



FINANCIAL SERVICES

ANNUAL REPORT 2017

Local Government
Finance Authority of
South Australia

Member Councils

As at 30 June 2017

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

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Board of Trustees



Mr John Comrie
Chairman
JAC Comrie Pty Ltd
LGA Nominee



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



Cr John Frogley
Deputy Chairman
Councillor
City of Norwood, Payneham
& St Peters
LGFA Elected Member



Ms Susan McCormick
Deputy Director
State Recovery Office
Appointee of the Minister
for Finance



Mr Matt Pinnegar
Chief Executive Officer
Local Government Association
Deputy: Mr Chris Russell
Strategic Adviser



Ms Annette Martin
Manager Financial Services
City of Charles Sturt
LGFA Elected Member



Dr Andrew Johnson
Chief Executive Officer
Port Pirie Regional Council
LGA Nominee

Chairman's Review



\$15 million project at Light Regional Council under the State Local Government Infrastructure Partnership

John Comrie Chairman of LGFA Board, Paul Slater CEO of LGFA, Cr Deane Rohrlach (Deputy Mayor), Richard Dodson General Manager Infrastructure and Environment, Lorraine Rosenberg President of LGA SA and Mayor Bill O'Brien
Photo Courtesy Barossa Herald



Mr John Comrie
Chairman

In a year of change for LGFA, I have been appointed as the new LGFA Chairman and Annette Martin and Andrew Johnson as new Board Trustees. We have continued our approach to writing business, emphasising responsible use of debt and once again have returned a solid profit around plan.

Another year of tight local business activity has seen our marketing and sponsorship activity intensify, especially with the Local Government Professionals Group. This has enabled LGFA to continue to liaise with and service local government comprehensively throughout South Australia. This has been fruitful, as we have retained nearly 100% of all loan business and our share of available deposits was around 90%, even though LGFA competes with the banks and other financial institutions. We still though consider

many councils could affordably make greater use of borrowings than they do to support long-term service levels and asset management needs.

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

Profitability this financial year has been sound, with a \$5.15 million pre-tax profit ending another successful year. This profit ranks among top level profits in the 33 years of LGFA's existence. The income tax equivalent of \$1.55 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

Economic Conditions

The global economy improved over the last year as unemployment continued to fall, economies continued to grow and inflation returned to more normal levels.

The election of the new US President, Donald Trump in November, brought about an optimistic tone to financial markets around the Globe.

The US equity market and bond yields pushed higher after the result and while markets have experienced some volatility over the past year, they still finished higher than before the election of the new President. Over the past year the US Federal Reserve increased the reserve rate by a total of 0.75% with the benchmark rate currently targeting a range of between 1.00 - 1.25%. The Fed saw that it was appropriate to increase rates and start to reduce the size of their balance sheet due to improved employment conditions and stronger economic growth. European economies improved over the last year, however the region continued to grapple with high unemployment and political issues such as the United Kingdom voting to leave the European Union. Chinese growth improved slightly over the last year defying the prediction of many economists who believed their economy was losing momentum.

The Australian economic environment was challenging over the past year highlighted by Australian Gross Domestic Product (GDP) growth falling from 2.4% to 1.7%. The unemployment rate remained relatively steady falling from 5.7% to 5.6%, however low wage growth and underemployment pointed out some of the structural issues with the employment market. Commodity prices increased over the last year, which was mainly driven by improved sentiment out of the US and China and was a positive for Australia's terms of trade.

In May, the Federal Government surprisingly announced introduction of a levy on the four major banks and the Macquarie Group. The levy is calculated on a percentage of the banks' liabilities and aims to raise \$6.2 billion over the next four years. The Australian Dollar (AUD) ranged between \$0.75 and \$0.79 USD over the year in review.

The Reserve Bank of Australia (RBA) cut the official cash rate by 0.25% at their August meeting to an historic low of 1.50%. The RBA was given scope to cut rates when the inflation rate fell to 1%, a number well below the RBA medium term inflation target range of between 2 - 3%. Concerns about rising house prices, mainly in Sydney and Melbourne, forced the bank regulator, the Australian Prudential Regulator Authority (APRA) to impose limits on investment property lending by individual Financial Institutions.

"The Reserve Bank of Australia (RBA) cut the official cash rate by 0.25% at their August meeting to an historic low of 1.50%."

Lending Activities and Investment Activity

Lending Activities

The level of loans outstanding as at 30 June 2017 has increased by around \$16 million from last year.

Total loans at balance date were \$640 million (last year \$624 million) which comprised fixed rate loans of \$447 million and Cash Advance Debenture (CAD) facilities of \$193 million.

Our new fixed rate lending to Councils throughout the year was higher than forecast due to a large metropolitan Council seeking our largest ever long term loan in a single transaction of just over \$40 million. The funds sourced were used to repay floating rate CAD facilities and the Council obtained a most competitive fixed interest rate for the term sought.

Fixed term interest rates increased from generational lows throughout the year due in part to unexpected offshore events such as Brexit and the election of President Trump.

Ten to twenty year fixed interest rates are now in the mid to high 4% range.

"Average daily deposit level of \$431M"

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 1.75% to 1.50% in line with the change to the official cash rate in August.

Competition for deposits amongst Australian Major Banks was relatively subdued over the past year. Banks and Financial Institutions were able to raise funding in domestic and international markets at similar or tighter spreads than previous years.

The average daily deposit level of \$431 million (2015-2016 \$441 million) was lower 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 2017 - 2018 financial year.

Chairman's Review

Information Technology and Compliance

Information Technology

A new high speed internet connection contract was entered into during the year. The connection utilises our existing fibre optic cable to provide faster backing up of data to our remote backup site and more regular disaster recovery snapshots to be updated on our disaster recovery server held at the same offsite location.

To enable this upgrade to take place an upgraded router and IP phone system was required. The new equipment was installed and included a conference phone in the Boardroom. The conference phone is available for Councils to utilise as part of our offering of the Boardroom facility for meetings at our city premises which can be booked as required.

Some improvements were made to the existing webpage during the year and work has commenced on a new website which will be introduced in the coming year. A portal for distributing electronic documents to our Board and management was also created during the year.

Compliance

The Authority has a Board appointed Audit Committee in place to complement 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 is conducted by an external audit firm each year.

The LGFA Board decided this year that a change of audit firms to conduct the FMCP was appropriate. Galpins were selected from three tenders received from audit firms utilising the Government of South Australia across government panel of audit and financial advisory services contract approved suppliers.

The assessment of the existing FMCP by Galpins recommended an upgrade of the documentation relating to the internal controls of the Authority and that a risk assessment of those controls was necessary. The Board engaged Galpins to conduct the necessary workshops with management to compile the extensive documentation required by them before commencing the 2016/17 FMCP. The documentation will be stored on the ControlTrack software which is to be licenced in the new financial year.

The FMCP was conducted by Galpins auditors 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.

Chairman's Review

The Board

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.

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 2017, Dr Andrew Johnson (CEO Port Pirie Regional Council) and I were appointed to the Board as the two LGA representatives.

We replaced Tony Pederick OAM who served on the Board for sixteen years, five as Chairman. Tony joined the LGFA Board while serving as a Councillor at the Town of Walkerville and was later retained as an LGA representative due to his strong finance background. Raj Rajamani was also replaced, serving on the Board for two years and was an active member of the LGFA's Audit Committee. Raj was a Councillor at the Whyalla City Council when he was nominated to sit on the LGFA Board by the LGA.

Annette Martin (Manager Financial Services, City of Charles Sturt) is a newly elected Trustee. Annette has replaced John Sanderson who served on the Board for twenty five years and was a founding member of the LGFA's Audit Committee.

We would like to thank Tony, John and Raj for their dedicated service to the Authority and wish them good luck with future endeavours.

Craig Fowler, Director Finance of the South Australian Government Financing Authority, is the appointee of the Treasurer and continues his two year term until 22 October 2017 and Susan McCormick, Deputy Director, State Recovery Office was re-appointed as the appointee of the Minister of Finance until 31 December 2018.

The Board elected me as Chairman and re-elected John Frogley as Deputy Chairman, at a Board Meeting held on 21 February 2017.

The Board continues to use the Balanced Scorecard approach adopted by the LGFA in monitoring on-going performance. 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 Board

Board Meetings Attended by Board Members

Number of meetings held:		6	
Mr Tony Pederick OAM	3*	Mr Raj Rajamani	3*
Councillor John Frogley	6	Mr John Comrie	3*
Councillor John Sanderson	3*	Ms Annette Martin	3*
Mr Matt Pinnegar	5	Dr Andrew Johnson	3*
Ms Susan McCormick	5	Mr Chris Russell (Deputy for Mr Matt Pinnegar)	1
Mr Craig Fowler	5		

* (Eligible 3)

The Staff



Paul Slater

Robert Hardy

Davin Lambert

Geoff Hollitt

Mary Loveday

Oly Dimadis

Karren Smith

The Staff

Our staff have again made a significant contribution to the success of the Authority and continued to drive our services to meet challenging business conditions this year. Since last year we farewelled Layla Mignone who moved interstate and we welcomed Oly Dimadis as her replacement.

Our CEO Paul Slater has agreed to extend his contract until 31 December 2019.

Staff have attended conferences, 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.

Chairman's Review

Marketing and Sponsorship

Marketing

LGFA's main marketing activity is our calling program on Councils which continues to promote our highly competitive deposit and market leading lending products. Over the past few years the Authority have shifted our marketing approach from focusing solely on Council Management Teams to now also targeting the ultimate decision makers being the Mayors, Chairs and Councillors.

LGFA's enhanced Marketing Plan continued to target Councils who were not 100% supporters of the Authority. We have seen positive results from this approach by simply reminding them of the positive benefits to the sector by investing surplus funds with the Authority.

LGFA also keeps Council staff, Mayors, Chairs and Councillors informed via our newsletter "In The Loop", which is released electronically in March and November each year. Over the last year we have used this publication to highlight the responsible use of debt and our value proposition. We think information on these topics is especially important for new elected members across the State.

Sponsorship

LGFA sponsors a number of organisations and events that have strong links to the Local Government Sector.

- Local Government Professionals SA: Diamond Partner
- South Australian Local Government Financial Management Group (SALGFMG): Platinum Sponsor
- LGA AGM & Showcase
- LGA Mayors and Chairs Forum & CEOs Forum



LGFA are the proud sponsor of the LG Professional's Leadership in Strategic Financial Management award each year and this year were also a guest judge. LG Professionals received five high quality nominations, however, three nominees were first shortlisted: City of Charles Sturt, City of Mitcham and the Rural City of Murray Bridge. The three finalists then gave a ten minute telephone presentation on their project or experience and a winner was declared and announced on the night of the LG Professionals Annual Excellence Gala Awards Dinner.

Leadership in Strategic Financial Management Winner: City of Charles Sturt Budget Bid and Project Reporting Project Team.

Their winning project was the recent implementation of an integrated Budget Bid and Project Reporting solution which has the ability to be replicated at other Councils around the nation. The LGFA is a great supporter of process improvement and innovation within the sector.

Vale Brian Anders

Former Mayor and LGA President (1979-1982) Brian Anders passed away on 9th August 2017. Brian's contributions to the local government sector were extensive, and he was the first chair of the Local Government Finance Authority (LGFA) that was set up with the State Government by the LGA.

With his work in establishing the LGFA some thirty years ago, and leadership during its formative years, including the introduction of the bonus system, Brian leaves behind a legacy that local government continues to benefit from today.



Russell Taylor: Corporate Applications Business Analyst, Jo Smith: Senior Business Engagement Analyst, Donna Stubbs: Divisional Accountant Asset Management Services, Annette Martin: Manager Financial Services, Aly McGregor: Project Manager Information Services, Paul Slater: CEO LGFA
Absent from photo: Ben Haar: Divisional Systems Accountant, Mark Matthew: Works and Assets System Officer

John Comrie
September 2017

Authority Profile



The Authority

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

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

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.

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 \$37.665 million has been distributed with a further \$2 million to be paid in respect of the year ended 30 June 2017. 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 \$42.54 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 million this year to reflect our strong level of profitability.

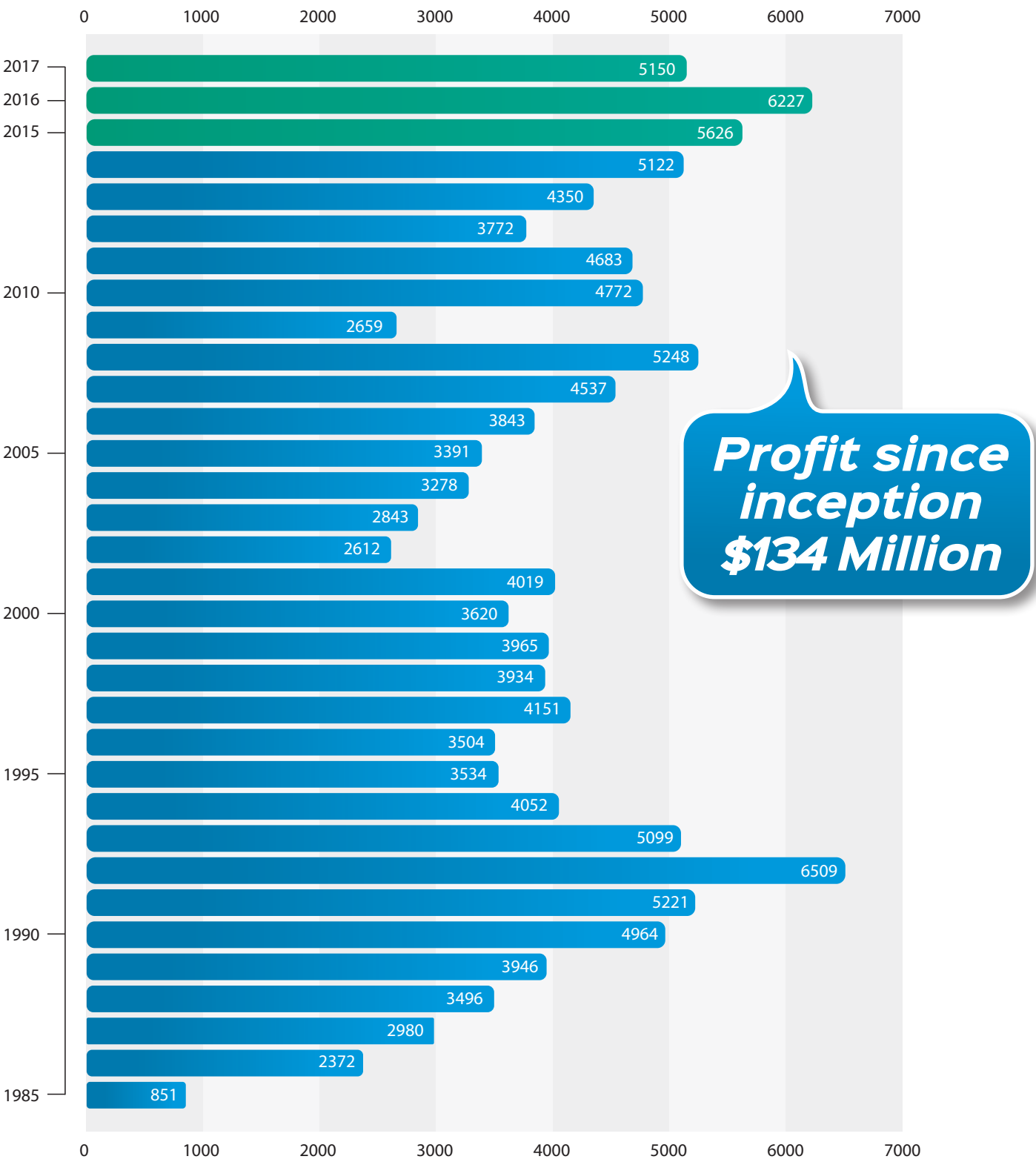
State Wide Coverage

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



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 Victor Harbor and Alexandrina Council
FLEURIEU REGIONAL AQUATIC CENTRE AUTHORITY



Case Study

City of Victor Harbor and Alexandrina Council

FLEURIEU REGIONAL AQUATIC CENTRE AUTHORITY



The Fleurieu Regional Aquatic Centre Authority (the Authority), is a regional subsidiary established under Section 43 of the Local Government Act 1999 by its Constituent Councils; City of Victor Harbor and Alexandrina Council. The Authority was established in August 2015 to enable joint ownership and management of the Aquatic Centre.

After decades of investigations and planning, followed by a 21 month construction period, the communities' dream of an aquatic facility on the Fleurieu Peninsula's South Coast was realised in March 2017.

The \$21 million project was a joint initiative of the City of Victor Harbor and Alexandrina Council, with funding support from the Australian Government and State Government's Community, Recreation and Sport Facilities Program; and a generous land donation from Beyond Today.

The two councils worked tirelessly together with the community and key stakeholders to deliver this high-quality facility on time and on budget, and are justifiably proud of what they have achieved.

The community played a significant role in the development of the Fleurieu Aquatic Centre project, with extensive community consultation undertaken between 2001 and 2013. In 2013 the Alexandrina and Victor Harbor communities were provided with an opportunity to consider concept plans for the Fleurieu Aquatic Centre and the financial commitment required to deliver the project.

In addition to this consultation, a Community Reference Group was established in 2014 to provide input into the functionality and operations of the Aquatic Centre. This was made up of 17 community members across the two councils from local schools, swim school providers, allied health care providers, retirement facilities, childcare providers, sporting clubs and other community groups.



FACILITIES

The Fleurieu Aquatic Centre is located on the councils' boundary at the corner of Waterport Road and Ocean Road in Hayborough, and includes the following facilities:

- 25 metre, 8 lane swimming pool
- Multi-use program pool
- Multi-use hydrotherapy pool
- Outdoor splash park
- Fitness facility
- Crèche
- Café
- Free outdoor barbecues

RECOGNITION

The Fleurieu Aquatic Centre project received national recognition as a leading local government project.

The project received the Community Partnerships and Collaboration Award at the Local Government Professionals Australia Federation Awards on Friday, 6 May 2016. The awards recognized excellence in Local Government across Australia. The project also won the Community Partnerships and Collaboration Award at the Local Government Professionals Australia SA Leadership Excellence Awards. In receiving the awards, Alexandrina Council and the City of Victor Harbor were commended for their unique collaboration on the delivery of a high quality sport and recreation facility for their communities.

"The Fleurieu Aquatic Centre project is proof that councils can consider their communities' needs at a regional level. An investment of \$6.5 million by one council would not procure much in the way of major new infrastructure, but together \$13 million leveraged significant grant funding to make a \$21 million project possible" said Mayors Keith Parkes and Graham Philip.

"Our councils are extremely proud to have brought the Fleurieu Aquatic Centre Project to fruition to provide huge benefits to our communities. It is not common for councils to build major infrastructure together. This project has shown it is not only possible but the results can exceed expectations. The outstanding teamwork and unique collaboration between the two councils is reflected in the project's success."

The two Council Mayors, Keith Parkes and Graham Philip, as well as Michelle James, Communications Officer, City of Victor Harbor and Kate Jessep, Director Corporate and Community Services, City of Victor Harbor and their staff combined to provide these project details.

LGFA provided both Councils with flexible loan funding facilities which were used during the construction of the facility.

Case Study

Coorong District Council
Creating Coonalpyn - Coonalpyn Silos



The Coorong District Council built a state-of-the-art civic centre in Tailm Bend (**utilising funds borrowed from LGFA**) and in addressing the bare walls in the new precinct, made a community call-out for loan art. The response was unexpected and overwhelming, leading to the establishment of the council's Accidental Art Gallery. After realising art was important to its' community, a fulltime art resource resulted from a successful funding submission to Country Arts SA.

The Council's \$100,000 "Creating Coonalpyn" program emerged, leading to a suite of community led art projects, including its flagship project, the silo mural, incidentally, now South Australia's largest art canvas.

The now completed silo art continue to encourage a large number of visitors to pause on their trip, view the silos and have a coffee at the newly opened Coonalpyn Silo Café and other eateries in the town.

Coorong District Council Chief Executive Officer Vincent Cammell said this project not only brought about a sense of community pride and belief for the future, but turned the town into an overnight tourist destination.

The vision of the Council was recently recognised when the project won the 2017 National Award for Excellence in Local Government in the Arts Animates category, adding to a list of other State Awards for the Council.

This information has been proudly provided by Nat Traeger, Director Community and Corporate, and Judy Thompson, Finance Manager, Coorong District Council.

LGFA continues to provide loan facilities to the Coorong District Council.

Financial Report

Statement of Comprehensive Income

For the Year Ended 30 June 2017

		2017	2016
	Note	\$'000	\$'000
INCOME			
Interest on Investments	2(c)	1,343	1,233
Interest on Loans and Advances	2(c)	39,669	44,276
Other Income	2(f),2(h),2(j),3	156	422
TOTAL INCOME		41,168	45,931
EXPENSES			
Interest on Deposits from Councils and Local Government Bodies	2(d)	8,453	9,994
Interest on Borrowings	2(d)	23,975	26,365
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	24	1,207	1,214
Administration Expenses	4	2,064	1,971
Other Expenses	2(f),5	319	160
TOTAL EXPENSES		36,018	39,704
PROFIT BEFORE INCOME TAX EQUIVALENTS		5,150	6,227
Income Tax Equivalent Expense	2(e)	1,545	1,868
PROFIT AFTER INCOME TAX EQUIVALENTS		3,605	4,359
TOTAL COMPREHENSIVE RESULT		3,605	4,359

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 2017

		2017	2016
	Note	\$'000	\$'000
ASSETS			
Cash and Liquid Assets	6	54	60
Accrued Interest Receivable	7	3,437	3,530
Investment Securities	2(f),8	28,000	41,318
Other Assets	9	235	141
Net Loans and Advances	2(g),10	676,130	680,217
Property, Plant & Equipment	2(k),11	1,974	2,060
TOTAL ASSETS		709,830	727,326
LIABILITIES			
Deposits from Councils and Local Government Bodies	2(l),12	462,145	383,912
Accrued Interest Payable	13	2,306	2,589
Borrowings	14	150,674	228,378
Derivatives	2(i),2(j),15	27,120	46,123
Provisions	2(m),16	3,030	3,404
Other Liabilities	17	282	252
TOTAL LIABILITIES		645,557	664,658
NET ASSETS		64,273	62,668
EQUITY			
General Reserve	2(n)	63,600	62,000
Retained Profits		673	668
TOTAL EQUITY		64,273	62,668

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 2017

	General Reserve	Retained Profits	Total
	\$'000	\$'000	\$'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
Profit After Income Tax Equivalents for 2016/17	-	3,605	3,605
Total Comprehensive Result for 2016/17	-	3,605	3,605
Transfer to Bonus Payment Provision	-	(2,000)	(2,000)
Transfer to General Reserve	1,600	(1,600)	-
Balance at 30 June 2017	63,600	673	64,273

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 2017

	2017	2016
Note	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and Bill Discounts Received	41,298	45,518
Interest Paid	(32,784)	(36,319)
Fees Paid re Guarantee provided by Treasurer of S.A.	(1,205)	(1,224)
Cash Payments to Suppliers and Employees	(1,863)	(1,772)
Fees Received	67	74
Income Tax Equivalents Paid	(1,958)	(1,763)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19(c) 3,555	4,514
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to Councils and Local Government Bodies	(15,463)	25,792
Investment Securities	13,396	10,000
Payments for Property, Plant & Equipment	(107)	(116)
Proceeds from Sale of Property, Plant & Equipment	33	1
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(2,141)	35,677
CASH FLOWS FROM FINANCING ACTIVITIES		
Promissory Notes	(1,485)	(1,525)
Deposits from Councils and Local Government Bodies	78,234	(56,949)
Short Term Money Market Facilities	(76,219)	(5,401)
Fixed Term Borrowings	-	25,000
Bonus Payment to Councils and Local Government Bodies	(2,000)	(2,000)
Other	50	718
NET CASH USED IN FINANCING ACTIVITIES	(1,420)	(40,157)
NET INCREASE/(DECREASE) IN CASH HELD	(6)	34
Cash at 1 July	60	26
CASH AT 30 JUNE	19(a) 54	60

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 2017

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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
- b) to engage in such other financial activities as are determined by the Minister, after consultation with the Local Government Association, to be in the interests of local government.

2. Statement of Accounting Policies

a) Basis of Accounting

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

For the Year Ended 30 June 2017

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 \$23.7 million as at 30/6/17) 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 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), which is included in the fair value calculation.

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

For the Year Ended 30 June 2017

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 2017 (Note 2(e) Refer).

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

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 2017.

The Authority did not voluntarily change any of its accounting policies during 2016-17.

The Authority has assessed the impact of the new and amended standards and interpretations and considers there will be no material 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 based on our initial assessment that there will be no material financial impact when it is due to be adopted in the financial year ending 30 June 2019. This will be reviewed further before the standard becomes effective.

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 assets, hedged long term fixed rate debenture loans and derivatives are based on observable market rates

3. Other Income	2017	2016
	\$'000	\$'000
Fair Value Hedge Accounting Gain	-	348
Fee Income	59	73
Impaired Available-for-Sale Assets Revaluation Gain	86	-
Gain on Sale of Fixed Assets	11	1
	156	422

4. Administration Expenses

Audit Fees	108	74
Consultancy Fees	19	21
Depreciation	170	158
Occupancy Expenses	34	35
Salaries & On-Costs	1,121	1,129
Software License Fees	111	104
Sponsorships	94	88
Other Administration Expenses	407	362
	2,064	1,971

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

Auditing work performed by the Auditor-General's Department*	58	55
Financial Management Compliance Program by an external audit firm	50	19
	108	74

* Audit fees paid/payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act 1987.
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.	No.
Below \$10,000	1	2	1	4
\$10,000 to \$50,000	1	17	1	17
	19		21	

5. Other Expenses

Fair Value Hedge Accounting Loss	319	-
Impaired Available-for-Sale Assets Revaluation Loss	-	160
	319	160

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

6. Cash and Liquid Assets	2017	2016
	\$'000	\$'000
Cash at Bank	54	60
	54	60
7. Accrued Interest Receivable*		
Interest Receivable - Loans to Councils and Local Government Bodies	2,774	2,721
Interest Receivable - Investment Securities	663	809
	3,437	3,530
* 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	28,000	42,000
Accrued Interest Receivable	-	8
Fair Value Loss on Impaired Available-for-Sale Assets*	-	(690)
	28,000	41,318
* The impairment loss relates to the market value of perpetual floating rate capital notes, which fluctuates with the quoted price on the Australian Stock Exchange. These assets were disposed of completely as at 30 June 2017.		
9. Other Assets		
Sundry Debtors and Prepayments	235	141
	235	141
10. Net Loans and Advances		
Advances	178,317	195,538
Term Loans	461,495	428,811
Loans and Advances - at Cost	639,812	624,349
Fair Value Adjustment (Note 2(h) Refer)	36,318	55,868
Net Loans and Advances	676,130	680,217
Unrecognised Commitments - Loans and Advances		
Unused Cash Advance facilities	458,565	430,756
Term loans approved not advanced	2,006	8,384
	460,571	439,140

11. Property, Plant & Equipment	2017	2016
	\$'000	\$'000
Plant, Equipment, and Motor Vehicles:		
- at cost	984	1,088
less, accumulated depreciation	(701)	(745)
Building Floorspace:		
- at cost	1,799	1,799
less, accumulated depreciation	(108)	(82)
Total Property, Plant & Equipment	1,974	2,060
Reconciliation of Property, Plant & Equipment		
Carrying Amount at 1 July	2,060	2,102
Acquisitions	107	116
Disposals	(23)	-
Depreciation	(170)	(158)
Carrying Amount at 30 June	1,974	2,060
12. Deposits from Councils and Local Government Bodies		
At Call	232,366	184,156
Fixed Term	229,779	199,756
	462,145	383,912
13. Accrued Interest Payable		
Interest Payable on :		
- Deposits from Councils and Local Government Bodies	2,150	2,269
- Borrowings*	156	320
	2,306	2,589
* 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	103,855	180,074
Fixed Term Borrowings	25,000	25,000
Promissory Notes	21,819	23,304
	150,674	228,378

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

15. Derivatives	2017	2016
	\$'000	\$'000
Swap Principal Receivable	(7,492)	(7,607)
Interest Receivable - Interest Rate Swaps	(865)	(1,070)
Interest Payable - Interest Rate Swaps	3,807	3,880
Fair Value Adjustment	31,762	50,920
Interest Rate Swaps*	27,212	46,123
Futures Contracts	(92)	-
	27,120	46,123

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

16. Provisions		
Employee Benefits	399	360
Fringe Benefits Tax	20	20
Bonus Payment to Councils and Local Government Bodies	2,000	2,000
Provision for Income Tax Equivalents	611	1,024
	3,030	3,404

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	1,024	919
Increase in Provision	1,545	1,868
Amounts Paid	(1,958)	(1,763)
Closing Balance 30 June	611	1,024

17. Other Liabilities		
Employee On-costs	44	40
Sundry Creditors	238	212
	282	252

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	2017	2016
		\$'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	54	60
		54	60

(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	3,605	4,359
Decrease/(Increase) in Interest Receivable	286	857
Decrease/(Increase) in Sundry Debtors	(28)	(5)
Increase/(Decrease) in Interest Payable	(356)	(795)
Increase/(Decrease) in Other Liabilities	30	(18)
Increase/(Decrease) in Provisions	(374)	148
Depreciation	170	158
Revaluation Loss/(Gain)	319	(349)
Impairment Loss/(Gain)	(86)	160
Loss/(Gain) on Disposal of Fixed Assets	(11)	(1)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,555	4,514

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

20. Key Management Personnel

Key management personnel who have responsibility for the strategic direction and management of the Authority include members of the Board and the Chief Executive Officer.

a) Board Members

Appointments to the Board are made pursuant to Section 7 of the Local Government Finance Authority Act, 1983.

The following persons held the position of governing Board member during the financial year:

Mr John Comrie (Chair)	LGA representative from 1 January 2017
Mr Anthony Pederick OAM (Chair)	LGA representative to 31 December 2016
Cr John Frogley (Deputy Chair)	Council representative
Mr Craig Fowler	Appointee of the Treasurer
Dr Andrew Johnson	LGA representative from 1 January 2017
Ms Annette Martin	Council representative from 1 January 2017
Ms Susan McCormick	Appointee of the Minister
Mr Matt Pinnegar	LGA Chief Executive Officer
Mr Raj Rajamani	LGA representative to 31 December 2016
Cr John Sanderson	Council representative to 31 December 2016

b) Other Key Management Personnel

The following person also held a position of authority and responsibility for planning, directing and controlling the activities of the Authority, directly or indirectly during the financial year:

Mr Paul Slater	Chief Executive Officer
----------------	-------------------------

c) Related Party Transactions

The Authority operates independently under its own legislation and has no other controlled entities.

Related parties of the Authority include all key management personnel and their close family members and any entity that is controlled or jointly controlled by those persons. Close family members are defined in AASB 124 to include children, spouse or partner, children of the spouse or partner and dependants of the key management personnel or the spouse or partner.

There are no transactions to disclose for key management personnel and related parties.

The Authority transacts with Councils, Prescribed Bodies and State Government Agencies of which Board members may be key management personnel on terms which are no more favourable than current market practice.

d) Key Management Personnel Remuneration

The compensation for key management personnel is set out below:

	2017	2016
	\$'000	\$'000
Salaries and other short-term employee benefits	439	443
Post-employment benefits	42	41
	481	484

e) Board Members Remuneration

The number of governing Board members whose remuneration received or receivable falls within the following bands:

	2017	2016
No Remuneration	2	3
\$1 - \$9,999	6	3
\$10,000 - \$19,999	2	1
\$20,000 - \$29,999	-	1
	10	8

The total remuneration received or receivable by those governing Board members was \$60,267 (\$58,000) which includes salary and superannuation. Note, these amounts are also disclosed in note 20(d) above.

In accordance with the Premier and Cabinet Circular No. 016, SA Government employees did not receive any remuneration for governing Board duties during the financial year. 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.

21. Employee Remuneration

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

	2017	2016
\$190,000 - \$199,999	1	-
\$200,000 - \$209,999	-	1
\$420,000 - \$429,999	1	1

The table includes all employees who received remuneration equal to or greater than the Department of Treasury and Finance base executive remuneration level of \$147,000 (\$145,000) during the year.

Remuneration of employees reflects all costs of employment including salary, payments in lieu of leave, superannuation contributions, living away from home allowance, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by personnel in this table for the year was \$621,632 (\$628,476).

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

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.

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 2017 the total liabilities guaranteed was \$645.557 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 Local Government Bodies (totalling \$23.7 million as at 30/6/17) 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 2017 the total loans secured by debenture was \$639.812 million.

b) Contingent Liabilities

i) Financial Guarantee

The Authority has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of 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 2017 the amount guaranteed was \$31.670 million.

ii) Performance Bond/Guarantees

i) Northern Adelaide Waste Management Authority

The Authority has issued a performance bond/guarantee on behalf of the prescribed local government body, Northern Adelaide Waste Management Authority, a regional subsidiary of the City of Playford, Corporation of the Town of Gawler and City of Salisbury in favour of the Environment Protection Authority.

As at 30 June 2017 the amount guaranteed was \$1.350 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 28 October 2016, 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.

ii) Other Price Risk

The Authority has held an investment issued by an Australian bank known as Floating Rate Capital Notes during the year, which were traded on the Australian Stock Exchange and were therefore classified as Available-for-sale assets. This investment was subject to price variations caused by factors other than interest rate fluctuations. As at 30 June 2017 these investments had been completely divested.

	Principal Balance 30/06/17	+0.5%	-0.5%	Principal Balance 30/06/16	+0.5%	-0.5%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Variable Rate Financial Assets						
Investment Securities	13,000	65	(65)	12,000	60	(60)
Loans and Advances	178,317	892	(892)	195,538	978	(978)
Variable Rate Financial Liabilities						
Council Deposits	382,142	(1,911)	1,911	301,560	(1,508)	1,508
Short Term Money Market Facility	103,855	(519)	519	180,074	(900)	900
Promissory Notes	21,819	(109)	109	23,304	(117)	117
Variable Rate Derivatives						
Interest Rate Swaps (Notional Principal)	448,591	2,243	(2,243)	430,514	2,153	(2,153)
Futures (Notional Principal/Bond Formula)	10,000	226	(226)	-	-	-
Profit/(Loss) Interest Rate Sensitivity		887	(887)		666	(666)

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

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				
2017	A1+	A2	AA-	A	BBB+	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	54	-	-	-	-	-	54
Investment Securities	13,000	1,000	10,000	-	4,000	-	28,000
Loans and Advances	-	-	-	-	-	639,812	639,812
Derivatives	-	-	3,400	1,900	-	-	5,300
Total	13,054	1,000	13,400	1,900	4,000	639,812	673,166

	Short Term Rating		Long Term Rating					
2016	A1+	A2	AA-	A+	A	A-	NR	Total
	\$'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	-	-	-	-	-	-	624,349	624,349
Derivatives	-	-	2,500	-	2,500	-	-	5,000
Total	7,060	5,000	20,500	5,000	2,500	7,000	624,349	671,409

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:

2017	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	464,295	(464,295)	(382,142)	(24,004)	(56,000)	-
Borrowings	150,830	(150,830)	(125,830)	-	(25,000)	-

Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	267,428	(295,417)	(10,113)	(41,046)	(168,045)	(76,213)
Interest Rate Swaps - Inflow	(240,216)	246,946	12,290	27,764	142,996	63,896

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

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

24. Transactions with South Australian Government

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

	2017	2016
	\$'000	\$'000
Interest Paid - Short Term Money Market Facility	2,392	2,798
Interest Paid - Fixed Term Borrowings	482	439
Interest Paid - Promissory Notes	385	513
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,207	1,214
Income Tax Equivalents Expense	1,545	1,868
Audit Fees	58	55
Payroll Tax	23	19

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

	2017	2016
	\$'000	\$'000
Short Term Money Market Facility	103,855	180,074
Promissory Notes	21,819	23,304
Fixed Term Borrowings	25,000	25,000
Interest Payable - Short Term Money Market Facility	97	232
Interest Payable - Promissory Notes	36	56
Interest Payable - Fixed Term Borrowings	23	32
Audit Fees	58	55

25. Fair Value of Financial Instruments

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

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

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

a) Fair Value of Financial Assets and Financial Liabilities

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

Investment Securities

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

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.

		2017		2016	
		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
Investment Securities	Loans and Receivables	28,663	28,864	40,809	41,289
Net Loans and Advances	Loans and Receivables	196,689	218,874	200,047	217,520
Net Loans and Advances	Fair Value Hedge	482,214	482,214	482,890	482,890
Financial Liabilities	Category (Note 2(b) Refer)				
Deposits from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	464,295	464,785	386,180	386,765
Borrowings	Financial Liabilities at Amortised Cost	150,830	150,853	228,698	228,779
Derivatives	Fair Value Hedge	27,212	27,212	46,123	46,123
Derivatives	Financial Assets at Fair Value	(92)	(92)	-	-

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2017

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.

2017	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Investment Securities	-	28,864	-	28,864
Net Loans and Advances	-	701,088	-	701,088
Financial Liabilities				
Deposits from Councils and Prescribed Bodies	-	464,785	-	464,785
Borrowings	-	150,853	-	150,853
Derivatives	-	27,120	-	27,120
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

Certification of the Financial Statements

We certify that the:

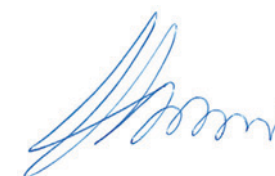
- financial statements of the Local Government Finance Authority of South Australia:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the 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



JAC Comrie
Chairman

1 September 2017

Independent Auditor's Report

To the Chairman 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 financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2017.

Opinion

In my opinion, the accompanying 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 2017, 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.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2017
- a Statement of Financial Position as at 30 June 2017
- a Statement of Changes in Equity for the year ended 30 June 2017
- a Statement of Cash Flows for the year ended 30 June 2017
- notes, comprising a statement of accounting policies and other explanatory information
- a Certificate from the Chairman, the Chief Executive Officer and the Manager Corporate Services.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the Local Government Finance Authority of South Australia. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

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

Responsibilities of the Chief Executive Officer and the Board of Trustees for the financial report

The Chief Executive Officer is 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 the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive Officer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

Independent Auditor's Report

Notes

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive Officer and the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson
Auditor-General
21 September 2017



Coonalpyn Silos
Coorong District Council



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