

Distribution Lessor Corporation

Financial report
for the year ended
30 June 2018



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To the Chair Distribution Lessor Corporation

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 13(3) of the Schedule to the *Public Corporations Act 1993*, I have audited the financial report of the Distribution Lessor Corporation for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Distribution Lessor Corporation as at 30 June 2018, their financial performance and their 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*, section 13(3) of the Schedule to the *Public Corporations Act 1993* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair.

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 Distribution Lessor Corporation. 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 Conduct 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 directors for the financial report

The directors of the Distribution Lessor Corporation 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 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.

The directors 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
- 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 directors
- 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 Chair about, 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

23 August 2018

Distribution Lessor Corporation

Financial Report

For the year ended 30 June 2018

Distribution Lessor Corporation

Statement of Comprehensive Income For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Income			
Interest revenues	2	28	28
Total income		<u>28</u>	<u>28</u>
Expenses			
Supplies and services	4	114	62
Other expenses	5	12	12
Total expenses		<u>126</u>	<u>74</u>
Revenues from SA Government			
Revenues from SA Government	3	150	150
Net result		<u>52</u>	<u>104</u>
Profit		52	104
Total comprehensive result		<u>52</u>	<u>104</u>

The net result and total comprehensive result are attributable to the SA Government as owner

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

Distribution Lessor Corporation

Statement of Financial Position As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	6	1,505	1,372
Receivables	7	7	88
Total current assets		1,512	1,460
Non-current assets			
Receivables	8	28,273	28,273
Total non-current assets		28,273	28,273
Total assets		29,785	29,733
Current liabilities			
Payables	9	11	11
Total current liabilities		11	11
Total liabilities		11	11
Net Assets		29,774	29,722
Equity			
Contributed capital		28,273	28,273
Retained earnings		1,501	1,449
Total equity		29,774	29,722
Contingent asset	12		
Contingent liability	13		

The total equity is attributable to the SA Government as owner

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

Distribution Lessor Corporation

Statement of Changes In Equity For the year ended 30 June 2018

	Contributed capital \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 30 June 2016	28,273	1,345	29,618
Net Result for 2016-17	-	104	104
Total comprehensive result for 2016-17	-	104	104
Balance at 30 June 2017	28,273	1,449	29,722
Net Result for 2017-18	-	52	52
Total comprehensive result for 2017-18	-	52	52
Balance at 30 June 2018	28,273	1,501	29,774

All changes in equity are attributable to the SA Government as owner

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

Distribution Lessor Corporation

Statement of Cash Flows For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Cash outflows			
Payments for supplies and services		(50)	(168)
Cash used in operations		<u>(50)</u>	<u>(168)</u>
Cash inflows			
Interest received		28	28
GST recovered from the ATO		5	15
Cash generated from operations		<u>33</u>	<u>43</u>
Cash flows from SA Government			
Receipts from SA Government		150	150
Cash generated from SA Government		<u>150</u>	<u>150</u>
Net cash provided by operating activities		<u>133</u>	<u>25</u>
Net increase in cash			
		133	25
Cash at the beginning of the period		<u>1,372</u>	<u>1,347</u>
Cash at the end of the period	6	<u>1,505</u>	<u>1,372</u>

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

Distribution Lessor Corporation

Notes to and forming part of the financial statements For the year ended 30 June 2018

1 Basis of Financial Statements

Reporting Entity

Distribution Lessor Corporation (Corporation) was established on 29 July 1999 as a subsidiary of the Treasurer of South Australia (Treasurer) under Regulations made under the *Public Corporations Act 1993*.

Pursuant to Ministerial Transfer Orders, dated 12 December 1999 prescribed electricity assets consisting of the distribution network and distribution network land were transferred to the Corporation at book value.

On 1 July 2010, *The Public Corporations (Distribution Lessor Corporation) Regulations 2010* came into operation to replace the expiring *Public Corporations (Distribution Lessor Corporation) Regulations 1999*.

The Corporation is a subsidiary of the Treasurer of South Australia.

The principal activity of the Corporation is as lessor of the prescribed electricity assets consisting of the distribution network and the land on which it is located.

Statement of Compliance

These financial statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (Reduced Disclosure Requirements) and comply with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

The Corporation has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Corporation is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Corporation for the period ending 30 June 2018.

Basis of Preparation

The financial statements have been prepared based on a 12 month period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

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

Distribution Lessor Corporation

Notes to and forming part of the financial statements For the year ended 30 June 2018

Taxation

Income tax equivalent

The Treasurer of South Australia has issued a determination pursuant to the Schedule to the *Public Corporations Act 1993* whereby the Corporation is not subject to Commonwealth income tax equivalents for the period since incorporation.

Goods and services tax

Income, expenses and assets are recognised net of the amount of (GST) except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable.
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST components of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part operating cash flows.

Receivable from the Treasurer

The receivables from the Treasurer reflects amounts owing from the Treasurer, with respect to fully prepaid finance lease rentals received by the Treasurer in relation to the lease of the distribution network land assets.

Insurance

The Corporation has arranged, through the South Australian Government Financing Authority (SAFA), to insure all major risks of the Corporation. The excess payable under this arrangement varies depending on each class of insurance held.

Distribution Lessor Corporation

Notes to and forming part of the Financial Statements For the year ended 30 June 2018

	2018	2017
	\$'000	\$'000
2 Interest revenues		
- Interest from entities within the SA Government	28	27
- Interest from entities external to the SA Government	-	1
Total Interest revenues	28	28

3 Revenues from SA Government

Appropriations from Consolidated Account Pursuant to the Appropriations Act

- Administration	150	150
Total revenues from SA Government	150	150

Total revenues from Government consist of \$150,000 for operational funding. For details on the expenditure associated with the operational funding received refer to notes 4 to 5.

4 Supplies and services

Supplies and services provided by entities within the SA Government

- Insurance	14	15
- Management fees	100	30
Total Supplies and services - SA Government	114	45

Supplies and services provided by entities external to the SA Government

- Consultants	-	17
Total Supplies and services - Non SA Government	-	17

Total Supplies and services	114	62
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	2018	2017
	No	\$'000
<i>The number and dollar amount of consultancies paid (included in supplies and services expense) that fell within the following bands:</i>		
- Above \$10,000	-	1
Total paid/payable to the consultants engaged	-	17

5 Other expenses

Other expenses paid/payable to entities within the SA Government

- Audit fees	11	11
- Other expenses paid/payable to entities external to the SA Government	1	1
Total other expenses	12	12

6 Cash and cash equivalents

- Cash (non SA Government)	9	48
- Short-term deposits with SAFA	1,496	1,324
Total cash and cash equivalents	1,505	1,372

Cash is measured at nominal amounts. Short-term deposits are lodged with SAFA and are at-call.

Distribution Lessor Corporation

Notes to and forming part of the Financial Statements For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
7 Receivables		
Current		
- GST Receivable	5	6
- Interest receivable	2	2
- Receivable from SAFA	-	80
Total current receivables	7	88
8 Receivables		
Non-current		
- Receivable from the Treasurer	28,273	28,273
Total Non-current receivables	28,273	28,273
9 Payables		
Current		
- Accrued expenses	11	11
Total Current payables	11	11

10 Directors remuneration

Members during the 2018 financial year were:

Terry Evans - Chairman

* Heather Elaine Watts - Non Executive Director (Appointed 20 February 2017)

* Andrew Charles Blaskett - Non Executive Director and Deputy Chair (Resigned 4 May 2018)

	2018 (Number)	2017 (Number)
Number of directors of the Corporation whose total income falls within following bands:		
\$1 - \$9,999	1	1
Total number of members	1	1

The total remuneration received by directors was \$1,000

* In accordance with the Premier and Cabinet Circular no. 016, government employees did not receive any remuneration for director duties during the financial year.

Distribution Lessor Corporation

Notes to and forming part of the financial statements For the year ended 30 June 2018

11 Related party transactions

Related parties of the Corporation include all key management personnel and their close family members; all Cabinet Ministers and their close family members; and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

Key Management Personnel

Key management personnel of the Corporation include the Minister and members of the board who have responsibility for the strategic direction and management of the Corporation.

Remuneration of Key Management Personnel is all short term as disclosed in note 10.

Transactions of directors and director-related entities

There were no transactions between the Corporation and director related entities.

Other Related Entities

SAFA provides management and insurance services to the Corporation. Additionally, the Corporation has dealings with other Government instrumentalities. All dealings are in the ordinary course of business and on normal trading terms.

Controlling entity

The Corporation is a subsidiary of the Treasurer of South Australia.

12 Contingent asset

On 28 January 2000 the Corporation leased its distribution network under a 200 year finance lease. The lease agreement makes a provision for the potential sale of these assets in the future, to the lessee, if the Corporation obtains lawful right to sell its right, title and interest in the assets. If this right is not obtained or the lessee's option to purchase is not exercised the distribution network and distribution network land will be returned to the Corporation or its nominee at the end of the lease term.

In the event that the lessee defaults under their respective leases, they are obliged to return the leased asset to the Corporation. Although at that time an asset will be recognised, no amount has been recognised in the Statement of Financial Position as the likelihood of default eventuating is remote.

Under the terms of the Distribution Network Land Lease and Distribution Network Lease certain costs of the Corporation that are associated with the operation, or the Corporation's ownership, of the Distribution Network Land and Distribution Network are able to be reimbursed from the lessees or on charged directly to the lessees.

Distribution Lessor Corporation

Notes to and forming part of the financial statements For the year ended 30 June 2018

13 Contingent liability

In the unlikely event that the Corporation defaults under the lease with respect to its legal entitlement to grant the leases, the Corporation is obliged to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were discharged by the prepaid rents.

No amount has been recognised as the likelihood of the Corporation defaulting is remote.

Under the terms of the distribution network leases the lessee can elect to own new assets constructed during the term of the lease which qualify as "qualifying assets" or "geographical extensions" as well as the land on which those assets are located.

Qualifying assets are a discrete replacement, modification, alteration, addition or renewal to the network which is outside the ordinary course of maintenance, modification, alteration or renewal and, at the time effected, cost greater than a "Qualifying Threshold" of \$2 million. Geographical extensions are extensions beyond the outer extremities of the distribution network as at the date the lease becomes effective.

At the expiry of the lease, qualifying assets will be automatically transferred and vested in the Corporation or a body nominated by the Corporation for a price equal to the regulatory value of the qualifying assets as at the lease end date. Geographical extensions receive the same treatment if the Corporation so elects, but not otherwise.

14 Segment information

The Corporation operates as lessor of electricity distribution assets in South Australia.

15 Economic dependency

The Corporation is an instrumentality of the Crown under the *Crown Proceedings Act 1992*. Accordingly, where a final judgement is given against it, a Minister or agency of the Crown may be directed by the Governor to satisfy that judgement. Such a direction constitutes sufficient authority for the appropriation of the money necessary to satisfy the judgement from the General Revenue of the State of South Australia or from the funds of the Corporation. To this extent the Corporation has the benefit of an implicit guarantee from the State.

16 Events after balance date

No event has arisen since 30 June 2018 that would be likely to materially affect the operations or the state of affairs of the Corporation.

Distribution Lessor Corporation

CERTIFICATION OF THE FINANCIAL REPORT

I certify that:

- the attached General Purpose Financial Report for Distribution Lessor Corporation:
 - is in accordance with the accounts and records of the Corporation;
 - complies with the relevant Treasurer's instructions;
 - complies with relevant accounting standards; and
 - presents a true and fair view of the financial position of the Corporation 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 Corporation over its financial reporting and its preparation of the financial report has been effective throughout the financial year.

Signed in accordance with a resolution of the Directors.



Terry Evans
CHAIR

Dated at Adelaide this 22 day of July 2018.