



FINANCIAL SERVICES

ANNUAL REPORT 2016

Local Government
Finance Authority of
South Australia

Member Councils

As at 30 June 2016

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	Port Augusta City Council
District Council of Coober Pedy	City of Port Lincoln
Coorong District Council	Port Pirie Regional Council
District Council of 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
City of Holdfast Bay	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
Mount Barker District Council	Yorke Peninsula Council

Contents

Board of Trustees	2	Notes to and Forming Part of the Financial Statements	28
Chairman's Review	3	Note Index	28
Economic Conditions	4	Objectives of the Local Government	29
Lending Activities	4	Finance Authority of South Australia	
Investment Activity	5	Statement of Accounting Policies	29
Information Technology	6	Other Income	33
Compliance	6	Administration Expenses	33
The Board	7	Other Expenses	33
The Staff	8	Cash and Liquid Assets	34
Marketing and Sponsorship	8		
The Authority Profile	9	Accrued Interest Receivable	34
The Authority	9	Investment Securities	34
Members	9	Other Assets	34
Guarantee	9	Net Loans and Advances	34
Income Tax Equivalents	10	Property, Plant & Equipment	35
Bonus	10	Deposits from Councils and Local Government Bodies	35
State Wide Coverage	10	Accrued Interest Payable	35
Profit Before Income Tax Equivalents	11	Borrowings	35
		Derivatives	36
		Provisions	36
Case Studies	13	Other Liabilities	36
City of Holdfast Bay	14	Superannuation Commitments	36
City of Charles Sturt	16	Notes to Statement of Cash Flows	37
Mount Barker District Council	18	Remuneration of Board Members	38
Light Regional Council	20	Remuneration of Employees	39
		Contingent Assets and Liabilities	39
Financial Report	23	Financial Risk Management	40
Statement of Comprehensive Income	24	Transactions with South Australian Government	44
Statement of Financial Position	25	Fair Value of Financial Instruments	44
Statement of Changes in Equity	26		
Statement of Cash Flows	27	Certification of the Financial Statements	47
		Independent Auditor's Report	48

Board of Trustees



**Mr Tony Pederick OAM
Chairman**

Chairman
Forerunner Computer
Systems Pty Ltd



Mr Craig Fowler

Director Finance
South Australian Government
Financing Authority (SAFA)
Appointee of the Treasurer

Craig was appointed on
22 October 2015
Mr David Posaner's term expired
on 30 September 2015



**Cr John Frogley
Deputy Chairman**

Councillor
City of Norwood, Payneham
& St Peters



Cr John Sanderson

Councillor
City of Mitcham



Mr Matt Pinnegar

Chief Executive Officer
Local Government Association
Matt commenced as CEO of the
LGA as at 7 September 2015
Mr Mark Searle was Acting CEO
of the LGA from 27 April to
4 September 2015
Deputy: Mr Chris Russell
Strategic Adviser



Ms Susan McCormick

Deputy Director
State Recovery Office
Appointee of the Minister
for Finance



Mr Raj Rajamani

Senior Consultant /
Operations Excellence
GRP Global
Appointee of LGA

Chairman's Review



On The Couch Session
Paul Slater CEO of LGFA,
Matt Pinnegar CEO of LGA,
Gary Okely General Manager of LGRS



**Mr Tony Pederick OAM
Chairman**

In a slow business environment, LGFA's performance has been extremely pleasing. While adhering to strict risk tolerances and credit limits, LGFA has again returned a profit above budget.

LGFA competes with the banks and other financial institutions, but we have retained nearly 100% of all loan business and our share of available deposits was around 90%. This increase in deposit levels has been achieved by marketing to those Councils with deposit potential identified in our Council Survey last year. Thank you Members for your continued support.

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

Profitability this financial year has been excellent, with a \$6.23 million pre-tax profit ending another superb year. This achievement ranks second of all time for the 32 years the LGFA has been in existence. The income tax equivalent of \$1.87 million 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 \$2 million has been approved for payment by the Board of Trustees.

We wish to acknowledge the continuing support of SAFA for our liquidity requirements and the Government for our guarantee.

Chairman's Review

Economic Conditions and Lending Activities

Economic Conditions

Over the past year the global economy grew below trend as high unemployment and low inflation dampened economic activity.

The United States (US) economy improved over the past year as the US jobless rate fell from 5.5% to 4.9% and the economy grew by 2.1%. The more positive outlook gave the US Federal Reserve the opportunity to increase the US official cash rate by 0.25% in December. In January, Chinese economic growth printed at 6.9% year on year, its lowest level in over 25 years. After this release Chinese and Global equity markets saw large losses as investors feared that a Chinese slowdown could dampen growth around the globe. Later in the year European growth forecasts were downgraded after the United Kingdom voted to leave the European Union.

Over the past year the Australian economy performed relatively well however was challenged by lower commodity prices and lower than expected price inflation. The unemployment rate fell from 6.3% to 5.7% and the GDP annual growth rose from 2.3% to 3.1%. Early in the year the price of the key commodities such as iron ore, coal and copper fell in response to fears of a Chinese and global economic slowdown, this placed pressure on Australian terms of trade and Australian Dollar (AUD). The AUD ranged between \$0.69 and \$0.78 USD over the year in review.

The Reserve Bank of Australia (RBA) cut the official cash rate by 0.25% at the May 2016 meeting to an historic low of 1.75%. The RBA was given scope to cut rates when inflation data released in April showed that consumer prices had deflated by -0.2% over the prior quarter, taking the year on year figure to a low 1.3%.

Lending Activities

The level of loans outstanding at balance date has eased slightly from last year due to Councils receiving a prepayment of half their 2015-2016 Financial Assistance Grant in late June 2015.

Total loans outstanding as at 30 June 2016 were \$624.3 million (last year \$650.1 million) which comprised \$428.8 million of fixed rate mainly "credit foncier" loans and \$195.5 million of Cash Advance Debenture (CAD) facilities.

It was interesting to see through-out the year that several Councils decided to take advantage of the low long term fixed interest rates on offer and more evenly balance the floating / fixed components of their loan portfolio. They achieved this by borrowing at a fixed interest rate and using the proceeds to repay floating rate debt under their CAD facilities. This also gives Councils greater certainty in budgeting for their future interest costs.

Fixed term lending rates have continued to ease through-out the year and 10 – 20 year fixed lending rates are now in the mid 3% to 4% range which are generational lows.

"Councils decided to take advantage of the low long term fixed interest rates on offer and more evenly balance the floating / fixed components of their loan portfolio"

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 2.00% to 1.75% in line with the change to the official cash rate in May.

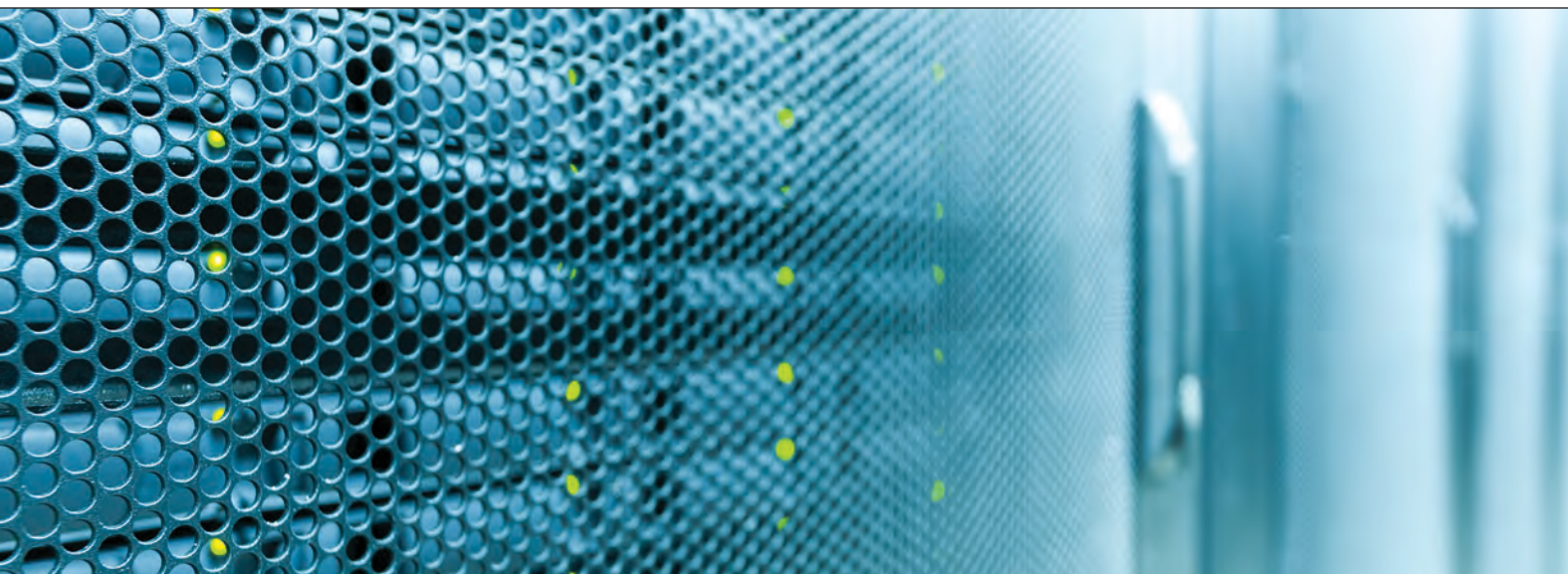
Australian Major Banks were able to access domestic and international wholesale markets for most of the 2015-2016 financial year, although be it at wider margins than previous years. Towards the end of the year wholesale markets were effectively closed when the UK unexpectedly voted to leave the European Union. This created fierce competition for domestic retail and middle market deposits as Australian Banks looked to shore up their balance sheets coming into the 30 June balance date.

The average daily deposit level of \$441million (2014-2015 \$414 million) which was higher when compared to the previous year. Deposits from Councils are still highly valued by Banks and Financial Institutions alike, as deposits from Councils are considered more stable than other market segments. 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 2016-2017 financial year.

"Average daily deposit level of \$441M"

Chairman's Review

Information Technology and Compliance



Information Technology

A significant upgrade of the Avantgard Quantum Treasury Management System was undertaken in the 2015-2016 financial year. The system was successfully upgraded to the latest Version 6 functionality, featuring a web browser based user interface. This upgrade will enable LGFA to take advantage of further technology improvements as they arise from FIS, the global supplier of this software.

The cloud based hedge accounting software supplied by Reval continues to be utilised to satisfy the specialised financial instrument accounting standards requirements. A two-year contract extension was signed off this financial year as these onerous accounting standards require derivative revaluations, hedge accounting calculations and more recently credit valuation adjustments.

As part of our computer equipment policy to upgrade every three years our workstation computers were replaced along with the implementation of Microsoft Office 2016. New printers and other miscellaneous equipment were also part of the upgrade process.

Compliance

The Authority has a Board appointed Audit Committee in place 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. The FMCP report and associated working papers form part of the Auditor General's Department interim audit which is then followed by the financial statement audit.

The Board

Board Meetings Attended by Board Members

Number of meetings held: 6

Mr Tony Pederick OAM	6	Ms Susan McCormick	5
Councillor John Frogley	6	Mr David Posaner	1 (eligible 1)
Councillor John Sanderson	6	Mr Craig Fowler	4 (eligible 4)
Mr Matt Pinnegar	2 (eligible 5)	Mr Raj Rajamani	6
Mr Mark Searle	0 (eligible 1)	Mr Chris Russell (Deputy for Mr Matt Pinnegar)	4

The Board

The Authority is managed by a Board of Trustees, which consists of seven members, plus up to two independent members, who can be appointed by the Board from time to time as required. This year the Board of Trustees will seek nominations for the LGFA Board from the LGA and also from the Councils.

David Posaner completed his term as an appointee of the Treasurer on 30 September 2015, and was replaced by Craig Fowler who commenced his two year term on 22 October 2015.

Matt Pinnegar began his CEO role at the LGA on 7 September 2015, replacing Mark Searle who was acting CEO from 27 April to 4 September 2015.

The Board continues to use the Balanced Scorecard approach adopted last 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.

The LGFA Rules were reviewed, amended and adopted by the LGFA Board and submitted to our members at the AGM for their approval, which were adopted.

Chairman's Review

The Staff



Paul Slater Robert Hardy Geoff Hollitt Davin Lambert Mary Loveday Layla Mignone Karren Smith

The Staff

Our staff has continued to drive our services to meet challenging business conditions this year. Since last year we farewelled Kristen Spehr and welcomed Layla Mignone as her replacement. We have also recruited Karren Smith to help on a part-time basis with administration support. Staff have attended training seminars and workshops to enhance their expertise, especially in the financial services and Workplace, Health and Safety arenas.

Our office functions well for staff, auditors and visiting local government representatives, especially those from regional South Australia who can seamlessly work from one of our hot desks. Our Board Room has continued to be utilised for meetings and seminars.

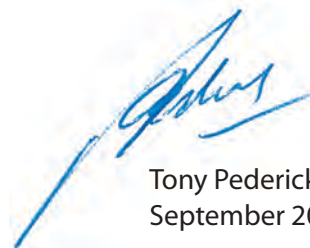
Marketing and Sponsorship

LGFA's enhanced Marketing Plan, introduced last year, has driven our targeted calling program on Councils and prescribed Local Government bodies. These marketing endeavours have resulted in increased deposit levels and maintenance of our highly accepted loan program.

A key component of our marketing is our continuing sponsorship of Local Government Professionals SA and the South Australian Local Government Financial Management Group. We have also agreed to sponsor two LGA workshops next year, the Mayors and Chairs Forum in July and the CEO's Forum in August.

LGFA are the proud sponsor of the Leadership in Financial Management award each year.

Staff also provide information and feedback to Councils through our March and November e-newsletters. These illustrate our commitment to listening to our valued clients and readily responding to meet their financial service needs.



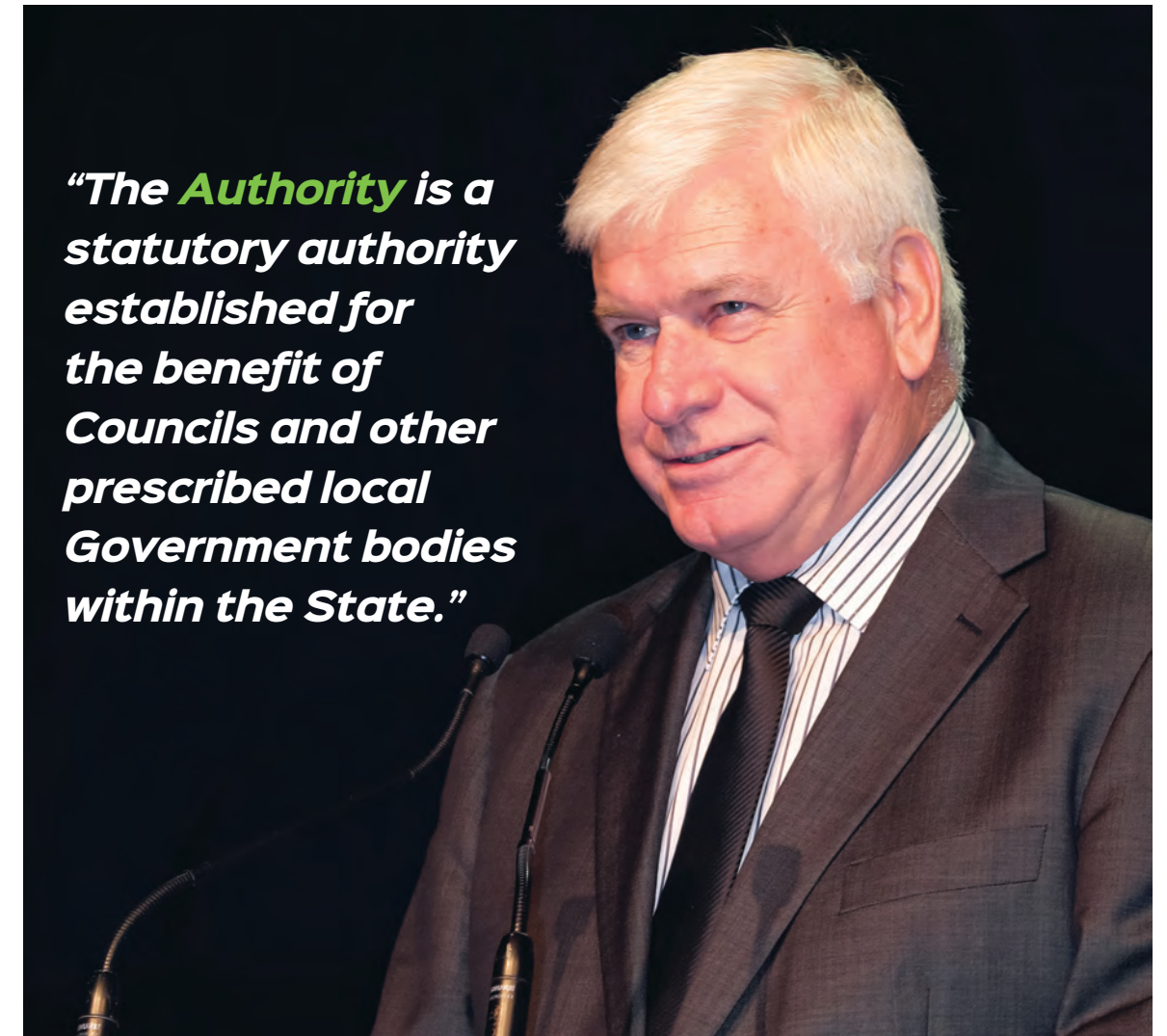
Tony Pederick OAM
September 2016



*Leadership in Financial Management:
City of Burnside Finance Team Winner.
Martin Cooper: General Manager Corporate Services,
Karishma Dutta: Manager Finance & Procurement,
Paul Slater: CEO LGFA,
Raffaella Brown: Acting Finance Manager.*

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 profits basis and the amounts are paid into an account established with the State Treasurer entitled the "Local Government Taxation Equivalents Fund". The funds are then available for local government development purposes as recommended by the Local Government Association of South Australia and agreed to by the Minister for Local Government.

Bonus

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

Since its introduction in 1985 an amount of \$35.665 million has been distributed with a further \$2 million to be paid in respect of the year ended 30 June 2016. This year's payment of \$2 million when combined with previous special allocations for local government purposes of \$2.875 million will result in overall payments benefiting the local government community of \$40.54 million.

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 \$1.503 million with the balance of \$497,000 allocated to loans. The bonus payment was maintained at \$2.0 million this year to reflect our strong level of profitability.

State Wide Coverage

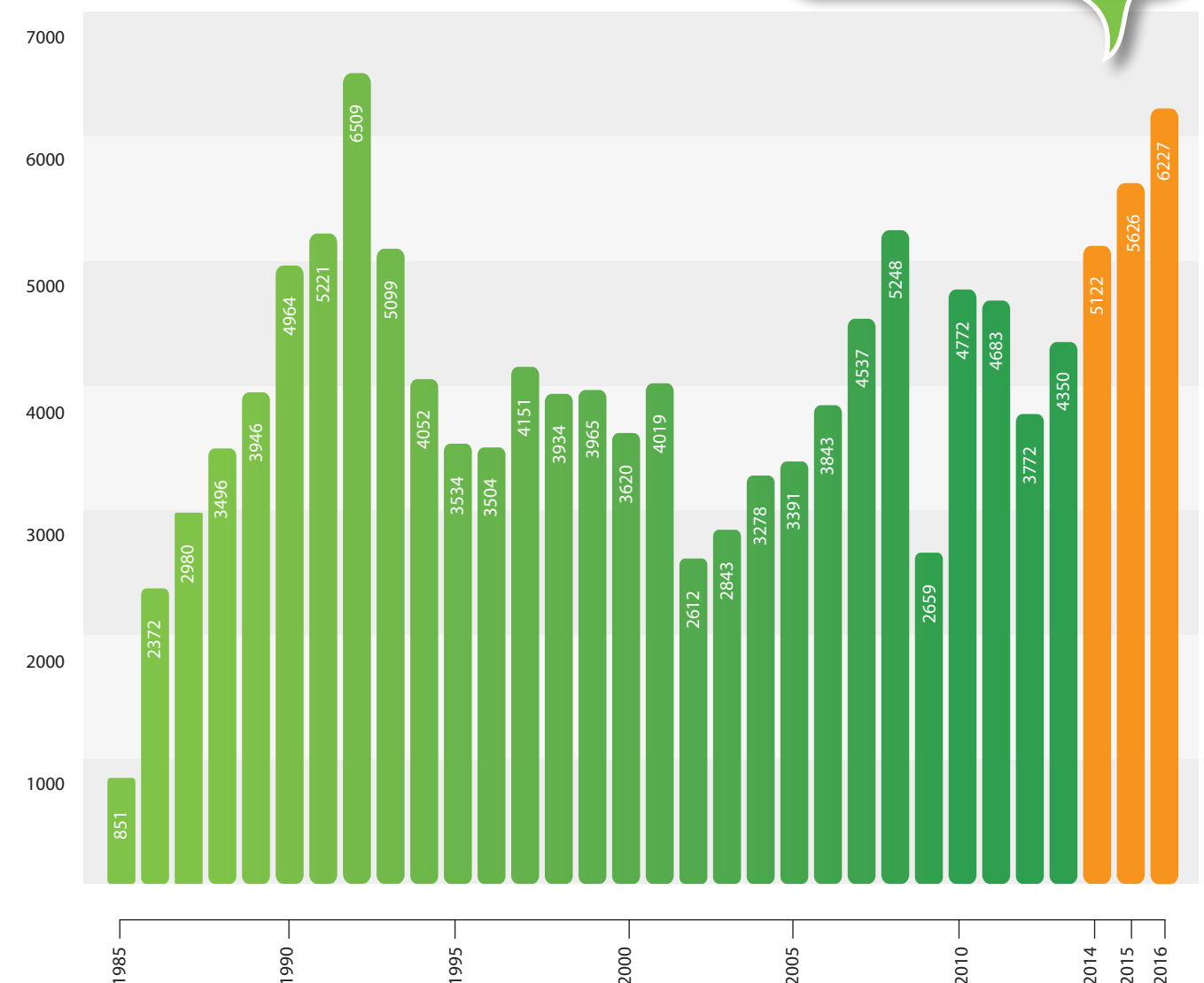
At LGFA we pride ourselves on our continuing ability to meet local government needs in both metropolitan and regional areas. Our calling program is planned to cover diverse local government communities throughout our geographically large State, with regular communications, meetings and conference attendances, including presentations and at times, sponsorship. We have worked closely this year with the LGA to ensure optimal responsiveness despite remoteness and busy schedules.



**Proudly contributing
to South Australia**

Profit Before Income Tax Equivalents

**Profit since
inception
\$129 Million**



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



Case Studies

LGFA is proud to utilise a selection of innovative and representative case studies to show the results of our lending to the local government sector.

We are proud to provide the funding and expertise that deliver better outcomes to South Australian communities.

Case Study

City of Holdfast Bay

Kauri Parade Community and Sporting Complex Project



The Kauri Parade Community and Sporting Complex, located in the suburb of Seacliff within the City of Holdfast Bay, is set to take its place as Holdfast Bay's third major community and sporting hub (the others being Glenelg Oval and Brighton Oval). These community and sporting hubs provide facilities for a wide range of sports and recreational pursuits for Holdfast Bay's local communities.

The City of Holdfast Bay is relatively small geographically, being under 14 square kilometres in size. However, it is a highly sought-after place to live and a significant visitor destination due to the coastal location and distinctive character of the City. The City and the coastline have a strong sense of history for the Kurna people and other Indigenous people and the City is closely connected to the State's European settlement with Glenelg North being the place where the Colony of South Australia was proclaimed in 1836. Glenelg and Brighton have been holiday destinations since the European settlement.

The City of Holdfast Bay always wanted to turn the unused landfill site (the project site)

into an attractive sporting hub which would attract people and create economic and social benefits for the region. The project site was used as a landfill by the then Brighton Council between 1963 and 1974. It received mainly domestic waste, hard waste in the form of building materials and car bodies.

A Social Needs and Community Infrastructure Study conducted by the City of Holdfast Bay in 2012 supported the vision to establish a safe, well designed destination offering high class sporting, recreation and community facilities at the site. Subsequent to these studies, the City of Holdfast Bay conducted an extensive community consultation process and developed a Master Plan for Kauri Parade in 2013. The Master Plan formed the basis of the development ideas for the site. It articulated how the precinct should look and be managed to ensure optimal use for a number of active and passive uses.

The precinct will include:

- A new wet hockey surface and a separate tennis/netball court complex;
- An enhanced spectator areas along with an improved play space and public amenities;
- A new central clubroom/conference facility for the existing users as well as other community groups;
- Establishment of new car parking, and landscaping

The project is estimated to cost approximately \$14.6 million over a three-year period. The funding came from a number of sources:

- \$5 million from the Commonwealth Government through the Community Development Grant Programme
- \$500,000 from the State Government through the Office of Recreation and Sport;
- \$45,000 from Tennis Australia; and
- **The remaining budget was sourced from Council funds including the sale of land and borrowings from the LGFA.**

A poorly used reserve has now been transformed into a central community facility/hub which will be shared and enjoyed by the general community with the capability of new clubs and activities to be used within the Kauri Community and Sports Centre.

The project has already won an IPWEA excellence award in 2016 for its environmental management credentials. It is expected to win more awards for its engineering excellence and environmental improvement aspects in the coming year.

CEO Justin Lynch and Project Manager John Perkins and their staff have readily and proudly provided these project details.

Case Study

City of Charles Sturt

Water Proofing the West – Stage One Project



The City of Charles Sturt, together with the South Australian (SA) and Federal Government, has officially completed and opened the Water Proofing the West – Stage One Project. The Project is unique, an integrated water sensitive urban design solution to the challenges associated with stormwater management, stormwater quality improvement, flood management and water supply management in a fully developed urban environment.

Water Proofing the West is a major initiative by the City of Charles Sturt with combined expenditure of \$71.5 million.

Key elements include:

- Wetlands and stormwater drainage in Old Port Road;
- West Lakes Golf Course wetlands;
- Cooke Reserve wetlands and bio-filters;
- St Clair wetlands;
- River Torrens water pumped to the Port and Torrens Road stormwater catchments, then gravity flow to wetlands for treatment; and
- 36 kilometres of linking and distribution mains through the city.

The Council worked with SA businesses to design and construct the works and the Project is a leading example of the range of skills and water expertise in South Australia.

Stormwater management and flood mitigation has been one of the most significant issues facing the City of Charles Sturt. Many suburbs in this City have a long history of flooding because the land is so flat and close to sea level. In addition to flood risk the drought conditions commencing in 2003 with Level 3 water restrictions saw many Council reserves and natural vegetation areas deteriorate and many displaying extreme stress. There has been growing strong community concern that significant trees are dying and many of Council's shrubs and reserves browned off and were dying.

This Project shows how Water Sensitive Urban Design (WSUD) approaches with multiple objectives can create 'Water Sensitive Cities' which offer improved amenity and more sustainable communities.

The City of Charles Sturt developed the Water Proofing the West - Stage One Project with the primary objectives of flood mitigation and stormwater reuse, within a highly urbanised area. The Project harvests up to 2,400 ML per annum, treats and stores water in rock aquifers and subsequently distributes the water through 36 kilometres of mains. The Project links water assets in two stormwater catchments and has approximately 11 Hectares of wetlands across four sites, and enhances water harvesting with the capture of excess River Torrens water, which would otherwise be discharged to sea.



"Some of the benefits of the project include reducing the flood risks, reducing the use of mains water and our reliance on the River Murray, harvesting excess water and reducing the outfall to the Gulf of St Vincent of water laden with fertilizer trace elements, oils and general rubbish that damages the sea grass environment. We have now found a more affordable water source to irrigate Council areas creating greener and more useful open spaces, and by undergrounding powerlines we have improved the look and feel of Old Port Road," Mayor Angela Evans said.

The City of Charles Sturt Project has received awards from across industry sectors including the Local Government Managers Association, Stormwater South Australia, and the Stormwater Industry Association.

Funding Contributor	Contribution (\$ million)
City of Charles Sturt	\$19.46
City of Port Adelaide Enfield	\$4.43
SA State Government	\$20.07
Commonwealth Government	\$22.30
St Clair JV developer	\$5.25
Total Project Budget	\$71.51

This Project has a combined expenditure of \$71.5 million and is a collaborative funding project with nine funding partners from all three tiers of Government, a private land developer and the support of the West Lakes Golf Club.

One of these funding partners has been the Local Government Finance Authority (LGFA) who provided a flexible funding solution through LGFA's Convertible Cash Advance Debenture product.

CEO Paul Sutton, Manager Financial Services Annette Martin and Strategic Infrastructure Officer Adrian Sykes and their staff combined to provide these project details.

Case Study

Mount Barker District Council

Proactive Community Recreation Facilities Infrastructure



In 2015 Council took the opportunity to purchase land on Bollen Road, Mount Barker for community, recreation and sport use to meet a Council objective in its Master Plan for the Mount Barker growth area.

A developer proposed a footprint of approximately 9 hectares for community, recreation and sport infrastructure, and indicated that it had secured the support of the land owner to enable the sale of this parcel to Council.

The developer proposed an innovative funding approach whereby if Council were to purchase the open space land, the purchase

cost and all subsequent interest costs would be fully recovered by Council over time from the developer.

The developer proposed the subject land of approximately 9 hectares for the purposes of the provision of the required 12.5% open space as required by the development of nearby land parcels. Under this scenario the required overall 12.5% open space is provided but it enables this provision to result in a more strategic and suitable parcel of land to meet community needs, which is also secured earlier than would otherwise be the case and meets the Council's strategic open space objectives.

Council and the developer have identified a preferred site for a school location adjacent to the proposed recreation precinct. This co-location is consistent with Council's Master Plan and strategy to achieve more efficient infrastructure provision, use and maintenance.

Given the significant infrastructure demands arising from the growth, Council has pro-actively pursued opportunities to undertake strategic partnering with others (both private and not for profit) for community benefit.

A concentration of new residential, school and community uses adjacent to a well established residential community (east of Bollen Road) will ensure intensive use of the proposed recreation facilities, reinforced by the Western Flat Creek Linear Park and pedestrian/cycle connection.

To fund and manage the full cost and repayment due for the land acquisition, over the agreed term with the developer, a convertible cash advance debenture was secured by Council with the LGFA.

Council was also successful in gaining a State Government grant as a contribution to the land acquisition cost.

The flexible nature of the debenture allows Council to vary the loan amount to add interest expense during the repayment period as per the funding agreement with the developers, and make re-payments in line with the agreed terms, which relate to stages of development within the applicable sub divisions.

Information supplied by Kylie Norris, Project Officer – Corporate Service

Case Study

Light Regional Council

Environmental Project - Gawler River Water Reuse

The Gawler River Water Reuse Scheme (GWRS) is a \$22 million Project which has emanated from the creation of a large borrow pit adjacent the Gawler River, excavated to source fill material for the construction of the Northern Expressway. The pit provided a significant opportunity to harvest urban stormwater runoff from the Gawler River catchment when flows are above the environmental threshold (616L/s), store in the nearby high performance Kangaroo Flat underground aquifer and make available for reuse in surrounding areas for urban and primary industrial use.

The Australian Government's National Urban Water and Desalination Plan provided a sound program to fund an initial feasibility study into the Project and then part of the capital for the design and construction of the infrastructure to implement the recycled water scheme, with targeted operation in August 2016.

The capped Australian Government project funding of \$10.7 million encouraged the regional Councils to approach the private sector for involvement to implement the scheme without significant burden on local government resources. After a successful open procurement process, the preferred private partner (Aqua Australis Group— AAG) was unable to secure enough water customers to continue.

With marginal time remaining to deliver the Project and to ensure the Australian Government funding was not lost, a bulk water "Foundation" supply agreement with Seppeltsfield Wines (the 'Foundation Customer') and Light Regional Council was negotiated. This followed the withdrawal of

the other regional Councils that had varying circumstances to commit capital to fund the Project in the lead up to Council elections.

Light Regional Council borrowed \$11 million from LGFA via a Cash Advance Debenture Facility;

- Which allows funds to be progressively drawn during the construction of the project;
- The borrowing can be on a floating or fixed rate basis; and
- Any floating portion can be repaid at any time unlike a standard fixed rate debenture borrowing.

Under the new partnership, Bunyip Water Pty Ltd was formed to design, construct and operate the scheme inclusive of securing water customers. Under a Loan Agreement with the Council, Bunyip Water will borrow the entire Project funds in order to implement the scheme and has the option of taking control of the infrastructure (and associated water licenses) after 6 or 10 years by paying out the loan principal in full.

The Scheme is estimated to provide Council an average annual surplus of between \$350,000 and \$1.3 million and when sold in 2022 or 2026 a capital gain of \$10 million plus.

The infrastructure has been designed to substitute, on average, at least 800 ML/a of River Murray water used in the Western Barossa with urban stormwater harvested from the Gawler River. The transfer pipes will convey peak flows of up to 13ML/day to above ground and aquifer storages, providing flexibility to best match predominantly winter supply with typical summer demand.



The scheme will improve primary production in the region. The scheme will also provide higher quality water for urban recreation use in and around Hewett (~50 ML/a). The initial scheme infrastructure stretches from the Gawler River right through to the south-western Barossa Valley and will consist of around:

- 40km of underground pipes;
- 2 above ground storage dams;
- 5 pump stations;
- several Managed Aquifer Recharge bores;
- 2 above ground tanks.

The Project benefit's Council through innovative investment on income generating infrastructure having real market value, which can be used to improve other service provision without relying totally on general rating revenue.

It promotes local and regional economic development using sustainable resources. Immediate opportunities include the potential for nearby constrained stormwater catchments

(Kingsford Regional Industrial Estate and Roseworthy Township Expansion) to be managed more efficiently.

Future interconnection with the Virginia Pipeline Scheme (VPS) in order to access recycled water from SA Water's Bolivar Wastewater Treatment Plant and the Barossa Infrastructure Limited (BIL) scheme can provide even longer term water security for the region in dry years.

This also creates opportunity to transport larger volumes of recycled or fresh water between the east (currently serviced by the BIL scheme) and the west (serviced by the VPS) to match supply with customer demand.

When the Project is completed and the Scheme is fully operational it will be known as "BUNYIP WATER".

Information supplied by Kieren Chappell Manager Assets and Engineering



Financial Report



Statement of Comprehensive Income

For the Year Ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
INCOME			
Interest on Investments	2(c)	1,233	2,339
Interest on Loans and Advances	2(c)	44,276	46,738
Other Income	2(f),2(h),2(j),3	422	307
TOTAL INCOME		45,931	49,384
EXPENSES			
Interest on Deposits from Councils and Local Government Bodies	2(d)	9,994	11,628
Interest on Borrowings	2(d)	26,365	28,972
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	24	1,214	1,293
Administration Expenses	4	1,971	1,812
Other Expenses	2(f),5	160	53
TOTAL EXPENSES		39,704	43,758
PROFIT BEFORE INCOME TAX EQUIVALENTS		6,227	5,626
Income Tax Equivalent Expense	2(e)	1,868	1,688
PROFIT AFTER INCOME TAX EQUIVALENTS		4,359	3,938
TOTAL COMPREHENSIVE RESULT		4,359	3,938

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

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

Statement of Financial Position

As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
ASSETS			
Cash and Liquid Assets	6	60	26
Accrued Interest Receivable	7	3,530	4,068
Investment Securities	2(f),8	41,318	51,478
Other Assets	9	141	137
Net Loans and Advances	2(g),10	680,217	695,774
Property, Plant & Equipment	2(k),11	2,060	2,102
TOTAL ASSETS		727,326	753,585
LIABILITIES			
Deposits from Councils and Local Government Bodies	2(l),12	383,912	440,861
Accrued Interest Payable	13	2,589	3,129
Borrowings	14	228,378	210,304
Derivatives	2(i),2(j),15	46,123	35,455
Provisions	2(m),16	3,404	3,257
Other Liabilities	17	252	270
TOTAL LIABILITIES		664,658	693,276
NET ASSETS		62,668	60,309
EQUITY			
General Reserve	2(n)	62,000	59,800
Retained Profits		668	509
TOTAL EQUITY		62,668	60,309

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 2016

	General Reserve	Retained Profits	Total
	\$'000	\$'000	\$'000
Balance at 1 July 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
Profit After Income Tax Equivalents for 2015/16	-	4,359	4,359
Total Comprehensive Result for 2015/16	-	4,359	4,359
Transfer to Bonus Payment Provision	-	(2,000)	(2,000)
Transfer to General Reserve	2,200	(2,200)	-
Balance at 30 June 2016	62,000	668	62,668

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 2016

	2016	2015
Note	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and Bill Discounts Received	45,518	49,513
Interest Paid	(36,319)	(41,161)
Fees Paid re Guarantee provided by Treasurer of S.A.	(1,224)	(1,289)
Cash Payments to Suppliers and Employees	(1,772)	(1,673)
Fees Received	74	91
Income Tax Equivalents Paid	(1,763)	(1,653)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19(c) 4,514	3,828
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to Councils and Local Government Bodies	25,792	(23,356)
Investment Securities	10,000	10,000
Payments for Property, Plant & Equipment	(116)	(152)
Proceeds from Sale of Property, Plant & Equipment	1	49
NET CASH USED IN INVESTING ACTIVITIES	35,677	(13,459)
CASH FLOWS FROM FINANCING ACTIVITIES		
Promissory Notes	(1,525)	(3,589)
Deposits from Councils and Local Government Bodies	(56,949)	68,159
Short Term Money Market Facilities	(5,401)	(53,505)
Fixed Term Borrowings	25,000	-
Bonus Payment to Councils and Local Government Bodies	(2,000)	(2,000)
Other	718	565
NET CASH PROVIDED BY FINANCING ACTIVITIES	(40,157)	9,630
NET INCREASE/(DECREASE) IN CASH HELD	34	(1)
Cash/(bank overdraft) at 1 July	26	27
CASH AT 30 JUNE	19(a) 60	26

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

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2016

Note Index

Objectives of the Local Government Finance Authority of South Australia	NOTE 1
Statement of Accounting Policies	NOTE 2
Other Income	NOTE 3
Administration Expenses	NOTE 4
Other Expenses	NOTE 5
Cash and Liquid Assets	NOTE 6
Accrued Interest Receivable	NOTE 7
Investment Securities	NOTE 8
Other Assets	NOTE 9
Net Loans and Advances	NOTE 10
Property, Plant & Equipment	NOTE 11
Deposits from Councils and Local Government Bodies	NOTE 12
Accrued Interest Payable	NOTE 13
Borrowings	NOTE 14
Derivatives	NOTE 15
Provisions	NOTE 16
Other Liabilities	NOTE 17
Superannuation Commitments	NOTE 18
Notes to Statement of Cash Flows	NOTE 19
Remuneration of Board Members	NOTE 20
Remuneration of Employees	NOTE 21
Contingent Assets and Liabilities	NOTE 22
Financial Risk Management	NOTE 23
Transactions with South Australian Government	NOTE 24
Fair Value of Financial Instruments	NOTE 25

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 2016

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 \$12.3 million as at 30/6/16) 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) Revaluations

AASB13 Fair Value Measurement stipulates the method for revaluing financial instruments. A credit value adjustment (CVA) is required to be applied to financial instrument revaluations where the adjustment amount is considered to be material. The Authority utilises a portfolio of long dated, high dollar value interest rate swaps to manage interest rate risk. As this portfolio is revalued as a liability

the resulting credit value adjustment required is a gain, known as a debit value adjustment (DVA) (Note 15 Refer). This amount is not hedged and is therefore deemed to represent ineffectiveness in the hedge relationship. The debit value adjustment is therefore required to be posted to the Statement of Comprehensive Income (Note 3 Refer).

k) 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	5.5 Years to 10 Years
Building Floorspace	70 Years

l) 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.

m) 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.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

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).

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) 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.

q) Rounding

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

r) 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 2016.

The Authority did not voluntarily change any of its accounting policies during 2015-16.

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.

n) 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.

o) 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

3. Other Income	2016	2015
	\$'000	\$'000
Fair Value Hedges Revaluation (Hedge Accounting) Gain/(Loss)	(52)	146
Debit Value Adjustment Gain	400	68
Fee Income	73	82
Gain on Sale of Fixed Assets	1	11
	422	307

4. Administration Expenses

Audit Fees	74	68
Consultancy Fees	21	17
Depreciation	158	150
Occupancy Expenses	35	36
Salaries & On-Costs	1,129	1,004
Software License Fees	104	98
Sponsorships	88	88
Other Administration Expenses	362	351
	1,971	1,812

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

Auditing the accounts by the Auditor General's Department*	55	50
Financial Management Compliance Program by an external audit firm	19	18
	74	68

* 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.		No.
Below \$10,000	1	4	3	17
\$10,000 to \$50,000	1	17	-	-
	21	17		

5. Other Expenses

Loss on Impaired Available-for-Sale Assets Revaluation	160	53
	160	53

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

6. Cash and Liquid Assets	2016	2015
	\$'000	\$'000
Cash at Bank	60	26
	60	26
7. Accrued Interest Receivable*		
Interest Receivable - Loans to Councils and Local Government Bodies	2,721	3,207
Interest Receivable - Investment Securities	809	861
	3,530	4,068
* The accrued interest receivable on Investment Securities, Net Loans and Advances and Derivatives which are required to be recorded at fair value have been transferred to the respective line item.		
8. Investment Securities		
Deposits and Securities issued by Banks	42,000	52,000
Accrued Interest Receivable	8	8
Fair Value Loss on Impaired Available-for-Sale Assets*	(690)	(530)
	41,318	51,478
* 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	141	137
	141	137
10. Net Loans and Advances		
Advances	195,538	216,122
Term Loans	428,811	434,018
Loans and Advances - at Cost	624,349	650,140
Fair Value Adjustment (Hedge Accounting)	55,868	45,634
Net Loans and Advances	680,217	695,774
Unrecognised Commitments - Loans and Advances		
Unused Cash Advance facilities	430,756	383,012
Term loans approved not advanced	8,384	7,278
	439,140	390,290

11. Property, Plant & Equipment	2016	2015
	\$'000	\$'000
Plant, Equipment, and Motor Vehicles:		
- at cost	1,088	1,000
less, accumulated depreciation	(745)	(640)
Building Floorspace:		
- at cost	1,799	1,799
less, accumulated depreciation	(82)	(57)
Total Property, Plant & Equipment	2,060	2,102
Reconciliation of Property, Plant & Equipment		
Carrying Amount at 1 July	2,102	2,138
Acquisitions	116	152
Disposals	-	(38)
Depreciation	(158)	(150)
Carrying Amount at 30 June	2,060	2,102
12. Deposits from Councils and Local Government Bodies		
Deposits from Councils and Local Government Bodies	383,912	440,861
	383,912	440,861
13. Accrued Interest Payable		
Interest Payable on :		
- Deposits from Councils and Local Government Bodies	2,269	2,649
- Borrowings*	320	480
	2,589	3,129
* 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	180,074	185,475
Fixed Term Borrowings	25,000	-
Promissory Notes	23,304	24,829
	228,378	210,304

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

15. Derivatives	2016	2015
	\$'000	\$'000
Swap Principal Receivable	(7,607)	(8,326)
Interest Receivable - Interest Rate Swaps	(1,070)	(1,132)
Interest Payable - Interest Rate Swaps	3,880	4,135
Fair Value Adjustment	51,519	40,977
Debit Value Adjustment	(599)	(199)
Interest Rate Swaps*	46,123	35,455

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

16. Provisions		
Employee Benefits	360	320
Fringe Benefits Tax	20	18
Bonus Payment to Councils and Local Government Bodies	2,000	2,000
Provision for Income Tax Equivalents	1,024	919
	3,404	3,257

Movements of major provisions during the year

(i) Bonus Payment to Councils and Local Government Bodies

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

(ii) Provision for Income Tax Equivalents

Opening Balance 1 July	919	884
Increase in Provision	1,868	1,688
Amounts Paid	(1,763)	(1,653)
Closing Balance 30 June	1,024	919

17. Other Liabilities		
Employee On-costs	40	35
Sundry Creditors	212	235
	252	270

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	2016	2015
		\$'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	60	26
		60	26

(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	4,359	3,938
Decrease/(Increase) in Interest Receivable	857	436
Decrease/(Increase) in Sundry Debtors	(5)	8
Increase/(Decrease) in Interest Payable	(795)	(573)
Increase/(Decrease) in Other Liabilities	(18)	(5)
Increase/(Decrease) in Provisions	148	46
Depreciation	158	150
Revaluation Loss/(Gain)	(349)	(214)
Impairment Loss/(Gain)	160	53
Loss/(Gain) on Disposal of Fixed Assets	(1)	(11)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	4,514	3,828

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

20. Remuneration of Board Members

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

Mr Anthony Pederick OAM
Mr Craig Fowler
Councillor John Frogley
Ms Susan McCormick
Mr Matt Pinnegar
Mr David Posaner
Mr Raj Rajamani
Councillor John Sanderson
Mr Mark Searle

Mr Matt Pinnegar commenced as CEO of the Local Government Association of South Australia effective 7 September 2015, replacing Mr Mark Searle who had held this position in an acting capacity. Section 7(e) of the Local Government Finance Authority Act, 1983 requires the incumbent of this position to be a member of the Authority's Board.

Mr David Posaner resigned from his position of Appointee of the Treasurer at the expiration of his term on 30 September 2015. Mr Craig Fowler commenced as the Appointee of the Treasurer for a two year term commencing 22 October 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 2016 was \$58,000 (\$56,716) 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	2016	2015
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	3	4
No Remuneration	3	2
	8	8

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	2016 \$'000	2015 \$'000
The number of employees whose remuneration received or receivable falls within the following bands:		
\$420,001 - \$430,000	1	-
\$390,001 - \$400,000	-	1
\$200,001 - \$210,000	1	-
\$180,001 - \$190,000	-	1

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 key management personnel for the year was \$624,166 (\$584,444).

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 \$12.3 million as at 30/6/16) 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 2016 the total loans secured by debenture was \$624.349 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 2016 the total liabilities guaranteed was \$664.658 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 2016 the amount guaranteed was \$31.406 million.

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

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 2016 the amount guaranteed was \$1,350,000.

ii) 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 2016 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 30/06/16	+0.5%	-0.5%	Principal Balance 30/06/15	+0.5%	-0.5%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Variable Rate Financial Assets						
Investment Securities	12,000	60	(60)	47,000	235	(235)
Loans and Advances	195,538	978	(978)	217,122	1,086	(1,086)
Variable Rate Financial Liabilities						
Council Deposits	301,560	(1,508)	1,508	402,750	(2,014)	2,014
Short Term Money Market Facility	180,074	(900)	900	185,475	(927)	927
Promissory Notes	23,304	(117)	117	24,829	(124)	124
Variable Rate Derivatives						
Interest Rate Swaps (Notional Principal)	430,514	2,153	(2,153)	427,852	2,139	(2,139)
Profit/(Loss) Interest Rate Sensitivity		666	(666)		395	(395)

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

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.

2016	Short Term Rating		Long Term Rating				NR	Total
	A1+	A2	AA-	A+	A	A-		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	60	-	-	-	-	-	-	60
Investment Securities	7,000	5,000	18,000	5,000	-	7,000	-	42,000
Loans and Advances	-	-	-	-	-	-	624,348	624,348
Derivatives	-	-	2,500	-	2,500	-	-	5,000
Total	7,060	5,000	20,500	5,000	2,500	7,000	624,348	671,408

2015	Short Term Rating		Long Term Rating				NR	Total
	A1+	A2	AA-	A+	A	A-		
	\$'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

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:

2016	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	386,181	(386,181)	(303,829)	(68,532)	(13,820)	-
Borrowings	228,698	(228,698)	(203,698)	-	(25,000)	-
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	306,879	335,919	11,992	46,209	184,954	92,764
Interest Rate Swaps - Inflow	260,756	286,862	14,241	32,298	157,941	82,382

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

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

24. Transactions with South Australian Government

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

	2016	2015
	\$'000	\$'000
Interest Paid - Short Term Money Market Facility	2,798	5,379
Interest Paid - Fixed Term Borrowings	439	104
Interest Paid - Promissory Notes	513	650
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,214	1,293
Income Tax Equivalents Expense	1,868	1,688
Audit Fees	55	50
Payroll Tax	19	13

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

	2016	2015
	\$'000	\$'000
Short Term Money Market Facility	180,074	185,475
Promissory Notes	23,304	24,829
Fixed Term Borrowings	25,000	-
Interest Payable - Short Term Money Market Facility	232	415
Interest Payable - Promissory Notes	56	65
Interest Payable - Fixed Term Borrowings	32	-
Audit Fees	55	53

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 in accordance with AASB13 Fair Value Measurement.

		2016		2015	
		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	1,318	1,318	1,478	1,478
Investment Securities	Loans and Receivables	40,809	41,289	50,861	50,968
Net Loans and Advances	Loans and Receivables	200,047	217,520	230,372	245,669
Net Loans and Advances	Fair Value Hedge	482,890	482,890	468,609	468,609
Financial Liabilities	Category (Note 2(b) Refer)				
Deposits from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	386,180	386,765	443,510	444,021
Borrowings	Financial Liabilities at Amortised Cost	228,698	228,779	210,784	210,779
Derivatives	Fair Value Hedge	46,123	46,123	35,455	35,455

Notes to and Forming Part of the Financial Statements cont.

For the Year Ended 30 June 2016

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.


2016	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Investment Securities	1,318	41,289	-	42,607
Net Loans and Advances	-	700,410	-	700,410
Financial Liabilities				
Deposits from Councils and Prescribed Bodies	-	386,765	-	386,765
Borrowings	-	228,779	-	228,779
Derivatives	-	46,123	-	46,123
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

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.


AM Pederick
Chairman


PA Slater
Chief Executive Officer


GC Hollitt
Manager Corporate Services

13 September 2016

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 2016.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2016
- a Statement of Financial Position as at 30 June 2016
- a Statement of Changes in Equity for the year ended 30 June 2016
- a Statement of Cash Flows for the year ended 30 June 2016
- 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 is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board of Trustees, as well as evaluating 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.

My report refers only to the financial statements described above and does not provide assurance over the integrity of publication of the financial report on the Local Government Finance Authority of South Australia's website nor does it provide an opinion on any other information which may have been hyperlinked to/from these statements.

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 2016, 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
21 September 2016



Water Proofing the West – Stage One Project
City of Charles Sturt



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