



FINANCIAL SERVICES

ANNUAL REPORT 2015

Local Government
Finance Authority of
South Australia

Member Councils

As at June 30, 2015

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

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Board of Trustees



**Mr Tony Pederick OAM
Chairman**

Chairman
Forerunner Computer
Systems Pty Ltd



**Cr John Frogley
Deputy Chairman**

Councillor
City of Norwood, Payneham
& St Peters



**Ms Wendy Campana
Former Board Member**

Wendy's Board position ceased upon her resignation from the Local Government Association on 8th May 2015.

Mr Mark Searle is Acting Chief Executive Officer of the Local Government Association.

Deputy: Mr Chris Russell
Director Communications



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

Deputy Director,
State Recovery Office
Appointee of the Minister
for Finance



Cr John Sanderson

Councillor,
City of Mitcham



Mr Raj Rajamani

Senior Consultant /
Operations Excellence
GRP Global

Raj commenced on the
Board on 1st January 2015,
replacing Mr Jeff Tate
Appointee of LGA)

Chairman's Review



Mr Paul Slater
CEO LGFA

Mr Mark Searle
LGA Acting CEO
LGFA Board Trustee

Mr Tony Pederick OAM
Chairman LGFA

Mayor Dave Burgess
LGA President



Mr Tony Pederick OAM
Chairman

In a tight and constrained business environment, LGFA has continued to be extremely commercial, once again returning a profit above budget, while adhering to strict risk tolerances and credit limits. LGFA continued to write 100% of the loan business this year, while attracting 90% of the available deposits. Thank you members for your continuing support.

Councils have continued to finance infrastructure projects with fixed rate longer term debt. There has, however, been a strong shift by Councils to borrow via our Cash Advance suite of products where the interest rate is floating. Councils have benefitted from the record low short term interest rates.

Financial performance this year has again been excellent, with a \$5.626 M pre-tax profit generated. This is the second most profitable year we have had since inception. The income tax equivalent of \$1.688 M will be paid to the State Government for use by Local Government to fund Research and Development projects. A bonus payable to Councils and Prescribed Local Government Bodies of \$2M has been approved by the Board of Trustees.

The Board has benefitted from our new Balanced Scorecard which succinctly presents LGFA's total performance in all areas and encourages discussion among Board Members.

We wish to acknowledge the continuing support of Government by way of short term funding and the Treasurer's guarantee of our liabilities. The guarantee fee paid to Government for this support, has been retained at current levels.

Chairman's Review

Economic Conditions and Lending Activities

Economic Conditions

Over the past year the Global economy was driven by central bank intervention and geopolitical issues.

The US economy improved significantly over the past year as the US jobless rate fell from 6.2% to 5.5% and the economy grew by 2.9%. The improved economic outlook gave the US Federal Reserve the scope to end the Quantitative Easing Program in October 2014. In contrast the European economic landscape remained bleak, highlighted by the Eurozone jobless rate of 11.1%. The Chinese economy slowed over the year in question with the GDP annual growth rate falling from 7.4% to 7.0%. Many market commentators felt that the Chinese property and equity markets were overvalued.

The Australian economy was benign over the past year. The unemployment rate hovered around 6% and the GDP annual growth rate fell from 2.7% to 2.3%. The Sydney housing market rose 13.1% over the past year which was mainly due to demand from domestic and international investors. This high level of demand consequently forced the bank regulator APRA to enforce limits on investment lending by banks. The Australian Dollar (AUD) ranged between \$0.94 USD and \$0.77 USD over the year in review.

The Reserve Bank of Australia (RBA) cut the official cash rate by a total of 0.50% during the 2014-2015 financial year (0.25% in February 2015 and 0.25% in May 2015) to an historic low of 2.00%. Falling commodity prices and low inflation expectations gave the RBA scope to cut the cash rate with recent statements providing further opportunity to cut rates in the future if required.

Lending Activities

Councils have continued to borrow funds to finance their operations which can include large infrastructure projects in this attractive low interest rate environment. The growth in lending this year has been in the floating rate Cash Advance Debenture (CAD) facilities. In this falling interest rate environment the CAD has delivered flexible low cost funding to our clients.

We are pleased to report a new record level of total loans outstanding at balance date of \$650.1M (last year \$626.8M.) This comprised \$434.0M of fixed rate mainly "credit foncier" loans and \$216.1M of CAD floating rate loans.

Total CAD limits as at 30.6.15 increased to \$608M which was an increase of \$45M from last year (\$563M.) Drawdowns at balance date on the CAD facilities totalled \$225.1M which was around \$25M higher than the previous year.

Fixed term lending rates have continued to ease throughout the year and with 10 – 20 year rates in the mid 4% to 5% range, we believe this represents an ideal opportunity for Councils to lock away funding to gain certainty in their financing costs and that our lending to Councils will continue to grow as Councils address their infrastructure needs in the coming years.

Investment Activity

Investment Activity

Deposit funds at call with the LGFA currently attract the official RBA cash rate. Over the last year the LGFA at call rate reduced from 2.50% to 2.00% in line with changes to the official cash rate in February and May.

Wholesale issuance by banks and corporates was strong for most of the year, but however became muted towards the end of the year as the Greek debt crisis and Greek referendum came to the forefront. Strong wholesale issuance by the major banks over the first half of the financial year saw further moderation in the rates being paid for retail and middle market deposits. Towards the end of the financial year the latest stage of the Greek debt crisis saw banks pay higher rates for deposits in an effort to shore up their liquidity.

The average daily deposit level of \$414M (2013-2014 \$420M) was slightly lower when compared to the previous year. In January 2015 the bank regulator APRA changed the way Australian banks calculate their liquidity requirements by making banks assess the run-off assumptions or 'stickiness' of their deposit book in a stressed environment. Due to the low risk profile of Australian Councils, demand for their deposits should remain high amongst banks and financial institutions alike. Despite the continued strong competition and the propensity for Councils to run down cash reserves and use Cash Advance Debenture (CAD) facilities for cash flow purposes, we still aim to increase the deposit levels from Councils in the 2015-2016 financial year.



***“Average daily
deposit level of
\$414M”***



Chairman's Review

Information Technology and Compliance



Information Technology

A new server was purchased and installed as part of our regular upgrade process. Windows Server 2012, Microsoft Exchange 2013 and SQL Server 2012 were implemented on the new server to bring us in line with the latest software.

In order to improve our Disaster Recovery (DR) process another server and DR software was purchased and installed at a secure remote site. The new DR software allows for offsite replication of our information technology and communication systems for use in the event of an emergency. A fibre optic cable has also been installed to provide a reliable, high bandwidth communication cable to and from our recently purchased Community Title premises.

Compliance

The LGFA Board has appointed an Audit Committee 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.

In addition to this a Risk Identification workshop was conducted during the year to identify key operational risks for the Authority. The risks identified have been documented and will be subject to regular review by the Audit Committee.

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

The Board

Board Meetings Attended by Board Members

Number of meetings held: 6

Mr Tony Pederick OAM	6	Mr David Posaner	6
Councillor John Frogley	6	Mr Jeff Tate	3 (eligible 3)
Councillor John Sanderson	4	Mr Raj Rajamani	3 (eligible 3)
Ms Wendy Campana	2	Mr ChrIs Russell	2
Ms Susan McCormlck	5 (eligible 5)	(Deputy for Ms Wendy Campana)	

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. 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 for Finance's representative. We currently have no independent trustees.

Effective 1 January 2015, I was re-appointed to the Board as one of the LGA's two representatives. Jeff Tate completed his term as a LGA appointee on 31 December 2014 and was replaced by Raj Rajamani (former Councillor of the City of Whyalla). Councillor John Frogley and Councillor John Sanderson were re-appointed by the Councils effective 1 January 2015.

Susan McCormick was re-appointed as the appointee of the Minister for Finance for a two year term commencing 1 January 2015. The Board re-elected me as Chairman and John Frogley as Deputy Chairman, at a Board Meeting held on 17 February 2015. Wendy Campana resigned from her position as CEO of the LGA in May 2015. Mark Searle is currently acting in the CEO role at LGA.

Reporting to the Board has been enhanced with the Balanced Scorecard approach adopted by the LGFA. This summary document complements the CEO's Report, produced monthly for the Board of 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.

Chairman's Review

The Staff



Paul Slater



Robert Hardy



Geoff Hollitt



Davin Lambert



Mary Loveday



Kristen Spehr

The Staff

In line with LGFA's traditional low staff turnover, there were no staff changes this year. Our staff continued to work well to service our Local Government community with financial services, while regularly attending conferences and meetings to enhance their expertise in relevant professional areas, as well as personal and career development.

Marketing by staff has been accelerated this year by the production of our Marketing Plan. The launch and 100% return by Councils and Prescribed Local Government bodies for our first Council Survey, was a shining success, both in harnessing views for LGFA improvements and also in providing accurate levels of loan and deposit information. This has enhanced our marketing program, especially in targeting councils which have shown lower than expected levels of support for LGFA. The survey has also confirmed our products are relevant and appropriate, while eliciting valuable feedback about LGFA.

Staff have continued to provide information and feedback to Councils through LGFA's March and November e-newsletters, which reinforce our strong Local Government presence, our marketing and communication program and our responsiveness to our valued clients.

Staff have also assisted with continuing valuable sponsorships to the Local Government Professionals Association, Local Government Association and SA Local Government Financial Management Group, who provide essential professional development and networking for executives and managers in the Local Government arena. LGFA Managers regularly make speeches at these functions. This contribution is highly regarded by both groups and supports awareness-raising of Local Government financing issues.

A blue ink signature of Tony Pederick OAM.

Tony Pederick OAM

September 2015

Authority Profile

"The **Authority** is a statutory authority established for the benefit of Councils and other prescribed local Government bodies within the State."



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.

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 profit 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 Finance.

Bonus

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

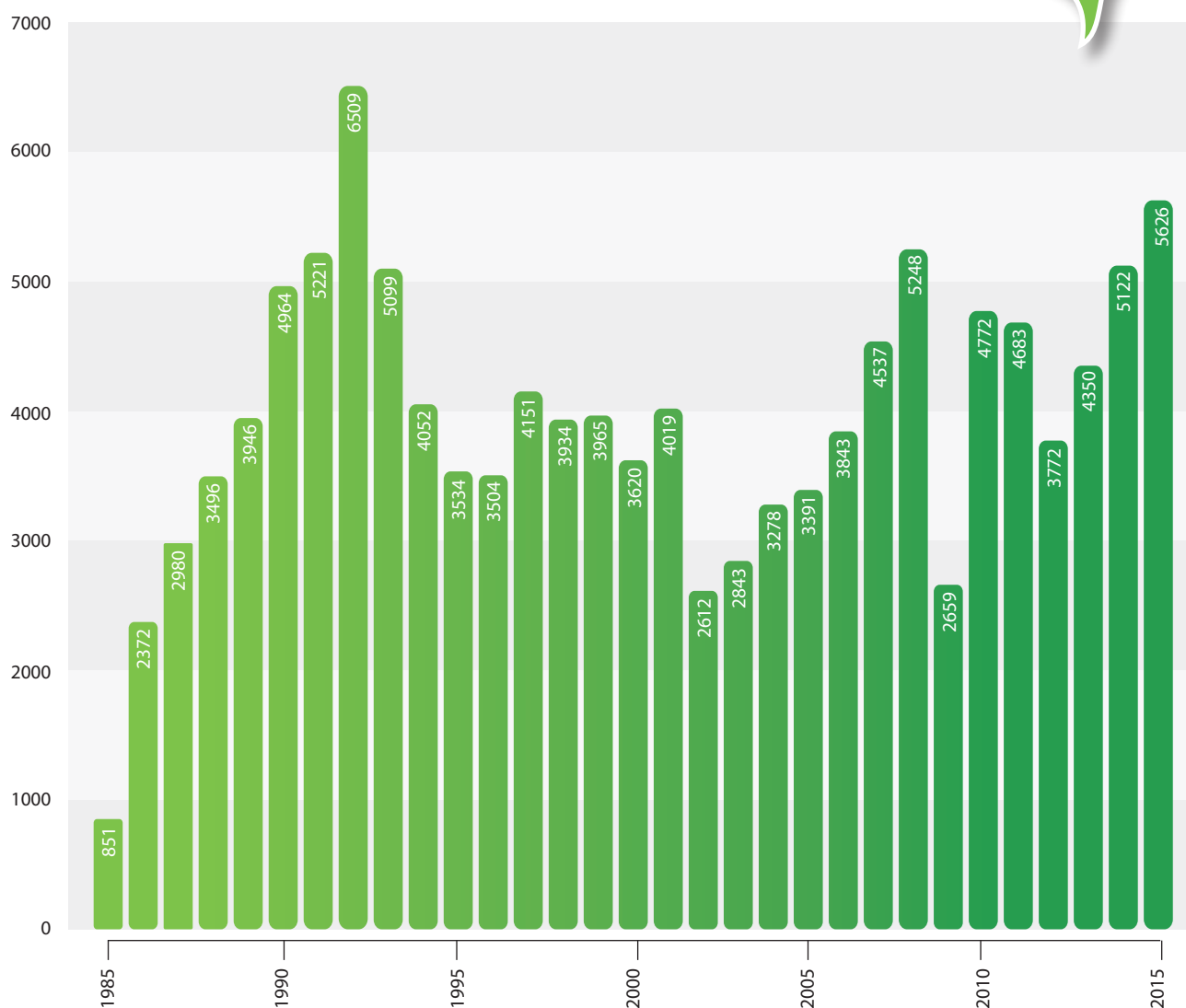
Since its introduction in 1985 an amount of \$33.665M has been distributed with a further \$2M to be paid in respect of the year ended 30 June 2015. This year's payment of \$2M when combined with previous special allocations for local government purposes of \$2.875M will result in overall payments benefitting the local government community of \$38.54M.

In line with past practice, the bonus payment has been calculated to reflect the average deposit and loan levels held with the Authority during the course of the financial year. The deposit activity was recognized by an allocation of \$1.492M with the balance of \$508,000 allocated to loans. The bonus payment was maintained at \$2M this year to reflect our strong level of profitability.

"The bonus payment was maintained at \$2M this year to reflect our strong level of profitability in a tight and constrained business environment."

Profit Before Income Tax Equivalents

*Profit since inception
\$123 Million*



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



***“Due to the support of
the Local Government
Finance Authority, loan
funds were secured
to ensure the project
success.”***

Case Study

District Council of the Copper Coast

Community Wastewater Management System

Moonta, Moonta Bay and Port Hughes



The District Council of the Copper Coast recognises that the safe disposal of sewage and household wastewater is necessary to safeguard the health of the community and protect the environment. By transporting the waste (through a drainage network) to a central location, the waste can be correctly treated and disposed of in an environmentally friendly way.

Due to the size and cost (\$25 million dollars) of the full sewer gravity scheme, Council initially planned the construction over five years commencing in 2012. However it is estimated for completion in 2016.

The project includes the townships of Moonta Bay, Port Hughes and Moonta covering approximately 3,500 residencies plus commercial projects. The magnitude of this project is such that it includes 50km of gravity drain, 13km of pumping main, 2500 new house connections, existing pump station upgrades and 15 new pump stations. The project also includes a new wastewater treatment plant enabling water reuse throughout the community.

The Council costed the project through its long term financial plan and due to the support of the Local Government Finance Authority, loan funds were secured to ensure the project success, along with the implementation of a separate rate for the residents to benefit from the system over the five year period of construction. As the majority of this infrastructure will be around for 50 plus years before any major upgrading is required, it is very well suited to a debt funding financing model.



Case Study

LGFA CWMS Collaboration

The Copper Coast project exemplifies the collaborative involvement of LGFA in the CWMS (Community Wastewater Management Systems).

CWMS (Community Wastewater Management Systems)

This scheme was established by Premier Tom Playford to provide an equitable scheme so regional areas could update waste water systems to replace septic systems.

A CWMS is designed to collect, treat, re-use and/or dispose of primary treated effluent from septic tanks on individual properties.

The collection system is a network of pipes and pumping stations which transport the effluent from the septic tanks to the treatment site. In some cases (generally rare) no pumping stations are required where the collection system operates by gravity.

The treatment system can be by either:

- facultative (oxidation) lagoons where effluent is stored and treated by aerobic action. Mechanical aeration is sometimes installed to speed up the process and/or reduce the size of the lagoon system; or
- mechanical treatment plants where aerobic action is undertaken in a series of aerated tanks.

The disposal system can be by either:

- evaporation ponds; or
- irrigation systems or other re-use (eg, wetlands).

Generally many of the older systems are lagoon systems (facultative lagoon and evaporation pond) whilst the newer systems tend to comprise mechanical treatment plants, a storage pond and an irrigation system onto parklands, golf courses or crops.

CWMS Management Committee

The CWMS Management Committee has been established to:

Provide support and oversight to the LGA in the management of the:

- State : Local Government funding agreement;
- State Government-subsidised new CWMS construction projects;
- Federal Government subsidised Wastewater Re-use projects; and
- The CWMS Advisory Service provided to Councils by the LGA.
- Determine the terms under which these CWMS projects will be funded and managed, and to provide information regarding these terms to the State Government and the National Water Commission.

In summary, the CWMS is a funding based scheme involving the LGA, and State and Federal governments. Funding to Council's depends on a variety of factors, including available government grant monies, a Council's capacity to pay and priority of system installation. From time to time, as in the Copper Coast project, LGFA is asked to provide loan funding which it is happy to do so on a commercial basis, for such a collaborative scheme.

Information provided by Andrew Haste,
LGA CWMS Management Committee Chairperson



Frank Hilton Landfill Remediation Project



Case Study

City of Onkaparinga

Frank Hilton Landfill Remediation Project

Frank Hilton Reserve is a former public waste landfill that operated between the later 1960's to early 1980's. Following the closure of the landfill, an un-engineered cap was installed and the site experienced ongoing drainage issues and failing infrastructure. The reserve provided limited recreational facilities including a small swing and slide, dry land grass and public toilets.

The remediation of the reserve included an engineered cap, upgrade of stormwater and outfall structures, landscaping and new recreation and picnic facilities including a playground, fitness equipment, shade sails and irrigated turf.

From planning and design to final delivery, council staff applied best practice project management techniques to assess potential risks and implement mitigation strategies.

Following a critical review of previous capping designs by council staff, the resulting site 'fit for purpose' capping design was supported by the EPA and has delivered significant cost savings to the community. The project was recently completed for \$900,000 under its \$3.5 million budget and less than half the \$5.9 million estimated project cost for the proposed design solution presented in the 2010 Frank Hilton Reserve landfill Closure and Post Closure management Plan (CPCMP).

The Frank Hilton Reserve represents the largest design and construction project undertaken by council staff and showcases Council's capabilities.

Throughout the process the community was an enduring contributor forming a diverse and dynamic team that encouraged past thinking to be challenged and stimulation of ideas to influence the landfill capping and reserve development designs leading to this highly successful outcome.

The project was fully funded by the City of Onkaparinga through the council's Major Projects Fund. The fund, established in the 2007/08 budget process, has a distinct funding model incorporating loans through the Local Government Finance Authority of South Australia, developer contributions, grants and rates revenue. The rate revenue allocated to the Major Projects Fund has increased by an amount equivalent to a one per cent general rate increase (based on the prior year's rate revenue). Council's net funding contribution to Major Projects Fund works is primarily funded through borrowings through the LGFA with the rate revenue being used for the associated debt servicing.

The Local Government Finance Authority of South Australia supports long-term financial sustainability, enabling the City of Onkaparinga to maintain debt at an affordable level. Facilitating council's need to meet requirements for sound land and environmental management practices and deliver a truly iconic reserve, fronting one of South Australia's most picturesque stretches of coastline.



Cove Civic Centre



Case Study

City of Marion

Cove Civic Centre

The \$13.4M Cove Civic Centre, located at 1 Ragamuffin Drive, Hallett Cove, is a modern library, community and enterprise hub that will serve 130,000 visitors per year and is open seven days a week.

The City of Marion's vision of the centre was to:

- Provide the community with a facility that is flexible and can support a diverse range of activities,
- Provide meetings spaces for people to connect for learning and recreation pursuits and
- Contribute to sustainable economic development in the South by supporting local businesses with their endeavours.

The centre provides:

- Access to 35,000 books, e-books, magazines, CDs and DVDs
- A community hall and meeting rooms
- A computer training suite with high-speed Wi-Fi and broadband
- Meeting facilities and resources for local businesses
- A children's toy library
- A plaza for community events.

It also provides rooms for hire:

- Community groups and businesses can hire nine meeting rooms, including a fully-equipped training suite with 16 computers
- Rooms can be reconfigured to create a community hall to accommodate up to 200 people. The hall can be divided into four – two areas of which feature sprung flooring making it ideal for dance classes.

The 2000m² building has been designed to reflect the history and culture of the local community. Its exterior features textured metal cladding and smooth glass that symbolizes rugged rock formations and still water, and captures the spirit of the environment and natural coastal features. Designed by Hassell Architects, it was constructed by Mossop Construction and Interiors.

Special features include:

- Australia's first business enterprise centre integrated with a technology rich library service
- Interior timber veneer walls angled to reflect the irregular form of local coastal geology
- Maximum use of natural light and windows, tinted to reduce heat loading and includes blinds – reducing cooling costs
- Solar panels, solar hot water panels and rainwater storage tanks.

The \$13.4 million building was funded with a contribution of \$3.4 million by the Australian Government under the Regional and Local Community Infrastructure Program and the City of Marion, which contributed \$10M, including loan funds obtained from LGFA.

The Cove Civic Centre is part of the City of Marion's commitment to providing quality spaces for the benefit of its residents, workers and visitors and was opened with a Community Celebration Day in August 2015.

Financial Report



Statement of Comprehensive Income

For the Year Ended 30 June 2015

		2015	2014
	Note	\$'000	\$'000
INCOME			
Interest on Investments	2(c)	2,339	2,898
Interest on Loans and Advances	2(c)	46,738	45,922
Other Income	2(f),2(h),3	307	491
TOTAL INCOME		49,384	49,311
EXPENSES			
Interest on Deposits from Councils and Local Government Bodies	2(d)	11,628	12,282
Interest on Borrowings	2(d)	28,972	28,795
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	24	1,293	1,235
Administration Expenses	4	1,812	1,877
Other Expenses	2(f),5	53	-
TOTAL EXPENSES		43,758	44,189
PROFIT BEFORE INCOME TAX EQUIVALENTS		5,626	5,122
Income Tax Equivalent Expense	2(e)	1,688	1,537
PROFIT AFTER INCOME TAX EQUIVALENTS		3,938	3,585
TOTAL COMPREHENSIVE RESULT		3,938	3,585

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

At at 30 June 2015

		2015	2014
	Note	\$'000	\$'000
ASSETS			
Cash and Liquid Assets	6	26	27
Accrued Interest Receivable	7	4,068	4,139
Investment Securities	2(f),8	51,478	61,532
Other Assets	9	137	218
Net Loans and Advances	2(g),10	695,774	668,840
Property, Plant & Equipment	2(j),11	2,102	2,138
TOTAL ASSETS		753,585	736,894
LIABILITIES			
Deposits from Councils and Local Government Bodies	2(k),12	440,861	372,702
Accrued Interest Payable	13	3,129	3,522
Borrowings	14	210,304	267,398
Derivatives	2(i),15	35,455	31,415
Provisions	2(l),16	3,257	3,211
Other Liabilities	17	270	275
TOTAL LIABILITIES		693,276	678,523
NET ASSETS		60,309	58,371
EQUITY			
General Reserve	2(m)	59,800	57,800
Retained Profits		509	571
TOTAL EQUITY		60,309	58,371
The equity is attributable to the owners.			
Contingent Assets and Liabilities	22		

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

Statement of Changes in Equity

For the Year Ended 30 June 2015

	General Reserve	Retained Profits	Total
	\$'000	\$'000	\$'000
Balance at 1 July 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
Profit After Income Tax Equivalents for 2014/15	-	3,938	3,938
Total Comprehensive Result for 2014/15	-	3,938	3,938
Transfer to Bonus Payment Provision	-	(2,000)	(2,000)
Transfer to General Reserve	2,000	(2,000)	-
Balance at 30 June 2015	59,800	509	60,309

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 2015

		2015	2014
	Note	\$'000	\$'000
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and Bill Discounts Received		49,513	48,760
Interest Paid		(41,161)	(41,461)
Fees Paid re Guarantee provided by Treasurer of S.A.		(1,289)	(1,232)
Cash Payments to Suppliers and Employees		(1,673)	(1,575)
Fees Received		91	113
Income Tax Equivalents Paid		(1,653)	(1,392)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19(c)	3,828	3,213
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to Councils and Local Government Bodies		(23,356)	(35,172)
Investment Securities		10,000	21,594
Payments for Property, Plant & Equipment		(152)	(31)
Proceeds from Sale of Property, Plant & Equipment		49	60
NET CASH USED IN INVESTING ACTIVITIES		(13,459)	(13,549)
CASH FLOWS FROM FINANCING ACTIVITIES			
Promissory Notes		(3,589)	131
Deposits from Councils and Local Government Bodies		68,159	(55,613)
Short Term Money Market Facilities		(53,505)	76,865
Fixed Term Borrowings		-	(9,600)
Bonus Payment to Councils and Local Government Bodies		(2,000)	(1,740)
Other		565	313
NET CASH PROVIDED BY FINANCING ACTIVITIES		9,630	10,356
NET INCREASE/(DECREASE) IN CASH HELD		(1)	20
Cash/(bank overdraft) at 1 July		27	7
CASH AT 30 JUNE	19(a)	26	27

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 2015

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

The Local Government Finance Authority of South Australia (the Authority) 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
- a) 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 the 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 2015

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. Similarly any further impairment losses incurred are recognised as an expense in the Statement of Comprehensive Income.

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 \$12.2 million as at 30/6/15) 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 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 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 & 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 to 3 Years
Motor Vehicles	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 2015 (Note 2(e) Refer).

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

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

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.

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

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.

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 2015.

The Authority did not voluntarily change any of its accounting policies during 2014-15.

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.

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 2019.

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.

3. Other Income	2015	2014
	\$'000	\$'000
Gain on Impaired Available-for-Sale Assets Revaluation	-	345
Gain on Fair Value Hedges Revaluation (Hedge Accounting)	214	34
Fee Income	82	112
Gain on Sale of Fixed Assets	11	-
	307	491

4. Administration Expenses		
Audit Fees	68	96
Consultancy Fees	17	28
Depreciation	150	166
Occupancy Expenses	36	37
Salaries & On-Costs	1,004	997
Software License Fees	98	91
Sponsorships	88	86
Other Administration Expenses	351	376
	1,812	1,877

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*	50	61
Financial Management Compliance Program by an external audit firm	18	35
	68	96

* 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	17	3	1
\$10,000 to \$50,000	-	-	1	27
	17		28	

5. Other Expenses		
Loss on Impaired Available-for-Sale Assets Revaluation	53	-
	53	-

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

6. Cash and Liquid Assets	2015	2014
	\$'000	\$'000
Cash at Bank	26	27
	26	27

7. Accrued Interest Receivable*		
Interest Receivable - Loans to Councils and Local Government Bodies	3,207	3,072
Interest Receivable - Investment Securities	861	1,067
	4,068	4,139

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

8. Investment Securities		
Deposits and Securities issued by Banks	52,000	62,000
Accrued Interest Receivable	8	9
Fair Value Loss on Impaired Available-for-Sale Assets*	(530)	(477)
	51,478	61,532

* 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 \$2.0 million remains constant at 100 basis points over the 90 day BBSW interest rate on the face value of the notes.

9. Other Assets		
Sundry Debtors and Prepayments	137	218
	137	218

10. Net Loans and Advances		
Advances	216,122	188,105
Term Loans	434,018	438,679
Loans and Advances - at Cost	650,140	626,784
Fair Value Adjustment (Hedge Accounting)	45,634	42,056
Net Loans and Advances	695,774	668,840

Unrecognised Commitments - Loans and Advances		
Unused Cash Advance facilities	383,012	362,997
Term loans approved not advanced	7,278	-
	390,290	362,997

11. Property, Plant & Equipment	2015	2014
	\$'000	\$'000
Plant, Equipment, and Motor Vehicles:		
- at cost	1,000	964
less, accumulated depreciation	(640)	(594)
Building Floorspace:		
- at cost	1,799	1,799
less, accumulated depreciation	(57)	(31)
Total Property, Plant & Equipment	2,102	2,138

Reconciliation of Property, Plant & Equipment		
Carrying Amount at 1 July	2,138	2,336
Acquisitions	152	31
Disposals	(38)	(63)
Depreciation	(150)	(166)
Carrying Amount at 30 June	2,102	2,138

12. Deposits from Councils and Local Government Bodies		
Deposits from Councils and Local Government Bodies	440,861	372,702
	440,861	372,702

13. Accrued Interest Payable		
Interest Payable on :		
- Deposits from Councils and Local Government Bodies	2,649	2,969
- Borrowings*	480	553
	3,129	3,522

* 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		
Short Term Money Market Facility	185,475	238,980
Promissory Notes	24,829	28,418
	210,304	267,398

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

15. Derivatives	2015	2014
	\$'000	\$'000
Swap Principal Receivable	(8,326)	(8,818)
Interest Receivable - Interest Rate Swaps	(1,132)	(1,399)
Interest Payable - Interest Rate Swaps	4,135	4,234
Fair Value Adjustment	40,778	37,317
Interest Rate Swaps*	35,455	31,334
Futures Contracts	-	81
	35,455	31,415

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

16. Provisions		
Employee Benefits	320	311
Fringe Benefits Tax	18	16
Bonus Payment to Councils and Local Government Bodies	2,000	2,000
Provision for Income Tax Equivalents	919	884
	3,257	3,211

Movements of major provisions during the year

(i) Bonus Payment to Councils and Local Government Bodies

Opening Balance 1 July	2,000	1,740
Increase in Provision	2,000	2,000
Amounts Paid	(2,000)	(1,740)
Closing Balance 30 June	2,000	2,000

(ii) Provision for Income Tax Equivalents

Opening Balance 1 July	884	739
Increase in Provision	1,688	1,537
Amounts Paid	(1,653)	(1,392)
Closing Balance 30 June	919	884

17. Other Liabilities		
Employee On-costs	35	34
Sundry Creditors	235	241
	270	275

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	Note	2015	2014
		\$'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	6	26	27
	6	26	27
(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		3,938	3,585
Decrease/(Increase) in Interest Receivable		436	(59)
Decrease/(Increase) in Sundry Debtors		8	49
Increase/(Decrease) in Interest Payable		(573)	(384)
Increase/(Decrease) in Other Liabilities		(5)	38
Increase/(Decrease) in Provisions		46	194
Depreciation		150	166
Revaluation Loss/(Gain)		(214)	(34)
Impairment Loss/(Gain)		53	(345)
Loss/(Gain) on Disposal of Fixed Assets		(11)	3
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		3,828	3,213

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

20. Remuneration of Board Members

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

Mr Anthony Pederick OAM
Councillor John Frogley
Ms Wendy Campana
Ms Susan McCormick
Mr David Posaner
Mr Raj Rajamani
Councillor John Sanderson
Mr Mark Searle
Mr Jeff Tate

Cr John Frogley and Cr John Sanderson were elected for a two year term commencing from 1 January 2015. Mr Anthony Pederick and Mr Raj Rajamani were appointed by the Local Government Association for a two year term commencing 1 January 2015. Mr Jeff Tate completed his term as a Local Government Association Appointee on 31 December 2014 and was not re-appointed. Ms Susan McCormick was re-appointed as the Appointee of the Minister for Finance for a two year term commencing 1 January 2015. Ms Wendy Campana resigned from the Board and was replaced by Mr Mark Searle from 27 April 2015.

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 2015 was \$56,716 (\$54,472) 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	2015	2014
	\$'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
\$1 - \$10,000	4	3
No Remuneration	2	2
	8	7

21. Remuneration of Employees

a) Key Management Personnel

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

Mr Paul Slater	Chief Executive Officer
Mr Robert Hardy	Senior Manager Financial Markets

b) Key Management Personnel Remuneration

Remuneration of Employees	2015	2014
	\$'000	\$'000
The number of employees whose remuneration received or receivable falls within the following bands:		
\$390,000 - \$399,999	1	-
\$370,000 - \$379,999	-	1
\$180,000 - \$189,999	1	1

The table above includes all employees who received remuneration equal to or greater than the base executive remuneration level of \$141,500 (\$141,500), 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 \$584,444 (\$558,749).

22. 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.

Local Government Bodies (totalling \$12.2 million as at 30/6/15) 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. As at 30 June 2015 the total loans secured by debenture was \$650.140 million.

a) Contingent Assets

i) Guarantee of the Treasurer of SA on Liabilities

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 2015 the total liabilities guaranteed was \$693.276 million.

ii) Debentures over Council Rate Revenue

Loan agreements with Councils are secured by debentures which provide a charge over Council general revenue. Loans to Prescribed

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 the Return to Work 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 2015 the amount guaranteed was \$28.124 million.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

22. Contingent Assets and Liabilities cont.

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 2015 the amount guaranteed was \$350,000.

ii) Western Region Waste Management Authority

The Authority has issued a performance bond/guarantee on behalf of the prescribed local government body, Western Region Waste Management Authority, a regional subsidiary of the City of Charles Sturt, City of Holdfast Bay, City of Port Adelaide Enfield and City of West Torrens in favour of the Environment Protection Authority and Urban Renewal Authority. As at 30 June 2015 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 Social Services. As at 30 June 2015 the amount guaranteed was \$5.8 million.

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

23. Financial Risk Management

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.

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.

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.

	Principal Balance 30/06/15	+0.5%	-0.5%	Principal Balance 30/06/14	+0.5%	-0.5%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Variable Rate Financial Assets						
Investment Securities	47,000	235	(235)	27,000	135	(135)
Loans and Advances	217,122	1,086	(1,086)	192,687	963	(963)
Variable Rate Financial Liabilities						
Council Deposits	402,750	(2,014)	2,014	288,476	(1,442)	1,442
Short Term Money Market Facility	185,475	(927)	927	238,980	(1,195)	1,195
Promissory Notes	24,829	(124)	124	28,418	(142)	142
Variable Rate Derivatives						
Interest Rate Swaps (Notional Principal)	427,852	2,139	(2,139)	429,625	2,148	(2,148)
Futures (Notional Principal/Bond Formula)	-	-	-	3,000	140	(140)
Profit/(Loss) Interest Rate Sensitivity		395	(395)		607	(607)

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

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					
2015	A1+	A1	A2	AA-	A+	A	A-	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	26	-	-	-	-	-	-	-	26
Investment Securities	45,000	-	-	-	5,000	-	2,000	-	52,000
Loans and Advances	-	-	-	-	-	-	-	650,140	650,140
Derivatives	-	-	-	1,900	-	3,200	-	-	5,100
Total	45,026	-	-	1,900	5,000	3,200	2,000	650,140	707,266

	Short Term Rating			Long Term Rating					
2014	A1+	A1	A2	AA-	A+	A	A-	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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

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:

2015	Carrying Amount	Contracted Cash Flows	0 - 3 Months	3 - 12 Months	1 - 5 Years	> 5 Years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	443,510	(443,510)	(405,400)	(3,110)	(35,000)	-
Borrowings	210,784	(210,784)	(210,784)	-	-	-
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	340,941	(388,378)	(10,573)	(48,192)	(204,890)	(124,723)
Interest Rate Swaps - Inflow	(305,486)	330,888	12,537	33,579	172,395	112,377

2014	Carrying Amount	Contracted Cash Flows	0 - 3 Months	3 - 12 Months	1 - 5 Years	> 5 Years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

24. Transactions with South Australian Government

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

	2015	2014
	\$'000	\$'000
Interest Paid - Short Term Money Market Facility	5,379	4,448
Interest Paid - Fixed Term Borrowings	104	402
Interest Paid - Promissory Notes	650	721
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,293	1,235
Income Tax Equivalents Expense	1,688	1,537
Audit Fees	50	61
Payroll Tax	13	10

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

	2015	2014
	\$'000	\$'000
Short Term Money Market Facility	185,475	238,980
Promissory Notes	24,829	28,418
Interest Payable - Short Term Money Market Facility	415	454
Interest Payable - Promissory Notes	65	99
Audit Fees	53	59

25. Fair Value of Financial Instruments

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

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

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

25. Fair Value of Financial Instruments cont.

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.

		2015		2014	
		BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
		\$'000	\$'000	\$'000	\$'000
Financial Assets	Category (Note 2(b) Refer)				
Investment Securities	Available-for-Sale Financial Assets	1,478	1,478	1,533	1,533
Investment Securities	Loans and Receivables	50,861	50,968	61,067	61,552
Net Loans and Advances	Loans and Receivables	230,372	245,669	204,861	218,862
Net Loans and Advances	Fair Value Hedge	468,609	468,609	467,051	467,051
Financial Liabilities	Category (Note 2(b) Refer)				
Deposits from Councils and Prescribed Bodies					
	Financial Liabilities at Amortised Cost	443,510	444,021	375,671	376,279
Borrowings	Financial Liabilities at Amortised Cost	210,784	210,779	267,951	267,939
Derivatives	Fair Value Hedge	35,455	35,455	31,334	31,334
Derivatives	Financial Liabilities at Fair Value	-	-	81	81

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2015

25. Fair Value of Financial Instruments cont.

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).

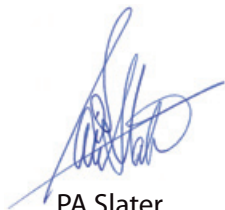
Level 3 – fair values that are derived from data not observable in a market. The Authority does not have any financial assets or liabilities which are required to be valued using this method.

2015	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Investment Securities	1,478	50,968	-	52,446
Net Loans and Advances	-	714,278	-	714,278
Financial Liabilities				
Deposits from Councils and Prescribed Bodies	-	444,021	-	444,021
Borrowings	-	210,779	-	210,779
Derivatives	-	35,455	-	35,455
2014	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
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

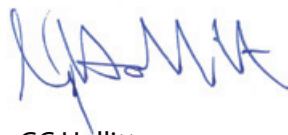
Certification of the Financial Statements

We certify that the:

- financial statements of the Local Government Finance Authority of South Australia:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the authority at the end of the financial year and the result of its operations and cash flows for the financial year.
- Internal controls employed by the Local Government Finance Authority of South Australia over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



PA Slater
Chief Executive Officer



GC Hollitt
Manager Corporate Services



AM Pederick
Chairman

25 August 2015

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 2015.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2015
- a Statement of Financial Position as at 30 June 2015
- a Statement of Changes in Equity for the year ended 30 June 2015
- a Statement of Cash Flows for the year ended 30 June 2015
- 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 2015, 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.

Andrew Richardson
Auditor-General
16 September 2015

Frank Hilton Landfill Remediation Project
City of Onkaparinga





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