

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

2013-14
ANNUAL REPORT



Government of
South Australia



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Government of
South Australia



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30 September 2014

The Hon Tom Koutsantonis MP
Treasurer of South Australia
Minister for Finance
State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

Dear Mr Koutsantonis

I have pleasure in submitting the Annual Report of the South Australian Government Financing Authority for the year ended 30 June 2014.

Pursuant to Section 26 of the *Government Financing Authority Act 1982*, the Annual Report of the South Australian Government Financing Authority is required to be submitted to the Treasurer by 30 September 2014.

Yours sincerely

Brett Rowse
UNDER TREASURER

GENERAL MANAGER'S OVERVIEW

SAFA achieved an overall operating profit before tax totalling \$89.5 million in 2013-14 compared to a budget of \$44.4 million. The contributions to SAFA's overall operating profit by its treasury, insurance, and fleet businesses for 2013-14 was \$20.6 million, \$55.9 million, and \$6.5 million respectively, and a dividend from its subsidiary Playford Capital Pty Ltd of \$6.5 million.

SAFA's gross funding task for the year was \$6.1 billion. The funding task was met through the issue of new SAFA Select Line bonds which included two Floating Rate Note securities, an increase in existing Select Line bonds on issue and other short term issuances.

As part of its insurance operations, SAFA successfully renewed the government's reinsurance program achieving broader coverage through new lead and primary reinsurers. As SAFA continues to work on a longer-term solution in relation to building indemnity insurance for the South Australian government, existing arrangements were extended with private insurers until 30 June 2015 to provide building indemnity insurance services. SAFA also continued to manage property and civil liability claims from client agencies and large medical malpractice claims from the Department for Health and Ageing.

SAFA's recent implementation of the across government fleet management and vehicle disposal model continued to generate budget savings consistent with the Budget Savings Targets announced back in 2010-11.

In addition to its treasury, insurance and vehicle fleet management functions, SAFA continued to provide corporate governance, transaction management and support services to the State's electricity entities. During 2013-14, SAFA continued to make progress in winding down its subsidiary, Playford Capital Pty Ltd with most portfolio investments having been exited successfully, and residual portfolios transferred to SAFA.

SAFA also continued to administer industry assistance contracts on behalf of the Minister for Finance. During the year, cumulative recoveries since SAFA assumed responsibility for these contracts in 2005, exceeded \$70 million and 670 contracts have been closed.

Over the last few years, SAFA has been focussing on the implementation of new business systems and improvements in its business processes. During the year, significant progress was made in this area with the new insurance system going live and user acceptance testing being conducted on SAFA's new treasury management system.

I would like to take this opportunity to thank all staff and advisory board members for their continued support to SAFA. In particular, the valuable contributions made by our departing board members, Mr Claude Long, Ms Anne Westley and Mr Peter Mendo (deputy member) for their years of service to SAFA.



Kevin Cantley
GENERAL MANAGER, SAFA

SAFA'S ROLE

SAFA functions as the central financing authority, captive insurer and manager of the passenger and light commercial vehicle fleet operations for the Government of South Australia.

It plays an integral role in the overall management of the State's finances and risks, harnessing economies of scale and relevant expertise to provide a range of treasury, insurance and fleet services to public sector clients.

Treasury services provided by SAFA include raising funds from domestic and international financial markets and on-lending the proceeds to clients, as well as providing clients with investment, portfolio management and financial and risk advisory services.

Insurance services are provided to clients through SAFA's insurance division which uses the trading name SAICORP. Insurance services include the provision of across government catastrophe reinsurance, claims management, insurance cover and building indemnity insurance.

Vehicle fleet services are provided to clients through SAFA's fleet division which uses the trading name Fleet SA. Services provided by Fleet SA include policy advice, vehicle leasing and disposal, short-term hire, and accident management.

In addition to these roles, SAFA is also responsible for corporate governance, transaction management and support services for the electricity entities and for administration on behalf of the Minister for Finance of contracts associated with a number of industry assistance schemes. SAFA also provides corporate governance and support services to its subsidiary Playford Capital Pty Ltd.

The Treasurer guarantees SAFA's borrowings and general financial obligations.

A more detailed description of the services provided by SAFA is contained in the body of the report.

MISSION, OBJECTIVES AND VALUES

SAFA's mission is to deliver quality, cost effective financial, insurance and fleet management services to the South Australian government. Aligned with SAFA's mission and SAFA's Strategic Plan are the following primary objectives:

- Deliver high quality services to clients.
- Maintain a culture of continuous improvement in business operations, systems and processes.
- Provide an environment that values and supports our staff – our most important asset.
- Deliver value-added services from an across government perspective for the benefit of the South Australian community.

SAFA's values comprise excellence, ownership, collaboration, recognition and integrity.

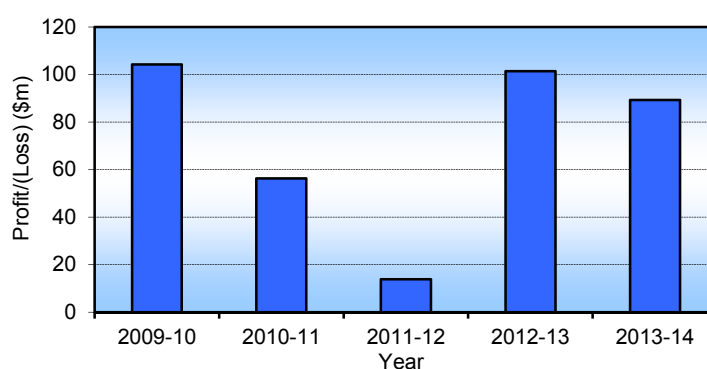
FINANCIAL PERFORMANCE SUMMARY

SAFA recorded an operating profit before tax of \$89.5 million, comprising profits of:

- \$20.6 million from its treasury activities;
- \$55.9 million from its insurance activities;
- \$6.5 million from its fleet activities; and
- \$6.5 million dividend from its subsidiary Playford Capital Pty Ltd.

This compared to a budget of \$44.4 million. Figure A below shows a five year summary of SAFA's financial performance.

Figure A: Five-year summary of SAFA's Profit/(Loss)



SAFA's balance sheet was approximately \$22 billion as at 30 June 2014. This is an increase of approximately \$1700 million from 30 June 2013. The increase largely reflects higher loans to clients, notably the Treasurer and SA Water.

Total equity increased from \$310 million to \$340 million reflecting SAFA's operating result after tax for the year, offset by a dividend distribution of \$32.8 million to the Treasurer.

The dividend was paid to the Treasurer on 27 June 2014. SAFA also made an interim tax payment of \$21.5 million effective 30 June 2014. Table 1 below shows a five-year summary of key SAFA financial information.

Table 1: SAFA's five-year financial summary as at 30 June

	2013-14	2012-13	2011-12	2010-11	2009-10
Total Assets \$m*	22 012	20 306	20 078	17 566	16 201
Total Liabilities \$m*	21 672	19 996	19 831	17 317	15 943
Retained Earnings \$m*	340	310	247	249	258
Operating Profit Before Tax \$m	89.5	102.1	14.9	59.5	108.7
Average Number of Employees (FTE)	74	84.3	96.3	96.9	96.4

* Amounts reported at market value.

The financial performance of SAFA's treasury, insurance and fleet activities are shown separately in this report.

TREASURY SERVICES

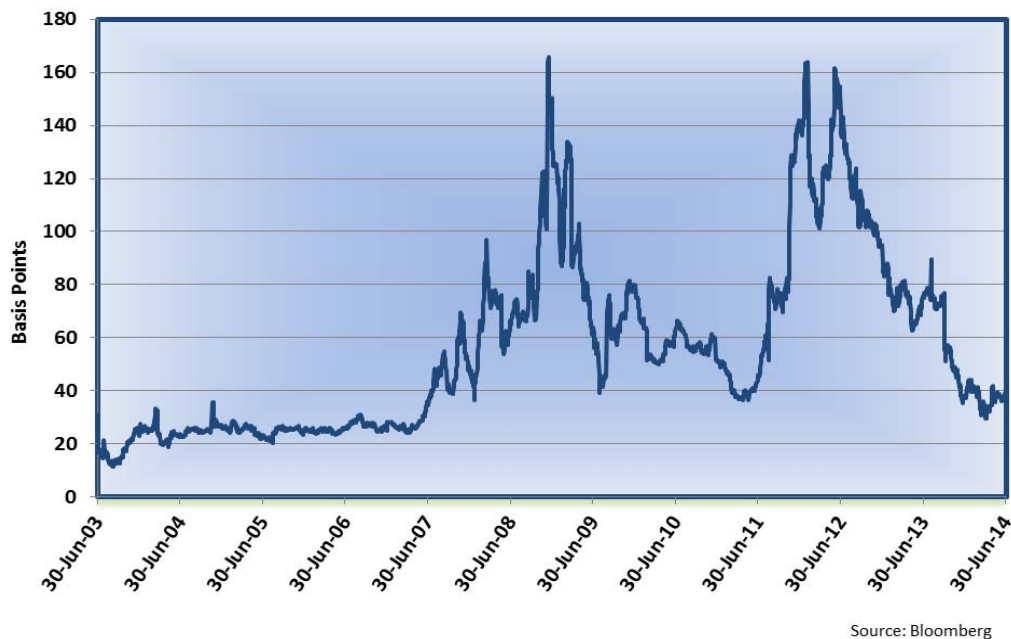
SAFA provides a number of treasury services to South Australian public sector clients contributing to the responsible management of the State's finances including: fundraising, client lending, investment products and services, client portfolio management services, foreign exchange and hedging services, and financial advisory services.

During the 2013-14 financial year, SAFA and its peer issuers in the Australian semi-government bond market witnessed a significant and continued improvement on the conditions that prevailed in the previous 12 months.

South Australia's credit rating remained at AA throughout 2013-14 with a stable outlook, having been reaffirmed in October 2013, with SAFA's credit rating being similarly reviewed and affirmed in March 2014.

Margins between Commonwealth and state government bonds continued to narrow during 2013-14 and have now returned to the historical longer run levels. When coupled with reductions in the Reserve Bank of Australia (RBA) cash rate, SAFA's borrowing clients were able to borrow at record low outright levels of interest rates.

Figure B: SAFA vs Commonwealth Government 5 year Generic Curve (10 year horizon)



Liquidity in bond markets has improved as bank balance sheets have expanded their holdings to meet prudential capital standards. Investor appetite for SAFA bonds continues to grow, with increased demand from both domestic and overseas investors. SAFA maintains regular contact with its investor base, both directly and via the SAFA Dealer Panel.

FUNDRAISING

Over 2013-14, SAFA issued a total of \$4165 million of Select Line bonds. SAFA issued two new Floating Rate Note (FRN) Select Lines to take advantage of strong demand for floating rate bonds. The FRNs issued comprised of \$1.0 billion of a December 2014 FRN and \$1.5 billion of a February 2020 FRN. Both issues were heavily oversubscribed.

SAFA launched a new November 2023 Select Line bond for \$450 million to meet client requirements for longer debt duration. This issue was also well received by investors with strong demand. SAFA also increased its 2017 and 2019 Select Line bonds to have over \$2 billion outstanding. SAFA has committed to markets that it will seek to build each Select Line bond to at least \$2 billion on issue to ensure sufficient secondary market liquidity. SAFA's June 2014 Select Line bond matured in the financial year.

SAFA's actual gross funding requirement for 2013-14 was \$6.1 billion.

SAFA also maintained the issuance of Promissory Notes (PNs) through the year. SAFA's issuance of Euro Commercial Paper (ECP) remained sporadic during 2013-14 due to unattractive funding levels relative to domestic issuance. A mix of PNs and ECP was used to fund SAFA's short-term reinvestment program, up to a limit of \$1000 million.

As at 30 June 2014, the volume of PNs outstanding was \$1824 million. The volume of ECP outstanding was \$256 million Australian denominated and \$230 million US denominated.

The volume of SAFA's Select Lines outstanding as at 30 June 2014 was as follows:

Coupon	Maturity	\$M
BBSW+0.03%	12 December 2014	1 000
5.75%	20 April 2015	2 301
BBSW+0.20%	20 May 2016	2 000
5.75%	20 September 2017	2 403
4.75%	6 August 2019	2 000
BBSW+0.20%	24 February 2020	1 500
5.00%	20 May 2021	2 045
4.25%	20 November 2023	450

BBSW = Bank Bill Swap Reference Rate

In January 2014 SAFA undertook an investor marketing trip to Malaysia, Korea, Hong Kong, Japan and Singapore. Meetings were held with investors in SAFA's Euro Commercial Paper and Select Line bonds. Investors in Asia are increasing their holdings of Australian semi-government debt and this trip reconfirmed that there is strong interest in SAFA debt. SAFA also regularly meets investors, banks and Dealer Panel members in Sydney and Melbourne as well as attending and presenting at various forums and conferences.

A list of financial institutions who act as dealers on SAFA's borrowing program is provided at Appendix C.

CLIENT LENDING

SAFA partners with clients to provide the financial products and solutions needed to manage their financial risks. It lends funds it raises from financial markets to a number of South Australian public sector clients including the Treasurer. Appendix A includes a list of SAFA's clients.

SAFA's clients are classified into three major sectors within the South Australian public sector namely, the General Government sector, Public Non-Financial Corporations sector, and Public Financial Corporations sector.

As at 30 June 2014, loans to clients totaled \$17 006 million (face value) an overall increase of \$1916 million from the previous year. The majority of SAFA loans were to the General Government sector via the Treasurer.

INVESTMENT PRODUCTS AND SERVICES

SAFA provides a centralised cash management service to the Treasurer and other public sector entities. SAFA manages the Treasurer's daily cash position with any surplus funds pooled and centrally placed with SAFA. The Treasurer's cash balance consists of his own daily operating balance and deposits held on behalf of the majority of government agencies and authorities. The Treasurer's cash balance with SAFA as at 30 June 2014 was \$2883 million. The average interest rate earned on the Treasurer's cash balance with SAFA during the year was 2.43% pa.

Agencies that do not place their funds centrally with the Treasurer can utilise SAFA's suite of investment products.

At 30 June 2014, SAFA's Cash Management Facility (CMF) had \$616 million (market value) of funds under management. Spreads on the fund's investments in major Australian bank floating rate notes (FRNs) and AAA rated Australian residential mortgage backed securities (RMBS) were largely unchanged during the year, creating stable returns for clients.

Over the 2013-14 financial year, the CMF returned 2.80% pa against the RBA cash rate benchmark return of 2.56% pa. The fund has a small percentage of assets invested in major bank FRNs and RMBS. The fund invests the remainder of its assets with a range of banks active in the Australian market.

CLIENT PORTFOLIO MANAGEMENT SERVICES

During 2013-14, SAFA provided a portfolio management service to a number of clients notably the Treasurer and the South Australian Water Corporation (SA Water).

Treasurer

The Treasurer has appointed SAFA to manage the general government sector net debt. This debt is managed within two separate portfolios. One portfolio includes liquid nominal rate liabilities and hedge instruments managed against a benchmark comprising SAFA's core funding lines. The other portfolio includes certain non-liquid nominal long-term borrowings (for example, housing agreement borrowings from the Commonwealth) and inflation indexed borrowings.

The portfolio comprising liquid debt is managed to a benchmark duration range (1.0 to 1.5 years) within risk limits set relative to the benchmark. Value-at-Risk (VaR) limits have also been established for the management of the portfolio. The cost of funds for the liquid debt portfolio is measured on a market value basis relative to that of the policy benchmark range.

While SAFA manages the Treasurer's liquid debt portfolio on a mark-to-market basis against a policy benchmark, its charge-out rate to the Treasurer is based upon the average historical accounting yield of both of the Treasurer's portfolios. This interest cost charging mechanism, which is referred to as the Cost of Funds (COF), reduces the volatility that would otherwise arise from applying a market value based charge to general government sector clients.

For 2013-14, the average annual COF charged to the Treasurer was 3.66% pa.

The Treasurer also has a cash loan from SAFA to meet working capital needs. Interest rate on the working capital loan is linked to the RBA cash rate. The average annual interest rate charged on the working capital loan was 2.52% pa.

SA Water

SAFA provides a comprehensive treasury management service to SA Water including management of its \$3.6 billion debt portfolio (excluding working capital). The services provided included portfolio management, risk advisory and treasury administration support services. During 2013-14, SAFA's management of SA Water's debt portfolio was in accordance with SA Water's policy benchmark portfolio and operating guidelines determined by SA Water.

FOREIGN EXCHANGE HEDGING SERVICES

SAFA provides a foreign exchange hedging service to public sector clients. Through this service, SAFA centralises the hedging of foreign exchange risks associated with the purchase and sale of goods and services by public sector clients. The hedging of these transactions allows clients to manage the impact of currency exchange exposures on their budgets. This service also includes providing advice to public sector clients relating to foreign exchange risks. The outstanding total (face value) of foreign exchange hedging services deals was \$19.5 million as at 30 June 2014.

FINANCIAL ADVISORY SERVICES

SAFA provides a comprehensive range of financial and advisory services, and debt restructuring advice to public sector clients, including:

- advice on financial aspects of procurement, including leasing and other structured finance solutions;
- advice on optimum asset and liability management arrangements;
- strategic risk management advice and analysis;
- financial risk management reviews; and
- development of models and reports for implementing financial and risk management solutions.

OTHER TREASURY SERVICES

Treasurer's Loan and Guarantee Arrangements

SAFA is responsible for the management of loan and guarantee arrangements between the Treasurer and general government sector agencies and other bodies. This involves monitoring and ensuring compliance with the terms and conditions of the loan arrangements and establishing and monitoring any guarantee requirements of the Treasurer.

SAFA also manages the guarantee fee policy applicable to the debt of public sector entities on behalf of the Treasurer. During 2013-14, SAFA substantially completed a comprehensive review of the government guarantee fee policy, and changes stemming from the policy review are expected to be implemented in the 2015-16 financial year.

FINANCIAL PERFORMANCE

SAFA's treasury activities generated an operating profit before tax of \$20.6 million (excluding Playford Capital dividend of \$6.5 million). The profit is largely as a result of a return on its retained earnings (equity) and margins charged to clients.

SAFA's treasury related balance sheet increased from \$19 954 million to \$21 629 million and its net assets increased by \$6 million. SAFA paid a dividend of \$8.3 million to the Treasurer from its treasury activities. Table 2 below shows a summary of SAFA's financial performance in relation to its treasury function.

Table 2: SAFA's five-year treasury financial summary as at 30 June

	2013-14	2012-13	2011-12	2010-11	2009-10
Assets \$m	21 629	19 954	19 638	17 118	15 841
Liabilities \$m	21 498	19 829	19 520	16 998	15 691
Equity \$m	131	125	118	120	151
Net interest income (NII) \$m	27.4	27.6	20.9	32.1	23.4
Other income \$m *	6.5	0	2.0	2.2	1.7
Administration expense \$m	6.8	6.4	7.4	7.1	7.4
Gain on transfer of administrative function \$m	-	-	-	-	2.7
Net profit before tax \$m*	27.1	21.2	15.5	27.2	20.3
Tax \$m	8.1	6.4	4.7	8.2	5.2
Net profit after tax \$m	19.0	14.8	10.8	19.0	15.1
Dividends paid \$m**	12.9	8.2	12.8	50.0	11.5
Return on equity %	2.75	3.28	4.96	6.50	4.23
Margin on assets % (NII) ***	0.13	0.12	0.08	0.14	0.11
Return on equity \$m	3.6	4.1	5.9	7.8	6.3
Net interest income * (excluding return on equity) \$m	23.8	21.9	15.0	24.3	17.1

* Includes dividend income of \$6.5 million from Playford Capital.

** Total treasury dividend includes payment of Playford Capital of \$4.6 million.

*** Net interest income includes realised and unrealised gains/losses on financial instruments and derivatives.

INSURANCE SERVICES

Insurance activities undertaken by SAFA include:

- insurance cover to government portfolio groups, agencies and authorities;
- across government catastrophe reinsurance; and
- insurance and risk management advice.

As the captive insurer for the South Australian government, SAFA's activities include:

- undertaking and carrying on in South Australia and elsewhere the business of insurers, re-insurers and co-insurers of all or any risks of the Crown. This involves insuring and reinsuring the government's risks in the Australian and international insurance markets;
- providing advice to the Crown on issues relating to the insurance and management of risks of the Crown; and
- engaging in such other insurance-related activities as are determined by the Treasurer to be in the interests of the State.

All of SAFA's insurance activities are carried out by the Insurance division of SAFA, using the name SAICORP, the trading name of the former South Australian Government Captive Insurance Corporation.

SAFA reports to the Minister for Finance on insurance issues.

INSURANCE COVER TO GOVERNMENT PORTFOLIO GROUPS, AGENCIES AND AUTHORITIES

Under the government's insurance and risk management arrangements, SAFA provides insurance cover to all government portfolio groups and agencies and to all statutory authorities except those specifically exempted by the Treasurer.

In order to address an imbalance between property and liability premiums received from agencies, liability premium rates increased by 15% for the 2013-14 year, whilst property rates reduced by 5%. The premium charged to the Department for Health and Ageing for medical malpractice was unchanged from the 2012-13 financial year. In addition to the cover provided to client agencies under their agency agreements, SAFA facilitated the placement of direct insurances in the commercial insurance market as required for agencies with special risks. It also managed several across government policies including government travel insurance, motor fleet insurance (for non-Fleet SA vehicles) and fine arts insurance in respect of exhibitions and artworks on loan to clients.

Throughout the year, SAFA continued to manage property and civil liability claims from client agencies and large medical malpractice claims from the Department for Health and Ageing. SAFA also assumed responsibility for the management of below deductible liability claims on behalf of the Department for Health and Ageing.

Significant claim matters handled during the year included:

- claims for alleged sexual abuse in State care, associated with or arising out of the Mullighan Commission of Inquiry;
- claims relating to medical malpractice, particularly those relating to injuries sustained at birth; and
- claims in connection with the January 2005 Eyre Peninsula bushfire.

A total of 624 claims were open as at 30 June 2014, comprising 158 medical malpractice claims, 385 general liability claims, 80 property claims and 1 volunteer claim.

172 new claims were received during the year and 161 claims were finalised.

ACROSS GOVERNMENT CATASTROPHE REINSURANCE

Catastrophe Reinsurance Program

Although the South Australian government is fundamentally a self-insurer of most of its own risks, it has been considered appropriate and desirable that the State's finances be protected against the financial consequences of a catastrophic event, a very large property loss or civil liability claim, or a series of large losses or claims in a particular year.

This protection has been obtained through the placement of a commercial catastrophe reinsurance program in the Australian and international insurance markets. The program was successfully renewed at 31 October 2013.

In relation to the property reinsurance program, the total property premium decreased by 7%, despite an increase in declared values of insured assets of approximately 3% plus an additional loading of 3%, which is consistent with last year's renewal. The program deductibles remained unchanged from the 2012-13 program.

Liability reinsurers continue to maintain a cautious approach to bushfire risk in Australia and so detailed presentations were again provided to reinsurers in London on the State's bushfire risk.

The liability program experienced a substantial change with the replacement of the lead and primary reinsurer. Broader coverage was achieved with a new lead and primary reinsurer, with a slight reduction in premium. An increased Terrorism limit of \$250 million (previously \$225 million) was negotiated with a 20% premium reduction.

Details on the South Australian government's catastrophe reinsurance program for 2013-14 are provided in Appendix D.

Local Government Association Mutual Liability Scheme

The reinsurance program also covers risks assumed by the government under the indemnity provided by the Treasurer to the Local Government Association Mutual Liability Scheme (the Scheme). The Scheme program is noted on the government's catastrophe reinsurance program.

The Treasurer's indemnity requires the Scheme to purchase higher limits of cover under its commercial reinsurance program and also limits the amount of automatic cover available under the indemnity for uninsured risks.

Building Indemnity Insurance

Building indemnity insurance covers homeowners from loss or damage resulting from non-completion of building work, loss of deposit or breach of statutory warranty if the homeowner cannot recover compensation from the builder because of their death, disappearance or insolvency.

In order to facilitate the availability and affordability of building indemnity insurance to homeowners, SAFA in the past provided catastrophe reinsurance protection to Vero, Calliden and QBE Insurance Group Limited (QBE), who have all since withdrawn from the market.

As this insurance is required by legislation, SAFA signed a one year 100% quota share agreement with QBE in June 2013 (with a one year optional extension) to enable QBE to continue to provide building indemnity insurance services until a longer term solution is developed. A similar agreement was executed with Calliden effective from 1 October 2013. Both agreements have been extended to 30 June 2015. SAFA is working with Consumer and Business Services on the development of a longer term solution.

INSURANCE AND RISK MANAGEMENT ADVICE

SAFA provides advice to the Treasurer and the government to assist in the development of national and state policy in connection with insurance related issues and provides risk management advice to client agencies in connection with effective management of risk across their business.

During the year a review was undertaken of SAFA's role in providing whole of government risk management advice to client agencies. As a result of this review, SAFA has ceased to provide whole of government risk management services to client agencies. Going forward, to assist agencies with their risk management initiatives, SAFA will offer the use of its risk management software system RiskConsole.

INSURANCE FUNDS

SAFA's insurance function operates through three funds specifically established to quarantine SAFA's insurance activities from its other funding and investment activities.

SAICORP Insurance Fund 1

The normal commercial insurance operations of SAFA are transacted through SAICORP Insurance Fund 1 (Fund 1). This fund is funded by premiums charged to client agencies and investment earnings.

At 30 June and 31 December each year, SAFA's outstanding claims liabilities for Fund 1 are calculated and this information is then used to determine the solvency reserves (the excess of capital over liabilities, including risk margins) and to set a target solvency margin. Historically, the solvency target has been calculated by SAFA's actuary, taking into account the minimum capital adequacy standard applied by the Australian Prudential Regulation Authority (APRA) to private sector insurers. Following a review of the method used to calculate the target solvency margin, a new, simplified formula has been developed effective from 1 January 2013.

SAFA's target range for solvency reserves is 65% to 135% of the target level of reserves calculated using the new formula. SAFA's actual solvency margin as at 30 June 2014 was 127% which is within the target range. This equates to a surplus of assets over liabilities of \$169 million or assets being 161% of liabilities.

SAFA's insurance investments for Fund 1 are invested in Funds SA's Growth product.

SAICORP Insurance Fund 2

SAICORP Insurance Fund 2 (Fund 2) now only funds liabilities arising from insurable incidents that occurred prior to 1 July 1994 that survive the *Limitations of Actions Act*, claims under the previous building indemnity reinsurance arrangements with Vero and QBE, SGIC residual claims and claims against RESI Corporation. Non-insurance type liabilities previously met from Fund 2 are now managed by the relevant government department and funded separately.

On an annual basis the liabilities of Fund 2 are revalued and any deficiency arising from the valuation is offset by a receivable from the Treasurer. Conversely any surplus is offset by a payable to the Treasurer. This ensures that Fund 2 records a break-even result as at 30 June each year.

SAFA's insurance investments for Fund 2 are invested in Funds SA's Conservative product.

SAICORP Insurance Fund 3

SAICORP Insurance Fund 3 (Fund 3) was established on 1 July 2013 to fund the cost of the new building indemnity insurance arrangements. Fund 3 receives premium income from QBE and Calliden and pays commissions, claims and other costs payable under the new reinsurance arrangements. Fund 3 is supported by an indemnity from the Treasurer and has been established to quarantine the costs arising from building indemnity insurance from SAFA's normal insurance activities.

FINANCIAL PERFORMANCE

Fund 1

For the year ended 30 June 2014, Fund 1 recorded an underwriting profit of \$1.1 million and an overall operating profit of \$55.9 million. The profit was attributable to higher than forecast returns on funds invested through Funds SA contributing \$56.3 million to profit.

As at 30 June 2014, Fund 1 had total investments of \$413 million and total assets of \$430 million. It had outstanding claim liabilities of \$261 million and total liabilities of \$261 million. Its net assets were \$169 million.

The return on funds invested in Funds SA's tax exempt multi-sector growth product was 14.9% pa. The fund has earned 11.3% pa over the past five years and 7.5% pa over the past ten years.

Funds SA's Growth (tax exempt) product has a target rate of return of 4.5% pa in excess of the rate of inflation (CPI). There is a reasonable likelihood of earning this target over an investment period of eight years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in eight. The probability of a negative return in any one year is 25% pa.

Table 3 below shows the financial performance of Fund 1.

Table 3: SAFA's five-year insurance financial summary for Fund 1 as at 30 June

	2013-14 \$m	2012-13 \$m	2011-12 \$m	2010-11 \$m	2009-10 \$m
Total Assets	430	403	383	356	325
Total Liabilities	261	273	300	261	236
Net Assets	169	130	83	95	89
Outstanding Claim Liabilities	261	273	300	260	236
Total Investments	413	377	358	327	296
Premium Revenue	39.8	39.1	34.8	36.7	35.0
Reinsurance Expense	(9.1)	(9.2)	(8.1)	(7.5)	(7.0)
Net Claims (Expense)/Gain	(30.0)	(19.0)	(51.7)	(54.1)	10.3
Underwriting Result	1.1	11.4	(24.4)	(24.9)	38.6
Investment Revenue	56.3	57.4	7.7	35.1	28.4
Profit/(Loss) Before Tax	55.9	67.8	(18.0)	9.0	65.9

Fund 2

For the year ended 30 June 2014, Fund 2 recorded a profit of \$5.0 million prior to the recognition of a matching but offsetting payable to the Treasurer. The profit was largely attributable to investment income of \$5.6 million.

Table 4 below gives details of the financial performance of Fund 2.

Table 4: SAFA's five-year insurance financial summary for Fund 2 as at 30 June

	2013-14 \$m	2012-13 \$m	2011-12 \$m	2010-11 \$m	2009-10 \$m
Total Assets	55	63	65	76	65
Total Liabilities	55	63	65	76	65
Outstanding Claim Liabilities	41.6	54.7	64.8	75.4	65.1
Total Investments	46.7	53.3	56.5	52.1	56.9
Net Claims (Expense)/Gain	(0.4)	4.5	(2.5)	(15.5)	2.6
Receivable/(Payable) to Treasurer	(5.0)	(9.4)	(1.0)	9.5	(5.7)
Profit/(Loss) Before Tax	-	-	-	-	-

Fund 3

For the year ended 30 June 2014, Fund 3 recorded a loss of \$1.0 million prior to the recognition of a matching but offsetting receivable from the Treasurer. Income and expenditure for this Fund has been deferred and amortised over the expected pattern of risk.

Table 5 below gives details of the financial performance of Fund 3.

Table 5: SAFA's five-year insurance financial summary for Fund 3 as at 30 June

	2013-14 \$m	2012-13 \$m	2011-12 \$m	2010-11 \$m	2009-10 \$m
Total Assets	9	-	-	-	-
Total Liabilities	9	-	-	-	-
Outstanding Claim Liabilities	0.8	-	-	-	-
Total Investments	2.5	-	-	-	-
Net Claims (Expense)/Gain	(1.2)	-	-	-	-
Receivable/(Payable) to Treasurer	1.0	-	-	-	-
Profit/(Loss) Before Tax	-	-	-	-	-

FLEET SERVICES

The South Australian government passenger and light commercial vehicle fleet is owned and managed by SAFA.

SAFA funds the South Australian government fleet vehicles, accessing lower borrowing costs and therefore providing lower lease costs to agencies.

In addition through its Fleet division, SAFA is responsible for:

- contract management and performance monitoring;
- accident management (repairs and claims);
- short-term hire pool; and
- management and updating of government fleet policies.

SAFA reports to the Minister for Finance on fleet issues, and to the Treasurer on Members of Parliament fleet issues.

SAFA provides policy advice on issues pertaining to fleet management. This advice generally relates to current motor vehicle industry standards and issues relating to safety and strategies for an appropriate fleet mix.

The purchase of motor vehicles is outside the scope of the *State Procurement Act 2004*. However, where practicable, the South Australian government supports Australian based manufacturers, purchasing Australian made passenger vehicles where possible.

SAFA continues to strengthen its safety policies and works closely with the Office of Road Safety. The fleet division is a stakeholder on the 2013-16 Road Safety Action Plan.

SAFA works towards continually improving the safety of the South Australian government fleet where possible by:

- Extending the South Australian government's vehicle purchasing policy with regard to the Australasian New Car Assessment Program (ANCAP) so that:
 - all passenger vehicles must be 5 star ANCAP;
 - all AWD vehicles (small and medium SUV's) to be 5 star ANCAP; and
 - all light commercial and traditional 4WD's to be 5 star ANCAP where available cognisant of operational needs.
- Embracing safety assist technology, and working with vehicle manufacturers to make these features available on base model cars 'unbundled'.
- Fitting vehicle integrated reversing aids such as cameras and sensors to help drivers be aware of what is directly behind a car.
- Working with other jurisdictions and national fleet buyers to include more safety features in vehicles purchased and used in South Australia.

This safety policy continues to provide safer vehicles for government employees and as a result flows to safer vehicles being provided for the community when they are sold at the end of their fleet life.

A Fleet Management Handbook is provided to all agencies to provide a clear understanding of the framework of responsibility in the management of the South Australian government fleet.

VEHICLE LEASING

Under the government's fleet management arrangements, SAFA leases vehicles to eligible clients. Fleet SA's eligible clients are those organisations that meet the following criteria:

- South Australian government agency; or
- Hospitals and health units incorporated under the *SA Health Commission Act*; or
- Statutory Authorities (excluding universities); or
- any other organisation (including Boards), which is approved by the appropriate agency chief executive or their delegates, where the organisation complies with the following:
 - receives a substantial portion of their funds from the South Australian government; and
 - there is a direct line of accountability between the organisation and its Minister.

The leasing of vehicles to clients includes the costs associated with depreciation, borrowing, maintenance, servicing, registration and comprehensive third party insurance, and accident management. Fleet SA is a self-insurer of the South Australian government vehicles.

LeasePlan Australia Limited (LeasePlan) is SAFA's appointed agent. As agent for SAFA, LeasePlan provide fleet management services including:

- fleet distribution (vehicle ordering and acquisition);
- fleet services (vehicle service, maintenance, repair and breakdown assistance); and
- fuel management (fuel card management).

LeasePlan has a local office in Adelaide with a network of account managers that liaise with agencies on a regular basis.

Additionally, LeasePlan provides access to an extensive online web based fleet management system to assist agencies to manage their fleets. The LeasePlan system provides access to online vehicle ordering and includes a comprehensive suite of reports.

VEHICLE DISPOSAL

Pickles Auctions Pty Ltd (Pickles) is SAFA's appointed Vehicle Disposal Management agent. As agent for SAFA, Pickles provide vehicle disposal management services including:

- preparing the vehicle for sale;
- vehicle rectification; and
- vehicle sale.

FLEET STATISTICS

As at 30 June 2014 the size of the fleet was 7766 vehicles which represents a decrease of 4% from 2012-13. For the 2013-14 year 2328 vehicles were purchased for lease at a total capital cost of \$75.6 million.

The vehicle long term hire fleet travelled a total of 119.9 million kilometres in 2013-14 at an average of 18 012 kilometres per vehicle. This is a decrease of 0.2% per vehicle from the average of 18 212 kilometres per vehicle in 2012-13.

The total fuel used by the fleet in 2013-14 was 11.6 million litres (excluding bulk fuel).

The bulk of the fleet was manufactured by General Motors Holden (56%), Toyota (21%) and Ford (7%).

For 2013-14 the total vehicles sold was 2512 representing a total value of \$44.4 million.

In appointing LeasePlan and Pickles, SAFA continues to realise the benefits and savings as outlined in the Budget Saving Targets of 2010-11.

LeasePlan and Pickles, as agents, continue to utilise the established SAFA supplier network that includes motor vehicle dealers and service and repairers including the across government Crash Repairer Panel Arrangement.

FINANCIAL PERFORMANCE

SAFA's fleet activities generated an operating profit before tax of \$6.5 million. Its fleet related assets and liabilities totalled \$232.1 million and \$191.9 million respectively, and its net assets decreased from \$55.3 million to \$40.2 million in 2013-14. Table 6 below shows a summary of SAFA's financial performance in relation to its fleet activities.

Table 6: SAFA's Fleet SA financial summary as at 30 June

	2013-14 \$m	2012-13 \$m	2011-12 \$m	2010-11 \$m	2009-10 \$m
Assets	232.1	268.4	263.3	245.1	238.9
Liabilities	191.9	213.1	216.9	210.8	221.0
Equity	40.2	55.3	47.2	34.3	17.9
Leasing hire revenue	67.2	73.2	79.9	82.2	77.8
Recoveries revenue	26.8	27.5	32.3	31.9	30.7
Motor vehicle expense	35.8	32.8	36.9	35.4	34.4
Depreciation and impairment	40.3	43.5	47.6	47.0	48.1
Net gain on sale of PPE*	0.9	1.7	6.8	6.3	7.5
Administration expense	5.1	5.8	6.1	5.8	5.9
Gain on transfer of administrative function	-	-	-	-	3.8
Net profit before tax	6.5	13.2	17.4	23.3	22.5
Tax	2.0	3.9	5.2	7.0	4.5
Net profit after tax	4.5	9.3	12.2	16.3	18.0

*PPE – Plant, Property and Equipment.

OTHER BUSINESS SERVICES

In addition to SAFA's core activities, SAFA provides services for the Minister for Finance for the management of the Electricity Lessor Corporations, and Industry Assistance Contracts.

Electricity Lessor Corporations

SAFA is responsible for the management of the electricity lessor corporations that own South Australia's generation, transmission and distribution infrastructure. SAFA's role includes the provision of legal, accounting, financial, corporate governance and transaction management services.

The electricity lessor corporations are: Generation Lessor Corporation, Transmission Lessor Corporation; and Distribution Lessor Corporation.

During 2013-14, SAFA continued to monitor compliance with the contractual obligations of all parties to the transaction documents for the privatisation of the State's electricity infrastructure. Further detailed information on the operations of the above corporations is available from their annual reports.

SAFA is also responsible for the management of asbestos and workers' rehabilitation claims previously undertaken by RESI Corporation (formerly ETSA Corporation).

Industry Assistance Contract Management

As at 30 June 2014 SAFA administered 153 agreements to provide financial assistance to industry within South Australia on behalf of the Minister for Finance, with a total value of \$187 million. Assistance has been provided from the following funds or through individual submissions:

- the Industry Investment Attraction Fund (IIAF);
- the Structural Adjustment Fund for South Australia (SAFSA);
- the Strategic Industry Support Fund (SISF);
- the Innovation and Investment Fund for South Australia (IIFSA);
- the Regional Development Infrastructure Fund (RDIF);
- the South Australia Innovation and Investment Fund (SAIIF);
- the Small Business Development Fund (SBDF);
- the Regional Development Fund (RDF); and
- the South East Forestry Partnership Program (SEFPP).

SAFA worked closely with the Department for Manufacturing, Innovation, Trade, Resources and Energy, Department of Primary Industries and Regions, the Commonwealth Government, and other relevant departments in managing the industry assistance contracts.

SUBSIDIARIES

PLAYFORD CAPITAL PTY LTD

The Playford Centre, through its subsidiary Playford Capital Pty Ltd (Playford), was a State Government owned organisation that supported the growth of early stage South Australian technology companies.

Playford invested seed capital from its own funds as well as funds provided by the Commonwealth Government through its Innovation Investment Follow-on Fund (IIFF), for investment in a select group of Playford investees. Playford manages the PC IIFF Trust in accordance with a Trust Deed.

In 2010, the State Government announced the orderly wind down of Playford.

Following the proclamation of the *Public Corporations (Playford Centre) Dissolution and Revocation Regulations 2012*, Playford Centre was dissolved with its assets, rights and liabilities being transferred to SAFA. Playford became a subsidiary of SAFA (1 July 2012) and significant progress has been made toward its orderly wind down.

During the year, Playford was successful in exiting investments in two companies with the remaining active investment being transferred to SAFA in December 2013. Playford is now in liquidation.

FINANCIAL PERFORMANCE

Playford achieved a profit of \$174 000 for the 2013-14 financial year, mainly as a result of interest and dividend revenue.

As at 30 June 2014, Playford had net assets of \$0.5 million comprising mostly of a \$0.5 million deposit with the Treasurer of South Australia.

The 2013-14 financial statements of Playford are attached at Appendix E. A separate annual report for Playford has not been produced.

On 19 June 2014, Playford declared an interim dividend of \$6.5 million payable to SAFA.

As mentioned above, Playford managed the Commonwealth's PC IIFF Trust (the Trust).

With the consent of the Commonwealth and in accordance with the terms of the Trust Deed, the nominal end date of the Trust was brought forward from 30 June 2014 to 31 March 2014. The trust was terminated on 31 March 2014 following the payment of a final distribution of \$2708 to the Commonwealth.

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

SAFA's governance practices, in particular, SAFA's governing legislation, matters associated with SAFA's Advisory Board and SAFA's control environment, are all comprehensively documented in SAFA's Policy Manual.

GOVERNING LEGISLATION

SAFA is a statutory authority constituted as the Under Treasurer under *the Government Financing Authority Act 1982* (SAFA's Act) and commenced operations in January 1983.

SAFA is subject to the control and direction of the Treasurer and its borrowings and general financial obligations are guaranteed by the Treasurer.

The Treasurer has delegated responsibility for SAFA's insurance and fleet operations to the Minister for Finance in accordance with Section 9 of the *Administrative Arrangements Act, 1994*.

Notwithstanding the transfer of responsibilities to the Minister for Finance of these functions, the Treasurer retains overall responsibility for the functions.

SAFA ADVISORY BOARD

An Advisory Board established in June 1995 advises the Treasurer, the Minister for Finance and the Under Treasurer with regard to SAFA's operations.

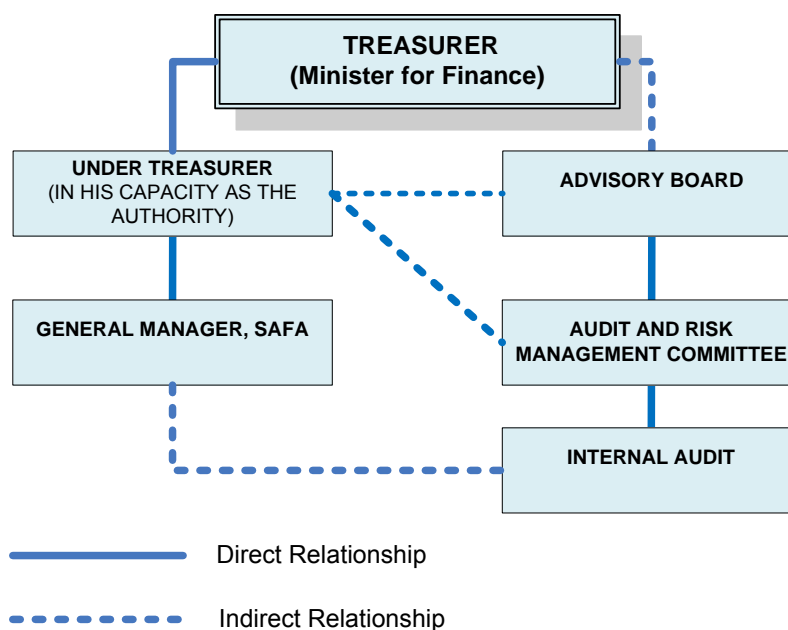
In controlling the operations of SAFA, the Under Treasurer must consider advice given to him by the SAFA Advisory Board (Advisory Board).

The Advisory Board can comprise up to seven members and its composition is determined according to provisions in SAFA's Act.

An Audit and Risk Management Committee (previously the Audit Committee) has also been established to assist the Advisory Board in monitoring the soundness of operations within SAFA. More detailed information regarding the Audit and Risk Management Committee is provided in the Internal Controls and Audit section later in this report.

Figure C overleaf illustrates the relationship between the key parties associated with the operations of SAFA.

Figure C: Relationship between the Treasurer, Minister for Finance, SAFA and Advisory Board



Role and Responsibility

The Advisory Board has responsibility for providing advice to the Under Treasurer, Minister for Finance, and the Treasurer on issues pertaining to SAFA's operations. The Advisory Board has two functions under SAFA's Act:

- (i) at the request of the Treasurer or the Under Treasurer it will provide advice to the Treasurer (in writing) or the Under Treasurer (orally or in writing) on any question relating to the exercise by SAFA of its powers, functions or duties under SAFA's Act; and
- (ii) if it believes it should provide advice to the Treasurer or the Under Treasurer on any matter relating to the exercise by SAFA of its powers, functions or duties under SAFA's Act, it may provide that advice even though a special request has not been made.

Should any advice given to the Under Treasurer, Minister for Finance, or the Treasurer not be followed, it must be noted in SAFA's Annual Report, together with sufficient reasoning as to why it was not followed.

There were no occurrences of such advice in 2013-14.

Throughout the year, the Advisory Board received and reviewed:

- monthly reports from the General Manager summarising operational and financial matters;
- regular reports on SAFA's debt and asset management activities, portfolio management assignments, financial statements, insurance operations, fleet operations, other business services, progress against its business plan and matters related to credit risk; and
- other policy-related papers.

Membership

SAFA's Act specifies that the Advisory Board must consist of not less than five and not more than seven members, one of which must be employed by a semi-government authority and one of which must have insurance expertise.

As at 30 June 2014, the Advisory Board comprised the following members:

Mr Brett Rowse	Under Treasurer, Presiding Member (member since December 2010)
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Mr Mark Day	Company Director (member since June 2012)
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Mr Leonard Foster	Chairman Commonwealth Government's Bush Fire Cooperative Research Centre (member since June 2002)
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Ms Yvonne Sneddon	Company Director (member since June 2000)
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Deputy member:

Mr Garry Goddard	Deputy Under Treasurer (deputy member to the Under Treasurer since April 2011)
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Appointment and Retirement of Advisory Board Members

Advisory Board members (excluding the Under Treasurer as Presiding Member) are appointed by the Governor of South Australia for a term (of up to three years) as defined in the instrument of appointment. Members are eligible for re-appointment at the end of that term.

Resignations and Retirements

Mr Peter Mendo resigned from the SAFA Advisory Board effective from 29 August 2013. Mr Mendo was appointed as deputy member to the SAFA Advisory Board in July 2004 and the former SAFA Audit Committee in June 2005. His valuable contribution to SAFA is acknowledged.

Ms Anne Westley resigned from the SAFA Advisory Board effective from 6 June 2014. Ms Westley was appointed as a SAFA Advisory Board member in April 2011 and her valuable contribution to SAFA is also acknowledged.

Mr Claude Long retired from the SAFA Advisory Board following expiry of his term on 8 June 2014. Mr Long was appointed as a SAFA Advisory Board member in June 2002 and his valuable contribution to SAFA over 12 years is acknowledged.

Appointments

Mr Jamie Hollamby was appointed to the SAFA Advisory Board as deputy member to Ms Anne Westley in December 2013. Mr Hollamby was also appointed as a member to SAFA's Audit and Risk Management Committee.

Following the resignation of Ms Westley on 6 June 2014, Mr Hollamby's appointment to the SAFA Advisory Board as deputy to Ms Westley expired.

Ms Juliet Brown's term on the SAFA Advisory Board expired on 8 June 2014. It is proposed to reappoint Ms Brown to the SAFA Advisory Board for a further term of three years.

As of 30 June 2014, there are three vacancies on the SAFA Advisory Board.

Appointments have been made to replace the two vacancies left by the resignation of Ms Westley and the retirement of Mr Long, as well as the reappointment of Ms Brown.

Details of Advisory Board members' attendance for 2013-14 are as follows:

Advisory Board Member	Meetings Eligible to Attend	Meetings Attended	Term Expiry Date
Mr Brett Rowse	6	4	Ex-officio
Ms Juliet Brown	6	5	8 June 2014
Mr Mark Day	6	5	8 June 2015
Mr Leonard Foster	6	5	8 June 2015
Mr Claude Long	6	6	8 June 2014
Ms Yvonne Sneddon	6	5	8 June 2015
Ms Anne Westley	5	5	Resigned 6 June 2014
Mr Peter Mendo ^{dm}	0	0	Resigned 29 August 2013
Mr Garry Goddard ^{dm}	2	2	16 April 2017
Mr Jamie Hollamby ^{dm}	0	0	6 June 2014

dm - deputy member

Remuneration

During 2013-14, five appointed members of the Advisory Board were entitled to receive allowances and expenses. Total remuneration paid for the year was \$182 079. Members who are permanently employed under the *Public Sector Act 2009*, or on similar terms, are not entitled to remuneration.

Conflict of Interest

Nil reported.

INTERNAL CONTROLS AND AUDIT

With SAFA's continuing commitment to quality, its attitude to risks remains so as to undertake its range of business functions in a risk neutral manner and to protect the interests of its owner and clients.

SAFA is exposed to a range of operational and financial risks in the performance of its responsibilities. The management of these risks is central to the control framework and is enshrined in the form of SAFA's Policy Manual. The Policy Manual defines the roles, responsibilities and obligations of all parties associated with SAFA. SAFA complies with the prudential framework of the Policy Manual as ratified by the Advisory Board, noted by the Minister for Finance, and approved by the Treasurer.

Through a combination of internal and external resources, SAFA's business activities are subject to extensive monitoring through the application of a conservative risk management framework. SAFA is reviewed by a combination of the Auditor-General of South Australia, the Audit and Risk Management Committee, an outsourced internal audit function and an in-house Compliance section.

The Auditor-General undertakes an independent review of SAFA and reports his findings to the Under Treasurer and the South Australian Parliament annually.

The Audit and Risk Management Committee is a sub-committee of the full Advisory Board, and provides assistance to the Under Treasurer and the Advisory Board to determine the soundness of operating practices in SAFA. The Audit and Risk Management Committee consists of four members and meets regularly with SAFA management, Internal Audit, Compliance section and staff from the Auditor-General's Department. The Audit and Risk Management Committee met six times during 2013-14.

Ernst & Young provide the internal audit services to SAFA and work closely with SAFA's compliance section to ensure a robust control system is adhered to.

ORGANISATIONAL STRUCTURE AND STAFF

OPERATIONAL STRUCTURE

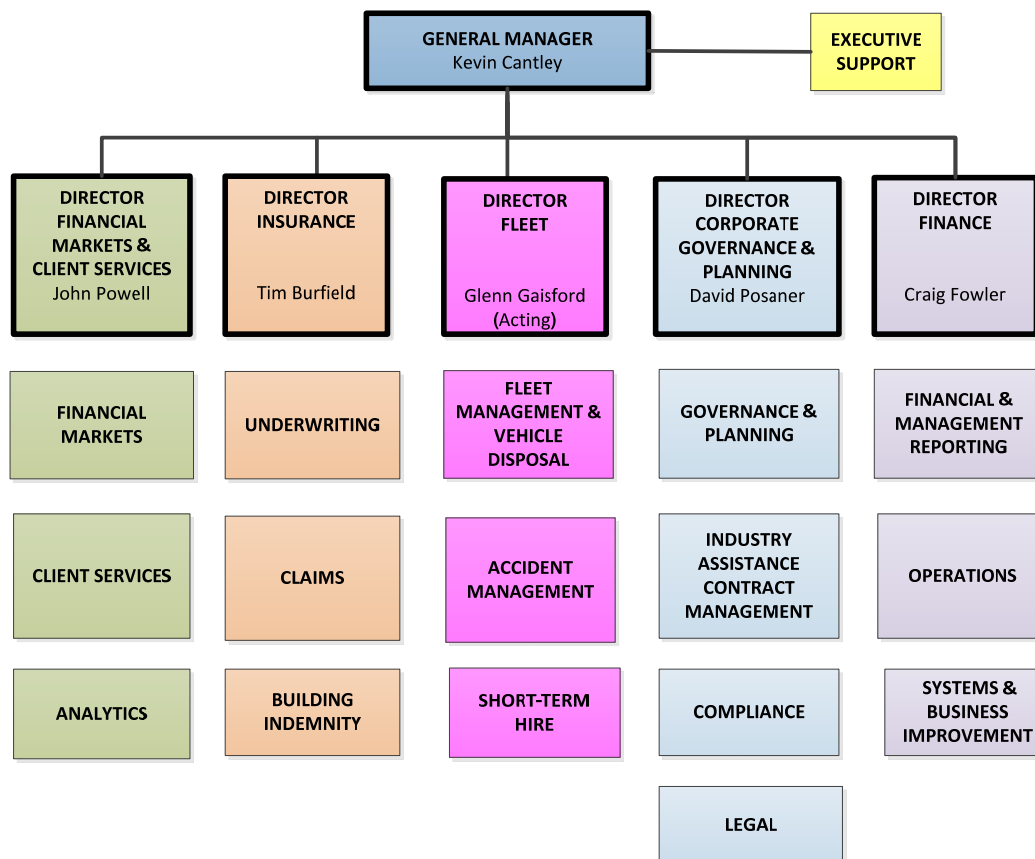
SAFA's operations are managed by the General Manager who reports directly to the Under Treasurer.

A number of committees have also been established to assist the General Manager in fulfilling SAFA's objectives and responsibilities on a day-to-day basis. They include the:

- Asset and Liability Management Committee;
- IT Committee;
- Fleet SA Executive Governance Group; and
- Across Government Fleet Management Reference Group.

Figure D illustrates the current organisational structure of SAFA.

Figure D: SAFA's organisational structure as at 30 June 2014



STAFFING

SAFA is resourced by staff employed by the Department of Treasury and Finance (DTF) that are assigned to SAFA. Permanent staff are employed by the South Australian government under the *Public Sector Act 2009*. Some specialist staff are also employed on an untenured contract basis.

At 30 June 2014, 82 staff (77.8 FTEs) were employed directly in SAFA's operations, of whom 16 worked on a part-time basis. SAFA's FTE average for the year was 74 staff. Table 7 below provides details on the composition of staff within SAFA. A staff list is provided at Appendix B.

Table 7: SAFA staff profile as at 30 June 2014

	% of Total FTE (¹)	Number of Part Time	% of FTE at Executive Level	% of FTE at Senior Level (ASO6) (²)
Female	45 %	15	0%	24 %
Male	55 %	1	7 %	28 %
Total	100 %	16	7 %	52 %

(1) FTE – Full-time equivalent.

(2) Includes staff and contractors at levels ASO6 and above excluding executive positions.

A number of contractors and specialists were also employed to supplement SAFA's expertise in various areas.

SAFA staff are bound by the South Australian public sector's enterprise bargaining framework. It is a party to the across government wages parity enterprise bargaining agreement for the determination of salaries.

Performance reviews, consistent with the DTF's Performance Management Program, are conducted annually and help to provide staff with work performance improvement, personal development and direction in career planning.

SAFA is supportive of flexible working arrangements, recognising the need for balance between work and home life. SAFA supports equal opportunity in employment and selects staff on the basis of merit for all positions within the organisation.

Through the DTF's Safety Management Plan, SAFA is committed to the continuous improvement in the health, safety and welfare of its employees. The plan aligns with WorkCover Performance Standards for self-insurers and aims to facilitate a standard of excellence in work, health and safety (WH&S) issues in the areas of prevention, rehabilitation and claims management.

SAFA has integrated WH&S and Injury Management into its management systems and half yearly safety audits are conducted to highlight any workplace hazards or maintenance work required. There were three incidents reported throughout 2013-14.

Staff are required to comply with the government's Code of Ethics for South Australian public sector employees and the codes of ethics relevant to professional associations.

Professional Skills and Expertise

The expertise of SAFA staff is derived from a variety of tertiary and vocational backgrounds. SAFA staff possess qualifications in the following fields:

- Arts;
- Automotive engineering and crash repair industry;
- Economics, Business, Commerce, Accountancy, Audit, Insurance and Insolvency;
- Finance and Investment, Financial Markets, and Superannuation Management;
- Law and Legal Practice;
- Management and Public Sector Management;
- Office Management and Commercial Studies; and
- Science (mathematics), Computing, and Information Technology.

SAFA encourages the ongoing commitment to education with support being provided through paid study leave and the reimbursement of tuition fees following successful completion of work related subjects.

Professional Development

A number of staff continue their professional development through affiliations with various professional associations through memberships, fellowships and accreditations. These associations include:

- Australian and New Zealand Institute of Insurance and Finance;
- Australian Financial Markets Association;
- Australian Fleet Managers Association;
- Australia Insurance Law Association;
- CPA Australia Limited;
- Finance and Treasury Association Limited;
- Financial Services Institute of Australia;
- Institute of Automotive and Mechanical Engineers;
- Institute of Chartered Accountants;
- Institute of Internal Auditors;
- Risk Management Institution of Australasia; and
- University of Adelaide.

Training

SAFA maintained a strong commitment to staff training and development during the year sustained by an appropriate budget allocation. Staff training needs are assessed regularly and all personnel are encouraged to attend work-related courses, seminars, and in-house or offsite workshops.

During the year there was a focus on records management and systems training.

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

2013-14
FINANCIAL STATEMENTS



Government of
South Australia

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Statement of Financial Position

as at 30 June 2014

	Note	2014 \$m	2013 \$m
Assets			
Cash and Cash Equivalents	5	1,839.4	2,033.4
Assets Held for Sale	6	7.0	5.6
Investments	7	1,946.8	2,075.8
Loans	8	17,450.3	15,598.3
Property, Plant and Equipment	9	182.3	195.0
Intangible Assets	10	1.0	0.8
Derivatives Receivable	11	523.1	336.1
Other Assets	12	61.8	60.3
Total Assets		22,011.7	20,305.3
Liabilities			
Deposits and Short-Term Borrowings	13	5,660.8	6,031.2
Bonds, Notes and Debentures	14	15,382.2	13,535.0
Outstanding Claims	15	303.0	327.3
Derivatives Payable	16	292.2	77.7
Other Liabilities	17	33.7	24.1
Total Liabilities		21,671.9	19,995.3
NET ASSETS		339.8	310.0
Equity			
Retained Earnings		339.8	310.0
TOTAL EQUITY		339.8	310.0
Total equity is attributable to the SA Government as owner			
Contingent Assets and Liabilities	22		
Unrecognised Contractual Commitments	28		

Statement of Comprehensive Income

for the year ended 30 June 2014

	Note	2014 \$m	2013 \$m
Income			
Revenue			
Interest Revenue	18	1,108.3	1,253.4
Less Interest Expense	18	1,098.1	1,239.2
Net Interest Revenue		10.2	14.2
Insurance Premium	18	43.7	42.2
Leasing and Hire	18	67.2	73.2
Recoveries	18	10.3	23.6
Other	18	9.2	3.0
Total Revenue		140.6	156.2
Gain on transfer of Administrative Functions	4	-	1.4
Other Gains/(Losses)			
Net Gain on Financial Instruments and Derivatives	19	73.9	68.2
Net Gain/(Loss) on Sale of Property, Plant and Equipment	19	(0.9)	1.7
Total Other Gains		73.0	69.9
Total Income		213.6	227.5
Expenses			
Depreciation and Impairment	20	40.4	43.5
Insurance Claims	20	19.0	16.6
Motor Vehicle	20	35.8	29.8
Outward Reinsurance	20	9.1	9.2
Operating	20	19.8	26.3
Total Expense		124.1	125.4
Profit before income tax equivalents		89.5	102.1
Income Tax Equivalent Expense with SA Government		26.9	30.6
Profit after income tax equivalents		62.6	71.5
Other Comprehensive Income		-	-
Total comprehensive result		62.6	71.5

The profit after income tax equivalent and total comprehensive result are attributable to the SA Government as owner

Statement of Changes in Equity

for the year ended 30 June 2014

	Note	Retained Earnings \$m
Balance at 30 June 2012		246.7
Profit after income tax for 2012-13	2(s)	71.5
Total comprehensive result for 2012-13		71.5
Transactions with SA Government as owner		
Dividends paid		(8.2)
Balance at 30 June 2013		310.0
Profit after income tax for 2013-14	2(s)	62.6
Total comprehensive result for 2013-14		62.6
Transactions with SA Government as owner		
Dividends paid		(32.8)
Balance at 30 June 2014		339.8

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

Statement of Cash Flows

for the year ended 30 June 2014

	Note	2014 \$m	2013 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from:			
Interest received		881.2	1,002.0
Dividends received		6.5	-
Derivatives net interest received/(paid)		98.5	54.2
Insurance Premiums received		53.8	42.9
Leasing and Motor Vehicle receipts		73.9	115.5
Recoveries		27.2	1.1
Direct Insurance Placement		9.5	6.4
Stamp duty received from agencies		4.8	4.7
Other receipts		20.4	17.2
Commissions		0.5	1.1
GST recovered from the ATO		12.1	15.4
Indemnity from Treasurer		-	7.0
Payments for:			
Interest paid		(911.8)	(975.2)
Insurance Claims paid		(45.3)	(52.9)
Motor Vehicle costs		(38.3)	(35.2)
Outwards reinsurance premium paid		(9.4)	(10.0)
Direct Insurance Placement		(7.6)	(8.4)
Stamp duty paid to RevenueSA		(5.0)	(4.7)
Operating expenses paid		(19.6)	(20.2)
GST paid to the ATO		(18.9)	(20.8)
Income Tax Equivalent (TER) paid		(30.3)	(21.8)
Net GST relating to Investing/Financing activities		(2.8)	(0.4)
NET CASH PROVIDED BY OPERATING ACTIVITIES	23.2	99.4	117.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from Client Loans		(1,683.6)	(1,133.7)
Purchase of Investments		(19,790.1)	(24,172.5)
Proceeds from Investments		20,055.2	24,341.5
Purchase of Property, Plant and Equipment		(73.9)	(100.6)
Purchase of Intangible Assets		(0.3)	(0.6)
Proceeds from the Sale of Property, Plant and Equipment		44.6	57.8
Cash Received from Transferred Functions		-	1.5
NET CASH USED IN INVESTING ACTIVITIES		(1,448.1)	(1,006.6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from Borrowings		1,281.2	1,135.3
Dividends paid to Government		(32.8)	(8.2)
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,248.4	1,127.1
NET INCREASE/(DECREASE) IN CASH HELD		(100.3)	238.4
Cash at the beginning of the financial year		396.3	157.5
Net effect of exchange rate changes		0.3	0.4
CASH AT THE END OF THE FINANCIAL YEAR	23.1	296.3	396.3

Notes to the Financial Statements

for the year ended 30 June 2014

1. Objectives

The South Australian Government Financing Authority (SAFA) is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982*. The registered address of SAFA is Level 5, State Administration Centre, 200 Victoria Square, Adelaide, South Australia 5000.

SAFA's business objectives are:

- to develop and implement borrowing and investment programs for the benefit of semi-government authorities;
- to engage in such other financial and insurance related activities as are determined by the Treasurer of South Australia (the Treasurer) to be in the interest of the State;
- administer the Government's insurance and risk management arrangements;
- insure, co-insure and reinsure the risks of the Crown;
- provide advice on the management of risks of the Crown; and
- provide fleet management services to all Government agencies.

Under the Public Corporations (Playford Centre) (Dissolution and Revocation) Regulations 2012, Playford Centre's assets, rights and liabilities transferred to SAFA on 1 July 2012 (refer Note 4).

2. Summary of Significant Accounting Policies

a. Statement of Compliance

The 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 and comply with Australian Accounting Standards, as issued by the Australian Accounting Standards Board. The statements also comply with the requirements of the Treasurer's Instructions relating to financial statements by statutory authorities that are issued pursuant to the *Public Finance and Audit Act 1987*.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted by SAFA for the reporting period ending 30 June 2014 are detailed in Note 2(v).

b. Basis of Preparation

These Financial Statements have been prepared in accordance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*, by authority of Treasurer's Instruction 19 *Financial Reporting*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in these Financial Statements:

- i) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, are classified according to their nature. A threshold of \$100,000 for separate identification of these items applies; and
- ii) expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income).

The Financial Statements have been prepared in accordance with the historic cost convention, except for financial assets and liabilities which are reported at fair value.

The presentation currency is Australian dollars and all values are rounded to the nearest hundred thousand unless otherwise stated. Zero represents amounts less than fifty thousand dollars.

c. Principles of Consolidation

The Financial Statements for SAFA are not consolidated with its controlled entities. The exclusion of these entities does not have a material impact on the financial results presented. Note 34 includes details of the entities.

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

d. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements to conform with Accounting Standards requires the use of critical accounting estimates. It also requires Management to exercise its judgement in the process of applying SAFA's accounting policies. Management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

(i) Measurement of Outstanding Claims

Outstanding insurance claims liabilities are calculated using statistical and/or mathematical methods. The calculations are made by an actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles (refer Note 33).

(ii) Measurement of Fair value

When measuring fair values of financial assets and liabilities, SAFA maximises the use of relevant market-based data. The fair values of financial assets and liabilities that are traded in active markets are determined with reference to quoted market prices or quotations. For financial assets and liabilities where market-based data are not readily available (or transparent) SAFA determines fair values using standard valuation techniques incorporating discounted cash flows on appropriate yield curves of similar traded securities, taking into account their risk characteristics.

e. Income and Expense Recognition

SAFA recognises income and expenses when the amounts can be reliably measured, it is probable that the future economic benefits will flow to or from SAFA and when specific recognition criteria have been met for each of the activities described below.

(i) Interest

Interest income and expense is accrued in accordance with the terms and conditions of the underlying financial instrument and premiums and discounts are amortised over the life of the associated borrowings and investments.

Net realised gains or losses and unrealised gains or losses are included in the Statement of Comprehensive Income (refer Note 19).

(ii) Insurance Premium Revenue

Premium revenue includes amounts charged to policy holders but excludes stamp duty and Goods and Services Tax. Premium revenue is recognised in the Statement of Comprehensive Income as earned from the date of attachment of risk and is recognised evenly over the policy or indemnity period, which is considered to closely approximate the pattern of risks underwritten.

All South Australian Government agencies are required to insure with SAFA unless exempted by the Treasurer. In those circumstances where SAFA considers it more appropriate for some of the risks of a government agency to be placed with other insurers, SAFA will arrange for such insurance and will recover the insurance premium from the agency concerned. For the purposes of the Financial Statements, these arrangements are referred to as Direct Insurance Placements.

The Building Work Contractors Act 1995 (SA) and Regulations is compulsory in South Australia requiring builders to hold building indemnity insurance (BII) to protect home owners against losses arising from the insolvency, death or disappearance of their builder up to a maximum sum insured of \$80,000 per building project. From 1 July 2013 SAFA began offering BII cover to builders in South Australia. The premium for BII provides insurance cover for periods of up to five years, commencing from the date of the insurance contract.

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

e. Income and Expense Recognition (continued)

(iii) Leasing and Hire Revenue

SAFA leases motor vehicles to South Australian Government agencies for a standard lease period of three years and/or 60,000 kilometres, whichever comes first. By arrangement, some vehicle leases can be extended to five years or 100,000 kilometres, due to the nature of the lessee's business requirements. The lease to agencies covers registration, compulsory third party insurance, scheduled servicing, depreciation, interest costs and a management fee. Leasing and Hire revenue is recognised on a straight line basis over the term of the lease. The insurance component of the lease is recognised under insurance premium in the Statement of Comprehensive Income.

(iv) Revenue Recoveries

Vehicle recoveries include fuel and any unscheduled maintenance of the vehicle over the period of the lease. Any excessive wear and tear costs are recovered from agencies at the end of hire. Other vehicle recoveries include parking costs, miscellaneous charges and commission on disposal of vehicles.

Insurance recoveries comprise insurance premiums, deductibles on all claims and any recoveries from third parties. Recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue.

(v) Other Revenue

Fee income in respect of services provided is recognised in the period in which the service is provided.

(vi) Insurance Claims Expense

Insurance claims expense includes the direct and indirect costs of settling claims, claim payments, deductible receipts and movements in underlying claim estimates.

(vii) Motor Vehicle Expenses

Direct costs associated with the ownership of the motor vehicle fleet including registration, compulsory third party insurance, all maintenance and repair costs, fuel and disposal costs.

(viii) Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of the outwards reinsurance premiums may be treated at the end of the reporting period as a prepayment. This program includes the catastrophe reinsurance program which has been effected to safeguard the State finances against a very large loss or claim, or a series of large losses or claims in any year under the Government's insurance and risk management arrangements.

(ix) Indemnity from/(to) the Treasurer

Insurance activities are segregated into three Funds. The Treasurer has indemnified SAFA for any operating profit or loss before tax for any activities relating to Fund 2 and Fund 3 (refer Note 22(iii)). Under these arrangements any profit/loss on these Funds are recognised as payables to/receivables from the Treasurer. Any payables to the Treasurer are carried forward to offset future operating losses.

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

f. Cash and Cash equivalents

Cash and cash equivalents in the Statement of Financial Position include short-term Money Market Deposits and Negotiable Discount Securities that are held for liquidity and short-term investment purposes (refer Note 5).

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, but exclude Negotiable Discount Securities and the Working Capital Facility where the securities are for investment purposes and not for the purpose of meeting short-term cash commitments.

g. Assets Held for Sale

Assets are classified as held for sale, and stated at the lower of their carrying amount or fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale is expected to be completed within one year from the date of classification (refer Note 6).

h. Financial Instruments

Financial assets and liabilities designated at fair value through profit or loss

All financial assets and liabilities, on recognition, are designated at fair value through profit or loss. This designation is determined on the basis that SAFA manages and evaluates the performance of its financial assets and liabilities on a fair value basis in accordance with documented risk management strategies.

Financial assets and liabilities (including derivatives) are recorded at fair value in the Statement of Financial Position. All financial assets and liabilities are revalued to reflect market movements with gains or losses, whether realised or unrealised, being recognised immediately in the Statement of Comprehensive Income (refer Note 19). Financial assets and liabilities are revalued regularly either at their quoted market price or their cash flows are discounted against the relevant yield curve.

(i) Investments

Investments are assets which are purchased as part of SAFA's cash management products, for liquidity and interest rate risk management and may be sold prior to maturity in response to various factors including changes in interest rates and funding requirements of the South Australian public sector. Additionally, SAFA may hold investments it has purchased at the direction of the South Australian Government and/or as may be determined by the Treasurer to be in the interests of the State of South Australia (refer Note 7).

(ii) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (refer Note 8).

(iii) Deposits and Short-Term Borrowings

Deposits and Short-Term Borrowings include At Call Accounts, Cash Management Facility and Term Deposits. SAFA raises short-term funds through the issue of Commercial Paper both in the domestic and overseas markets (refer Note 13).

(iv) Repurchase Agreements

Securities sold under an agreement to repurchase remain as an investment whilst the obligation to repurchase is recorded as a liability in Deposits and Short-Term Borrowings (refer Note 13). At 30 June 2014 SAFA had no repurchase agreements.

(v) Bonds, Notes and Debentures

Funds are raised through various instruments including bonds, notes and debentures. All borrowings are raised on an unsecured basis (refer Note 14).

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

(vi) Derivative Instruments

SAFA utilises derivative instruments (including futures, foreign exchange contracts, forward rate arrangements, foreign exchange swaps and interest rate swaps) in fundraising, debt management and client activities. Derivative instruments are used to convert funding costs, facilitate diversification of funding sources, reconfigure interest rate risk profiles and manage foreign currency exposures. Interest receipts and interest payments are accrued on a gross basis and classified as interest revenue and interest expense in the Statement of Comprehensive Income (refer Notes 11 and 16).

i. Assets backing general insurance liabilities

Assets which back SAFA's insurance liabilities are those generated through premium revenue. These assets are invested to reflect the nature of the policy liabilities, and are comprised of operating cash, cash held on deposit and units invested with Funds SA (refer Notes 5 and 7). In accordance with AASB 1023 *General Insurance Contracts*, SAFA's longer-term insurance investments with Funds SA are measured at fair value, based on quoted market prices as advised by the fund manager. Subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the Statement of Comprehensive Income.

j. Reinsurance and Other Recoveries

Recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of inflation and discount rates used are set out in Note 33.

Collectability of recoveries is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

k. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost less accumulated depreciation.

(i) Depreciation

Depreciation of Property, Plant and Equipment is calculated on a straight line basis using rates designated to allocate the depreciable cost over the expected useful life of the asset. Motor Vehicles are depreciated on a straight line basis for a period of up to five years (refer Note 9).

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, during each financial year. Changes in the residual value or expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

(ii) Impairment

The carrying values of Property, Plant and Equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

l. Intangible Assets

Intangible assets represent purchased software, which are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on software assets is capitalised when it is probable that future economic benefits attributable to the assets will flow to SAFA, and if the cost of the asset can be measured reliably.

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

I. Intangible Assets (continued)

(i) Amortisation

Amortisation of intangible assets is calculated on a straight line basis using rates designated to allocate the cost over the expected useful life of the asset. Software costs are amortised on a straight line basis for a period of five to ten years (refer Note 10).

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, each financial year. Where a change to the residual value or useful life of an asset has been identified any impact that may result from this change is recognised in the Statement of Comprehensive Income in the year in which it arises.

(ii) Impairment

The carrying values of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

m. Outstanding Claims Liability

Insurance activities are segregated into three Funds. Liabilities for outstanding claims for Fund 1 are measured as the central estimate of the present value of the expected future payments for claims incurred, plus an additional risk margin to allow for inherent uncertainty in the central estimate.

The liability for outstanding claims at balance date comprises:

- claims that have been incurred but not paid;
- claims incurred but not reported (IBNR);
- claims incurred but not enough reported (IBNER);
- risk margins; and
- claims handling costs, which includes anticipated direct and indirect costs of settling those claims.

Liabilities for outstanding claims for Fund 3 are determined by applying an earning pattern to the written premium and then combining a loss ratio to the development pattern of emerging claims costs. Detail of risk margin rates are disclosed in Note 33.

Liabilities for outstanding claims for Fund 2 are recognised in respect of reported incidents including the anticipated costs of settling these claims and a risk margin. Detail of risk margin rates are disclosed in Note 33.

The expected future payments are discounted to present value using a risk-free rate, derived from the interest rates on Commonwealth Government fixed interest securities with terms to maturity that match, as close as possible, the estimated future claim payments. Details of the inflation and discount rates and other Actuarial Assumptions are disclosed in Note 33.

n. Other Assets and Liabilities

Other assets including debtors and fee accruals, other liabilities including interest paid in advance, creditors, expense accruals and provisions, are all stated at book value, which is the best estimate of fair value as they are typically settled within a short period of time (refer Notes 12 and 17).

o. Deferred Acquisition Costs

Costs directly attributable to the acquisition of the BII premium revenue (Fund 3) are deferred by recognising these costs as an asset in the Statement of Financial Position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk.

p. Unearned Premium Liability

The liability adequacy test is performed on the BII liabilities less deferred acquisition costs to ensure the carrying value of the unearned premium liability is adequate, using current estimates of the present value of future cash flows relating to future claims.

The need for an additional risk margin is assessed, taking into account the inherent uncertainty in the central claims estimate. If the assessment shows the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the Statement of Comprehensive Income by firstly writing down the deferred acquisition cost. If an additional liability is required, this is recognised in the Statement of Financial Position as an unexpired risk liability.

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

q. Foreign Currency Translation

Foreign currency assets and liabilities are recognised in the Financial Statements at the prevailing exchange rate at the reporting date. Revenue and expense items are translated at the exchange rate current at the date at which those items were recognised in the Financial Statements.

r. Employee Benefits

SAFA does not employ any direct staff, but is assigned staff resources by the Department of Treasury and Finance (DTF) through a Service Level Agreement pursuant to Section 20 of the *Government Financing Authority Act 1982*. The responsibility to provide for employer contributions to superannuation benefits rests with DTF, and for this reason SAFA is not required to establish a provision. DTF meets long service leave liabilities as they fall due.

s. Taxation

Accounting Profits Tax Model

In accordance with Treasurer's Instruction 22 *Tax Equivalent Payments*, SAFA is required to pay the Treasurer an income tax equivalent amount. The income tax liability is based on the Taxation Equivalent Regime (TER) which applies the accounting profit method. This requires SAFA to apply the corporate income tax rate to the net profit. The current income tax equivalent liability relates to the income tax expense outstanding for the current period.

Goods and Services Tax (GST)

SAFA is grouped with DTF, for GST purposes. Income, expenses and assets are recognised net of the amount of GST, except:

- where the GST is not recoverable, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables, which are recognised inclusive of GST.

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

Stamp Duty

Stamp duty collected as part of insurance premiums are excluded from premium revenue and paid monthly to RevenueSA. Stamp duty collected as part of fleet activities are excluded from revenues and remitted to DTF. Government agencies that are part of the TER pay a stamp duty equivalent on leased motor vehicles.

t. Business Segments

SAFA is an individual reporting entity which operates in business segments including Treasury, Insurance and Fleet Management. Refer to Note 3.

u. Comparatives

The presentation and classification of items in the Financial Statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the Financial Statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impractical.

Notes to the Financial Statements

for the year ended 30 June 2014

2. Summary of Significant Accounting Policies (continued)

v. Changes in Accounting Policies

SAFA has adopted the following relevant new accounting standards and amendments to standards, applicable to annual periods commencing on or after 1 January 2013:

(i) **AASB 12 Disclosure of Interests in Other Entities**

As a result of AASB 12, SAFA has expanded disclosures in relation to its interests in its subsidiary, Playford Capital Pty Ltd (refer to Note 34). These additional disclosures include information about the nature of, risks associated with, and financial impacts arising from interests in other entities.

(ii) **AASB 13 Fair Value Measurements**

As per the requirements of AASB 13, SAFA has applied the new definition of fair value, prospectively. The change had no significant impact on the measurement of SAFA's assets and liabilities. New disclosures required by the standard have been added, including those that relate to the Fair Value Hierarchy (refer to Note 31).

(iii) **AASB 127 Separate Financial Statements**

Only minor amendments and some additional disclosures were required to the financial statements of SAFA's subsidiary, Playford Capital Pty Ltd.

(iv) **AASB 2012-2 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 7)**

As a result of the amendments to AASB 7, SAFA has expanded disclosures in relation to offsetting financial assets and financial liabilities (refer to Note 30).

The following accounting standards have been issued but are not yet effective. These accounting standards have not been early adopted by SAFA, but will be relevant upon application:

(i) **AASB 9 Financial Instruments – Classification and Measurement**

AASB 2012-6 Mandatory Effective Date of AASB 9 and Transition Disclosures (Amendments to AASB 9) **AASB 2013-9 (Part A) Conceptual Framework (Amendments to AASB 9)**

AASB 9 supersedes AASB 139 Financial Instruments: Recognition and Measurement. The new standard requires material changes to the way financial instruments are classified and disclosed. This includes new categories for financial instrument classification (amortised cost and fair value) as well as additional requirements in relation to hedge accounting.

SAFA is currently assessing the potential effects of this standard, though the full extent of the new requirements have not yet been fully considered. It should be noted, however, that SAFA's financial assets and liabilities are already carried at fair value and that SAFA does not currently engage in hedge accounting.

Mandatory application of AASB 9 is required for annual periods commencing on or after 1 January 2017. SAFA will apply this standard for the first time in its 2017-18 financial statements.

(ii) **AASB 2013-9 Conceptual Framework, Materiality and Financial Instruments (Part C) (Amendments to various accounting standards)**

This amending standard makes changes to a number of standards, including introducing guidance on hedge accounting to AASB 9. SAFA does not currently utilise hedge accounting.

Mandatory application of this amendment is required for annual periods commencing on or after 1 January 2015. SAFA will apply this standard for the first time in its 2015-16 financial statements. SAFA is currently evaluating the potential impacts of this standard.

(iii) **AASB 2012-3 Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)**

This amending standard clarifies AASB 132 Financial Instruments: Presentation, in regard to situations where financial assets and liabilities are able to be offset.

Mandatory application of this amendment is required for annual periods commencing on or after 1 January 2014. SAFA will apply this standard for the first time in its 2014-15 financial statements. SAFA is currently evaluating the potential impacts of this standard.

Notes to the Financial Statements

for the year ended 30 June 2014

3. Business Segments

SAFA operates in the following segments:

- **Treasury** - provides funds and financial advice to the South Australian Government, Semi-Government Authorities, South Australian Public Sector Financial Institutions and Government agencies.
- **Insurance** - underwriting several types of general insurance for South Australian Government agencies.
- **Fleet** - provides comprehensive fleet management services to South Australian Government agencies for its passenger and light commercial motor vehicle fleet.

The Insurance activities are designated into three Funds. Fund 1 reflects the normal commercial activities of SAFA whilst Fund 2 includes all the activities previously conducted through Section 2 of the South Australian Government Insurance and Risk Management Fund. This Fund is used to fund liabilities arising from insurable incidents that occurred prior to 1 July 1994, claims under the building warranty indemnity reinsurance arrangement with QBE Insurance (Australia) Limited (QBE) until 30 June 2013, SGIC residual claims and workers compensation claims previously managed by South Australian Asset Management Corporation. Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

2014	Treasury \$m	Insurance \$m	Fleet \$m	Eliminations \$m	Total \$m
Income	37.6	92.2	86.3	(2.5)	213.6
Expenses	10.5	36.3	79.8	(2.5)	124.1
Profit before tax	27.1	55.9	6.5	-	89.5
Income tax equivalent expense	8.1	16.8	2.0	-	26.9
Comprehensive result	19.0	39.1	4.5	-	62.6
Segment assets	21,628.6	494.2	232.1	(343.2)	22,011.7
Segment liabilities	(21,498.1)	(325.1)	(191.9)	343.2	(21,671.9)
Net Assets	130.5	169.1	40.2	-	339.8

2013	Treasury \$m	Insurance \$m	Fleet \$m	Eliminations \$m	Total \$m
Income	29.4	102.0	96.2	(0.1)	227.5
Expenses	8.2	34.3	83.0	(0.1)	125.4
Profit before tax	21.2	67.7	13.2	-	102.1
Income tax equivalent expense	6.4	20.3	3.9	-	30.6
Comprehensive result	14.8	47.4	9.3	-	71.5
Segment assets	19,954.1	466.0	268.4	(383.2)	20,305.3
Segment liabilities	(19,829.4)	(336.0)	(213.1)	383.2	(19,995.3)
Net Assets	124.7	130.0	55.3	-	310.0

Notes to the Financial Statements

for the year ended 30 June 2014

4. Transfer of Administrative Functions

Playford Centre

Under the Public Corporations (Playford Centre) (Dissolution and Revocation) Regulations 2012, Playford Centre's assets, rights and liabilities transferred to SAFA on 1 July 2012.

SAFA has recognised the following assets and liabilities as a result of these transfers:

	2014 \$m	2013 \$m
Assets		
Cash and Cash Equivalents	-	1.6
Other Assets	-	0.0
	-	1.6
Liabilities		
Other Liabilities	-	0.2
	-	0.2
Net Assets Transferred	-	1.4

Notes to the Financial Statements

for the year ended 30 June 2014

5. Cash and Cash Equivalents

	2014 \$m	2013 \$m
Cash at Bank	5.1	11.0
Deposits with the Treasurer	46.2	45.0
Short-Term Money Market Deposits	245.6	340.8
Negotiable Certificates of Deposit	1,541.0	1,615.6
Working Capital Facility	1.5	21.0
Total Cash and Cash equivalents	1,839.4	2,033.4

6. Assets Held for Sale

	2014 \$m	2013 \$m
Motor Vehicles	7.0	5.6
Total Assets Held for Sale	7.0	5.6

7. Investments

	2014 \$m	2013 \$m
Semi-Government Securities	317.9	46.4
Local Government Securities	4.6	5.6
Bank and Corporate Securities	1,161.6	1,593.4
Funds SA	462.4	430.4
Paragon Capital Equity Fund No 1	0.0	0.0
Listed Shares	0.3	-
Equity Investments	0.0	0.0
Subsidiary Investment	0.0	0.0
Total Investments	1,946.8	2,075.8

8. Loans

	2014 \$m	2013 \$m
Loans to the Treasurer at Market Rates	21.6	23.9
Loans to the Treasurer at Non Market Rates	10.0	-
Loans to the Treasurer at Cost of Funds (COF)	8,222.4	6,653.3
Loans to the Treasurer at Cash	2,743.1	2,703.0
Loans to Public Non Financial Corporations	4,470.2	4,242.6
Loans to Public Financial Corporations	1,743.6	1,803.2
Loans to Local Government	239.4	172.3
Total Loans	17,450.3	15,598.3

The COF loan to the Treasurer is funded through a range of financial assets and liabilities within the Treasurer's Portfolio. Any gains or losses, whether realised or unrealised, on the assets and liabilities in the Treasurer's Portfolio that fund the loan are equally offset by a gain or loss on the COF loan to the Treasurer.

Notes to the Financial Statements

for the year ended 30 June 2014

9. Property, Plant and Equipment

	2014 \$m	2013 \$m
Motor Vehicles		
At cost	243.1	255.2
Accumulated depreciation	(60.8)	(60.0)
Impairment	(0.0)	(0.2)
Total Property, Plant and Equipment	182.3	195.0

	2014 \$m	2013 \$m
Reconciliation of Property, Plant and Equipment		
Motor Vehicles		
Carrying amount at the beginning of the period	195.0	200.1
Additions	74.4	91.1
Assets classified as held for sale	(7.0)	(5.6)
Disposals	(39.8)	(47.2)
Depreciation expense	(40.3)	(43.4)
Carrying Amounts at the end of the period	182.3	195.0

10. Intangible Assets

	2014 \$m	2013 \$m
Information Technology		
At cost	1.2	0.9
Accumulated amortisation	(0.2)	(0.1)
Total Intangible Assets	1.0	0.8

	2014 \$m	2013 \$m
Reconciliation of Information Technology		
Carrying amount at the beginning of the period	0.8	0.4
Additions	0.3	0.5
Amortisation expense	(0.1)	(0.1)
Carrying Amounts at the end of the period	1.0	0.8

Notes to the Financial Statements

for the year ended 30 June 2014

11. Derivatives Receivable

	2014 \$m	2013 \$m
Foreign Currency Swaps	244.5	37.8
Interest Rate Swaps - South Australian Government	6.3	7.0
Interest Rate Swaps	272.3	291.3
Total Derivatives Receivable	523.1	336.1

12. Other Assets

	2014 \$m	2013 \$m
Receivables	4.8	1.3
Receivables - South Australian Government	9.8	11.5
Recoveries	1.3	14.6
Less: Allowance for Impairment loss	(0.8)	(0.8)
Receivables from the Treasurer	39.1	26.6
Prepayments - South Australian Government	1.9	2.0
Prepayments	3.4	3.6
Sundry Debtors - South Australian Government	0.0	-
Sundry Debtors	-	1.5
Deferred Acquisition Costs	2.3	-
Total Other Assets	61.8	60.3

Movement in the allowance for impairment loss

The allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. An allowance for impairment loss has been recognised in the Statement of Comprehensive Income.

	2014 \$m	2013 \$m
Carrying amount at the beginning of the period	0.8	0.8
Provision for impairment recognised during the year	0.0	0.0
Carrying amount at the end of the period	0.8	0.8

13. Deposits and Short-Term Borrowings

	2014 \$m	2013 \$m
At Call Deposits	71.3	62.4
Deposits from the Treasurer	2,887.8	3,143.6
Deposits from South Australian Government agencies	387.6	672.7
Commercial Paper	2,314.1	2,152.5
Total Deposits and Short-Term Borrowings	5,660.8	6,031.2

14. Bonds, Notes and Debentures

	2014 \$m	2013 \$m
Floating Rate Notes	4,798.2	3,012.9
Select Lines	9,929.2	9,892.3
Retail Stock	63.0	41.2
Zero Coupon Bonds	230.7	224.4
Inflation Linked Bonds and Securities	109.0	118.5
Obligation to the Commonwealth Government	252.1	245.7
Total Bonds, Notes and Debentures	15,382.2	13,535.0

Notes to the Financial Statements

for the year ended 30 June 2014

15. Outstanding Claims

	2014 \$m	2013 \$m
Outstanding Claims - South Australian Government	8.3	6.5
Outstanding Claims	294.7	320.8
Total Outstanding Claims	303.0	327.3

Reconciliation of Movements in Outstanding Claims

	Property \$m	Liability \$m	Medical Malpractice \$m
2013 Balance	6.5	84.5	236.3
Paid	(2.0)	(20.0)	(20.6)
Reported Claims	3.2	(7.1)	5.3
IBNR /IBNER Reserve	0.2	4.4	4.6
Risk Margin	0.4	3.1	4.9
Indirect Claims Settlement Reserve	-	-	(0.7)
2014 Balance	8.3	64.9	229.8
30 June 2014 Outstanding Claims balance by:			
Fund 1	6.8	46.4	207.4
Fund 2	1.5	17.7	22.4
Fund 3	-	0.8	-
	8.3	64.9	229.8

16. Derivatives Payable

	2014 \$m	2013 \$m
Foreign Currency Swaps	246.4	33.9
Interest Rate Swaps - South Australian Government	0.2	0.3
Interest Rate Swaps	45.6	43.5
Total Derivatives Payable	292.2	77.7

17. Other Liabilities

	2014 \$m	2013 \$m
Sundry Creditors - South Australian Government	-	0.0
Sundry Creditors	0.6	1.3
Accrued Operating Expenses	0.0	2.4
Payables	7.2	1.7
Payables - South Australian Government	0.2	2.1
Payables Treasurer	13.2	8.2
Unearned Premium	7.5	-
Income Tax Equivalent	5.0	8.4
Total Other Liabilities	33.7	24.1

Notes to the Financial Statements

for the year ended 30 June 2014

18. Revenue

	Note	2014 \$m	2013 \$m
Interest Revenue			
External to South Australian Government:			
Cash and Cash equivalents		52.4	80.8
Investments		51.5	66.6
Loans		4.9	3.9
Other Assets		395.6	467.7
Internal to South Australian Government:			
Cash and Cash equivalents		2.2	1.3
Loans		593.0	621.3
Other Assets		8.7	11.8
		1,108.3	1,253.4
Less Interest Expense			
External to South Australian Government:			
Deposits and Short-Term Borrowings		44.4	42.4
Bonds, Notes and Debentures		669.6	689.3
Other Liabilities		300.3	383.7
Internal to South Australian Government:			
Deposits and Short-Term Borrowings		78.3	115.8
Other Liabilities		5.5	8.0
		1,098.1	1,239.2
Net Interest Revenue		10.2	14.2
Insurance Premium			
External to South Australian Government		2.7	3.8
Internal to South Australian Government		41.0	38.4
	21	43.7	42.2
Leasing and Hire			
Internal to South Australian Government		67.2	73.2
		67.2	73.2
Recoveries			
External to South Australian Government		(10.3)	1.2
Internal to South Australian Government		20.6	22.4
		10.3	23.6
Other			
External to South Australian Government:			
Other Revenue		0.3	1.2
Commissions		1.1	-
Internal to South Australian Government:			
Dividend		6.5	-
Other Revenue		0.0	0.0
Management Fees		1.3	1.8
		9.2	3.0
Total Revenue		140.6	156.2

Notes to the Financial Statements

for the year ended 30 June 2014

19. Other Gains/(Losses)

	Note	2014 \$m	2013 \$m
Net Gain/(Loss) on Financial Instruments and Derivatives			
External to South Australian Government:			
Realised		12.5	357.7
Unrealised		(120.4)	75.8
Internal to South Australian Government:			
Realised		7.6	(317.8)
Unrealised		174.2	(47.5)
		73.9	68.2
Net Gain/(Loss) on Sale of Property, Plant and Equipment			
External to South Australian Government		(0.9)	1.7
		(0.9)	1.7
Total Other Gains		73.0	69.9

20. Expenses

		2014 \$m	2013 \$m
Insurance Claims			
External to South Australian Government		18.2	22.0
Internal to South Australian Government		0.8	(5.4)
	21	19.0	16.6
Motor Vehicle			
External to South Australian Government		30.7	25.8
Internal to South Australian Government		5.1	4.0
		35.8	29.8
Reinsurance			
External to South Australian Government		9.1	9.2
	21	9.1	9.2
Depreciation and Impairment			
Internal to South Australian Government		40.4	43.5
		40.4	43.5
Operating			
External to South Australian Government:			
Program and Debt Management Fees		1.0	1.2
Direct Insurance Placement costs		0.0	0.0
Bad Debts written off		0.0	0.1
Management Fees		1.2	0.8
Consultants/Contractors		0.2	0.1
Rent		0.9	0.8
Systems		0.2	-
Other		0.0	0.1
Internal to South Australian Government:			
Indemnity to the Treasurer		4.1	9.4
Service Level Agreement		12.2	13.8
		19.8	26.3
Total Expenses		124.1	125.4

A Service Level Agreement operates between SAFA and DTF. DTF provides services to SAFA to enable SAFA to undertake its business activities in a manner so that SAFA may achieve its key outcomes. DTF provides SAFA with appropriately trained and skilled staff along with infrastructure support. The majority of the fee covers staffing, accommodation, audit and network systems expenditure.

Service Level Agreement insurance costs of \$1,348,445 (2012-13: \$1,338,244) have been allocated directly to claims expense.

Notes to the Financial Statements

for the year ended 30 June 2014

21. Net Claims Incurred and Underwriting Result

The following table provides detail in relation to the net claims incurred cost. Current year claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in previous reporting periods.

2014	In respect of Current Year \$000	In respect of Prior Years \$000	Total \$000
Gross Claims Incurred and Related Expenses Undiscounted	51,375	(39,556)	11,819
Other Recoveries Undiscounted	(176)	12,129	11,953
<i>Net Claims Incurred - Undiscounted</i>	<i>51,199</i>	<i>(27,427)</i>	<i>23,772</i>
Discount and Discount Movement - Gross Claims Incurred	(9,413)	17,158	7,745
Discount and Discount Movement - Other Recoveries	43	(1,386)	(1,343)
<i>Net Discount Movement</i>	<i>(9,370)</i>	<i>15,772</i>	<i>6,402</i>
Net Claims Incurred	41,829	(11,655)	30,174

Net claims incurred during 2013-14 in respect of claims incurred prior to 30 June 2013 was (\$11.7) million, resulting from:

	\$m
Interest on the 30 June 2013 provision, less payments during 2013-14	10.2
Release of administration allowance and risk margin in respect of payments during 2013-14	(13.6)
Changes in Actuarial Assumptions and Experience Deviation from Expected	(8.3)
	(11.7)

2013	In respect of Current Year \$000	In respect of Prior Years \$000	Total \$000
Gross Claims Incurred and Related Expenses Undiscounted	45,003	(20,416)	24,587
Other Recoveries Undiscounted	(237)	(143)	(380)
<i>Net Claims Incurred - Undiscounted</i>	<i>44,766</i>	<i>(20,559)</i>	<i>24,207</i>
Discount and Discount Movement - Gross Claims Incurred	(9,426)	608	(8,818)
Discount and Discount Movement - Other Recoveries	(21)	(657)	(678)
<i>Net Discount Movement</i>	<i>(9,447)</i>	<i>(49)</i>	<i>(9,496)</i>
Net Claims Incurred	35,319	(20,608)	14,711

Net claims incurred during 2012-13 in respect of claims incurred prior to 30 June 2012 was (\$20.6) million, resulting from:

	\$m
Interest on the 30 June 2013 provision, less payments during 2012-13	9.7
Release of administration allowance and risk margin in respect of payments during 2012-13	(18.7)
Changes in Actuarial Assumptions and Experience Deviation from Expected	(11.6)
	(20.6)

	2014 \$m	2013 \$m
Net Earned Premium		
Premium Revenue	43.7	42.2
Outwards Reinsurance Expense	(9.1)	(9.2)
	34.6	33.0
Net Claims Incurred		
Claims Expense	(19.0)	(16.6)
Recoveries Income	(11.1)	0.9
	(30.1)	(15.7)
Net Underwriting Result	4.5	17.3

Notes to the Financial Statements

for the year ended 30 June 2014

22. Contingent Assets and Liabilities

Contingent Assets

Under Section 15 of the *Government Financing Authority Act, 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

Origin Energy has indemnified SAFA if SAFA's guarantee to Osborne Cogeneration Pty Ltd in respect of the obligations of two subsidiaries of Origin Energy Ltd is called upon by Osborne Cogeneration Pty Ltd under arrangements for the generation of electricity at the Osborne Generation Plant. The Exposure of the guarantee is estimated at \$150 million to \$200 million.

Contingent Liabilities

(i) General

Indemnities provided by SAFA have been primarily provided to third parties involved in financing arrangements with SAFA either directly or indirectly, other statutory authorities and financial institutions of the State, and relate to financial advantages which are expected to be available to those parties or to preserve existing financial advantages.

By its nature insurance underwriting has liabilities contingent upon certain events occurring that give rise to a claim under the policy of insurance. All known and expected claims in respect of events that have occurred up to the end of the reporting period have been accounted for in the preparation of these Financial Statements plus an allowance for claims incurred but not reported and incurred but not enough reported using IBNR and IBNER calculations. Many claims require legal input to negotiate suitable settlements. The results of such negotiations may result in liabilities different to those recognised in the Financial Statements.

(ii) Guarantees

Under arrangements for the generation of electricity at the Osborne Generation Plant, SAFA has provided a guarantee to Osborne Cogeneration Pty Ltd in respect of the obligations of two subsidiaries of Origin Energy Ltd. The Exposure of the guarantee is estimated at \$150 million to \$200 million.

(iii) Treasurer's Indemnity

The Treasurer has indemnified SAFA against any profit or loss as a result of activities in the Insurance funds 2 and 3. Given the nature of activities in these funds, the Treasurer has approved that any operating profit before tax will be nil. This is achieved by negating the operating profit or loss with either a payable to or receivable from the Treasurer. This policy resulted in a payable to the Treasurer of \$12.2 million as at 30 June 2014 (payable to the Treasurer of \$8.2 million as at 30 June 2013).

(iv) Unused Loan Facilities

As at 30 June 2014, SAFA had extended loan facilities that were unutilised totalling \$1,019.2 million (2012-13: \$1,036.2 million).

(v) Security Transfer & Managing Out Deed

SAFA has executed a security transfer and managing out deed with the Commonwealth of Australia for the transfer of securities held by Playford Capital Pty Ltd as trustee for the PC IIFF Trust to SAFA for nil consideration. SAFA will use reasonable endeavours to liquidate the securities by 30 June 2015 with all proceeds from liquidation payable to the Commonwealth of Australia.

Notes to the Financial Statements

for the year ended 30 June 2014

23. Cash Flow Information

	Note	2014 \$m	2013 \$m
1. Reconciliation of Cash:			
Cash and cash equivalents per the Statement of Financial Position	5	1,839.4	2,033.4
Less Negotiable Certificates of Deposit and Working Capital		(1,542.5)	(1,636.6)
Less fair value component		(0.6)	(0.5)
Balance per Statement of Cash Flows		296.3	396.3
2. Reconciliation of Comprehensive Result to net cash provided by operating activities.			
Comprehensive result		62.6	71.5
Non-cash items			
Change in net market value of financial instruments		(43.9)	(52.6)
Amortisation of financial instruments		47.6	87.2
Depreciation, Impairment and Bad Debts		40.4	43.6
Gain on Sale of Property, Plant and Equipment		0.9	(1.7)
Gain on Transfer of Administrative Functions		-	(1.4)
Bad Debt written off		(0.0)	(0.2)
Changes in assets and liabilities, net of effects from transferred functions			
(Increase)/Decrease in accrued interest receivable		(5.9)	1.7
(Increase)/Decrease in recoveries receivable		13.7	0.5
(Increase)/Decrease in sundry debtors and other assets		(12.5)	0.1
Increase/(Decrease) in accrued interest payable		18.8	(10.5)
Increase/(Decrease) in outstanding claims		(24.3)	(37.4)
Increase/(Decrease) in sundry creditors and other liabilities		2.0	17.1
Foreign Currency movement		(0.0)	(0.0)
Net cash provided by operating activities		99.4	117.9

3. Non Cash Financing and Investing Activities

During 2013-14, \$0.7 million was adjusted against the Treasurer's debt for book gains arising from debt management activity.

24. Auditor's Remuneration

	2014 \$000	2013 \$000
Audit fees payable to the Auditor-General's Department relating to the audit of the financial statements. No other services were provided by the Auditor-General's Department.	242	225
Audit fees are paid through SAFA's SLA with DTF.	242	225

Notes to the Financial Statements

for the year ended 30 June 2014

25. Key Management Personnel

(1) Board and Committee members

	2014 Members	2013 Members
\$0	5	4
Between \$30,001 - \$40,000	4	4
Between \$40,001 - \$50,000	1	1
Total Number of Members	10	9
Total Remuneration	\$ 182,079	\$ 183,447

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, fringe benefits tax and any other salary sacrifice arrangements. Amounts paid to a superannuation plan for board/committee members in 2013-14 were \$15,416 (2012-13: \$15,147). All amounts paid to members are paid through SAFA's SLA with DTF.

SAFA Advisory Board and committee members during the 2013-14 financial year were:

Advisory Board

Mr B Rowse* (Presiding Member)
 Ms J Brown (term expired 8 June 2014)
 Mr M Day
 Mr L Foster
 Mr G Goddard* (Deputy Member)
 Mr J Hollamby* (Deputy Member) (expired 6 June 14)
 Mr C Long (term expired 8 June 2014)
 Ms Y Sneddon
 Ms A Westley* (resigned 6 June 2014)
 Mr P Mendo* (resigned 6 August 2013)

Audit and Risk Management Committee

Ms Y Sneddon
 Ms J Brown (term expired 8 June 2014)
 Mr L Foster
 Mr J Hollamby*

* Those members who are permanently employed under the *Public Sector Act, 2009*, or on similar terms, are not entitled to fees.

Unless otherwise disclosed, transactions with members are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

(2) Other key management personnel

The following persons also held authority and responsibility for planning, directing and controlling the activities of SAFA or subsidiary entities, directly or indirectly during the financial year:

Mr K Cantley
 Mr T Burfield
 Mr C Fowler
 Mr D Posaner
 Mr J Powell
 Mr D Price

General Manager
 Director Insurance
 Director Finance
 Director Corporate Governance and Planning
 Director Financial Markets and Client Services
 Director Fleet

The above are employed by DTF and provided to SAFA through an SLA. Details of their remuneration are included in the DTF Financial Statements.

26. Consultants

	2014 Consultants	2013 Consultants
Between \$1 - \$50,000	4	2
Between \$50,001 - \$100,000	-	1
Between \$150,001 - \$200,000	1	-
Total Consultants expense	\$ 197,327	\$ 102,790

In addition to the amounts shown in the table above, \$140,755 (2012-13: \$187,391) in consultants fees were paid through SAFA's SLA with DTF. These consultants are disclosed in DTF's Financial Statements.

Notes to the Financial Statements

for the year ended 30 June 2014

27. Fiduciary Activities

SAFA provides asset and liability management services to clients and these financial assets and liabilities are not recognised on SAFA's Statement of Financial Position, unless the financial transactions have been undertaken with SAFA as the provider. SAFA manages these assets and liabilities within prescribed risk limits as directed by, or agreed with clients. SAFA is responsible for providing regular financial and management information with respect to its management of client assets and liabilities.

	2014 \$m	2013 \$m
Liabilities under management	3,789.7	3,710.0

SAFA provides a pooled investment portfolio to its clients that meet their investment needs. The Cash Management Facility comprises cash and short-term money market securities. The assets and liabilities of this portfolio is reported within SAFA's Statement of Financial Position.

	2014 \$m	2013 \$m
Total market value of pooled investments	615.5	900.0

28. Unrecognised Contractual Commitments

a) Operating Lease Commitments Receivable

SAFA as a Lessor

Leases in which SAFA retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Agencies have entered into commercial leases on motor vehicles owned by SAFA. These leases are for terms up to three years, with an option, subject to approval, to extend in six monthly intervals to a maximum term of four years for passenger vehicles and a maximum term of five years for light commercial vehicles.

Future minimum rentals receivable (excluding GST) under non-cancellable operating leases are as follows:

	2014 \$m	2013 \$m
Motor Vehicle Hire:		
Not later than one year	49.0	55.1
Later than one year but not later than five years	30.5	35.5
Total Non-Cancellable Operating Lease Receivables	79.5	90.6

b) Other Commitments

SAFA's other commitments relate to software licences and maintenance.

	2014 \$m	2013 \$m
Software:		
Not later than one year	2.6	2.8
Later than one year but not later than five years	1.3	1.9
Total Software Commitments	3.9	4.7

(c) Unrecognised Investment Commitment

The South Australian Government announced in August 2005 that it would invest an amount not exceeding \$10 million in a private capital equity fund (Paragon Private Equity Fund No 1) established in South Australia and managed by Paragon Advisory Pty Ltd. The Government was committed to invest \$1 for every \$4 of private sector capital that Paragon Advisory Pty Ltd was able to raise up until the closing date of April 2007. The final capital commitment of the South Australian Government (SAFA) is \$0.9 million.

The Treasurer has indemnified SAFA against any shortfall where the assumption payment SAFA received of \$2.2 million is less than the aggregate of all capital contributions to the Fund.

Notes to the Financial Statements

for the year ended 30 June 2014

29. Capital Management

SAFA's objective is to maintain capital that allows it to continue as a going concern while exposing its stakeholders to an acceptable level of risk. SAFA's capital comprises Retained Earnings (\$339.8m in 2013-14; \$310.0m in 2012-13). The capital position is reviewed periodically by management to ensure its adequacy is commensurate with the level of risk. Among others, management considers the following factors when managing capital requirements:

- The overall risk position of the business;
- Dividend policy;
- The requirements of the *Government Financing Authority Act 1982* ; and
- The guarantee provided to SAFA by the Treasurer on behalf of the State of South Australia (refer Note 22).

30. Financial Risk Management

SAFA's activities expose it to a variety of financial risks: market risk (including interest rate risk, price risk and currency risk), credit risk, liquidity risk and insurance risk. SAFA's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of SAFA. SAFA uses derivative financial instruments such as futures, foreign exchange contracts, forward rate agreements and interest rate swaps to reduce certain risk exposures.

The guidelines within which these risks are undertaken and managed are established under policies approved by the Advisory Board, Treasurer and Management guidelines. SAFA monitors compliance with these policies and constraints by appropriately segregating the monitoring from the operating business unit. Information is summarised and reported daily to Management and reported monthly to the Advisory Board.

(a) Credit Risk

Credit risk is the risk of financial loss and associated costs resulting from the failure of a counterparty to meet its financial obligations as and when they fall due. SAFA incurs credit risk through undertaking its core functions of fundraising, debt management, liquidity management and the Government's reinsurance program.

SAFA's dealings in physical securities and other financial contracts, including derivatives, are transacted only with counterparties possessing strong to extremely strong safety characteristics regarding timely payment of principal and interest.

Should a participant in the Government's reinsurance program become insolvent or cease trading, the recoveries to which SAFA may be entitled could be jeopardised in full or in part, or the timing of any recovery may be subject to an insolvency action.

To minimise the potential for credit loss, SAFA complies with stringent credit guidelines. The guidelines are designed to promote diversification of credit risk amongst counterparties whilst limiting exposure only to highly rated institutions worldwide. The credit guidelines do not apply to loans to South Australian Government entities.

AASB 7: *Financial Instruments Disclosures* requires the disclosure of the amount of change in fair value that is attributable to the change in SAFA's credit risk. The following table shows the amount of change in fair value of Liabilities and Loans as at the end of the reporting period that is considered to be contributed to SAFA's credit risk for the period and cumulatively.

	2014 \$m		2013 \$m	
	Period	Cumulative	Period	Cumulative
Loans change in fair value Profit/(Loss)	(84.0)	(42.8)	(62.4)	31.7
Liabilities change in fair value Profit/(Loss)	98.5	50.2	73.8	(37.5)

The change in fair values attributable to credit risk have been calculated by determining the change in the difference in the spread between SAFA and Swap yield curves at the issue date and period end dates. This spread movement is then applied to the delta of each transaction to calculate the considered credit component. Spreads for the period ending 30 June 2014 have contracted by between 10-40 basis points.

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(i) Credit Quality

The following table sets out the credit quality of financial assets. The ratings have been presented based on credit ratings from Standard and Poors.

The below disclosure measures credit risk for physical securities at face value, and the credit risk of derivative transactions using a mark-to-market methodology that includes an additional factor to cover potential future adverse market movements.

The majority of SAFA's lending is to agencies and corporations of the South Australian Government. In respect to the repayment of loans by authorities (which are fully guaranteed by the Treasurer) the ultimate credit risk is to the Treasurer. The principal focus for SAFA is therefore with risk that arises through investment of funds in financial assets and through derivative transactions with market counterparties.

As required under AASB 13: *Fair Value Measurement*, a calculation has been undertaken to evaluate the impact to the fair value of interest rate swaps for a credit impact that may result from a change to SAFA's current valuation methodology. The amount of the adjustment required was less than 1% and therefore SAFA's accounts have not be adjusted to reflect this as it was considered immaterial. All other financial assets and liabilities are considered to include a credit component in the quoted market rate used to value the securities.

Concentration of Credit Risk by credit rating:

2014 Asset Class	Rating							Total
	AAA \$m	AA+ \$m	AA- \$m	A+ \$m	A \$m	A- \$m	NR* \$m	
Loans/Investments	385.4	247.0	1,180.6	537.5	713.4	220.0	17,473.8	20,757.7
Interest Rate Swaps	-	-	419.6	51.6	79.2	-	10.0	560.4
Currency Swaps	-	-	-	-	-	-	-	-
Foreign Exchange	-	-	1.1	-	-	-	-	1.1
Total	385.4	247.0	1,601.3	589.1	792.6	220.0	17,483.8	21,319.2

2013 Asset Class	Rating							Total
	AAA \$m	AA+ \$m	AA- \$m	A+ \$m	A \$m	A- \$m	NR* \$m	
Loans/Investments	501.9	28.0	1,397.8	883.0	612.5	198.0	15,733.0	19,354.2
Interest Rate Swaps	-	-	414.8	93.3	67.4	-	11.8	587.3
Currency Swaps	-	-	-	-	3.9	-	-	3.9
Foreign Exchange	-	-	1.8	-	0.2	-	0.5	2.5
Total	501.9	28.0	1,814.4	976.3	684.0	198.0	15,745.3	19,947.9

* NR - not classified under particular ratings. Includes loans to SA Government of \$17,242 million (2012-13: \$15,569 million).

SAFA has a 92% (2012-13: 93%) concentration of credit risk in Australia.

By counterparty the main concentration is 81% (2012-13: 78%) to SA Government and 16% (2012-13: 20%) to Banks.

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(ii) Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities subject to offsetting and/or master netting agreements:

SAFA enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Derivative asset and liability positions are accounted for at the transaction level, and are not offset at the counterparty level in the Statement of Financial Position. SAFA does not currently have a legally enforceable right to offset these positions in the usual course of business; the right to offset is enforceable only on the occurrence of future credit events, such as default. Furthermore, SAFA does not intend to settle these transactions on a net basis.

The analysis presented below sets out the carrying amounts of recognised financial instruments that are subject to the above agreements. SAFA does not hold collateral from, or post any collateral with, any of its counterparties.

2014	Gross Amounts of Financial Assets and Liabilities \$m	Gross amounts offset in the Statement of Financial Position \$m	Net amounts presented in the Statement of Financial Position \$m	Related amounts not offset		Net \$m
				Amounts subject to master netting agreements \$m	Financial collateral (incl. cash collateral) \$m	
Assets						
Interest Rate Swaps	278.6	0.0	278.6	(63.5)	0.0	236.9
Foreign Currency Swaps	244.5	0.0	244.5	(244.5)	0.0	0.0
Total	523.1	0.0	523.1	(308.0)	0.0	236.9
Liabilities						
Interest Rate Swaps	(45.8)	0.0	(45.8)	63.5	0.0	(4.1)
Foreign Currency Swaps	(246.4)	0.0	(246.4)	244.5	0.0	(1.9)
Total	(292.2)	0.0	(292.2)	308.0	0.0	(6.0)

2013	Gross Amounts of Financial Assets and Liabilities \$m	Gross amounts offset in the Statement of Financial Position \$m	Net amounts presented in the Statement of Financial Position \$m	Related amounts not offset		Net \$m
				Amounts subject to master netting agreements \$m	Financial collateral (incl. cash collateral) \$m	
Assets						
Interest Rate Swaps	298.3	0.0	298.3	(67.2)	0.0	231.1
Foreign Currency Swaps	37.8	0.0	37.8	(33.9)	0.0	3.9
Total	336.1	0.0	336.1	(101.1)	0.0	235.0
Liabilities						
Interest Rate Swaps	(43.8)	0.0	(43.8)	67.2	0.0	23.4
Foreign Currency Swaps	(33.9)	0.0	(33.9)	33.9	0.0	0.0
Total	(77.7)	0.0	(77.7)	101.1	0.0	23.4

Reconciliation to the Statement of Financial Position

The 'Net amounts presented in the Statement of Financial Position', as set out above, are reflected in the Statement of Financial Position as such:

- Derivative assets are presented under 'Derivatives Receivable' in the Statement of Financial Position.
- Derivative liabilities are presented under 'Derivatives Payable' in the Statement of Financial Position.

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(iii) Ageing Analysis

As at 30 June 2014 the amount of Receivables including Impaired Assets that were past due was \$2,268,198.

Past due but not impaired receivables are South Australian Government debts considered recoverable regardless of their age. Impaired receivables are long outstanding debts with non-South-Australian Government entities where funds are deemed irrecoverable.

	Past due by				
	1 - 30 days	31 - 60 days	61 - 90 days	+91 days	Total
	\$m	\$m	\$m	\$m	\$m
2014					
Past due but not impaired					
Receivables	1.7	0.1	0.0	0.1	1.9
Impaired					
Receivables	0.0	0.0	0.0	0.4	0.4
	1.7	0.1	0.0	0.5	2.3
2013					
Past due but not impaired					
Receivables	1.2	0.3	0.3	0.3	2.1
Impaired					
Receivables	0.0	0.0	0.0	0.4	0.4
	1.2	0.3	0.3	0.7	2.5

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(b) Liquidity Risk

In order to manage liquidity risk, SAFA has in place liquidity management guidelines, which require SAFA to hold a base level of liquidity comprising highly marketable liquid financial assets. Liquid assets include cash, promissory notes, Commonwealth bonds, floating rate notes and negotiable discount securities. The level of liquid financial asset holdings by SAFA on any given day must be sufficient to cover the higher of a base liquidity buffer of \$350 million or the sum of debt maturities over the next 60 days. Adherence to these guidelines enables SAFA to be in a position to meet the forecasted cash demands and any unanticipated funding requirements of the South Australian public sector.

SAFA has chosen an approach to minimise medium-term refinancing risks, which involves diversification of physical borrowings across the maturity spectrum, diversification of funding sources and the holding of liquid assets to assist in the management of refinancing and liquidity risk. These strategies result in SAFA facing manageable funding demands from financial markets in any given period. This approach assists the maintenance of an orderly market place for SAFA's securities when refinancing maturing debt obligations.

The liquidity analysis below has been presented on a contractual basis, representing the repayment of undiscounted principal and interest amounts for financial assets and liabilities, and the estimated discounted settlement amount for outstanding claims.

2014	< 3 Months \$m	3 to 12 Months \$m	1 to 2 Years \$m	2 to 3 Years \$m	3 to 4 Years \$m	4 to 5 Years \$m	Over 5 Years \$m	Total \$m
Assets								
Cash and Cash Equivalents	1,073.9	765.0	-	-	-	-	10.0	1,848.9
Investments	907.3	567.3	209.3	56.0	10.6	206.0	53.1	2,009.6
Loans	3,390.7	1,889.7	1,621.1	496.1	1,667.8	400.4	9,923.4	19,389.2
Other Assets	14.8	-	-	-	-	-	-	14.8
Total	5,386.7	3,222.0	1,830.4	552.1	1,678.4	606.4	9,986.5	23,262.5
Liabilities								
Deposits and Short-Term Borrowings	(5,005.4)	(665.3)	-	-	-	(10.0)	-	(5,680.7)
Bonds, Notes and Debentures	(157.6)	(4,088.2)	(2,825.1)	(431.3)	(2,762.0)	(279.0)	(6,674.9)	(17,218.1)
Outstanding Claims	(11.5)	(34.7)	(39.3)	(35.3)	(30.7)	(27.0)	(124.5)	(303.0)
Other Liabilities	(21.2)	-	-	-	-	-	-	(21.2)
Total	(5,195.7)	(4,788.2)	(2,864.4)	(466.6)	(2,792.7)	(316.0)	(6,799.4)	(23,223.0)
Net	191.0	(1,566.2)	(1,034.0)	85.5	(1,114.3)	290.4	3,187.1	39.5
Net Derivatives	17.1	58.3	52.8	58.5	49.5	30.6	56.9	323.7
2013	< 3 Months \$m	3 to 12 Months \$m	1 to 2 Years \$m	2 to 3 Years \$m	3 to 4 Years \$m	4 to 5 Years \$m	Over 5 Years \$m	Total \$m
Assets								
Cash and Cash Equivalents	1,612.8	430.0	-	-	-	-	-	2,042.8
Investments	948.3	514.9	399.1	261.2	1.9	0.1	-	2,125.5
Loans	3,412.0	1,591.9	1,646.0	800.2	392.7	1,554.8	8,034.1	17,431.7
Other Assets	13.5	-	-	-	-	-	-	13.5
Total	5,986.6	2,536.8	2,045.1	1,061.4	394.6	1,554.9	8,034.1	21,613.5
Liabilities								
Deposits and Short-Term Borrowings	(5,820.5)	(220.0)	-	-	-	-	-	(6,040.5)
Bonds, Notes and Debentures	(125.4)	(3,008.8)	(3,091.7)	(2,702.9)	(308.6)	(2,386.0)	(3,788.3)	(15,411.7)
Outstanding Claims	(12.3)	(36.9)	(45.4)	(47.0)	(30.4)	(26.8)	(128.5)	(327.3)
Other Liabilities	(13.3)	-	-	-	-	-	-	(13.3)
Total	(5,971.5)	(3,265.7)	(3,137.1)	(2,749.9)	(339.0)	(2,412.8)	(3,916.8)	(21,792.8)
Net	15.1	(728.9)	(1,092.0)	(1,688.5)	55.6	(857.9)	4,117.3	(179.3)
Net Derivatives	12.0	89.7	79.5	49.7	54.3	45.6	74.2	405.0

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(c) Market risk

Market risk is the risk that changes in market prices will result in gains or losses to SAFA's financial instruments. SAFA has a range of policies in place to manage market risk, including counterparty exposure limits, risk limits and liquidity and maturity limits. The main tool used to measure and assess market risks within each of SAFA's trading portfolios is Value at Risk (VaR).

(i) Price Risk

Treasury Operations

SAFA manages the sensitivity of its treasury portfolios for changes in market risk variables by calculating VaR daily and monitoring the calculated VaR against pre-determined exposure limits. VaR is the calculation of the potential loss due to interest rate movements for any one day.

SAFA calculates VaR using the Historical Simulation method and a two year interest rate horizon. The daily VaR is assessed at the 95% confidence level.

The following table shows the computed VaR on SAFA's principal portfolios:

	2014 Actual \$000	2014 Working Limit \$000	2013 Actual \$000	2013 Working Limit \$000
Funding Portfolio	307.5	750.0	668.6	750.0
Liquidity Portfolio	36.4	250.0	104.7	250.0
Reinvestment Portfolio	0.6	N/A	0.4	N/A
Cash Management Facility	13.9	N/A	27.8	N/A

SAFA's treasury portfolios that reflect SAFA's position with the Treasurer of South Australia are not reported above, as all risk in these portfolios are borne directly by the Treasurer.

As SAFA's VaR model relies on historical data and assumes recent historic market conditions, it may not always accurately predict the size of potential losses. SAFA therefore uses other controls such as limits on exposures based on factor sensitivity measurements covering interest rate, yield curve and basis spread movement scenarios and monitors exposures to plausible extreme market movements through stress testing.

Insurance Operations

The insurance portfolio is exposed to price risk arising from investments held with Funds SA. SAFA maintains policies outlining the strategies for investment of funds and these policies are reviewed every three years.

The table below shows the impact of a positive or negative 10% movement in the value of investment funds held with Funds SA:

2014	Investments \$000	Profit (Post tax)		Equity	
		-10% \$000	10% \$000	-10% \$000	10% \$000
Fund 1	413,212	(28,925)	28,925	(28,925)	28,925
Fund 2*	46,679	(3,268)	3,268	(3,268)	3,268
Fund 3*	2,468	(173)	173	(173)	173
Total	462,359	(32,366)	32,366	(32,366)	32,366

* Due to the nature of activities undertaken by Fund 2 and Fund 3, the Treasurer has approved that any operating profit or loss before tax will be nil for each of these funds. Therefore, any movement in the value of investments with Funds SA for Fund 2 or Fund 3 would effectively be offset by the Treasurer's Indemnity (Refer Note 22).

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(ii) Interest Rate Risk

SAFA uses a variety of methods to measure interest rate risk, including basis point sensitivity, duration and VaR. The Treasurer and Under Treasurer approve interest rate risk limits for SAFA's portfolios.

SAFA uses interest rate derivatives to manage the sensitivity of investment portfolios to interest rate fluctuations to be within strict limits, without requiring transactions in physical securities. SAFA utilises futures contracts, interest rate swaps and forward rate agreements to manage interest rate risk.

The following table shows the computed Price Value per basis point (PV01) of SAFA's principal portfolios, reflecting changes in portfolio value relative to interest rate movements:

	2014 Actual \$	2014 Working Limit \$	2013 Actual \$	2013 Working Limit \$
Funding Portfolio	437	± 10,000	849	± 10,000
Liquidity Portfolio	575	± 10,000	84	± 10,000
Reinvestment Portfolio	46	N/A	20	N/A
Cash Management Facility	7,804	N/A	10,598	N/A

SAFA's treasury portfolios that reflect SAFA's position with the Treasurer of South Australia are not reported above, as all risk in these portfolios are borne directly by the Treasurer.

(iii) Foreign Currency Risk

SAFA has a policy of limiting its foreign currency risk, and has limits in place to protect against movements in foreign currency exchange rates. SAFA utilises foreign exchange swaps, foreign exchange and forward exchange contracts to manage the foreign currency exposures associated with foreign currency borrowings.

The following table summarises SAFA's exposure to exchange rate risk. The value to be received under the currency contracts is designed to hedge the exposure to the net foreign currency liabilities:

	USD A\$000	GBP A\$000	EUR A\$000	NZD A\$000	SGD A\$000
2014					
Less than 1 year					
Net Foreign Currency Assets	(244,525.6)	174.0	(6.4)	25.3	(0.1)
Net Derivatives	244,550.5	-	-	-	-
Total Exposure	24.9	174.0	(6.4)	25.3	(0.1)
Sensitivity					
Profit impact (in AUD) of +1% change in foreign currency	0.2	1.7	(0.1)	0.3	(0.0)
2013					
Less than 1 year					
Net Foreign Currency Assets	(37,758.8)	152.0	(5.5)	22.2	(0.1)
Net Derivatives	37,789.3	-	-	-	-
Total Exposure	30.5	152.0	(5.5)	22.2	(0.1)
Sensitivity					
Profit impact (in AUD) of +1% change in foreign currency	0.3	1.5	(0.1)	0.2	(0.0)

SAFA's total exposure to exchange rate risk (on a net basis) is \$217,769 for the year ended 30 June 2014 (2012-13: \$199,000). Had the Australian Dollar weakened by 10 per cent against the foreign currencies listed above, the direct impact to SAFA would be a gain of approximately \$21,777 (2012-13: \$19,900).

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(d) Insurance Risk

SAFA uses a range of policies to manage risk associated with its insurance activities. The most relevant methods include:

- the continual monitoring of the experience and development of claims;
- premium setting methodologies that reflect the latest development in the risks SAFA's Insurance division is insuring;
- placing reinsurance to protect the capital base against a severe adverse event or a series of severe adverse events; and
- regular review of the investment strategy for assets backing insurance liabilities.

(i) Claim Development

The following tables show the development of incurred cost on net undiscounted outstanding claims (Medical Malpractice, Liability, Property and Builders Indemnity) relative to the ultimate expected estimate over the ten most recent financial years. Figures provided are net of reinsurance and relate to Fund 1 and Fund 3. This information is not disclosed for Fund 2 as it is not considered appropriate for its activities.

Medical Malpractice

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June										Undiscounted Paid to Date	Discount Liability Jun-14	Discount Present Value
	2005 \$000	2006 \$000	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	\$000	\$000	\$000
Prior	69,192	93,789	87,312	164,428	98,285	89,714	76,237	88,921	91,706	99,140	63,103	36,037	31,832
2003	17,077	14,533	13,159	13,789	14,108	13,277	12,709	12,009	11,553	11,508	455	11,053	9,447
2004	12,260	9,012	3,355	11,643	7,043	4,336	4,552	2,714	2,109	3,298	206	3,092	2,620
2005	18,826	16,683	12,519	7,752	4,200	3,114	3,963	2,378	1,711	2,448	8	2,440	2,052
2006		21,363	17,896	25,892	16,422	7,694	20,793	13,421	13,580	13,471	1,651	11,820	9,860
2007			21,513	22,589	13,748	7,366	9,966	8,290	6,837	6,386	3	6,383	5,270
2008				22,947	20,345	13,923	11,993	16,582	14,848	13,648	937	12,711	10,359
2009					49,922	36,167	29,248	27,700	31,564	23,205	8	23,197	18,610
2010						24,134	15,725	13,002	11,367	8,198	14	8,184	6,436
2011							17,486	15,471	15,742	14,662	4,197	10,465	8,040
2012								18,749	17,802	13,584	12	13,572	10,148
2013									21,967	17,275	7	17,268	12,520
2014										21,702	19	21,683	15,191
Total										248,525	70,620	177,905	142,385

Liability

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June										Undiscounted Paid to Date	Discount Liability Jun-14	Discount Present Value
	2005 \$000	2006 \$000	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	\$000	\$000	\$000
Prior	31,542	37,678	28,244	32,966	46,788	48,691	55,062	56,195	56,833	57,702	55,010	2,692	2,562
2003	2,593	2,280	2,237	2,099	2,102	2,239	2,780	3,169	2,780	2,808	2,713	95	90
2004	2,686	3,093	2,733	2,813	2,816	3,814	3,971	4,291	4,832	5,426	5,168	258	243
2005	6,283	5,187	4,407	23,291	24,446	24,943	23,879	23,613	23,144	13,668	12,550	1,118	1,047
2006		7,922	3,488	2,295	1,961	1,848	1,845	1,911	1,828	2,414	989	1,425	1,329
2007			7,366	3,564	2,106	2,182	2,996	2,552	2,325	2,338	1,847	491	456
2008				6,359	3,610	2,137	2,114	1,936	2,907	7,742	1,803	5,939	5,495
2009					5,784	2,766	7,445	5,644	4,907	5,000	3,929	1,071	986
2010						6,705	4,365	3,663	11,386	10,904	8,896	2,008	1,836
2011							7,173	5,982	5,158	5,266	1,004	4,262	3,858
2012								8,038	6,749	5,620	1,030	4,590	4,092
2013									6,683	5,456	79	5,377	4,694
2014										6,478	47	6,431	5,485
Total										130,822	95,065	35,757	32,173

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(i) Claim Development (continued)

Property

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June										Undiscounted Paid to	Discount Liability	Discount Present
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Date	Jun-14	Value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Prior	11,232	9,143	10,827	10,114	10,468	10,779	10,137	9,581	9,381	9,381	9,381	0	0
2003	586	426	668	447	447	447	456	456	456	456	456	0	0
2004	2,920	2,444	4,430	4,111	3,975	4,634	3,512	2,880	2,880	2,880	2,880	0	0
2005	12,812	4,035	4,027	2,849	2,700	2,718	2,704	2,689	2,689	2,689	2,689	0	0
2006		1,667	2,461	1,927	1,604	1,731	2,581	1,933	1,933	1,933	1,933	0	0
2007			3,269	2,907	2,666	2,256	2,285	2,142	2,180	2,180	2,180	0	0
2008				2,347	2,265	2,390	1,762	1,555	1,543	1,540	1,531	9	8
2009					2,777	2,116	1,599	1,689	1,666	1,672	1,665	7	6
2010						3,255	1,779	1,543	1,479	1,576	1,544	32	31
2011							4,568	3,270	3,060	2,940	2,657	283	271
2012								2,683	2,046	2,314	1,458	856	822
2013									1,996	1,990	607	1,383	1,327
2014										3,224	332	2,892	2,774
Total										34,775	29,313	5,462	5,239

Building Indemnity

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June				Undiscounted Paid to	Discount Liability	Discount Present
					Date	Jun-14	Value
					\$000	\$000	\$000
2014					1,036	353	604
Total					1,036	353	604

(ii) Unexpired risk liability

The Liability Adequacy Test (LAT) (Note 2 (p)) was completed by the independent actuary for Building Indemnity Insurance offered by SAFA. The actuary has compared the unearned premium and the expected cost of claims arising from this premium, including associated expenses and a risk margin. The result of the LAT was a \$0.2 million premium deficiency which has been written off against deferred acquisition costs.

(iii) Concentration Risk

Whilst investments in the Insurance portfolio contain some diversity, by its nature it is geographically concentrated in Adelaide and as such is exposed to the risk of potentially material property catastrophes of the State, being earthquake, bushfires, storms and floods. The reinsurance program is purchased to provide protection in excess of the retention level, which is \$15 million for property, \$15 million for medical malpractice per event and \$20 million for liability classes. The Advisory Board annually reviews the appropriateness of the retention level.

SAFA provides the medical indemnity insurance for all public hospitals in South Australia and as such is exposed to the consequences of any factor which increases the cost of such cover for example, legal precedents.

Notes to the Financial Statements

for the year ended 30 June 2014

30. Financial Risk Management (continued)

(iv) Sensitivity Analysis

SAFA has tested the sensitivity of the results to a change in the key assumptions used in the valuation of outstanding claims liabilities. These include changes to the discount and superimposed inflation rates and changes in the expected payment pattern.

The following table sets out the tests carried out and the results:

2014	Present Value of Outstanding Liability			Change from Central Estimate		
	Fund 1 \$000	Fund 2 \$000	Fund 3 \$000	Fund 1 %	Fund 2 %	Fund 3 %
Insurance Fund						
1. Discount Rate						
(a) Increase by 1%	247,537	40,444	620	(5.1)	(2.9)	(3.2)
(b) Decrease by 1%	275,226	42,894	662	5.6	3.0	3.4
2. Inflation Rate						
(a) Increase by 1%	275,146	42,855	-	5.5	2.9	-
(b) Decrease by 1%	247,358	40,482	-	(5.1)	(2.8)	-
3. Superimposed Inflation Rate						
(a) Increase by 1%	275,041	42,818	662	5.5	2.9	3.3
(b) Decrease by 1%	247,462	40,518	620	(5.1)	(2.7)	(3.2)
4. Other Assumptions						
(a) Faster payment pattern - Long Tail & Med Mal	261,417	41,645	-	0.3	-	-
(b) Longer Liability tail	261,022	41,782	-	0.1	0.4	-
(c) Longer Med Mal tail	261,167	41,959	-	0.2	0.8	-
(d) Claim Deterioration	-	-	769	-	-	20.0

Notes to the Financial Statements

for the year ended 30 June 2014

31. Fair Values of Assets and Liabilities

This section explains the judgements and estimates made in determining the fair values of the assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, SAFA has classified its assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

(a) Financial Assets and Liabilities

(i) Fair Value Hierarchy

2014	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Financial Assets					
Cash and Cash Equivalents	5	298.4	1,541.0	-	1,839.4
Investments	7	312.4	1,359.1	275.3	1,946.8
Loans	8	3,019.4	6,198.5	8,232.4	17,450.3
Derivatives Receivable	11	-	523.1	-	523.1
Total		3,630.2	9,621.7	8,507.7	21,759.6
Financial Liabilities					
Deposits and Short-Term Borrowings	13	(3,346.7)	(2,314.1)	-	(5,660.8)
Bonds, Notes and Debentures	14	(14,411.8)	(441.5)	(528.9)	(15,382.2)
Derivatives Payable	16	-	(292.2)	-	(292.2)
Total		(17,758.5)	(3,047.8)	(528.9)	(21,335.2)

2013	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Financial Assets					
Cash and Cash Equivalents	5	421.7	1,611.7	-	2,033.4
Investments	7	38.0	1,762.8	275.0	2,075.8
Loans	8	2,900.4	6,044.6	6,653.3	15,598.3
Derivatives Receivable	11	-	336.1	-	336.1
Total		3,360.1	9,755.2	6,928.3	20,043.6
Financial Liabilities					
Deposits and Short-Term Borrowings	13	(3,878.7)	(2,152.5)	-	(6,031.2)
Bonds, Notes and Debentures	14	(12,854.4)	(159.6)	(521.0)	(13,535.0)
Derivatives Payable	16	-	(77.7)	-	(77.7)
Total		(16,733.1)	(2,389.8)	(521.0)	(19,643.9)

Notes to the Financial Statements

for the year ended 30 June 2014

31. Fair Values of Assets and Liabilities (continued)

Retail Index Annuity instruments were transferred from Level 2 to Level 3 of the fair value hierarchy, reflecting the use of estimation techniques employed to value the instruments. This transfer is disclosed in Note 31(iii). Several other instruments were reclassified between Level 2 and Level 1 of the hierarchy in 2013-14, following a review of the estimation techniques employed to value these instruments. As at 30 June 2014, the value of Bonds, Notes and Debentures transferred was \$275.3m and the value of Cash and Cash Equivalents transferred was \$19.6m. SAFA recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Financial Assets and Liabilities are categorised to levels of the fair value hierarchy based on the following:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that are accessible at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1, which are observable for assets or liabilities, either directly or indirectly.
- Level 3: Inputs to asset or liability valuation that are not based on observable market data (unobservable inputs). This category includes instruments that are valued using quoted prices, but where material adjustments are required as a result of relevant unobservable inputs or assumptions.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2. All valuation methods remain unchanged compared to the previous reporting period.

(iii) Level 3 Financial Instruments Reconciliation

The following table presents the changes in Level 3 items for the periods 30 June 2013 and 30 June 2014.

2014 \$m	Note	Assets		Liabilities	
		Investments	Loans	Bonds, Notes and Debentures	Total
Balance at 30 June 2013		275.0	6,653.3	(521.0)	6,407.3
Total gain/(loss) included:					
in Profit or Loss		8.1	338.6	(13.9)	332.8
Purchases		-	1,510.0	-	1,510.0
Sales		(7.8)	(269.5)	-	(277.3)
Issues		-	-	(21.6)	(21.6)
Settlements		-	-	33.0	33.0
Transfers into Level 3		-	-	(5.4)	(5.4)
Balance at 30 June 2014		275.3	8,232.4	(528.9)	7,978.8

Total gains or losses in the above table are presented in the Statement of Comprehensive Income as follows:

Interest Revenue	18	7.8	273.0	(26.6)	254.2
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	19	0.3	64.9	13.0	78.2
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	19	-	0.7	(0.3)	0.4
Total		8.1	338.6	(13.9)	332.8

Notes to the Financial Statements

for the year ended 30 June 2014

31. Fair Values of Assets and Liabilities (continued)

2013 \$m	Note	Assets		Liabilities	
		Investments	Loans	Bonds, Notes and Debentures	Total
Balance at 30 June 2012		273.9	5,922.0	(939.2)	5,256.7
Total gain/(loss) included: in Profit or Loss		10.8	(124.3)	357.2	243.7
Purchases		-	1,123.0	-	1,123.0
Sales		(9.7)	(267.4)	-	(277.1)
Issues		-	-	(8.2)	(8.2)
Settlements		-	-	69.2	69.2
Balance at 30 June 2013		275.0	6,653.3	(521.0)	6,407.3

Total gains or losses in the above table are presented in the Statement of Comprehensive Income as follows:

Interest Revenue	18	9.4	266.3	(43.8)	231.9
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	19	1.4	(68.3)	61.6	(5.3)
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	19	-	(322.3)	339.4	17.1
Total		10.8	(124.3)	357.2	243.7

(iv) Level 3 Financial Instruments: Unobservable inputs used in measuring fair value

The following table summaries the quantitative information about the significant unobservable inputs used in Level 3 fair value measurement:

Type of Financial Instrument	Fair value at 30 June 14 (\$m)	Valuation Technique	Significant Unobservable Input	Estimate of Unobservable Input	Fair value measurement sensitivity to unobservable inputs
Bonds, Notes and Debentures:					
Principal and Interest Borrowing	(242.1)	Discounted Cash Flow	Discount rates/market yields	2.47% - 3.91% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a \$243,153 change in market value.
Borrowing Non-Market	(10.0)	Borrowing with no applicable interest rate or discount rate.	Discount rates/market yields	0% IRR	Instrument value will not change with respect to market/discount rates.
Bonds	(271.0)	Discounted Cash Flow	Discount rates/market yields	2.59% - 3.52% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a \$47,434 change in market value.
Retail Indexed Annuity	(5.8)	Discounted Cash Flow	Real discount rates (annuity rates)	0.44% - 0.83%	Market rates are observed for annuity instruments. A 1 basis point shift in real rates results in a \$1,332 change in market value.
Investments:					
Floating Rate Note	275.3	Discounted Cash Flow	Discount rates/market yields	2.92% IRR	A 1 basis point shift in underlying swap rates results in a \$5,352 change in market value.

Notes to the Financial Statements

for the year ended 30 June 2014

31. Fair Values of Assets and Liabilities (continued)

(iv) Level 3 Financial Instruments: Unobservable inputs used in measuring fair value (continued)

Loans:

Loan to Treasurer COF	8,222.4	Reflects the market value of borrowings used to fund the loan	Discount rates/market yields	N/A	Market value change is directly proportional to the market value change of instruments used to fund the loan.
Loan to Treasurer Non-Market	10.0	Loan with no applicable interest rate or discount rate	Discount rates/market yields	0% IRR	Instrument value will not change with respect to market/discount rates.

SAFA considers that its estimates of fair value are appropriate, and whilst alternative assumptions in relation to unobservable inputs could be used when determining fair value, these alternative assumptions would not result in any significant changes to measured fair values.

(b) Non Financial Assets and Liabilities

(i) Fair Value Hierarchy

2014	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Assets					
Assets Held For Sale	5	-	7.0	-	7.0
Property, Plant and Equipment	9	-	182.3	-	182.3
Total		-	189.3	-	189.3

2013	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Assets					
Assets Held For Sale	5	-	5.6	-	5.6
Property, Plant and Equipment	9	-	195.0	-	195.0
Total		-	200.6	-	200.6

Non Financial assets are valued at cost less accumulated depreciation which is deemed to represent approximate fair value. Valuation techniques used to derive residual value of Non Financial Assets include:

- the use of quoted market prices or dealer quotes for similar assets;
- the use of RedBook and Glass's valuations for similar assets; and
- the cost less accumulated depreciation over the useful life to a residual value.

SAFA undertook a fair value exercise at the end of the 2013-14 financial year to ensure there were no major differences between the stated residual value and the expected sales value of the fleet for vehicles scheduled to be sold in the 2014-15 year.

All of the resulting fair value estimates are included in Level 2.

All valuation methods remain unchanged compared to the previous reporting period.

Notes to the Financial Statements

for the year ended 30 June 2014

32. Average Statement of Financial Position and Margin Analysis

The average balances represent the average month end balances and reflect the face value of SAFA's assets and liabilities. The average rate is calculated as interest divided by the average balance of interest bearing assets and liabilities.

	Average balance 2014 \$m	Interest 2014 \$m	Average rate 2014 %	Average balance 2013 \$m	Interest 2013 \$m	Average rate 2013 %
Assets						
Interest Earning Assets						
Cash and Cash Equivalents	2,041.9	54.6	2.67%	2,352.9	82.1	3.49%
Investments	1,545.6	51.5	3.33%	1,259.4	66.6	5.29%
Loans	16,737.6	597.9	3.57%	14,790.2	625.2	4.23%
Other Assets	-	404.3	-	-	479.5	-
Total Assets	20,325.1	1,108.3	3.46%	18,402.5	1,253.4	4.21%
Liabilities						
Interest Bearing Liabilities						
Deposits and Short-Term Borrowings	5,011.6	122.7	2.45%	5,275.7	158.2	3.00%
Bonds, Notes and Debentures	15,562.7	669.6	4.30%	13,597.7	689.3	5.07%
Other Liabilities	-	305.8	-	-	391.7	-
Total Liabilities	20,574.3	1,098.1	3.85%	18,873.4	1,239.2	4.49%

33. Actuarial Assumptions and Methods

SAFA writes four broad classes of general insurance: Property, Liability, Medical Malpractice and Other Liability. Products included in these broad classes are detailed below:

Property (Short Tail)	Liability (Long Tail)	Medical Malpractice	Other (Long Tail)
Aviation Property	Aviation Liability	Medical Malpractice	Building Indemnity
Buildings and Contents	General Liability		Volunteers
Consequential Loss	Marine Liability		
Fidelity Guarantee	Professional Indemnity		
General Property	Personal Accident		
Machinery Breakdown			
Marine Property			
Motor Vehicle			

Total Outstanding Claims

	Central Estimate \$m	Risk Margin \$m	Indirect Claims Settlement Margin \$m	Total \$m
2014				
Expected Future Claims Payments (Inflated/Undiscounted)	254.9	94.5	15.2	364.6
Discount to Present Value	(42.8)	(16.2)	(2.6)	(61.6)
Total Outstanding Claims	212.1	78.3	12.6	303.0

Notes to the Financial Statements

for the year ended 30 June 2014

33. Actuarial Assumptions and Methods (continued)

Assumptions

SAFA used the following assumptions in the measurement of its outstanding claims.

2014	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	1.58	3.58	6.88	-
Average weighted term to settlement - Fund 2	2.46	3.91	2.85	-
Average weighted term to settlement - Fund 3	-	-	-	3.52
Percentage risk margin adopted - Fund 1	24.00%	37.00%	37.00%	-
Percentage risk margin adopted - Fund 2	19.00%	23.00%	25.00%	-
Percentage risk margin adopted - Fund 3	-	-	-	26.00%
Claims handling expense	6.00%	6.00%	6.00%	6.00%
Inflation rate (includes superimposed inflation)*	-	3.00%	3.00%	3.00%
Discount rate	2.70%	3.10%	3.50%	3.40%

2013	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	1.67	3.20	7.13	-
Average weighted term to settlement - Fund 2	2.84	5.17	2.52	-
Percentage risk margin adopted - Fund 1	21.00%	33.00%	32.00%	-
Percentage risk margin adopted - Fund 2	19.00%	23.00%	25.00%	-
Claims handling expense	6.00%	6.00%	6.00%	-
Inflation rate (includes superimposed inflation)*	-	3.00%	3.00%	-
Discount rate	2.80%	3.10%	3.70%	-

* The valuation methods adopted do not have an explicit inflation assumption, although allowance is made for superimposed inflation (3%) for both Medical Malpractice and Long-Tail Classes.

The overall risk margin is determined allowing for the uncertainty of the outstanding claims estimate. Uncertainty is analysed taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

AASB1023 *General Insurance Contracts* does not prescribe a fixed risk margin or probability of sufficiency. However, it is a requirement of the Australian Prudential Regulation Authority guidelines for private sector insurers that a minimum of 75% probability of sufficiency be satisfied through the application of the risk margin. Taking into account the nature of the risks underwritten by SAFA and distributions regarded as relevant by the industry for those risks, the application of the above risk margins by class result in a 75% probability that the provision for outstanding claims will be sufficient.

Notes to the Financial Statements

for the year ended 30 June 2014

34. Subsidiaries

Playford Capital Pty Ltd became a wholly-owned subsidiary of SAFA on 1 July 2012. The financial statements do not incorporate the assets, liabilities and results of the subsidiary in accordance with the accounting policy described in Note 2(c). The investment in Playford Capital Pty Ltd is carried at cost in SAFA's financial statements.

There are no significant restrictions on SAFA's ability to access, use or settle the remaining assets and liabilities of Playford Capital Pty Ltd.

Separate Financial Statements for Playford Capital Pty Ltd have been appended to SAFA's Financial Report.

Name of Entity	Country of incorporation	Class of shares	Equity holding	
			2014	2013
Playford Capital Pty Ltd	Australia	Ordinary	100%	100%

As at 30 June 2014 Playford Capital Pty Ltd had retained earnings of \$0.5 million.

35. Events after the end of the reporting period

On 14 August 2014 the directors of Playford Capital Pty Ltd declared a final dividend of \$0.5 million. Subsequent to the payment of the dividend on 4 September 2014 members resolved to appoint a liquidator to voluntarily wind up the activities of Playford Capital Pty Ltd, in accordance with regulations to the *Corporations Act 2001*.

Certification of the Financial Statements

We, certify that the attached General Purpose Financial Statements for SAFA:

- are in accordance with the accounts and records of SAFA;
- comply with relevant Treasurer's Instructions issued under section 41 of the Public Finance and Audit Act 1987, and relevant Australian Accounting Standards; and
- present a true and fair view of the financial position of SAFA as at 30 June 2014 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by SAFA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe SAFA will be able to pay its debts as and when they become due and payable.



Craig L Fowler
DIRECTOR FINANCE, SAFA



Kevin M Cantley
GENERAL MANAGER, SAFA



Brett Rowse
UNDER TREASURER

Date: 19 SEPTEMBER 2014

Independent Audit Statement

South Australian Government Financing Authority

INDEPENDENT AUDITOR'S REPORT



Government of South Australia

Auditor-General's Department

9th Floor
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 Under Treasurer South Australian Government Financing Authority

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 25(2) of the *Government Financing Authority Act 1982*, I have audited the accompanying financial report of the South Australian Government Financing Authority for the financial year ended 30 June 2014. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2014
- a Statement of Financial Position as at 30 June 2014
- a Statement of Changes in Equity for the year ended 30 June 2014
- a Statement of Cash Flows for the year ended 30 June 2014
- notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Under Treasurer, General Manager (SAFA) and the Director, Finance (SAFA).

Under Treasurer's Responsibility for the Financial Report

The Under Treasurer 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 Australian Accounting Standards, and for such internal control as the Under Treasurer determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Independent Audit Statement (continued)

South Australian Government Financing Authority

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

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of the South Australian Government Financing Authority as at 30 June 2014, 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.



S O'Neill
AUDITOR-GENERAL
24 September 2014

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Attorney-General's Department		•	•
Consumer and Business Services			•
Equal Opportunity Commission		•	•
Forensic Science SA		•	•
Guardianship Board		•	•
Office of Liquor, Gaming & Racing Services		•	•
Office of the Public Advocate		•	•
Police Complaints Authority			•
Public Trustee		•	•
State Ombudsman		•	•
Tenancies Attorney General's			•
Courts Administration Authority		•	•
SA Government Radio Network		•	
Department for Correctional Services		•	•
Operation Flinders Foundation			•
Electoral Commission of South Australia		•	•
Legal Services Commission of South Australia	•	•	•
Police Security Services		•	•
SA Motor Sport Board	•	•	•
South Australian Fire and Emergency Services Commission		•	•
Country Fire Service		•	•
South Australian Metropolitan Fire Service		•	•
State Emergency Service (SES)	•	•	•
South Australian Police	•	•	•
Department for Communities and Social Inclusion (DCSI)	•	•	•
Corporate & Disability Services Units		•	
Disability Services		•	•
Domiciliary Care South Australia	•	•	•
Housing SA	•	•	•
South Australian Housing Trust	•	•	•
Office for Community Housing (Housing SA)	•	•	•
Multicultural SA		•	•
Office for Volunteers		•	•
Office for Women		•	•
Office for Youth		•	•
Parks Community Centre		•	
Department for Education and Child Development (DECD)	•	•	•
Families SA	•	•	•
SACE Board of South Australia	•	•	•
Education and Early Childhood Services Registration and Standards Board		•	
Department of Environment, Water and Natural Resources		•	•
Adelaide Mount Lofty Ranges Natural Resources Management Board		•	•
Alinytjara Wilurara Natural Resources Management Board		•	•
Botanic Gardens S&C			•
Coorong Lower Lakes & Murray Mouth Projects			•
Environment Protection Authority		•	•
Eyre Peninsula Natural Resources Management Board		•	•
Kangaroo Island Natural Resources Management Board		•	•

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Murray Darling Basin Authority		•	•
Northern and Yorke Peninsula Natural Resources Management Board		•	•
Office of Water Security		•	•
Royal Zoological Society of South Australia	•	•	
SA Murray-Darling Basin Natural Resources Management Board		•	•
Seasonal Fire Program RC		•	•
South Australian Arid Lands Natural Resources Management Board		•	•
South East Natural Resources Management Board		•	•
South Eastern Water Conservation & Drainage Board		•	•
Stormwater Management Authority		•	
Zero Waste SA		•	•
Department of Further Education, Employment, Science and Technology (DFEEST)		•	•
Austraining International *	•		
Bio Innovation SA		•	•
Education Adelaide	•	•	•
TAFE SA	•	•	•
Department for Health and Ageing	•	•	•
<i>Central Northern Adelaide Health Service (CNAHS) -</i>			
Glenside Campus		•	•
Hampstead Centre		•	•
Lyell McEwin Health Services	•	•	•
Modbury Hospital	•	•	•
Queen Elizabeth Hospital	•	•	•
Royal Adelaide Hospital	•	•	•
Women's and Children's Hospital	•	•	•
Children, Youth & Women's Health Service	•	•	•
Country Health SA	•	•	•
Hills Mallee Southern Regional Health Service	•	•	
Northern Adelaide Hills Health Service	•	•	
SA Ambulance Service	•	•	•
SA Dental Service		•	•
<i>Southern Adelaide Health Service –</i>			
Flinders Medical Centre	•	•	•
Repatriation General Hospital	•	•	•
Department for Manufacturing, Innovation, Trade, Resources and Energy	•	•	
Defence SA		•	•
Department of Planning, Transport, and Infrastructure	•	•	•
Rail Commissioner		•	
Transport SA		•	•
Office for Recreation and Sport		•	•
Department of the Premier and Cabinet	•	•	•
Employee Ombudsman Office		•	•
Government House		•	•
Government Publishing SA (GPSA)		•	

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Industrial Court and Commission		•	•
Industrial Relations Court & Commission		•	•
Office for Ethical Standards & Professional Integrity Tribunal		•	•
South Australian Health Practitioners Tribunal		•	
Office for Racing		•	•
Public Sector Injury Management Service		•	•
Public Sector Workforce Relations		•	•
SafeWork SA **		•	•
Shared Services SA		•	
State Records of South Australia		•	•
Workers Compensation Tribunal		•	
Adelaide Cemeteries Authority		•	
Adelaide Festival Centre Trust	•	•	•
Adelaide Festival Corporation	•	•	•
Adelaide Film Festival		•	
Aboriginal Lands Trust		•	
Arts SA ***	•	•	•
Art Gallery of South Australia	•	•	•
ARTLAB Australia		•	•
Carrick Hill Estate		•	•
History Trust of South Australia		•	•
Public Library Services		•	•
SA Museum	•	•	•
State Library of South Australia		•	•
Australian Children's Performing Arts Company	•	•	
Carclew Youth Arts Centre	•		•
Country Arts SA		•	•
Jam Factory Craft & Design Inc			•
South Australian Film Corporation	•	•	
State Opera of South Australia	•	•	•
State Theatre of South Australia	•	•	
Tandanya			•
Department of Primary Industries and Regions	•		
Dairy Authority of South Australia		•	
Phylloxera & Grape Industry Board		•	•
SA Dog Fence Board		•	•
SA Research & Development Institute (SARDI)	•	•	•
Veterinary Surgeons Board of South Australia		•	
Department of Tourism			
South Australian Tourism Commission	•	•	•
Department of Treasury and Finance		•	•
Corporate Services Ministerial Fleet			•
Electorate Services		•	•
State Procurement Board		•	
Distribution Lessor Corporation	•	•	
Funds SA	•	•	•
Generation Lessor Corporation	•	•	
Motor Accident Commission		•	•
Lifetime Support Authority	•		
Treasurer of South Australia	•		

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Transmission Lessor Corporation	•	•	
PY Media			•
Forestry SA	•	•	•
Parliament SA		•	
SA Water	•	•	•
Allwater		•	
Murray Darling Basin Authority (SA Operations)		•	
Other			
Adelaide Convention Centre	•	•	
Adelaide Entertainment Corporation	•	•	
The Architectural Practice Board of South Australia		•	
Construction Industry (LSL) Board		•	
Essential Services Commission of South Australia	•	•	•
GSL – Custodial Services Pty Ltd – Mount Gambier Prison		•	
HomeStart Finance	•	•	•
Independent Gambling Authority		•	
Local Government Association Mutual Liability Scheme		•	
Local Government Finance Authority of South Australia	•		
Pharmacy Regulation Authority of SA		•	
SA Pathology	•	•	•
South Australian Schools Investment Fund	•		
State Governor's Establishment		•	
Surf Life Saving South Australia Inc		•	
Teacher's Registration Board of South Australia		•	
University of South Australia	•		
Urban Renewal Authority (<i>Renewal SA</i>)	•	•	•
Volunteer Marine Rescue Organisations		•	
West Beach Trust	•	•	
WorkCover SA	•	•	

* Name to be changed to Scope Global Pty Ltd (effective 17 July 2014).

** As of 1 July 2014, SafeWork SA will move to Attorney-General's Department.

*** As of 1 July 2014, Arts SA will move to the newly created Department of State Development.

As at 1 July 2014, Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) and Department of Further Education, Employment, Science and Technology (DFEEST) will become part of the newly created Department for State Development.

APPENDIX B – SAFA STAFF AS AT 30 JUNE 2014*

EXECUTIVE

Kevin Cantley	General Manager
Jacinta John	Executive Support Coordinator

Administration

Maureen Donnell	Personal Assistant Legal ^(PT)
Bridget Pacifico	Legal Support Officer ^(PT)
Eva Vratiss	Business Support Officer ^(PT)
Kevin Winfield	Business Support Officer
Chris Hart	Contractor

FLEET MANAGEMENT

Glenn Gaisford	Director (Acting)
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Fleet Management and Vehicle Disposal

<i>Vacant</i>	Senior Manager, Fleet
Pauline	
Bilsborough	Senior Contract Manager – FM
John Batageli	Senior Contract Manager – VD
Kylie Dayman	Senior Contract Officer
Evan Makris	Senior Contract Officer
Bruce Davidson	Rectification Officer
Martin Griggs	Business Analyst
Severina O'Dwyer	Finance Officer
Julian Stone	Business Analyst Reporting
John Wong	Contractor

Accident Management

Elisa Centofanti	Acting Manager, Accident Management
Wally Ferber	Vehicle Assessor
John Lunn	Accident Claims Officer
Barry Philips	Acting Accident Claims Officer
Orlando Russo	Vehicle Assessor

Short-Term Hire

Margaret Forbes	Manager, Government Pool
Rose Carter	Customer Services Officer
Daniel Clayton	Customer Services Officer
Darryl Francis	Car Pool Attendant
James Johnston	Car Pool Attendant

FINANCIAL MARKETS AND CLIENT SERVICES

John Powell	Director
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Financial Markets

Andrew Kennedy	Manager, Financial Markets
David Hocking	Cash Management Dealer

Analytics

Robert Arnold	Senior Quantitative Analyst
Conway Teh	Advisory Analyst ^(PT)

Client Services

Don Munro	Manager, Client & Advisory Services
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INSURANCE

Tim Burfield	Director
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Claims Management

Deborah Machell	Claims Manager
Helen Goodhew	Senior Claims Officer
Andrew Grant	Senior Claims Officer
Elisabeth Prosser	Senior Claims Officer
Adam Sandford	Senior Claims Officer

Underwriting

Liane Lawton	Underwriting Manager
Tricia Ielasi	Senior Underwriter ^(PT)
Tara McAvaney	Assistant Underwriter ^(PT)
Teresa Campbell	Assistant Underwriter

Building Indemnity

Jenny White	Project Manager
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APPENDIX B – SAFA STAFF AS AT 30 JUNE 2014*

FINANCE

Craig Fowler Director

Finance and Management Reporting

Trisca Price	Manager, Financial & Management Reporting ^(PT)
Andrew Bettison	Senior Financial Accountant
Michael Goudas	Senior Treasury Accountant
Katherine Hanuszewicz	Senior Financial Accountant ^(PT)
Michelle Pike	Senior Financial Accountant ^(PT) (EL)
Nathan Porter	Senior Treasury System Accountant
Kylie Richards	Senior Finance Officer
Annie Wong	Senior Financial Accountant
Melissa Crisafi	Treasury Accountant ^(EL)
Skye Launer	Finance Officer
Charlie Noujaim	Finance Officer
Keren Stagg	Treasury Accountant

Operations

Paula Howitt	Manager, Operations
Tom Green	Senior Settlements Officer
Nigel Harvey	Senior Business Analyst

Systems and Business Improvement

Tania Milohis	Manager, Systems and Business Improvement
Rex Whitford	Quantum System Manager ^(CO)
Michael Darvill	Senior Systems Administrator
Peter Argiro	Business Analyst, General Ledger
Lisa Gergos	Business Analyst ^(PT) (CO)
Ben Kelly	Business Analyst, Treasury
Andrew Robinson	Technical Business Analyst
Michelle van Oss	Business Analyst, Insurance ^(PT)
Brad Clea	Contractor

CORPORATE GOVERNANCE & PLANNING

David Posaner Director

Governance and Planning

Michael Vroulis	Senior Manager, Governance & Planning
John Strawbridge	Manager, Governance and Corporate Projects
Lisa Ellul	Senior Project Officer ^(PT)
Reshma Machin	Senior Policy Officer ^(PT)
Kathy Yankoff	Policy Officer
Lorraine Giesecke	Project Officer, Records Management
Dennis Foster	Project Officer, Records Management

Industry Assistance Contract Management

Rebecca Wigglesworth	Principal Contract Manager ^(PT)
Ian Campbell	Contract Manager
Caroline Lower	Contract Manager ^(PT)
Vince McKenzie	Contract Manager
Brent Wade	Contract Manager
Jennifer Hennessy	Contract Officer ^(PT)
Peter White	Contract Officer

Legal

Virginia Martindale	Managing Legal Counsel – Insurance ^(OP)
Rob Fuller	Executive Solicitor Finance ^(OP)
Audrey Bosboom	Senior Solicitor ^(OP)
Jessica Cibich	Senior Solicitor ^(OP)
Kerry Davey	Senior Solicitor ^(OP)
Amanda Young	Senior Solicitor ^(OP)
Kathryn Johnston	Solicitor ^(OP)

Compliance

Ver Prado	Senior Manager, Audit and Compliance
Tom Jaworski	Senior Audit and Compliance Officer
Shakhlo Rasulova	Senior Audit and Compliance Officer ^(EL)
Jayson Cuaresma	Audit and Compliance Officer

(CO) - contractor

(EL) - on extended leave

(PT) - part-time

(OP) - out posted from Crown Solicitor's Office

* Under the terms and conditions of a Service Level Agreement, SAFA is staffed by employees of the DTF assigned to SAFA.

APPENDIX C – DEALER PANEL

SAFA Inscribed Stock Dealer Panel

Australia and New Zealand Banking Group Limited
Bank of America Merrill Lynch
Citigroup Global Markets Australia Limited
Commonwealth Bank of Australia
Deutsche Bank AG - Australian Branch
HSBC Bank Australia Limited
JPMorgan Australia Limited
National Australia Bank Limited
Nomura Australia Limited
RBC DS Global Markets
Toronto Dominion Bank
UBS Australia Limited
Westpac Banking Corporation
Barclays Bank PLC

SAFA Commercial Paper Dealer Panel

Australia and New Zealand Banking Group Limited
Commonwealth Bank of Australia
Deutsche Bank AG - Australian Branch
Macquarie Bank Limited
National Australia Bank Limited
Westpac Banking Corporation

Euro Commercial Paper Program Panel

Bank of America Merrill Lynch
Barclays Capital
Citigroup Global Markets
Commonwealth Bank of Australia, Hong Kong Branch
Deutsche Bank AG – Australian Branch
ING Bank NV
National Australia Bank Limited
RBC Capital Markets Ltd
RBS Group (Australia) Ltd
UBS Investment Bank

APPENDIX D – SUMMARY OF THE SOUTH AUSTRALIAN GOVERNMENT'S CATASTROPHE REINSURANCE PROGRAM 2013-14

Industrial Special Risks (Property and Business Interruption)

Level of cover	\$750m
Each and every event deductible	\$1m
Aggregate annual deductible for losses in excess of \$1m each and every event	\$15m

Public and Products Liability

Level of cover	\$500m
Each and every event deductible - local government claims	\$3m
- other claims	\$1m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m

Professional Indemnity

Level of cover	\$300m
Each and every event deductible - local government claims	\$3m
- other claims	\$1m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m

Directors and Officers Liability

Level of cover	\$75m
Each and every event deductible - local government claims	\$3m
- other claims	\$1m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m

Medical Malpractice

Level of cover	\$100m
Each and every event deductible	\$15m
No aggregate annual deductible	

Aviation Liability

Level of cover	\$500m
Each and every event deductible	\$5 000

Terrorism Liability

Level of cover	\$250m
Each and every event deductible	\$25m

m = million

APPENDIX E – PLAYFORD CAPITAL PTY LTD - FINANCIAL STATEMENTS

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

FINANCIAL STATEMENTS

Playford Capital Pty Ltd

FOR THE YEAR ENDED

30 JUNE 2014

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

Directors' report

The directors present their report together with the financial statements of Playford Capital Pty Ltd (Playford Capital) for the year ended 30 June 2014.

Directors

The following persons were directors of Playford Capital during the financial year and up to the date of this report.

Mr Ian J Kowalick AM (Chair) (term expired 31 December 2013)

Mr Kevin M Cantley (Chair) (appointed 1 January 2014)

Mr Timothy P Burfield

Ms Amanda E Heyworth (resigned 1 July 2013)

Mr Marty J Gauvin (term expired 31 December 2013)

Ms Gay M Wallace (term expired 31 December 2013)

Principal activities

To invest in innovative technology ventures as defined in the Playford Charter.

Result

The net result was a surplus of \$174,127 (2012/13: deficit \$798,985).

Dividends

An interim dividend of \$6,500,000 was declared on 19 June 2014.

State of affairs

Playford Capital is a not for profit company, registered on 19 January 2000.

Playford Capital received \$12.14 million funding from the Commonwealth Government's Building on IT Strengths and ICT Incubator's Programs which has been fully invested.

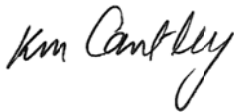
In November 2009, Playford Capital signed a funding agreement with the Commonwealth Government as unit holders, under which the Commonwealth is provided up to \$7.45 million from its Innovation Investment Follow-on Fund (IIFF) for investment in a select group of Playford Capital investees. The funding agreement ceased on 31 March 2014.

A Manage Out Agreement was executed on 23 December 2013 between Playford Capital and the South Australian Government Financing Authority (SAFA) transferring to SAFA for nil consideration Playford Capital's remaining investments.

PLAYFORD CAPITAL PTY LTD ACN 091 257 733**Directors' benefits**

During the year, no director of Playford Capital has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements of the controlling entity) by reason of a contract made by Playford Capital or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Signed in accordance with a resolution of the board of directors:



Kevin Cantley
Chair
2 September 2014



Tim Burfield
Director
2 September 2014

PLAYFORD CAPITAL PTY LTD ACN 091 257 733


Certification of the Financial Statements

We certify that the attached general purpose financial statements for Playford Capital:

- comply with relevant Treasurer's instructions issued under section 41 of the *Public Finance and Audit Act 1987*, *Corporations Act 2001* and relevant Australian accounting standards;
- are in accordance with the accounts and records of Playford Capital;
- present a true and fair view of the financial position of Playford Capital as at 30 June 2014 and the results of its operation and cash flows for the financial year; and
- there are reasonable grounds to believe that Playford Capital will be able to pay its debts as and when they become due and payable.

We certify that the internal controls employed by Playford Capital for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.

Signed in accordance with a resolution of the directors:



Kevin Cantley
Chair
2 September 2014



Craig Fowler
Director, Finance
South Australian Government Financing Authority
2 September 2014

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Note No.	2014 \$'000	2013 \$'000
Income			
Interest and dividend revenues	5	185	259
Net gain from the sale of investments	6	28	587
Total income		213	846
Expenses			
Legal Advice		39	-
Revaluation decrements	7	-	1,645
Total expenses		39	1,645
Net result		174	(799)
Total comprehensive result		174	(799)

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

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note No.	2014 \$'000	2013 \$'000
Current assets			
Cash	10	537	6,378
Receivables	8	12	10
Total current assets		549	6,388
Non-current assets			
Other financial assets	7	-	487
Total non-current assets		-	487
Total assets		549	6,875
Net assets		549	6,875
Equity			
Contributed Equity		-	-
Retained earnings		549	6,875
Total equity		549	6,875

The total equity is attributable to the SA Government as owner

Contingent liabilities

9

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

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Contributed Capital \$'000	Retained earnings \$'000	Total Equity \$'000
Equity			
Balance at 30 June 2012	-	7,674	7,674
Net result and total comprehensive result for 2012-13	-	(799)	(799)
Balance at 30 June 2013	-	6,875	6,875
Dividends Paid		(6,500)	(6,500)
Net result and total comprehensive result for 2013-14	-	174	174
Balance at 30 June 2014	-	549	549

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

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

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Note No.	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Cash inflows			
Interest and dividends received		183	151
GST recovered from the ATO		4	-
Cash generated from operations		187	151
Cash outflows			
Payments for supplies and services		(43)	-
Cash used in operations		(43)	-
Net cash provided by operating activities	10	144	151
Cash flows from investing activities			
Cash inflows			
Proceeds from sales of investments		515	5,058
Cash generated from investing activities		515	5,058
Net provided by investing activities		515	5,058
Cash flows from Financing activities			
Cash outflows			
Dividends Paid		(6,500)	-
Cash used in Financing activities		(6,500)	-
Net cash used in Financing activities		(6,500)	-
Net increase in cash		(5,841)	5,209
Cash at the beginning of the period		6,378	1,169
Cash at the end of the period	10	537	6,378

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

PLAYFORD CAPITAL PTY LTD ACN 091 257 733

**NOTES TO &
FORMING PART OF
THE FINANCIAL
STATEMENTS**

PLAYFORD CAPITAL ACN 019 257 733

NOTE INDEX

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Note 1 Objectives of Playford Capital Pty Ltd

The objective of Playford Capital Pty Ltd (Playford Capital) is to invest in innovative technology ventures.

In prior reporting periods Playford Capital has received \$12.14 million funding from the Commonwealth Government's Building on IT Strengths and ICT Incubator's Programs which has been fully invested.

Playford Capital invests in a portfolio of innovative technology ventures. At the time of making an initial investment, all such investments must:

- be consistent with the Playford's business plan;
- be made in accordance with the Playford investment protocol;
- in the opinion of the Playford Board, offer economic benefit to South Australia (regardless of whether the registered office of the company is located in South Australia); and
- satisfy the definition of eligible investee company contained in the Commonwealth Government's Innovation Investment Fund program guidelines.

For the financial year ended 30 June 2012, Playford Capital was effectively subject to the control of Playford Centre. As at 1 July 2012, under the Public Corporations (Playford Centre) (Dissolution and Revocation) Regulations 2012, Playford Centre's assets, rights and liabilities were transferred to SAFA.

The South Australian Government has approved the orderly wind down of Playford Capital's activities. A Manage Out Agreement was executed on 23 December 2013 between Playford Capital and SAFA transferring to SAFA for nil consideration Playford Capital's remaining investments.

Note 2 Summary of significant accounting policies

a) Statement of compliance

Playford Capital has prepared these financial statements in compliance with section 292(2) of the *Corporations Act 2001*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards.

Playford Capital has applied Australian Accounting Standards that are applicable to not-for-profit entities, as Playford Capital 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 Playford Capital for the reporting period ending 30 June 2014. These are outlined in Note 4.

b) Basis of preparation

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying Playford Capital's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes;
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

Playford Capital'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

historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The Statement of Cash Flows has been prepared on a cash basis.

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented.

c) Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where specific revised accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impracticable.

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

d) Rounding

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

e) Taxation

Playford Capital is not subject to income tax.

Income, expenses, assets, and liabilities 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; and
- 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 component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST, if any, recoverable from, or payable to, the ATO.

f) Income

Income is recognised to the extent that it is probable that the flow of economic benefits to Playford Capital will occur and can be reliably measured.

Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

Net gain (loss) from the sale of investments

Any gains or losses on the sale of investments are recognised in the Statement of Comprehensive Income in the year of receipt.

g) Expenses

Expenses are recognised to the extent that it is probable that the flow of economic benefits from Playford Capital will occur and can be reliably measured.

Expenses have been aggregated according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

h) Current and non-current classification

Assets and liabilities are characterised as either current or non-current in nature. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within twelve months and more than twelve months, Playford Capital has separately disclosed the amounts to be expected to be recovered or settled after more than twelve months.

i) Assets*Cash*

Cash at bank is measured at nominal value.

Receivables

Receivables include amounts receivable from goods and services, GST input tax credits recoverable, prepayments and other accruals.

Other financial assets

The only financial assets held by Playford Capital other than cash and receivables are investments in innovative technology ventures. The fair value of investments is assessed by directors at each reporting date, in accordance with the guidelines developed by the Australian Venture Capital Association Limited for early stage investments.

Investments in innovative technology ventures are valued based on either the:

- price of a recent investment, discounted as considered appropriate,
- price of a recent offer,
- net assets of the investee company, discounted as considered appropriate.

The inputs used in the valuation are not observable in the market.

Revaluation of non-current assets

Revaluation increments and decrements arising from changes in the fair values of investments are included in the Statement of Comprehensive Income in the year in which they arise. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting period that are different from assumptions made in assessing fair value could require a material adjustment to the subsequent carrying amount of the investments.

j) Liabilities*Payables*

Payables include creditors and accrued expenses.

Creditors represent amounts owing in relation to investments acquired prior to the end of the reporting period that are unpaid at the end of the reporting period.

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received.

k) Contingent liabilities

Contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST, if any, recoverable from, or payable to the ATO.

Note 3 Financial risk management

Playford Capital is not exposed to any significant credit risk or liquidity risk. Playford Capital is subject to the risk that the fair value of its investments will fluctuate due to factors specific to the individual investments in innovative technology ventures.

Playford Capital is managed in accordance with Australian Risk Management Standards and internal written policies approved by the board.

Note 4 New and revised accounting standards and policies

Playford Capital did not voluntarily change any of its accounting policies during the financial year ending 30 June 2014.

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by Playford Capital for the reporting period ended 30 June 2014. Playford Capital has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of Playford Capital.

Note 5 Interest and dividend revenues

	2014	2013
	\$'000	\$'000
Interest and dividends from investments	185	259
Total interest and dividend revenues	185	259

Note 6 Gain from the sale of investments

	2014	2013
	\$'000	\$'000
Investments at fair value		
Proceeds from disposal	515	5,058
Net book value of investments disposed	487	4,471
Net gain from the sale of investments	28	587

Note 7 Other financial assets

	2014	2013
	\$'000	\$'000
Non-current		
Investments at fair value		
Playford Capital holds equity in innovative technology ventures:		
Investments at the beginning of the year	487	6,495
Capitalised dividends	-	98
Disposals	(487)	(4,471)
Revaluation (decrement) for the year	-	(1,635)
Equity investments at fair value	-	487
Playford Capital holds convertible debt instruments in innovative technology ventures:		
Convertible debt instruments at the beginning of the year	-	10
Revaluation (decrement) for the year	-	(10)
Convertible debt instruments at fair value	-	-
Total other financial assets	-	487

Note 8 Receivables

	2014	2013
	\$'000	\$'000
Receivable from non SA Government entities		
Current		
Accrued interest	12	10
Total receivables	12	10

Note 9 Contingent liabilities

As at 30 June 2013 a contingent liability of \$834,701 existed because of obligations provided to the Commonwealth Government by Playford Capital as manager of the PC IIFF Trust. As at 30 June 2014 Playford Capital has no contingent liabilities to the Commonwealth.

Note 10 Cash flow reconciliation

	2014	2013
	\$'000	\$'000
Reconciliation of cash		
Deposits with Treasurer	537	6,378
Balance as per the Statement of Cash Flows	537	6,378
 Reconciliation of net cash provided by operating activities to net result:		
Net cash provided by operating activities	144	151
Add/(less) non-cash items		
Net gain from the sale of investments	28	587
Revaluation (decrements)	-	(1,645)
Capitalised interest and dividends from investments	-	98
Changes in assets/liabilities		
Increase in receivables	2	10
Net result	174	(799)

Note 11 Key management personnel

Board and committee members during the 2013-14 financial year were:

Mr Ian J Kowalick AM (Chair) (term expired 31 December 2013)

Mr Kevin M Cantley (Chair) (appointed 1 January 2014)

Mr Timothy P Burfield

Ms Amanda E. Heyworth (resigned 1 July 2013)

Mr Marty J Gauvin (term expired 31 December 2013)

Ms Gay M Wallace (term expired 31 December 2013)

Mr Andrew Bollen (resigned 31 March 2014)

No remuneration was paid to the board and committee members by Playford Capital. The Board and Committee members are remunerated by the parent entity. Mr Kevin Cantley and Mr Tim Burfield are permanently employed under the Public Sector Act, 2009, or on similar terms and are not entitled to fees.

Unless otherwise disclosed, transactions with directors are on conditions no more favourable than those that it is reasonable to expect Playford Capital would have adopted if dealing with the related party at arm's length in the same circumstances.

Note 12 Controlling entity

Playford Capital is controlled by SAFA. SAFA is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982*. The registered address of SAFA is Level 5, State Administration Centre, 200 Victoria Square, Adelaide, South Australia 5000.

Note 13 Events after the reporting period

A final dividend was declared on 14 August 2014 of \$548,905.09.

Independent Audit Statement

Playford Capital Pty Ltd

INDEPENDENT AUDITOR'S REPORT



Government of South Australia
Auditor-General's Department

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 members of Playford Capital Pty Ltd

As required by section 33 of the *Public Finance and Audit Act 1987*, I have audited the accompanying financial report of Playford Capital Pty Ltd for the financial year ended 30 June 2014. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2014
- a Statement of Financial Position as at 30 June 2014
- a Statement of Changes in Equity for the year ended 30 June 2014
- a Statement of Cash Flows for the year ended 30 June 2014
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate by the Chair and the Director Finance, South Australian Government Financing Authority.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Independent Audit Statement (continued)

Playford Capital Pty Ltd

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

Independence

In conducting the audit, I have complied with the independence requirements of the *Corporations Act 2001*. I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Playford Capital Pty Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In my opinion, the financial report of Playford Capital Pty Ltd:

- (a) gives a true and fair view of the company's financial position as at 30 June 2014 and its performance for the year ended on that date; and
- (b) complies with Australian Accounting Standards and the company's constitution.

Emphasis of Matter

Without modifying my opinion, I draw attention to the following matter disclosed in the financial report:

Winding up of operations of Playford Capital Pty Ltd

Note 1 'Objectives of Playford Capital Pty Ltd' to the financial report describes that the South Australian Government has approved the wind up Playford Capital Pty Ltd's activities.

All Playford Capital Pty Ltd investments held at 30 June 2013 were realised or transferred to the control and management of the South Australian Government Financing Authority (SAFA) during the year ended 30 June 2014. Playford Capital Pty Ltd declared a final dividend of \$548 905.09 on 14 August 2014.

On 4 September 2014 Members resolved to appoint a liquidator to voluntarily wind up the activities of Playford Capital Pty Ltd, in accordance with regulations to the *Corporations Act 2001*.



S O'Neill
AUDITOR-GENERAL
9 September 2014

CONTACT DETAILS

South Australian Government Financing Authority

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State Administration Centre

200 Victoria Square

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SAFA Bonds:

Telephone:

Facsimile:

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SAFA Inscribed Stock Registrar

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