of Australia (RBA) cut the official cash rate once in 2013-2014 by 0.25% in August 2013 to an historic low of 2.50%. During the year the RBA stated that a period of stable interest rates was likely and felt that the current interest rate settings were accommodative and should provide support to demand. The RBA also felt that the AUD was overvalued and should be worth \$0.85 USD.

Lending Activities

Loan activity with Councils in both the floating and fixed rate markets has been quite buoyant this year, particularly towards the end of the financial year. It appears Councils are prepared to take on infrastructure and other projects in this low interest rate environment.

We are pleased to report that a new record level of total loans outstanding at balance date of \$626.8M (last year \$591.6M) was achieved. This comprised \$426.4M of fixed rate mainly "Credit Foncier" loans and \$200.4M of Cash Advance Debenture (CAD) floating rate loans.

The CAD suite of products which introduces floating rate debt into lending portfolios continues to be popular with Councils. Total CAD limits as at 30.6.14 increased to \$563M which was a \$30M increase from last year (\$533M). Drawdowns at balance date on the CAD facilities totalled \$200.4M which was around \$23M higher than the previous year.

Fixed term lending rates have generally eased throughout the year, and with 10 year and 15 year rates in the low-mid 5% range we believe this represents excellent funding opportunities for Councils. New fixed rate loan drawdowns for the year were just over \$60M (last year \$41M).

We anticipate that our lending to Councils will continue to grow in this current market.

Chairmans' Review

Investment Activity

Investment Activity

In August 2013 the Reserve Bank of Australia (RBA) cut the official cash rate by 0.25% to an historic low of 2.50%.

At call funds deposited with the LGFA currently attract the official RBA cash rate. Over the last year the rate received for 24 hour call deposits reduced from 2.75% to 2.50% in line with the August cut.

Wholesale funding markets were buoyant over the past year. Increased issuance into domestic and offshore wholesale funding markets by the major banks, saw a moderation in the rates being paid on retail and middle market term deposits.

The average daily deposit level of \$420M (2013 \$424M) remained steady compared to the previous year. While the interest rates being paid to retail and middle market term deposit holders has moderated over the last year, demand for these type of deposits were still high amongst banks and financial institutions. It is likely that the deposit market will remain competitive over the coming year however we will aim to grow the deposit book above current levels.

“THE AVERAGE DAILY DEPOSIT LEVEL OF \$420M (2013 \$424M) REMAINED STEADY COMPARED TO THE PREVIOUS YEAR.”

Chairman's Review

Information Technology and Compliance

Information Technology

The LGFA webpage has proven to be popular with council staff for downloading financial information.

The website has also been updated this year with newsletters and general information about LGFA and its operations.

Compliance

The introduction of AASB 13 Fair Value Measurement required the purchase of a new credit adjustment module for our hedge accounting software supplied by Reval. This module was successfully implemented during the year and has been used for calculating our derivative fair market values as at 30 June 2014 to comply with AASB 13.

The LGFA Board Audit Committee has been established to oversee the extensive auditing programme conducted each year by the Auditor General's Department. The Authority is required to comply with Treasurer's Instructions TI 2 Financial Management and TI 28 Financial Management Compliance Program (FMCP). The FMCP was conducted by Bentleys auditors during the year and a report detailing the audit results was delivered to the Authority and the Auditor General's Department.

An annual review of the Authority's compliance with the Work Health and Safety (WHS) legislation was conducted by Beckmann and Associates during the year. An ergonomic assessment and a number of other items are included as part of our annual WHS schedule.

Chairman's Review

The Board

The Board

The Authority is administered 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.

Every two years the Board is subject to election, appointment or re-appointment of various members.

This year the Board of Trustees will seek nominations from the LGA (2) and also from Member Councils (2). Successful nominees will be announced at our AGM in October.

Reporting to the Board has been enhanced with the Balanced Scorecard approach adopted this year by the LGFA. This summary document complements the CEO's Report, produced monthly for Board Trustees and highlights the LGFA's continuing achievement of its Key Performance Indicators.

The LGFA Trustees' Handbook has also been updated, with the LGFA Management Handbook created to provide clarity and consistency with all Management systems and procedures, in support of the strategic and business planning monitored by the Board.

Board Meetings Attended By Board Members

Number of meetings held:	7
Mr Anthony Pederick	7
Councillor John Frogley	7
Councillor John Sanderson	4
Ms Wendy Campana	5
Ms Sue McCormick	6
Mr David Posaner	6
Mr Jeff Tate	6
Mr Chris Russell	2
(Deputy for Ms Wendy Campana)	

Chairman's Review

The Staff



Paul Slater

Robert Hardy

Geoff Hollitt

Davin Lambert

Mary Loveday

Kristen Spehr

The Staff

Our restructured staff team has worked well and there were no staff changes this year. Staff continued to attend training seminars and workshops to enhance their expertise, especially in the financial services and Workplace, Health and Safety arenas.

We moved into our new premises over a year ago and our new office has been working well for staff and also for auditing staff and visiting local government people, especially regional, who can work effectively from our hot desk facilities. Our Board Room has also been utilised well for meetings and seminars.

This year's visitation program for Councils and Prescribed Local Government Bodies has been successful again and we are looking to build on this success, with a reworked Marketing Plan for the future. In fact, this visitation schedule is now incorporated into the CEO's Key Performance Indicators.

The LGFA intends to survey our clients, Councils and Prescribed Local Government Bodies, to ensure our products are relevant and appropriate. This survey also intends to ask what else the LGFA could be doing for its clients.

A handwritten signature in black ink, appearing to read 'Tony Pederick'.

Tony Pederick OAM
Chairman

September 2014

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 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.

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

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.



Authority Profile

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.

“THE BONUS PAYMENT WAS INCREASED TO \$2M THIS YEAR (FROM \$1.74M) TO REFLECT OUR STRONG LEVEL OF PROFITABILITY AND TO CELEBRATE THE 30TH ANNIVERSARY OF LGFA’S ESTABLISHMENT.”

Bonus

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

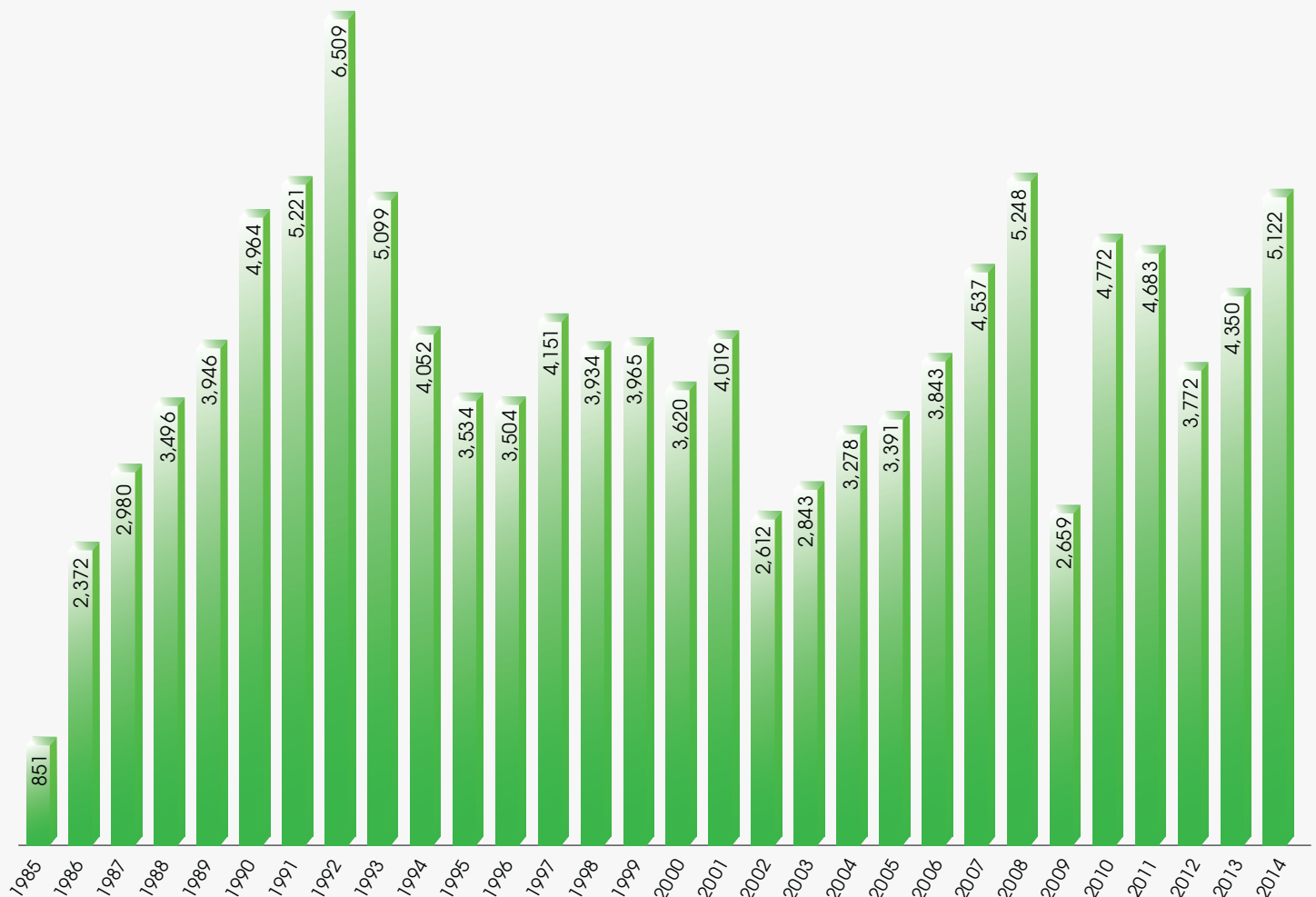
Since its introduction in 1985 an amount of \$31.665M has been distributed with a further \$2M to be paid in respect of the year ended 30 June 2014. This year’s payment of \$2M when combined with previous special allocations for local government purposes of \$2.875M will result in overall payments benefiting the local government community of \$36.54M.

In line with past 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 \$1.519M with the balance of \$481,000 allocated to loans. The bonus payment was increased to \$2M this year (from \$1.74M) to reflect our strong level of profitability and to celebrate the 30th anniversary of LGFA’s establishment.

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)

**\$117 MILLION
TOTAL PROFIT**



Case Study

PORT AUGUSTA COMMUNITY & SPORTING HUB AT CENTRAL OVAL

“THE COUNCIL COULD NEVER HAVE ACHIEVED THE LEVEL OF CHANGE TO INFRASTRUCTURE IN THE CITY THAT IT HAS OVER THE LAST TWENTY YEARS WITHOUT A WELL-STRUCTURED STRATEGIC APPROACH TO THE USE OF BORROWING AND DEBT.”

The Port Augusta Community and Sporting Hub at Central Oval will be a state of the art community facility for Port Augusta and the Region. It is due for completion in October, 2014.

A two-story multi-use stadium is the centre piece of the project and features three multi-use basketball courts, an upstairs function area that will provide viewing to both the Central Oval and the indoor court and retractable doors that will open the stadium onto a plaza precinct. Central Oval will be upgraded to AFL standard for football, and the addition of netball courts to the site will form Stage 2 of the project to be completed in 2015.

Over a decade in planning, the \$19.5M project was funded with \$5M support from the State Government and \$5M from the Federal Government through Regional Development Australia. The Port Augusta City Council has provided for its share of the project funding via a \$6M long term loan from the Local Government Finance Authority of South Australia. Council has also supported civil and other works to the Oval through its annual budget.

Port Augusta City Council Director of Corporate Services Michael Dunemann said the new community and sporting hub will be a fantastic central meeting place for the community. “Council could never have achieved the level of change to infrastructure in the City that it has over the last twenty years without a well-structured strategic approach to the use of borrowing and debt. The Local Government Finance Authority has provided loan funds to Council for well over 20 years now and continues to support Council in achieving capital projects for the City.”



Case Study

PORT LINCOLN AIRPORT UPGRADE

**“THE LOCAL GOVERNMENT
FINANCE AUTHORITY
PROVIDED APPROXIMATELY
\$3.02M OF CASH ADVANCE
DEBENTURE FUNDING FOR
THE PROJECT”**

In February 2008 exploration began of future terminal options due to growing Pax and possible future security requirements and by November 2008 preliminary design and cost estimates were completed.

In February 2010 the architects completed the preliminary designs for a redevelopment in stages to meet the screening requirement and aircraft of 20,000 kg MTOW.

It was more than just a terminal –the upgrade project consisted of the following:

- Apron – extend the sealed apron area to add another Q400 parking position;
- Taxiway – build a new taxiway from the apron to the runways;
- Terminal – a new building south of the existing terminal (previously car park); and
- Car Park – build a new sealed car park where the existing gravel car park is located,

At a total project estimated cost of \$13.2M.

The Local Government Finance Authority provided financial services in way of holding the grant funds which totalled \$6.82M and provided a redraw service to District Council of Lower Eyre Peninsula.

Of the \$13.2M total project cost \$6.38M came from Reserve Funds and Borrowings. The Local Government Finance Authority provided approximately \$3.02M of cash advance debenture funding for the project to be completed.

The Port Lincoln Airport was open for business on 6 August 2013 with the official opening on Wednesday 29 January 2014. On 11 February 2014 the Port Lincoln Airport hosted its 100,000th passenger to the new terminal.



Case Study

WALKERVILLE CIVIC & COMMUNITY CENTRE

***“IT IS A FOCAL POINT
FOR CIVIC PRIDE
AND IDENTITY.”***

The Corporation of the Town of Walkerville “officially” opened its doors to their new Civic and Community Centre on the 26th January, Australia Day 2014. Designed by JPE Design Studio, this flagship building is innovative in its design, environmentally sustainable and adopts some of the latest energy efficient principles. Most importantly, it is a focal point for civic pride and identity.

The redevelopment of the site included the restoration of the Local Heritage Listed Town Hall. The Civic and Community Centre is located at 66 Walkerville Terrace, Gilberton, 5081.

Loan Funds from LGFA contributed to the funding of this project.

Photograph by Simon Casson



Financial Report



Statement of Comprehensive Income

For the Year Ended 30 June 2014

Statement of Comprehensive Income		2014	2013
	Note	\$'000	\$'000
Income			
Interest on Investments	2 (c)	2,898	2,274
Interest on Loans and Advances	2 (c)	45,922	49,280
Other Income	2 (f), 2 (h), 3	491	598
TOTAL INCOME		49,311	52,152
Expenses			
Interest on Deposits from Councils and Local Government Bodies	2 (d)	12,282	15,313
Interest on Borrowings	2 (d)	28,795	29,410
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	23	1,235	1,135
Administration Expenses	4	1,877	1,944
TOTAL EXPENSES		44,189	47,802
Profit Before Income Tax Equivalents		5,122	4,350
Income Tax Equivalent Expense	2(e)	1,537	1,305
Profit After Income Tax Equivalents		3,585	3,045
TOTAL COMPREHENSIVE RESULT		3,585	3,045

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

€0,000,000

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

Statement of Financial Position

For the Year Ended 30 June 2014

Statement of Financial Position		2014	2013
	Note	\$'000	\$'000
Assets			
Cash and Liquid Assets	5	27	7
Accrued Interest Receivable	6	4,139	3,743
Investment Securities	2 (f), 7	61,532	82,790
Other Assets	8	218	111
Net Loans and Advances	2 (g), 9	668,840	629,988
Property, Plant & Equipment	2 (j), 10	2,138	2,336
TOTAL ASSETS		736,894	718,975
Liabilities			
Deposits from Councils and Local Government Bodies	2 (k), 11	372,702	428,315
Accrued Interest Payable	12	3,522	3,800
Borrowings	13	267,398	200,002
Derivatives	2 (i), 14	31,415	27,078
Provisions <small>and equivalents</small>	2 (l), 15	3,211	2,757
Other Liabilities	16	275	237
TOTAL LIABILITIES		678,523	662,189
NET ASSETS		58,371	56,786
Equity			
General Reserve	2 (m)	57,800	56,300
Retained Profits		571	486
TOTAL EQUITY		58,371	56,786
The equity is attributable to the owners.			
Contingent Assets and Liabilities	21		

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

Statement of Changes in Equity

For the Year Ended 30 June 2014

Statement of Changes in Equity	General Reserve	Retained Profits	Total
	\$'000	\$'000	\$'000
BALANCE AT 1 JULY 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
Profit After Income Tax Equivalents for 2013/14	—	3,585	3,585
TOTAL COMPREHENSIVE RESULT FOR 2013/14	—	3,585	3,585
Transfer to Bonus Payment Provision	—	(2,000)	(2,000)
Transfer to General Reserve	1,500	(1,500)	—
BALANCE AT 30 JUNE 2014	57,800	571	58,371

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 2014

Statement of Cash Flows		2014	2013
	Note	\$'000 Inflows (Outflows)	\$'000 Inflows (Outflows)
Cash Flows From Operating Activities			
Interest and Bill Discounts Received		48,760	52,739
Interest Paid		(41,461)	(45,732)
Fees Paid re Guarantee provided by Treasurer of S.A.		(1,232)	(1,129)
Cash Payments to Suppliers and Employees		(1,575)	(1,859)
Fees Received		113	140
Income Tax Equivalents Paid		(1,392)	(995)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18(c)	3,213	3,164
Cash Flows From Investing Activities			
Loans to Councils and Local Government Bodies		(35,172)	(10,436)
Investment Securities		21,594	(42,000)
Payments for Property, Plant & Equipment		(31)	(2,210)
Proceeds from Sale of Property, Plant & Equipment		60	27
NET CASH USED IN INVESTING ACTIVITIES		(13,549)	(54,619)
Cash Flows From Financing Activities			
Promissory Notes		131	(5,232)
Deposits from Councils and Local Government Bodies		(55,613)	32,166
Short Term Money Market Facilities		76,865	26,515
Fixed Term Borrowings		(9,600)	—
Bonus Payment to Councils and Local Government Bodies		(1,740)	(1,740)
Other		313	(221)
NET CASH PROVIDED BY FINANCING ACTIVITIES		10,356	51,488
Net Increase /(Decrease) in Cash Held		20	33
Cash/(Bank overdraft) at 1 July		7	(26)
CASH AT 30 JUNE	18(a)	27	7

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 2014

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Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2014

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 have been 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).

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

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 investment assets which are classified as Loans and receivables, Available-for-sale financial assets and Financial assets at fair value through profit and loss. The interest income is calculated on an accruals basis.

Interest on loans and advances

This item includes interest income from loan assets classified as Loans and receivables 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

Investment securities held by the Authority are mainly Australian bank term deposits which are categorised as Loans and Receivables and therefore accounted for at amortised cost.

Investments held by the Authority that are categorised as Available-for-sale financial assets are recorded at fair value in accordance with the provisions of AASB 139 Financial Instruments: Recognition and Measurement. 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.

g. Loans and Advances

Loan agreements with Councils are secured by debentures which provide a charge over Council general revenue. Loans to Prescribed Local Government Bodies (totalling \$24.6M as at 30/6/14) 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.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

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 Financial Instruments: Recognition and Measurement.

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 22 - 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 & 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	5 – 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 15(i).

Income Tax Equivalents

A provision is made for Tax Equivalents payable as at 30 June 2014 (Note 2(e) Refer).

A reconciliation of movements in this provision is provided at Note 15(ii).

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

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

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 2014.

The Authority did not voluntarily change any of its accounting policies during 2013-14.

The Authority has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of the Authority, except as outlined below:

- In accordance with the new AASB 13 Fair Value Measurement, which became effective for the first time in 2013-14, the Authority has amended its fair valuation technique for derivatives which are not listed on an exchange to include an adjustment for credit. The resulting debit valuation adjustment has not had a material impact on the fair value measurements.

With regard to impending Accounting Standards, the Authority has assessed the impact of AASB 9 Financial Instruments and considers there will be no material financial impact when it is due to be adopted in the financial year ending 30 June 2018.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

3. Other Income	2014	2013
	\$'000	\$'000
Gain on Impaired Available-for-Sale Assets Revaluation	345	269
Gain on Fair Value Hedges Revaluation (Hedge Accounting)	34	196
Fee Income	112	133
TOTAL	491	598

4. Administration Expenses	2014	2013
	\$'000	\$'000
Audit Fees	96	97
Consultancy Fees	28	47
Depreciation	166	116
Occupancy Expenses	37	115
Salaries & On-Costs	997	987
Software License Fees	91	78
Sponsorships	86	87
Other Administration Expenses	376	417
TOTAL	1,877	1,944

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*	61	55
Financial Management Compliance Program by an external audit firm	35	42
TOTAL	96	97

* 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	1	1	3	12
\$10,000 to \$50,000	1	27	1	35
TOTAL	28		47	

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

5. Cash and Liquid Assets	2014	2013
	\$'000	\$'000

Cash at Bank	27	7
TOTAL	27	7

6. Accrued Interest Receivable*	2014	2013
	\$'000	\$'000

Interest Receivable - Loans to Councils and Local Government Bodies	3,072	2,775
Interest Receivable - Investment Securities	1,067	968
TOTAL	4,139	3,743

* 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.

7. Investment Securities	2014	2013
	\$'000	\$'000

Deposits and Securities issued by Banks	62,000	84,000
Accrued Interest Receivable	9	18
Fair Value Loss on Impaired Available-for-Sale Assets*	(477)	(1,228)
TOTAL	61,532	82,790

* 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 \$2 million remains constant at 100 basis points over the 90 day BBSW interest rate on the face value of the notes.

8. Other Assets	2014	2013
	\$'000	\$'000

Sundry Debtors and Prepayments	218	111
TOTAL	218	111

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

9. Net Loans and Advances		2014	2013
		\$'000	\$'000
Advances		188,105	165,062
Term Loans		438,679	426,550
Loans and Advances - at cost		626,784	591,612
Fair Value Adjustment (Hedge Accounting)		42,056	38,376
Net Loans and advances		668,840	629,988
Unrecognised Commitments - Loans and Advances			
Unused Cash Advance facilities		362,997	355,655
Term loans approved not advanced		—	436
TOTAL		362,997	356,091

10. Property, Plant and Equipment		2014	2013
		\$'000	\$'000
Plant, Equipment, and Motor Vehicles:			
- at cost		964	1,084
less, accumulated depreciation		(594)	(542)
Building Floorspace			
- at cost		1,799	1,799
less, accumulated depreciation		(31)	(5)
TOTAL PROPERTY, PLANT & EQUIPMENT		2,138	2,336
Reconciliation of Property, Plant and Equipment			
Carrying Amount at 1 July		2,336	275
Acquisitions		31	2,210
Disposals		(63)	(33)
Depreciation		(166)	(116)
CARRYING AMOUNT AT 30 JUNE		2,138	2,336

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

11. Deposits From Councils and Local Government Bodies	2014	2013
	\$'000	\$'000

Deposits from Councils and Local Government Bodies	372,702	428,315
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12. Accrued Interest Payable	2014	2013
	\$'000	\$'000

Interest Payable on:		
Deposits from Councils and Local Government Bodies	2,969	3,300
Borrowings *	553	500
TOTAL	3,522	3,800

* 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.

13. Borrowings	2014	2013
	\$'000	\$'000

Short Term Money Market Facility	238,980	162,115
Fixed Term Borrowings	-	9,600
Promissory Notes	28,418	28,287
TOTAL	267,398	200,002

14. Derivatives	2014	2013
	\$'000	\$'000

Swap Principal Receivable	(8,818)	(9,289)
Interest Receivable - Interest Rate Swaps	(1,399)	(1,537)
Interest Payable - Interest Rate Swaps	4,234	4,422
Fair Value Adjustment	37,317	33,482
Interest Rate Swaps *	31,334	27,078

Futures Contracts	81	—
TOTAL	31,415	27,078

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

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

15. Provisions	2014	2013
	\$'000	\$'000
Employee Benefits	311	260
Fringe Benefits Tax	16	18
Bonus Payment to Councils and Local Government Bodies	2,000	1,740
Provision for Income Tax Equivalents	884	739
TOTAL	3,211	2,757

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	2,000	1,740
Amounts Paid	(1,740)	(1,740)
CLOSING BALANCE 30 JUNE	2,000	1,740

(ii) Provision for Income Tax Equivalents		
Opening Balance 1 July	739	429
Increase in Provision	1,537	1,305
Amounts Paid	(1,392)	(995)
CLOSING BALANCE 30 JUNE	884	739

16. Other Liabilities	2014	2013
	\$'000	\$'000
Employee On-costs	34	29
Sundry Creditors	241	208
TOTAL	275	237

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

17. 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.

18. Notes to Statement of Cash Flows	NOTE	2014	2013
		\$'000	\$'000
(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 and Liquid Assets	5	27	7
(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			
Profit After Income Tax Equivalents		3,585	3,045
Decrease/(Increase) in Interest Receivable		(59)	1,185
Decrease/(Increase) in Sundry Debtors		49	(18)
Increase/(Decrease) in Interest Payable		(384)	(1,009)
Increase/(Decrease) in Other Liabilities		38	20
Increase/(Decrease) in Provisions		194	286
Depreciation		166	116
Revaluation Loss/(Gain)		(34)	(196)
Impairment Loss/(Gain)		(345)	(269)
Loss/(Gain) on Disposal of Fixed Assets		3	4
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		3,213	3,164

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

19. 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
Ms Susan McCormick
Mr David Posaner
Councillor John Sanderson
Mr Jeff Tate

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 2014 was \$54,472 (\$51,695) 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.

Remuneration of Board Members	2014	2013
	\$'000	\$'000
The number of Board Members whose remuneration was within the following bands:		
\$20,001 - \$30,000	1	1
\$10,001 - \$20,000	1	-
\$1 - \$10,000	3	5
No remuneration	2	2

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

20. 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	Senior Manager Financial Markets

Remuneration of Employees	2014	2013
	\$'000	\$'000
(b) Key Management Personnel Remuneration		
The number of employees whose remuneration received or receivable falls within the following bands:		
\$370,000 - \$379,999	1	-
\$360,000 - \$369,999	-	1
\$180,000 - \$189,999	1	-
\$170,000 - \$179,999	-	1
\$150,000 - \$159,999	-	1

The table above includes all employees who received remuneration equal to or greater than the base executive remuneration level of \$141,500 (\$138,000), as determined by the Department of Treasury and Finance. The remuneration comprises salary, superannuation contributions including superannuation guarantee charge, motor vehicle package, car parking, living away from home allowance and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by employees earning equal to or greater than the base executive remuneration level for the year was \$558,749 (\$691,111).

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

21. 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 2014 the total liabilities guaranteed was \$678,523M.

(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 2014 the amount guaranteed was \$30.496M.

(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 2014 the amount 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 2014 the amount guaranteed was \$2.0M.

(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 former Department of Families, Housing, Community Services and Indigenous Affairs (now the Department of Social Services). As at 30 June 2014 the amount guaranteed was \$12M.

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.

22. Financial Risk Management

(a) Risk Management Policies and Procedures

The Treasurer issued a revised consent dated 27 October 2013, 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.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

(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 30/06/14	+0.5%	-0.5%	Principal Balance 30/06/13	+0.5%	-0.5%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Variable Rate Financial Assets						
Investment Securities	27,000	135	(135)	64,000	320	(320)
Loans and Advances	192,687	963	(963)	165,062	825	(825)
Variable Rate Financial Liabilities						
Council Deposits	288,476	(1,442)	1,442	382,670	(1,913)	1,913
Short Term Money Market Facility	238,980	(1,195)	1,195	162,115	(811)	811
Promissory Notes	28,418	(142)	142	28,287	(141)	141
Variable Rate Derivatives						
Interest Rate Swaps (Notional Principal)	429,625	2,148	(2,148)	417,408	2,087	(2,087)
Futures (Notional Principal)	3,000	140	(140)	-	-	-
PROFIT/(LOSS) INTEREST RATE SENSITIVITY		607	(607)		367	(367)

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

22. Financial Risk Management cont.

(iii) Other Price Risk

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

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).

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.

(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.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

	Short Term Rating			Long Term Rating					
	A1+	A1	A2	AA-	A+	A	A-	NR	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2014									
Cash and Liquid Assets	27	-	-	-	-	-	-	-	27
Investment Securities	20,000	-	5,000	35,000	-	-	2,000	-	62,000
Loans and Advances	-	-	-	-	-	-	-	626,784	626,784
Derivatives	-	-	-	1,400	-	4,000	-	-	5,400
TOTAL	20,027	-	5,000	36,400	-	4,000	2,000	626,784	694,211
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

20,027

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

(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	CONTRACTED CASH FLOWS	0 - 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	> 5 YEARS
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2014						
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	375,369	(375,369)	(291,143)	(59,556)	(24,670)	-
Borrowings	267,952	(267,952)	(267,952)	-	-	-
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	375,460	(442,129)	(11,736)	(53,633)	(209,709)	(167,051)
Interest Rate Swaps - Inflow	(344,126)	385,054	13,860	39,848	176,955	154,391
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

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

23. Transactions with South Australian Government	2014	2013
	\$'000	\$'000
The following expense transactions were undertaken during the financial year between the Authority and the South Australian Government:-		
Interest Paid - Short Term Money Market Facility	4,448	3,507
Interest Paid - Fixed Term Borrowings	402	432
Interest Paid - Promissory Notes	721	1,000
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,235	1,135
Income Tax Equivalents Expense	1,537	1,305
Audit Fees	61	55
Payroll Tax	10	21
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	238,980	162,115
Fixed Term Borrowings	-	9,600
Promissory Notes	28,418	28,287
Interest Payable - Short Term Money Market Facility	454	361
Interest Payable - Fixed Term Borrowings	-	30
Interest Payable - Promissory Notes	99	109
Audit Fees	59	50

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

24. 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 credit adjusted 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.

		2014		2013	
		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	1,533	1,533	2,790	2,790
Investment Securities	Loans and Receivables	61,067	61,552	80,968	81,451
Net Loans and Advances	Loans and Receivables	204,861	218,862	186,786	199,974
Net Loans and Advances	Fair Value Hedge	467,051	467,051	445,976	445,976
Financial Liabilities	Category (Note 2(b) Refer)				
Deposits from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	375,671	376,279	431,615	431,918
Borrowings	Financial Liabilities at Amortised Cost	267,951	267,939	200,502	200,644
Derivatives	Fair Value Hedge	31,334	31,334	27,078	27,078
Derivatives	Financial Liabilities at Fair Value	81	81	-	-

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2014

(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	LEVEL 2	LEVEL 3	TOTAL
	\$'000	\$'000	\$'000	\$'000
2014				
Financial Assets				
Investment Securities	1,533	61,552	-	63,085
Net Loans and Advances	-	685,913	-	685,913
Financial Liabilities				
Deposits from Councils and Prescribed Bodies	-	376,279	-	376,279
Borrowings	-	267,939	-	267,939
Derivatives	81	31,334	-	31,415
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

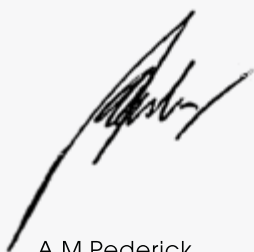
Certification of the Financial Statements

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 2014 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.

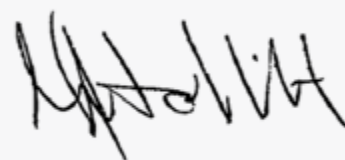


A M Pederick
Chairman

9 September 2014



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 2014. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2014
- a Statement of Financial Position as at 30 June 2014
- a Statement of Changes in Equity for the year ended 30 June 2014
- a Statement of Cash Flows for the year ended 30 June 2014
- notes, comprising a summary of significant accounting policies and other explanatory information
- 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* and Australian Accounting Standards, and for such internal control as the Board of Trustees determine 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.

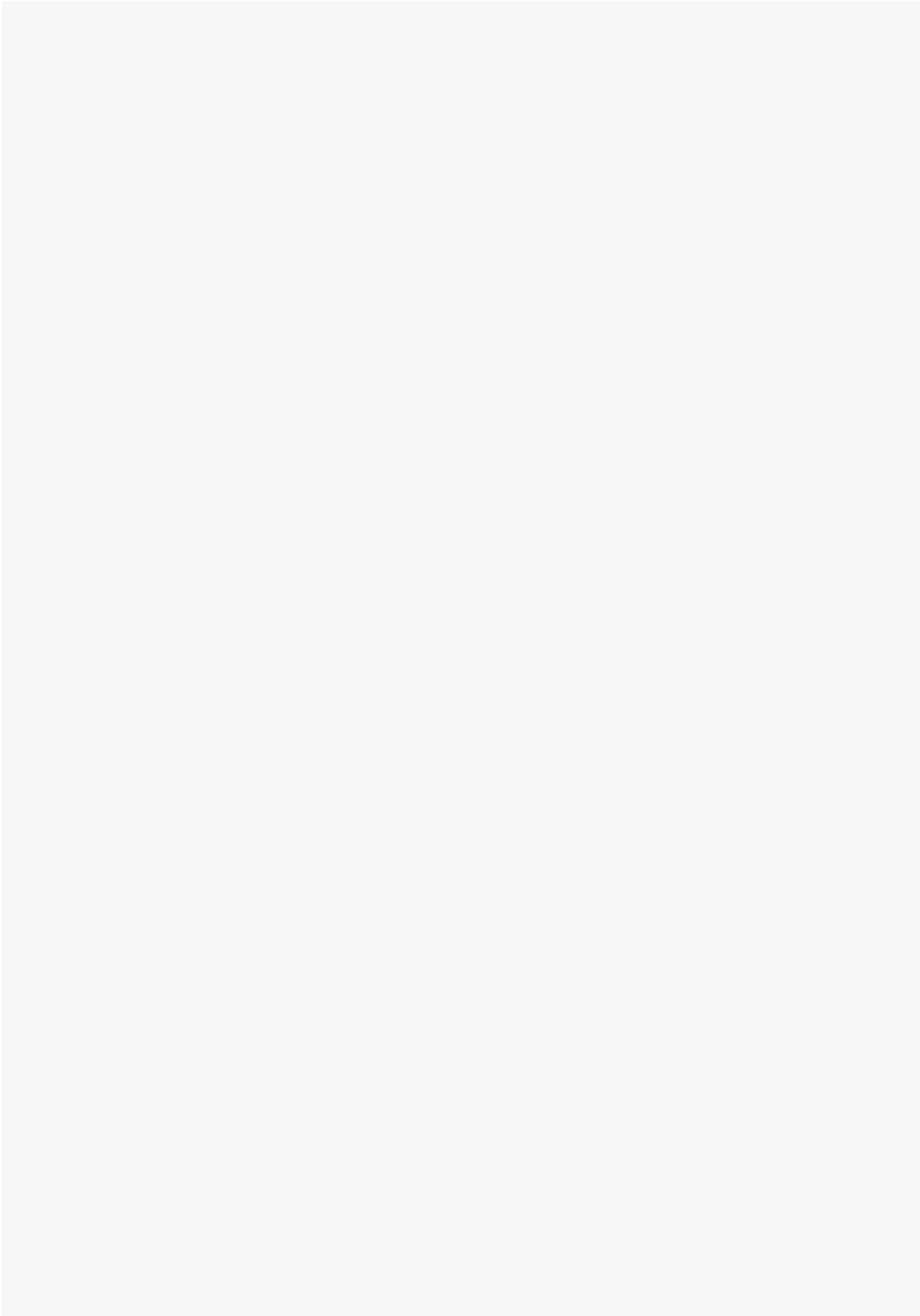
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 2014, 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
19 September 2014







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