

Local Government Finance Authority of South Australia

Financial report
for the year ended
30 June 2018



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

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 2018.

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 2018, their financial performance and their cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The consolidated 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 Chairman, 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 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 issued 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 is 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.

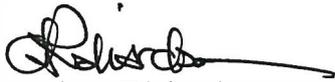
As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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 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 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

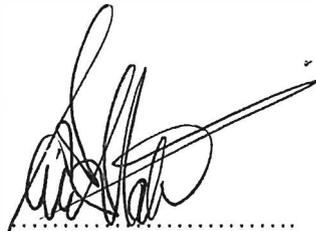
Auditor-General

5 September 2018

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

30 August 2018

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
INCOME			
Interest on Investments	2(c)	1,633	1,343
Interest on Loans and Advances	2(c)	39,485	39,669
Other Income	3	37	156
TOTAL INCOME		<u>41,155</u>	<u>41,168</u>
EXPENSES			
Interest on Deposits from Councils and Local Government Bodies	2(d)	9,282	8,453
Interest on Borrowings	2(d)	22,129	23,975
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	24	1,309	1,207
Administration Expenses	4	2,148	2,064
Other Expenses	2(h),2(j)(i),5	11	319
TOTAL EXPENSES		<u>34,879</u>	<u>36,018</u>
PROFIT BEFORE INCOME TAX EQUIVALENTS		6,276	5,150
Income Tax Equivalent Expense	2(e)	1,883	1,545
PROFIT AFTER INCOME TAX EQUIVALENTS		<u>4,393</u>	<u>3,605</u>
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to Profit Before Income Tax Equivalents			
Change In Revaluation Reserve	2(j)(ii),11	129	-
TOTAL COMPREHENSIVE RESULT		<u>4,522</u>	<u>3,605</u>

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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Cash and Liquid Assets	6	1	54
Accrued Interest Receivable	7	4,084	3,437
Investment Securities	2(f),8	42,000	28,000
Other Assets	9	275	235
Net Loans and Advances	2(g),10	744,548	676,130
Property, Plant & Equipment	2(j)(ii),2(k),11	2,073	1,974
TOTAL ASSETS		<u>792,981</u>	<u>709,830</u>
LIABILITIES			
Deposits from Councils and Local Government Bodies	2(l),12	498,932	462,145
Accrued Interest Payable	13	2,407	2,306
Borrowings	14	199,228	150,674
Derivatives	2(i),2(j)(i),15	21,769	27,120
Provisions	2(m),16	3,850	3,030
Other Liabilities	17	300	282
TOTAL LIABILITIES		<u>726,486</u>	<u>645,557</u>
NET ASSETS		<u>66,495</u>	<u>64,273</u>
EQUITY			
General Reserve	2(n)	65,700	63,600
Retained Profits		666	673
Revaluation Reserve	2(j)(ii),11	129	-
TOTAL EQUITY		<u>66,495</u>	<u>64,273</u>
The equity is attributable to the owners.			
Contingent Assets and Liabilities	22		

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	General Reserve \$'000	Retained Profits \$'000	Revaluation Reserve \$'000	Total \$'000
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
Profit After Income Tax Equivalents for 2017/18	-	4,393	-	4,393
Gain on Revaluation of Building Floorspace	-	-	129	129
Total Comprehensive Result for 2017/18	-	4,393	129	4,522
Transfer to Bonus Payment Provision	-	(2,300)	-	(2,300)
Transfer to General Reserve	2,100	(2,100)	-	-
Balance at 30 June 2018	65,700	666	129	66,495

All changes in equity are attributable to the owners.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF CASH FLOWS
For the year ended 30 June 2018

	Note	2018 \$'000 Inflows (Outflows)	2017 \$'000 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and Bill Discounts Received		40,776	41,298
Interest Paid		(31,543)	(32,784)
Fees Paid re Guarantee provided by Treasurer of S.A.		(1,294)	(1,205)
Cash Payments to Suppliers and Employees		(1,936)	(1,863)
Fees Received		34	67
Income Tax Equivalents Paid		(1,384)	(1,958)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19(c)	<u>4,653</u>	<u>3,555</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to Councils and Local Government Bodies		(74,507)	(15,463)
Investment Securities		(14,000)	13,396
Payments for Property, Plant & Equipment		(153)	(107)
Proceeds from Sale of Property, Plant & Equipment		41	33
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		<u>(88,619)</u>	<u>(2,141)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Promissory Notes		(652)	(1,485)
Deposits from Councils and Local Government Bodies		36,786	78,234
Short Term Money Market Facilities		25,132	(76,219)
Fixed Term Borrowings		24,074	-
Bonus Payment to Councils and Local Government Bodies		(2,000)	(2,000)
Other		573	50
NET CASH USED IN FINANCING ACTIVITIES		<u>83,913</u>	<u>(1,420)</u>
NET INCREASE/(DECREASE) IN CASH HELD		(53)	(6)
Cash at 1 July		54	60
CASH AT 30 JUNE	19(a)	<u>1</u>	<u>54</u>

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS For the year ended 30 June 2018

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

The Local Government Finance Authority of South Australia (the Authority) is a for-profit 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.

The financial statements have been prepared based on a twelve month period and presented in Australian currency.

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. The Authority did not have any assets in this category at balance date.

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).

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).

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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.

g) Loans and Advances

The following security is held over loan agreements entered into by the Authority:

- (i) **Debentures over Council General Revenue**
Loan agreements with Councils are secured by debentures which provide a charge over Council general revenue.
- (ii) **Schedule 2 of the Local Government Act 1999**
Loans to Prescribed Local Government Bodies which are Council subsidiaries 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.
- (iii) **First Registered Mortgage and Specific Security Deed**
Loan agreements with the Local Government Association of South Australia (LGA) are secured by First Registered Mortgage over their building at 148 Frome Street, Adelaide, SA, 5000. In addition to this a Specific Security Deed was entered into between the Authority and LGA in relation to the State-Local Government Infrastructure Partnership (SGLIP). The Specific Security Deed grants the Authority a first ranking security interest over certain cash flows arising from the SGLIP agreement.

Due to the high level of security provided for loan agreements no specific or general provision for doubtful debts has been made.

The Authority has not incurred any bad debts since its inception in 1984.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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

(i) Financial Instruments

AASB 13 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. After revaluation this portfolio is a liability, therefore the resulting adjustment required is a gain, known as a debit value adjustment (DVA), which is included in the fair value calculation.

(ii) Building Floorspace

The Authority obtains a valuation appraisal from a professionally qualified valuer of its owned and occupied building floorspace every five years in accordance with APFIII Asset Accounting Framework.

The latest market valuation appraisal was provided by WBP Property Group as at 5 October 2017.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the building floorspace and the net amount is restated to the revalued amount.

k) Property, Plant & 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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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.

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 2018 (Note 2(e) Refer).

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

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 hedged long term fixed rate debenture loans and derivatives are based on observable market rates as at balance date.

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 preceeding period.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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 2018.

The Authority did not voluntarily change any of its accounting policies during 2017-18.

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. The table below summarises the significant areas of changes in accounting for financial instruments that AASB9 requires and potential impacts on LGFA:

Classification and measurement	LGFA expects that the changes to the classification of financial instruments will result in changes to our written disclosures for reporting purposes, but this will have no financial impact.
Impairment	In accordance with AASB 9 impairment on financial assets is based on the expected credit losses while current accounting is based on incurred credit losses. Management has performed an assessment of the quantitative impact of the change. Based on the low default rates on loans experienced historically and the value of the security provided by the member councils the impact is considered minimal.
Hedge accounting	AASB 9 allows entities to continue with the hedge accounting rules applied under AASB 139. LGFA intends to continue with AASB 139 hedge accounting. As LGFA does not intend to adopt AASB 9 hedge accounting there will not be any impact on the financial statements arising from the hedge accounting component of IFRS 9.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

	2018 \$'000	2017 \$'000
3 - Other Income		
Fee Income	32	59
Gain on Sale of Available-for-Sale Assets	-	86
Gain on Sale of Fixed Assets	5	11
	37	156

4 - Administration Expenses

Audit Fees	75	108
Consultancy Fees	60	19
Depreciation	150	170
Occupancy Expenses	33	34
Salaries & On-Costs	1,174	1,121
Software License Fees	113	111
Sponsorships	107	94
Other Administration Expenses	436	407
	2,148	2,064

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*	55	58
Financial Management Compliance Program by an independent audit firm	20	50
	75	108

* 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.		
Below \$10,000	3	8	1	2	
\$10,000 to \$50,000	2	52	1	17	
		60		19	

5 - Other Expenses

Fair Value Hedge Accounting Loss	11	319
----------------------------------	----	-----

6 - Cash and Liquid Assets

Cash at Bank	1	54
--------------	---	----

7 - Accrued Interest Receivable*

Interest Receivable - Loans to Councils and Local Government Bodies	3,625	2,774
Interest Receivable - Investment Securities	459	663
	4,084	3,437

* 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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

	2018	2017
	\$'000	\$'000
8 - Investment Securities		
Deposits and Securities issued by Banks	<u>42,000</u>	<u>28,000</u>
9 - Other Assets		
Sundry Debtors and Prepayments	<u>275</u>	<u>235</u>
10 - Net Loans and Advances		
Advances	237,937	178,317
Term Loans	<u>476,382</u>	<u>461,495</u>
Loans and Advances - at Cost	<u>714,319</u>	<u>639,812</u>
Fair Value Adjustment (Note 2(h) Refer)	<u>30,229</u>	<u>36,318</u>
Net Loans and Advances	<u>744,548</u>	<u>676,130</u>
Unrecognised Commitments - Loans and Advances		
Unused Cash Advance facilities	522,872	458,565
Term loans approved not advanced	<u>1,320</u>	<u>2,006</u>
	<u>524,192</u>	<u>460,571</u>
11 - Property, Plant & Equipment		
Plant, Equipment, and Motor Vehicles:		
- at cost	1,069	984
less, accumulated depreciation	(791)	(701)
Building Floorspace		
- at revaluation (Note 2(j)(ii) Refer)	1,814	1,799
less, accumulated depreciation	<u>(19)</u>	<u>(108)</u>
Total Property, Plant & Equipment	<u>2,073</u>	<u>1,974</u>
Reconciliation of Property, Plant & Equipment		
Carrying Amount at 1 July	1,974	2,060
Acquisitions	156	107
Disposals	(36)	(23)
Revaluation	129	-
Depreciation	<u>(150)</u>	<u>(170)</u>
Carrying Amount at 30 June	<u>2,073</u>	<u>1,974</u>
12 - Deposits from Councils and Local Government Bodies		
At Call	256,282	232,366
Fixed Term	<u>242,650</u>	<u>229,779</u>
	<u>498,932</u>	<u>462,145</u>
13 - Accrued Interest Payable		
Interest Payable on :		
- Deposits from Councils and Local Government Bodies	1,811	2,150
- Borrowings*	<u>596</u>	<u>156</u>
	<u>2,407</u>	<u>2,306</u>

* 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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

	2018	2017
	\$'000	\$'000
14 - Borrowings		
Short Term Money Market Facility	128,987	103,855
Fixed Term Borrowings	49,074	25,000
Promissory Notes	21,167	21,819
	<u>199,228</u>	<u>150,674</u>
15 - Derivatives		
Swap Principal Receivable	(6,837)	(7,492)
Interest Receivable - Interest Rate Swaps	(953)	(865)
Interest Payable - Interest Rate Swaps	3,507	3,807
Fair Value Adjustment	25,984	31,762
Interest Rate Swaps*	<u>21,701</u>	<u>27,212</u>
Futures Contracts	68	(92)
	<u>21,769</u>	<u>27,120</u>
* Interest rate swaps are shown as the net of the fixed rate leg and the floating rate leg.		
16 - Provisions		
Employee Benefits	420	399
Fringe Benefits Tax	20	20
Bonus Payment to Councils and Local Government Bodies	2,300	2,000
Provision for Income Tax Equivalents	1,110	611
	<u>3,850</u>	<u>3,030</u>
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	2,300	2,000
Amounts Paid	(2,000)	(2,000)
Closing Balance 30 June	<u>2,300</u>	<u>2,000</u>
(ii) Provision for Income Tax Equivalents		
Opening Balance 1 July	611	1,024
Increase in Provision	1,883	1,545
Amounts Paid	(1,384)	(1,958)
Closing Balance 30 June	<u>1,110</u>	<u>611</u>
17 - Other Liabilities		
Employee On-costs	46	44
Sundry Creditors	254	238
	<u>300</u>	<u>282</u>
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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

19 - Notes to Statement of Cash Flows

(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:

	Note	2018 \$'000	2017 \$'000
Cash and Liquid Assets	6	1	54

(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.

	2018 \$'000	2017 \$'000
PROFIT AFTER INCOME TAX EQUIVALENTS	4,393	3,605
Decrease/(Increase) in Interest Receivable	(342)	286
Decrease/(Increase) in Sundry Debtors	41	(28)
Increase/(Decrease) in Interest Payable	(131)	(356)
Increase/(Decrease) in Other Liabilities	16	30
Increase/(Decrease) in Provisions	520	(374)
Depreciation	150	170
Revaluation Loss/(Gain)	11	319
Loss/(Gain) on Disposal of Available-for-Sale Assets	-	(86)
Loss/(Gain) on Disposal of Fixed Assets	(5)	(11)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,653	3,555

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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
Cr John Frogley (Deputy Chair)	Council representative
Mr Craig Fowler	Appointee of the Treasurer to 22 October 2017
Dr Andrew Johnson	LGA representative
Ms Annette Martin	Council representative
Ms Susan McCormick	Appointee of the Minister to 31 December 2017
Mr Matt Pinnegar	LGA Chief Executive Officer
Ms Heather Watts	Appointee of the Treasurer from 23 October 2017

(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 consistent with the Authority's normal commercial arrangements.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

(d) Key management personnel remuneration

The compensation for key management personnel is set out below:

	2018 \$'000	2017 \$'000
Salaries and other short-term employee benefits	446	439
Post-employment benefits	47	42
	493	481

(e) Board members remuneration

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

	2018 No of board members	2017 No of board members
No Remuneration	3	2
\$1 - \$9,999	3	6
\$10,000 - \$19,999	1	2
\$20,000 - \$29,999	1	-
	8	10

The total remuneration received or receivable by those governing Board members was \$61,400 (\$60,267) 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:

	2018	2017
\$149,001 - \$159,000	1	-
\$199,001 - \$209,000	1	1
\$419,001 - \$429,000	-	1
\$429,001 - \$439,000	1	-
	3	2

The table includes all employees who received remuneration equal to or greater than the Department of Treasury and Finance base executive remuneration level of \$149,000 (\$147,000).

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 \$785,518 (\$621,632).

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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.

Contingent Assets

(a) 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 2018 the total liabilities guaranteed was \$726.486 million.

(b) Security for Loan Agreements

(i) Debentures over Council General Revenue

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

As at 30 June 2018 the total loans secured by debenture was \$659.784 million.

(ii) Schedule 2 of the Local Government Act 1999

Loans to Prescribed Local Government Bodies which are Council regional subsidiaries 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 2018 the total loans secured by Schedule 2 of the Local Government Act 1999 was \$30.461 million.

(iii) First Registered Mortgage and Specific Security Deed

Loan agreements with the Local Government Association of South Australia (LGA) are secured by First Registered Mortgage over their building at 148 Frome Street, Adelaide, SA, 5000. In addition to this a Specific Security Deed was entered into between the Authority and LGA in relation to the State-Local Government Infrastructure Partnership (SGLIP). The Specific Security Deed grants the Authority a first ranking security interest over certain cash flows arising from the SGLIP agreement.

As at 30 June 2018 the total loans secured by First Registered Mortgage and Specific Security Deed was \$24.074 million.

Contingent Liabilities

(a) 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 2018 the amount guaranteed was \$21.995 million.

(b) 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 2018 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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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. There is no exposure to foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to interest rate risk arises where mismatches occur between the maturities of financial assets and financial liabilities. In order to mitigate this risk the Authority has entered into interest rate swap contracts and interest rate futures contracts to hedge actual financial transactions.

(i) Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Authority had a number of fair value hedges in place at the reporting date. As the hedging instrument and hedged items have matching fixed rate positions which directly offset each other there would be no material effect on profit or loss if interest rates change.

(ii) Sensitivity Analysis for Variable Rate Instruments

It is estimated that a change of 50 basis points applied to the risk exposures in existence at the reporting date would have increased/(decreased) profit for the reporting period by the amounts shown below. For the purpose of this analysis variable rate instruments include all variable rate interest bearing financial instruments which are due to be repriced within 90 days of the reporting date.

	Principal Balance 30/06/18 \$'000	+0.5% \$'000	-0.5% \$'000	Principal Balance 30/06/17 \$'000	+0.5% \$'000	-0.5% \$'000
Variable Rate Financial Assets						
Investment Securities	38,000	190	(190)	13,000	65	(65)
Loans and Advances	237,937	1,190	(1,190)	178,317	892	(892)
Variable Rate Financial Liabilities						
Council Deposits	424,891	(2,124)	2,124	382,142	(1,911)	1,911
Short Term Money Market Facility	128,987	(645)	645	103,855	(519)	519
Promissory Notes	21,167	(106)	106	21,819	(109)	109
Variable Rate Derivatives						
Interest Rate Swaps (Notional Principal)	431,218	2,156	(2,156)	448,591	2,243	(2,243)
Futures (Notional Principal/Bond Formula)	11,000	312	(312)	10,000	226	(226)
Profit/(Loss) Interest Rate Sensitivity		<u>973</u>	<u>(973)</u>		<u>887</u>	<u>(887)</u>

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

(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.

2018	Short Term Rating			Long Term Rating		NR \$'000	Total \$'000
	A1+	A1	A2	AA-	A		
	\$'000	\$'000	\$'000	\$'000	\$'000		
Cash and Liquid Assets	1	-	-	-	-	-	1
Investment Securities	28,000	5,000	9,000	-	-	-	42,000
Loans and Advances	-	-	-	-	-	714,318	714,318
Derivatives	-	-	-	3,500	1,600	-	5,100
Total	28,001	5,000	9,000	3,500	1,600	714,318	761,419

2017	Short Term Rating		Long Term Rating			NR \$'000	Total \$'000
	A1+	A2	AA-	A	BBB+		
	\$'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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

(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:

2018

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

Non-Derivative Financial Liabilities

Deposits from Councils and Local Government

Bodies	500,743	(500,743)	(426,703)	(64,022)	(10,018)	-
Borrowings	199,824	(199,824)	(151,789)	(26,056)	(9,040)	(12,939)

Derivative Financial Liabilities

Interest Rate Swaps - Outflow	229,706	(251,327)	(8,051)	(43,606)	(140,418)	(59,252)
Interest Rate Swaps - Inflow	(208,005)	217,049	10,538	32,603	122,607	51,301

2017

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

Non-Derivative Financial Liabilities

Deposits from Councils and Local Government

Bodies	464,295	(464,295)	(384,291)	(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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

24 - Transactions with South Australian Government

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

	2018	2017
	\$'000	\$'000
Interest Paid - Short Term Money Market Facility	1,832	2,392
Interest Paid - Fixed Term Borrowings	812	482
Interest Paid - Promissory Notes	352	385
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,309	1,207
Income Tax Equivalents Expense	1,883	1,545
Audit Fees	55	58
Payroll Tax	16	23

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

	2018	2017
	\$'000	\$'000
Short Term Money Market Facility	128,987	103,855
Promissory Notes	21,167	21,819
Fixed Term Borrowings	49,074	25,000
Interest Payable - Short Term Money Market Facility	193	97
Interest Payable - Promissory Notes	40	36
Interest Payable - Fixed Term Borrowings	363	23
Audit Fees	55	58

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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 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 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.

		2018		2017	
		BOOK VALUE \$'000	FAIR VALUE \$'000	BOOK VALUE \$'000	FAIR VALUE \$'000
Financial Assets	Category (Note 2(b) Refer)				
Investment Securities	Loans and Receivables	42,459	42,520	28,663	28,864
Net Loans and Advances	Loans and Receivables	287,087	309,552	196,689	218,874
Net Loans and Advances	Fair Value Hedge	461,086	461,086	482,214	482,214
Financial Liabilities	Category (Note 2(b) Refer)				
Deposits from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	500,742	501,036	464,295	464,785
Borrowings	Financial Liabilities at Amortised Cost	199,824	200,223	150,830	150,853
Derivatives	Fair Value Hedge	21,701	21,701	27,212	27,212
Derivatives	Financial Assets at Fair Value	68	68	(92)	(92)

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

(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.

All financial asset and liabilities are classified as level 2.