



Annual Report **2015 - 2016**

PART C – Financial Statements

Kempsey Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016

"Focusing on our community"



Kempsey Shire Council

General Purpose Financial Statements

for the year ended 30 June 2016

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Overview

- (i) These financial statements are General Purpose Financial Statements and cover the operations for Kempsey Shire Council.
- (ii) Kempsey Shire Council is a body politic of NSW, Australia – being constituted as a local government area by proclamation and is duly empowered by the *Local Government Act 1993* (LGA).

Council's Statutory Charter is detailed in Paragraph 8 of the LGA and includes giving Council;

- the ability to provide goods, services and facilities, and to carry out activities appropriate to the current and future needs of the local community and of the wider public,
- the responsibility for administering regulatory requirements under the LGA and
- a role in the management, improvement and development of the resources in the area.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

- (iii) All figures presented in these financial statements are presented in Australian currency.
- (iv) These financial statements were authorised for issue by the Council on 27 October 2016. Council has the power to amend and reissue these financial statements.
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Kempsey Shire Council

General Purpose Financial Statements

for the year ended 30 June 2016

Statement by Councillors and Management

made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these financial statements:

- present fairly the Council's operating result and financial position for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 27 September 2016.



Liz Campbell
Mayor



Ashely Williams
Councillor



Daryl Hagger
General manager (Acting)



Tony Curtin
Responsible accounting officer

Kempsey Shire Council

Income Statement

for the year ended 30 June 2016

Budget ¹ 2016	\$ '000	Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
31,939	Rates and annual charges	3a	32,457	29,693
14,669	User charges and fees	3b	16,332	15,541
1,375	Interest and investment revenue	3c	1,361	1,350
83	Other revenues	3d	94	121
12,283	Grants and contributions provided for operating purposes	3e,f	14,371	17,659
5,890	Grants and contributions provided for capital purposes	3e,f	4,521	24,999
Other income:				
–	Net share of interests in joint ventures and associates using the equity method	19	–	–
66,239	Total income from continuing operations		69,136	89,363
Expenses from continuing operations				
20,278	Employee benefits and on-costs	4a	20,624	20,293
3,068	Borrowing costs	4b	2,846	3,014
17,268	Materials and contracts	4c	16,153	15,755
19,795	Depreciation and amortisation	4d	21,774	31,247
3,866	Other expenses	4e	3,485	3,683
–	Net losses from the disposal of assets	5	2,018	2,040
64,275	Total expenses from continuing operations		66,900	76,032
1,964	Operating result from continuing operations		2,236	13,331
1,964	Net operating result for the year		2,236	13,331
1,964	Net operating result attributable to Council		2,236	13,331
–	Net operating result attributable to non-controlling interests		–	–
(3,926)	Net operating result for the year before grants and contributions provided for capital purposes		(2,285)	(11,668)

¹ Original budget as approved by Council – refer Note 16

Kempsey Shire Council

Statement of Comprehensive Income

for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
Net operating result for the year (as per Income Statement)		2,236	13,331
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	31,060	(143,992)
Total items which will not be reclassified subsequently to the operating result		31,060	(143,992)
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		31,060	(143,992)
Total comprehensive income for the year		33,296	(130,661)
Total comprehensive income attributable to Council		33,296	(130,661)
Total comprehensive income attributable to non-controlling interests		-	-

Kempsey Shire Council

Statement of Financial Position

as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
ASSETS			
Current assets			
Cash and cash equivalents	6a	35,550	39,292
Investments	6b	–	–
Receivables	7	8,241	7,067
Inventories	8	350	346
Other	8	161	–
Total current assets		44,302	46,705
Non-current assets			
Investments	6b	–	–
Receivables	7	588	718
Inventories	8	–	–
Infrastructure, property, plant and equipment	9	1,053,475	1,021,108
Investments accounted for using the equity method	19	–	–
Investment property	14	–	–
Intangible assets	25	–	–
Total non-current assets		1,054,063	1,021,826
TOTAL ASSETS		1,098,365	1,068,531
LIABILITIES			
Current liabilities			
Payables	10	5,717	4,133
Borrowings	10	4,760	4,972
Provisions	10	8,233	8,137
Total current liabilities		18,710	17,242
Non-current liabilities			
Payables	10	618	581
Borrowings	10	41,416	46,377
Provisions	10	387	393
Total non-current liabilities		42,421	47,351
TOTAL LIABILITIES		61,131	64,593
Net assets		1,037,234	1,003,938
EQUITY			
Retained earnings	20	376,084	373,848
Revaluation reserves	20	661,150	630,090
Council equity interest		1,037,234	1,003,938
Non-controlling equity interests		–	–
Total equity		1,037,234	1,003,938

Kempsey Shire Council

Statement of Changes in Equity
for the year ended 30 June 2016

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity
2016						
Opening balance (as per last year's audited accounts)		373,848	630,090	1,003,938	–	1,003,938
a. Correction of prior period errors	20 (c)	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
Revised opening balance (as at 1/7/15)		373,848	630,090	1,003,938	–	1,003,938
c. Net operating result for the year		2,236	–	2,236	–	2,236
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	31,060	31,060	–	31,060
Other comprehensive income		–	31,060	31,060	–	31,060
Total comprehensive income (c&d)		2,236	31,060	33,296	–	33,296
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		–	–	–	–	–
Equity – balance at end of the reporting period		376,084	661,150	1,037,234	–	1,037,234

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity
2015						
Opening balance (as per last year's audited accounts)		360,517	774,082	1,134,599	–	1,134,599
a. Correction of prior period errors	20 (c)	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
Revised opening balance (as at 1/7/14)		360,517	774,082	1,134,599	–	1,134,599
c. Net operating result for the year		13,331	–	13,331	–	13,331
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	(143,992)	(143,992)	–	(143,992)
Other comprehensive income		–	(143,992)	(143,992)	–	(143,992)
Total comprehensive income (c&d)		13,331	(143,992)	(130,661)	–	(130,661)
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		–	–	–	–	–
Equity – balance at end of the reporting period		373,848	630,090	1,003,938	–	1,003,938

Kempsey Shire Council

Statement of Cash Flows

for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
Cash flows from operating activities				
Receipts:				
32,077	Rates and annual charges		31,618	29,677
14,728	User charges and fees		16,576	15,889
1,399	Investment and interest revenue received		1,347	1,362
18,435	Grants and contributions		19,291	24,907
100	Other		2,896	3,371
Payments:				
(19,908)	Employee benefits and on-costs		(20,577)	(20,268)
(18,108)	Materials and contracts		(18,124)	(18,625)
(3,115)	Borrowing costs		(2,885)	(3,041)
(3,866)	Other		(3,946)	(4,031)
<u>21,742</u>	Net cash provided (or used in) operating activities	11b	<u>26,196</u>	<u>29,241</u>
Cash flows from investing activities				
Receipts:				
–	Sale of infrastructure, property, plant and equipment		1,000	877
15	Deferred debtors receipts		4	4
Payments:				
(24,219)	Purchase of infrastructure, property, plant and equipment		(25,769)	(19,472)
<u>(24,204)</u>	Net cash provided (or used in) investing activities		<u>(24,765)</u>	<u>(18,591)</u>
Cash flows from financing activities				
Receipts:				
5,180	Proceeds from borrowings and advances		–	4,000
Payments:				
(5,000)	Repayment of borrowings and advances		(5,173)	(5,190)
<u>180</u>	Net cash flow provided (used in) financing activities		<u>(5,173)</u>	<u>(1,190)</u>
(2,282)	Net increase/(decrease) in cash and cash equivalents		(3,742)	9,460
22,002	Plus: cash and cash equivalents – beginning of year	11a	39,292	29,832
<u>19,720</u>	Cash and cash equivalents – end of the year	11a	<u>35,550</u>	<u>39,292</u>
Additional Information:				
	plus: Investments on hand – end of year	6b	–	–
	Total cash, cash equivalents and investments		<u>35,550</u>	<u>39,292</u>

Please refer to Note 11 for information on the following:

- Non-cash financing and investing activities
- Financing arrangements
- Net cash flow disclosures relating to any discontinued operations

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies

The principal accounting policies adopted by Council in the preparation of these consolidated financial statements are set out below in order to assist in its general understanding.

Under Australian Accounting Standards (AASBs), accounting policies are defined as those specific principles, bases, conventions, rules and practices applied by a reporting entity (in this case Council) in preparing and presenting its financial statements.

(a) Basis of preparation

(i) Background

These financial statements are general purpose financial statements, which have been prepared in accordance with:

- Australian Accounting Standards and Australian Accounting Interpretations issued by the Australian Accounting Standards Board,
- the *Local Government Act (1993)* and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

For the purpose of preparing these financial statements, Council has been deemed to be a not-for-profit entity.

(ii) Compliance with International Financial Reporting Standards (IFRSs)

Because AASBs are sector neutral, some standards either:

- (a) have local Australian content and prescription that is specific to the not-for-profit sector (including local government) which are not in compliance with IFRSs, or
- (b) specifically exclude application by not-for-profit entities.

Accordingly, in preparing these financial statements and accompanying notes, Council has been unable to comply fully with International Accounting Standards, but has complied fully with Australian Accounting Standards.

Under the *Local Government Act (LGA)*, Regulation and Local Government Code of Accounting Practice and Financial Reporting, it should be noted that Councils in NSW only have a requirement to comply with AASBs.

(iii) New and amended standards adopted by Council

There have been no new accounting standards adopted in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(iv) Early adoption of accounting standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015, except for AASB2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities, which has reduced the fair value disclosures for Level 3 assets.

For summary information relating to the effects of standards with future operative dates refer further to paragraph (ab).

(v) Basis of accounting

These financial statements have been prepared under the **historical cost convention** except for:

- (i) certain financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets, which are all valued at fair value,
- (ii) the write down of any asset on the basis of impairment (if warranted), and
- (iii) certain classes of non-current assets (e.g. infrastructure, property, plant and equipment and investment property) that are accounted for at fair valuation.

The accrual basis of accounting has also been applied in their preparation.

(vi) Changes in accounting policies

Council's accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

There have also been no changes in accounting policies when compared with previous financial statements unless otherwise stated [refer Note 20 (d)].

(vii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates (in conformity with AASBs).

Accordingly, this requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

- (i) Estimated fair values of investment properties
- (ii) Estimated fair values of infrastructure, property, plant and equipment,
- (iii) Estimated remediation provisions.

Significant judgements in applying Council's accounting policies include the impairment of receivables – Council has made significant judgements about the impairment of a number of its receivables in Note 7.

(b) Revenue recognition

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to it, and specific criteria have been met for each of the Council's activities as described below.

Council bases any estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenues when the Council obtains control over the assets comprising these receipts.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

A provision for the impairment on rates receivables has not been established as unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold.

Control over granted assets/contributed assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and is valued at their fair value at the date of transfer.

Revenue from contributions is recognised when the Council either obtains control of the contribution or the right to receive it, **(i)** it is probable that the economic benefits comprising the contribution will flow to the Council and **(ii)** the amount of the contribution can be measured reliably.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 3 (g).

Note 3 (g) also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of s94 of the *EPA Act 1979*.

Whilst Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon their physical receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and accordingly would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required but the Council may apply contributions according to the priorities established in work schedules.

A detailed note relating to developer contributions can be found at Note 17.

User charges, fees and other income

User charges, fees and other income (including parking fees and fines) are recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs.

A provision for the impairment of these receivables is recognised when collection in full is no longer probable.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided as at balance date.

Sale of infrastructure, property, plant and equipment

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

Interest and rents

Rental income is accounted for on a straight-line basis over the lease term.

Interest income from cash and investments is accounted for using the effective interest rate at the date that interest is earned.

Dividend income

Revenue is recognised when the Council's right to receive the payment is established, which is generally when shareholders approve the dividend.

Other income

Other income is recorded when the payment is due, the value of the payment is notified or the payment is received, whichever occurs first.

(c) Principles of consolidation

These consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

(i) The Consolidated Fund

In accordance with the provisions of section 409(1) of the LGA 1993, all money and property received by Council is held in the Council's consolidated fund unless it is required to be held in the Council's trust fund.

The consolidated fund and other entities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The following entities have been included as part of the consolidated fund:

- *General Purpose Operations*
- *Water supply*
- *Sewerage service*
- *Domestic Waste Management Service*

Council has a number of committees, due to their immaterial value and nature, they have been excluded from consolidation in the Income Statement.

(ii) The trust fund

In accordance with the provisions of section 411 of the *Local Government Act 1993* (as amended), a separate and distinct trust fund is maintained to account for all money and property received by the Council in trust that must be applied only for the

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

purposes of or in accordance with the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these statements.

Trust monies and property held by Council but not subject to the control of Council have been excluded from these statements.

A separate statement of monies held in the trust fund is available for inspection at the Council office by any person free of charge.

(iii) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Detailed information relating to the entities that Council controls can be found at Note 19(a).

Joint arrangements

Joint operations (controlled assets and operations)

Joint operations represent operational arrangements where the joint control parties have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

The proportionate interests of Council in the assets, liabilities, income and expenses of all Joint Operation activities have been incorporated throughout the financial statements under the appropriate notes and line items.

Detailed information relating to Council's joint operations can be found at Note 19 (c).

Joint ventures

Joint ventures represent operational arrangements where the joint control parties have rights to the net assets of the arrangement.

Any interests in joint ventures are accounted for using the equity method and are carried at cost.

Under the equity method, Council's share of the operation's profits/(losses) are recognised in the income statement, and its share of movements in

retained earnings and reserves are recognised in the balance sheet.

Detailed information relating to Council's joint ventures can be found at Note 19 (b).

Associates

Council has no interest in any associates.

County councils

Council is not a member of any county councils.

Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

(d) Leases

All leases entered into by Council are reviewed and classified on inception date as either a finance lease or an operating lease.

Finance leases

Leases of property, plant and equipment where the Council has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in borrowings.

Each lease payment is allocated between the liability outstanding and the recognition of a finance charge.

The interest element of the finance charge is costed to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of each leased asset's useful life and the lease term.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(e) Cash and Cash Equivalents

For Statement of Cash Flows (and Statement of Financial Position) presentation purposes, cash and cash equivalents includes;

- cash on hand,
- deposits held at call with financial institutions,
- other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value, and
- bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet but are incorporated into cash and cash equivalents for presentation of the Cash Flow Statement.

(f) Investments and other financial assets

Council (in accordance with AASB 139) classifies each of its investments into one of the following categories for measurement purposes:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

Each classification depends on the purpose or intention for which the investment was acquired and at the time it was acquired.

Management determines each investment classification at the time of initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are 'held for trading'.

A financial asset is classified in the 'held for trading' category if it is acquired principally for the purpose of selling in the short term.

Assets in this category are primarily classified as current assets as they are primarily held for trading and/or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They arise when the Council provides money, goods or services directly to a debtor with no intention (or in some cases ability) of selling the resulting receivable.

They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

In contrast to the 'loans and receivables' classification, these investments are generally quoted in an active market.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Investments must be designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Accordingly, this classification principally comprises marketable equity securities, but can include all types of financial assets that could otherwise be classified in one of the other investment categories.

They are generally included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or the term to maturity from the reporting date is less than 12 months.

Financial assets – reclassification

Council may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Council may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if it has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

General accounting and measurement of financial instruments:

(i) Initial recognition

Investments are initially recognised (and measured) at fair value, plus in the case of investments not at 'fair value through profit or loss', directly attributable transactions costs.

Purchases and sales of investments are recognised on trade-date – the date on which the Council commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

(ii) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets classified as '**fair value through profit or loss**' category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as '**available-for-sale**' are recognised in equity in the available-for-sale investments revaluation reserve.

When securities classified as '**available-for-sale**' are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Impairment

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is evidence of impairment for any of Council's financial assets carried at amortised cost (eg. loans and receivables), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

(iii) Types of investments

Council has an approved Investment Policy in order to invest in accordance with (and to comply with) section 625 of the *Local Government Act* and s212 of the LG (General) Regulation 2005.

Investments are placed and managed in accordance with the policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order.

Council maintains its Investment Policy in compliance with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations.

(g) Fair value estimation – financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.

If the market for a financial asset is not active (and for unlisted securities), the Council establishes fair value by using valuation techniques.

These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(h) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Receivables (excluding rates and annual charges) are generally due for settlement no more than 30 days from the date of recognition.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

The collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off in accordance with Council's policy.

A provision for impairment (i.e. an allowance account) relating to receivables is established when objective evidence shows that Council will not be able to collect all amounts due according to the original terms of each receivable.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Impairment losses are recognised in the Income Statement within other expenses.

When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

(i) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods in respect of business undertakings are all stated at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories held in respect of non-business undertakings have been valued at cost subject to adjustment for loss of service potential.

(ii) Inventory held for distribution

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

(iii) Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value.

Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development.

When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made.

Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

(j) Infrastructure, property, plant and equipment (I,PP&E)

Acquisition of assets

Council's non-current assets are continually revalued (over a 5-year period) in accordance with the fair valuation policy as mandated by the Office of Local Government.

At balance date, the following classes of I,PP&E were stated at their fair value:

- **Plant and Equipment**
(as approximated by depreciated historical cost)
- **Operational Land** (External Valuation)
- **Community Land** (External Valuation)
- **Land Improvements** (Internal Valuation)

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

- **Buildings – Specialised/Non Specialised**
(External Valuation)
- **Other Structures** (Internal Valuation)
- **Roads Assets incl. roads, bridges and footpaths** (Internal Valuation)
- **Bulk Earthworks** (Internal Valuation)
- **Stormwater Drainage** (Internal Valuation)
- **Water and Sewerage Networks**
(Internal Valuation using consultants where required)
- **Swimming Pools** (External Valuation)
- **Other Open Space/Recreational Assets**
(Internal Valuation)
- **Other Assets**
(as approximated by depreciated historical cost)
- **Investment Properties** – refer Note 1(p),

Initial recognition

On initial recognition, an asset's cost is measured at its fair value, plus all expenditure that is directly attributable to the acquisition.

Where settlement of any part of an asset's cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of recognition (i.e. date of exchange) of the asset to arrive at fair value.

The discount rate used is the Council's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where infrastructure, property, plant and equipment assets are acquired for no cost or for an amount other than cost, the assets are recognised in the financial statements at their fair value at acquisition date – being the amount that the asset could have been exchanged between knowledgeable willing parties in an arm's length transaction.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future

economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Asset revaluations (including indexation)

In accounting for asset revaluations relating to infrastructure, property, plant and equipment:

- increases in the combined carrying amounts of asset classes arising on revaluation are credited to the asset revaluation reserve,
- to the extent that a net asset class increase reverses a decrease previously recognised via the profit or loss, then increase is first recognised in profit or loss,
- net decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset, with all other decreases charged to the Income Statement.

Water and sewerage network assets are indexed annually between full revaluations in accordance with the latest indices provided in the NSW Office of Water – Rates Reference Manual.

For all other assets, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date.

If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount.

Full revaluations are undertaken for all assets on a 5-year cycle.

Capitalisation thresholds

Items of infrastructure, property, plant and equipment are not capitalised unless their cost of acquisition exceeds the following;

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Land		Plant and Equipment	
- council land	100% Capitalised	- Office Equipment	5 to 10 years
- open space	100% Capitalised	- Office furniture	4 years
- land under roads (purchases after 30/6/08)	100% Capitalised	- Computer Equipment	3 to 10 years
		- Vehicles and Road Making equip.	5 to 13 years
		- Other plant and equipment	3 to 10 years
Plant and Equipment		Buildings	
Office Furniture	> \$1,000	- Buildings	50 to 100 years
Office Equipment	> \$1,000		
Other Plant and Equipment	> \$1,000		
Buildings and Land Improvements		Water and Sewer Assets	
Park Furniture and Equipment	> \$2,000	- Water Mains	30 to 80 years
Building		- Dams and reservoirs	70 to 100 years
- construction/extensions	100% Capitalised	- Pumps	5 to 15 years
- renovations	> \$10,000	- Sewer Mains	45 to 70 years
Other Structures	> \$2,000	- Treatment Works	30 to 50 years
		- Pumps and telemetry	20 years
Water and Sewer Assets		Stormwater Assets	
Reticulation extensions	> \$5,000	- Drains	80 to 100 years
Other	> \$5,000	- Flood Mitigation Systems	10 to 100 years
Stormwater Assets		Transportation Assets	
Drains and Culverts	> \$5,000	- Sealed Roads: Surface	15 to 25 years
Other	> \$5,000	- Sealed Roads: Pavement	30 to 80 years
		- Unsealed roads	7 to 10 years
		- Bridge:	50 to 100 years
		- Footpaths:	25 to 50 years
Transport Assets		Other Infrastructure Assets	
Road construction and reconstruction	> \$5,000	- Land Improvements	10 to 100 years
Reseal/Re-sheet and major repairs	> \$5,000	- Bulk earthworks	Infinite
Bridge construction and reconstruction	> \$5,000	- Swimming Pools	30-50 years
		- Other Open Space/ Recreational Assets	25-100 years
Other Infrastructure Assets			
Swimming Pools	> \$2,000		
Other Open Space/Recreational Assets	> \$2,000		
Other Infrastructure	> \$2,000		

All asset residual values and useful lives are reviewed and adjusted (if appropriate) at each reporting date.

Depreciation

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight-line method (or consumption method in order to allocate an assets cost (net of residual values) over its estimated useful life.

Land is not depreciated.

Estimated useful lives for Council's I,PP&E include:

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount – refer Note 1 (s) on asset impairment.

Disposal and de-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Council's Income Statement in the year the asset is derecognised.

(k) Land

Land (other than land under roads) is in accordance with Part 2 of Chapter 6 of the *Local Government Act (1993)* classified as either operational or community.

This classification of land is disclosed in Note 9 (a).

(l) Land under roads

Land under roads is land under roadways and road reserves, including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment.

(m) Intangible assets

Council has not classified any assets as intangible.

(n) Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council.

While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by

Council and revenues relating to the reserves are recognised within Council's Income Statement.

Representations are currently being sought across state and local government to develop a consistent accounting treatment for Crown Reserves across both tiers of government.

(o) Rural fire service assets

Under section 119 of the *Rural Fires Act 1997*, 'all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed'.

At present, the accounting for such fire fighting equipment is not treated in a consistent manner across all Councils.

Until such time as discussions on this matter have concluded and the legislation changed, Council will continue to account for these assets as it has been doing in previous years, which is to incorporate the assets, their values and depreciation charges within these financial statements.

(p) Investment property

Investment property comprises land and/or buildings that are principally held for long-term rental yields, capital gains or both, that is not occupied by Council.

Investment property is carried at fair value, representing an open-market value determined annually by external valuers.

Annual changes in the fair value of investment properties are recorded in the Income Statement as part of 'other income'.

(q) Provisions for close down, restoration and for environmental clean-up costs – including tips and quarries

Close down, restoration and remediation costs include the dismantling and demolition of infrastructure, the removal of residual materials and the remediation of disturbed areas.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations that are expected to arise from future disturbance.

Costs are estimated on the basis of a closure plan.

The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down, restoration and remediation costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations.

Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the Income Statement in each accounting period.

This amortisation of the discount is disclosed as a borrowing cost in Note 4 (b).

Other movements in the provisions for close down, restoration and remediation costs including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment.

These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the balance sheet date.

These costs are charged to the Income Statement.

Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwind of the discount, which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations.

The expected timing of expenditure can also change, for example, in response to changes in quarry reserves or production rates.

As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Specific information about Council's provisions relating to close down, restoration and remediation costs can be found at Note 26.

(r) Non-current assets (or disposal groups) 'held for sale' and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of either **(i)** their carrying amount and **(ii)** fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The exception to this is plant and motor vehicles, which are turned over on a regular basis. Plant and motor vehicles are retained in non-current assets under the classification of infrastructure, property,

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

plant and equipment – unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

For any assets or disposal groups classified as non-current assets 'held for sale', an impairment loss is recognised at any time when the assets carrying value is greater than its fair value less costs to sell.

Non-current assets 'held for sale' are not depreciated or amortised while they are classified as 'held for sale'.

Non-current assets classified as 'held for sale' are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of Council that has been disposed of or is classified as 'held for sale' and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately on the face of the Income Statement.

(s) Impairment of assets

All Council's I,PP&E is subject to an annual assessment of impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where an asset is not held principally for cash-generating purposes (for example infrastructure assets) and would be replaced if the Council was deprived of it, then depreciated replacement cost is used as value in use, otherwise value in use is estimated by using a discounted cash flow model.

Non-financial assets (other than goodwill) that suffered a prior period impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and other intangible assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment.

(t) Payables

These amounts represent liabilities and include goods and services provided to the Council prior to the end of financial year that are unpaid.

The amounts for goods and services are unsecured and are usually paid within 30 days of recognition.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortised cost.

Amortisation results in any difference between the proceeds (net of transaction costs) and the redemption amount being recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(v) Borrowing costs

Borrowing costs are expensed.

(w) Provisions

Provisions for legal claims, service warranties and other like liabilities are recognised when:

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

- Council has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in the provision due to the passage of time is recognised as interest expense.

(x) Employee benefits

(i) Short-term obligations

Short-term employee benefit obligations include liabilities for wages and salaries (including non-monetary benefits), annual leave and vesting sick leave expected to be wholly settled within the 12 months after the reporting period.

Leave liabilities are recognised in the provision for employee benefits in respect of employees' services up to the reporting date with other short term employee benefit obligations disclosed under payables.

These provisions are measured at the amounts expected to be paid when the liabilities are settled.

All other short-term employee benefit obligations are presented as payables.

Liabilities for non-vesting sick leave are recognised at the time when the leave is taken and measured at the rates paid or payable, and accordingly no Liability has been recognised in these reports.

Wages and salaries, annual leave and vesting sick leave are all classified as current liabilities.

(ii) Other long-term obligations

The liability for all long service and annual leave in respect of services provided by employees up to the reporting date (which is not expected to be wholly settled within the 12 months after the reporting period) are recognised in the provision for employee benefits.

These liabilities are measured at the present value of the expected future payments to be made using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are then discounted using market yields at the reporting date based on national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

Due to the nature of when and how long service leave can be taken, all long service leave for employees with 4 or more years of service has been classified as current, as it has been deemed that Council does not have the unconditional right to defer settlement beyond 12 months – even though it is not anticipated that all employees with more than 5 years' service (as at reporting date) will apply for and take their leave entitlements in the next 12 months.

(iii) Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death.

Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Defined benefit plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the balance sheet, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

However, when this information is not reliably available, Council can account for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans – i.e. as an expense when they become payable.

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named the 'Local Government Superannuation Scheme – Pool B'.

This scheme has been deemed to be a 'multi-employer fund' for the purposes of AASB 119.

Sufficient information is not available to account for the Scheme as a defined benefit plan (in accordance with AASB 119) because the assets to the scheme are pooled together for all Councils.

The last valuation of the scheme was performed by Richard Boyfield, FIAA on 24/02/2016 and covers the period ended 30/06/2015.

However, the position is monitored annually and the actuary has estimated that as at 30 June 2016 the prior period deficit still exists.

Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an

expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$656,493.

The amount of additional contributions included in the total employer contribution advised above is \$976,000.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$457,820 as at 30 June 2016.

Council's share of that deficiency cannot be accurately calculated as the scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils.

For this reason, no liability for the deficiency has been recognised in these financial statements.

Council has, however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the scheme require immediate payment to correct the deficiency.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Employee benefit on-costs

Council has recognised at year end the aggregate on-cost liabilities arising from employee benefits, and in particular those on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation and workers compensation expenses which will be payable upon the future payment of certain leave liabilities accrued as at 30/06/16.

(y) Self-insurance

Council does not self-insure.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Council also maintains cash and investments to meet expected future claims and these are detailed in Note 6 (c).

(z) Allocation between current and non-current assets and liabilities

In the determination of whether an asset or liability is classified as current or non-current, consideration is given to the time when each asset or liability is expected to be settled.

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle.

Exceptions

In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months (such as vested long service leave), the liability is classified as current even if it is not expected to be settled within the next 12 months.

In the case of inventories that are 'held for trading', these are also classified as current even if not expected to be realised in the next 12 months.

(aa) Taxes

The Council is exempt from both Commonwealth Income Tax and Capital Gains Tax.

Council does, however, have to comply with both Fringe Benefits Tax and Goods and Services Tax (GST).

Goods and Services Tax (GST)

Income, expenses and assets are all recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the revenue / expense.

Receivables and payables within the Balance Sheet are stated inclusive of any applicable GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the Balance Sheet.

Operating cash flows within the Cash Flow Statement are on a gross basis, i.e. they are inclusive of GST where applicable.

Investing and financing cash flows are treated on a net basis (where recoverable from the ATO), i.e. they are exclusive of GST. Instead, the GST component of investing and financing activity cash flows that are recoverable from or payable to the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from (or payable to) the ATO.

(ab) New accounting standards and Interpretations issued (not yet effective)

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2016.

Council has not adopted any of these standards early.

These include the following standards that are anticipated will impact on local government:

AASB 9 – Financial Instruments

AASB 15 – Revenue from Contracts with Customers and associated amending standards

AASB ED 260 – Income of Not-for-Profit Entities

AASB16 – Leases

AASB2015-6 – Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities

AASB 2014 – 10 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

AASB 2014 – 3 Amendments to Australian Accounting Standards – Accounting for Acquisitions

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

of Interests in Joint Operations [AASB 1 and AASB 11]

The full impact of the above standards has yet to be ascertained or quantified but will range from additional and/or revised disclosures to changes in how certain transactions and balances are accounted for.

(ac) Rounding of amounts

Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

(ad) Comparative figures

To ensure comparability with the current reporting period's figures, some comparative period line items and amounts may have been reclassified or individually reported for the first time within these financial statements and/or the notes.

(ae) Disclaimer

Nothing contained within these statements may be taken to be an admission of any liability to any person under any circumstance.

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2016

Note 2(a). Council functions/activities – financial information

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).														
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations			Total assets held (current & non-current)		
	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Actual 2016	Actual 2015	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Governance	-	-	-	223	224	203	(223)	(224)	(203)	-	-	-	-	-	-
Administration	170	537	1,499	9,391	8,734	8,005	(9,221)	(8,197)	(6,506)	28	50	30,353	30,272	30,353	30,272
Health	32,311	32,994	32,264	33,961	35,292	33,944	(1,650)	(2,298)	(1,680)	3,526	3,181	442,863	428,763	442,863	428,763
Wealth	9,399	11,224	32,846	15,936	17,340	28,527	(6,537)	(6,116)	4,319	2,476	3,269	532,162	489,693	532,162	489,693
Safe	1,125	1,097	906	2,344	2,790	2,499	(1,219)	(1,693)	(1,593)	1,087	831	60,351	95,892	60,351	95,892
Social	342	196	259	2,420	2,520	2,854	(2,078)	(2,324)	(2,595)	122	71	32,636	23,911	32,636	23,911
Total functions and activities	43,347	46,048	67,774	64,275	66,900	76,032	(20,928)	(20,852)	(8,258)	7,239	7,402	1,098,365	1,068,531	1,098,365	1,068,531
Share of gains/(losses) in associates and joint ventures (using the equity method)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General purpose income ¹	22,892	23,088	21,589	-	-	-	22,892	23,088	21,589	5,934	5,996	-	-	-	-
Operating result from continuing operations	66,239	69,136	89,363	64,275	66,900	76,032	1,964	2,236	13,331	13,173	13,398	1,098,365	1,068,531	1,098,365	1,068,531

1. Includes: rates and annual charges (incl. ex-gratia), untied general purpose grants and unrestricted interest and investment income.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 2(b). Council functions/activities – component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

GOVERNANCE

Costs relating to the Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of council and policy making committees, area representation and public disclosure and compliance.

ADMINISTRATION

Financial and administrative services, human resources, public relations and information technology.

HEALTH

Water, sewerage, strategic planning, development control, environmental control and projects, domestic waste management and rubbish tips, noxious weeds, ranger services, community services and lifestyle management, homes for aged, public cemeteries, sporting fields and pools, animal control, drainage and building control.

WEALTH

Roads, bridges, footpaths and cycleways, kerb and guttering, road and traffic signs, traffic facilities, bus shelters, quarries, caravan parks, saleyards, airport, library, tourism and economic development.

SAFE

Bushfire and emergency services, community safety and crime prevention, flood plain mitigation and management, beach patrols and street lighting.

SOCIAL

Cultural, aboriginal and youth services, art galleries, civic maintenance, community centres and community buildings, car parking, parks and reserves, boat ramps, wharves and jetties and public privies.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Rates and annual charges			
Ordinary rates			
Residential		11,621	10,553
Farmland		2,671	2,432
Business		1,729	1,563
Total ordinary rates		16,021	14,548
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		4,240	3,779
Water supply services		3,398	3,221
Sewerage services		8,188	7,571
Waste management services (non-domestic)		286	278
On-site sewerage management charge		324	296
Total annual charges		16,436	15,145
TOTAL RATES AND ANNUAL CHARGES		32,457	29,693

Council has used 2012 year valuations provided by the NSW Valuer General in calculating its rates.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(b) User charges and fees			
Specific user charges (per s.502 – specific 'actual use' charges)			
Water supply services		6,060	6,147
Sewerage services		826	774
Waste management services (non-domestic)		2,561	2,937
Total user charges		9,447	9,858
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Discretionary fees		714	713
Private works – section 67		119	144
Regulatory/ statutory fees		560	486
Total fees and charges – statutory/regulatory		1,393	1,343
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome		35	65
Aged housing rental		67	55
Caravan parks and camping grounds		4,278	3,168
Cemeteries		277	329
Property rentals		168	156
Saleyards		274	301
Sewerage services		106	118
Water supply		287	123
Other		–	25
Total fees and charges – other		5,492	4,340
TOTAL USER CHARGES AND FEES		16,332	15,541

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		320	268
– Interest earned on investments (interest and coupon payment income)		1,041	1,082
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>1,361</u>	<u>1,350</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		226	268
General Council cash and investments		907	777
Restricted investments/funds – external:			
Development contributions			
– Section 94		47	55
– Section 64		87	95
Water fund operations		94	119
Sewerage fund operations		–	36
<u>Total interest and investment revenue recognised</u>		<u>1,361</u>	<u>1,350</u>
(d) Other revenues			
Fines		35	33
Long service leave contributions		19	9
OH&S incentive rebate		40	79
<u>TOTAL OTHER REVENUE</u>		<u>94</u>	<u>121</u>

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(e) Grants				
General purpose (untied)				
Financial assistance	5,558	5,623	–	–
Pensioners' rates subsidies – general component	376	373	–	–
Total general purpose	5,934	5,996	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	150	148	–	–
– Sewerage	112	110	–	–
– Domestic waste management	134	132	–	–
Water supplies	73	178	–	–
Sewerage services	–	23	–	–
Aerodrome	–	–	–	2,000
Bushfire and emergency services	294	270	617	106
Community centres	–	–	5	–
Community services	1,807	1,751	–	–
Economic development	20	4	–	–
Environmental protection	140	104	–	–
Flood damage – department of commerce	(79)	201	–	–
Flood mitigation	94	87	48	81
Library	55	55	31	31
LIRS subsidy	34	38	–	–
Midwaste	536	435	–	–
Noxious weeds	222	259	–	–
Recreation and culture	1	–	–	–
Street lighting	81	81	–	–
Transport (roads to recovery)	2,336	818	–	–
Transport (other roads and bridges funding)	48	–	73	323
Waste levy	–	–	339	115
Other	30	52	38	–
Total specific purpose	6,088	4,746	1,151	2,656
Total grants	12,022	10,742	1,151	2,656
Grant revenue is attributable to:				
– Commonwealth funding	9,007	7,737	–	2,000
– State funding	3,015	3,005	1,151	656
– Other funding	–	–	–	–
	12,022	10,742	1,151	2,656

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94 – contributions towards amenities/services	–	–	454	614
S 64 – water supply contributions	–	–	468	612
S 64 – sewerage service contributions	–	–	352	227
Total developer contributions	17	–	1,274	1,453
Other contributions:				
Bushfire services	–	–	–	70
Community services	251	187	–	–
Domestic waste	112	112	–	–
Kerb and gutter	–	–	10	–
Midwaste	33	110	–	–
Recreation and culture	–	–	–	24
RMS contributions (regional roads, block grant)	1,837	6,406	1,632	18,790
Sewerage (excl. section 64 contributions)	–	–	168	247
Water supplies (excl. section 64 contributions)	–	–	162	1,709
Tourist parks	–	–	42	–
Other	116	102	82	50
Total other contributions	2,349	6,917	2,096	20,890
Total contributions	2,349	6,917	3,370	22,343
TOTAL GRANTS AND CONTRIBUTIONS	14,371	17,659	4,521	24,999

\$ '000	Actual 2016	Actual 2015
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(g) Restrictions relating to grants and contributions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:

Unexpended at the close of the previous reporting period	9,125	8,826
Add: grants and contributions recognised in the current period but not yet spent:	2,026	2,263
Less: grants and contributions recognised in a previous reporting period now spent:	(2,070)	(1,964)
Net increase (decrease) in restricted assets during the period	(44)	299
Unexpended and held as restricted assets	9,081	9,125
Comprising:		
– Specific purpose unexpended grants	1,542	1,542
– Developer contributions	7,539	7,583
	9,081	9,125

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Employee benefits and on-costs			
Salaries and wages		17,028	15,774
Travel expenses		614	804
Employee leave entitlements (ELE)		3,127	2,909
Superannuation		2,129	2,029
Workers' compensation insurance		277	646
Fringe benefit tax (FBT)		14	12
Payroll tax		278	273
Training costs (other than salaries and wages)		154	172
Total employee costs		23,621	22,619
Less: capitalised costs		(2,997)	(2,326)
TOTAL EMPLOYEE COSTS EXPENSED		20,624	20,293
Number of 'full-time equivalent' employees (FTE) at year end		307	298
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		2,829	2,984
Interest on advances		17	30
Total interest bearing liability costs expensed		2,846	3,014
(ii) Other borrowing costs			
Nil			
TOTAL BORROWING COSTS EXPENSED		2,846	3,014
(c) Materials and contracts			
Raw materials and consumables		15,768	15,309
Auditors remuneration ⁽¹⁾		66	52
Legal expenses:			
– Legal expenses: planning and development		34	52
– Legal expenses: other		285	342
TOTAL MATERIALS AND CONTRACTS		16,153	15,755
Auditor remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor:			
Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		55	52
– Other audit and assurance services		11	–
Remuneration for audit and other assurance services		66	52
Total Auditor remuneration		66	52

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
(d) Depreciation, amortisation and impairment					
Plant and equipment		–	–	1,344	1,384
Office equipment		–	–	186	196
Furniture and fittings		–	–	46	39
Land improvements (depreciable)		–	–	261	171
Infrastructure:					
– Buildings – non-specialised		–	–	914	858
– Buildings – specialised		–	–	356	491
– Roads		–	–	8,711	18,720
– Bridges		–	–	636	833
– Footpaths		–	–	471	159
– Stormwater drainage		–	–	1,185	1,073
– Water supply network		–	–	4,058	3,807
– Sewerage network		–	–	3,248	3,143
– Swimming pools		–	–	101	101
– Other open space/recreational assets		–	–	161	180
Other assets					
– Other		–	–	96	92
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		–	–	21,774	31,247

\$ '000	Notes	Actual 2016	Actual 2015
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(e) Other expenses

Other expenses for the year include the following:

Bad and doubtful debts	100	–
Councillor expenses – mayoral fee	40	39
Councillor expenses – councillors' fees	165	161
Councillors' expenses (incl. mayor) – other (excluding fees above)	31	42
Donations, contributions and assistance to other organisations (Section 356)	92	47
Electricity and heating	1,353	1,757
Insurance	827	678
Street lighting	570	606
Telephone and communications	307	353
TOTAL OTHER EXPENSES	3,485	3,683

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2016	Actual 2015
Property (excl. investment property)			
Proceeds from disposal – property		–	326
Less: carrying amount of property assets sold/written off		–	(430)
Net gain/(loss) on disposal		–	(104)
Plant and equipment			
Proceeds from disposal – plant and equipment		1,000	551
Less: carrying amount of plant and equipment assets sold/written off		(945)	(826)
Net gain/(loss) on disposal		55	(275)
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(2,073)	(1,661)
Net gain/(loss) on disposal		(2,073)	(1,661)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(2,018)	(2,040)

Note 6a. – Cash assets and Note 6b. – investments

\$ '000	Notes	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		2,506	–	2,464	–
Cash-equivalent assets ¹					
– Deposits at call		33,044	–	36,828	–
Total cash and cash equivalents		35,550	–	39,292	–
Investments (Note 6b)					
Nil					
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		35,550	–	39,292	–

¹ Those investments where time to maturity (from date of purchase) is < 3 mths.

Cash, cash equivalents and investments were classified at year end in accordance with AASB 139 as follows:

Cash and cash equivalents					
a. 'At fair value through the profit and loss'		35,550	–	39,292	–

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 6c. Restricted cash, cash equivalents and investments – details

\$ '000	2016	2016	2015	2015
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	35,550	–	39,292	–
attributable to:				
External restrictions (refer below)	21,983	–	21,962	–
Internal restrictions (refer below)	10,893	–	16,550	–
Unrestricted	2,674	–	780	–
	35,550	–	39,292	–

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – water (A)	1,067	–	(986)	81
Specific purpose unexpended loans – sewer (A)	3,491	–	(1,482)	2,009
RMS (formerly RTA) advances (B)	463	57	(7)	513
External restrictions – included in liabilities	5,021	57	(2,475)	2,603

External restrictions – other

Developer contributions – general (D)	2,898	889	(1,211)	2,576
Developer contributions – water fund (D)	1,089	130	(267)	952
Developer contributions – sewer fund (D)	2,120	389	(362)	2,147
Specific purpose unexpended grants (F)	1,493	662	(623)	1,532
Specific purpose unexpended grants-water fund (F)	50	–	(40)	10
Water augmentation reserve (G)	1,005	613	(1,091)	527
Water tariff equalisation reserve (G)	602	–	–	602
Water fleet reserve (G)	929	673	(350)	1,252
Water uncompleted works reserve (G)	377	577	(377)	577
Sewerage services (G)	143	–	(143)	–
Sewerage augmentation reserve (G)	3,241	917	(151)	4,007
Sewerage uncompleted works reserve (G)	19	464	(19)	464
Domestic waste management (G)	927	521	(35)	1,413
Contributions – ancillary works	35	1	–	36
On-site sewerage management reserve	134	324	(297)	161
SWR reserve reserve	412	1,058	(662)	808
4 shore caravan parks reserve	1,111	1,916	(1,066)	1,961
Midwaste	356	–	(1)	355
External restrictions – other	16,941	9,134	(6,695)	19,380
Total external restrictions	21,962	9,191	(9,170)	21,983

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 6c. Restricted cash, cash equivalents and investments – details (continued)

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Employees leave entitlement	1,403	319	(529)	1,193
Aerodrome	3	–	–	3
Akubra place	315	–	–	315
Bridge construction	39	–	–	39
By-pass reserve	2,886	174	(2,014)	1,046
Cemetery headstone restoration reserve	74	19	(23)	70
Community projects reserve	976	–	–	976
Community service equipment	318	113	(318)	113
Computer	107	26	–	133
Co-operative library computer	69	5	–	74
Environmental levy works reserve	1,068	669	(400)	1,337
General fleet	1,078	1,844	(1,494)	1,428
General fund uncompleted works reserve	1,493	1,085	(1,493)	1,085
General fund unexpended loans	4,880	–	(3,535)	1,345
HUB building	–	5	–	5
Industrial subdivision	6	–	–	6
Insurance	348	–	–	348
Landfill reserve	389	–	(69)	320
Mayoral fund	46	29	(33)	42
Organisational development	18	–	–	18
Property sales	426	–	(24)	402
Quarry restoration	440	–	(39)	401
Residential subdivision	33	–	–	33
Road reserves	102	–	–	102
Saleyards	–	19	–	19
SES building	33	7	–	40
Total internal restrictions	16,550	4,314	(9,971)	10,893
TOTAL RESTRICTIONS	38,512	13,505	(19,141)	32,876

- A** Loan moneys which must be applied for the purposes for which the loans were raised.
- B** Advances by roads and maritime services for (RMS) works on the State's classified roads.
- D** Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- F** Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))
- G** Water, sewerage, domestic waste management (DWM) and other special rates/levies/charges are externally restricted assets and must be applied for the purposes for which they were raised.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		2,229	–	1,390	–
User charges and fees		2,988	–	2,441	–
Accrued revenues					
– Interest on investments		96	–	82	–
Deferred debtors		54	143	40	161
Government grants and subsidies		1,071	445	1,164	557
Net GST receivable		389	–	321	–
Private works (miscellaneous debtors)		1,304	–	1,429	–
PWD subsidised scheme debtors		99	–	99	–
RTA debtors		20	–	110	–
Total		8,250	588	7,076	718
Less: provision for impairment					
Other debtors		(9)	–	(9)	–
Total provision for impairment – receivables		(9)	–	(9)	–
<u>TOTAL NET RECEIVABLES</u>		<u>8,241</u>	<u>588</u>	<u>7,067</u>	<u>718</u>
Externally restricted receivables					
Water supply					
– Rates and availability charges		477	–	332	–
– Other		2,041	–	1,891	–
Sewerage services					
– Rates and availability charges		585	–	376	–
– Other		428	–	442	–
Domestic waste management		329	–	226	–
Total external restrictions		3,860	–	3,267	–
Internally restricted receivables					
Nil					
Unrestricted receivables		4,381	588	3,800	718
<u>TOTAL NET RECEIVABLES</u>		<u>8,241</u>	<u>588</u>	<u>7,067</u>	<u>718</u>

Notes on debtors above:

- (i) Rates and annual charges outstanding are secured against the property.
- (ii) Doubtful rates debtors are provided for where the value of the property is less than the debt outstanding.
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates and charges at 8.50% (2015 8.50%).
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.
- (v) \$1,864,000 of the Water receivables represents the deficit in Section 64 Contribution restrictions.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Stores and materials		339	–	340	–
Work in progress		11	–	6	–
Total inventories at cost		350	–	346	–
(ii) Inventories at net realisable value (NRV)					
Nil					
<u>TOTAL INVENTORIES</u>		<u>350</u>	<u>–</u>	<u>346</u>	<u>–</u>
(b) Other assets					
Prepayments		161	–	–	–
<u>TOTAL OTHER ASSETS</u>		<u>161</u>	<u>–</u>	<u>–</u>	<u>–</u>

Externally restricted assets

There are no restrictions applicable to the above assets.

Other disclosures**Inventory write downs**

There were no amounts recognised as an expense relating to the write down of inventory balances held during the year.

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2016

Note 9a. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2015				Asset movements during the reporting period						as at 30/6/2016					
	At cost	At fair value	Accumulated depreciation	Impairment	Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated depreciation	Impairment	Carrying value
Capital work in progress	1,021	-	-	-	1,021	6,933	64	-	-	-	-	8,018	-	-	-	8,018
Plant and equipment	-	18,519	8,887	-	9,632	2,669	111	(945)	(1,344)	14	-	-	19,006	8,869	-	10,137
Office equipment	-	2,927	2,220	-	707	177	80	-	(186)	-	-	-	3,185	2,407	-	778
Furniture and fittings	-	1,110	843	-	267	38	-	-	(46)	-	-	-	1,148	869	-	259
Land:																
- Operational land	-	23,899	-	-	23,899	-	-	-	-	-	-	-	23,899	-	-	23,899
- Community land	-	27,921	-	-	27,921	23	-	-	-	-	1,935	-	29,879	-	-	29,879
Land improvements - non-depreciable	-	906	-	-	906	-	1	-	-	-	19,724	-	20,631	-	-	20,631
Land improvements - depreciable	-	9,505	1,910	-	7,595	19	35	-	(261)	1,149	1,531	-	14,940	4,872	-	10,068
Infrastructure:																
- Buildings - non-specialised	-	33,273	17,527	-	15,746	6	202	-	(914)	1,349	-	-	37,138	20,749	-	16,389
- Buildings - specialised	-	16,185	8,325	-	7,860	-	-	-	(356)	(1,346)	-	-	12,531	6,373	-	6,158
- Roads	-	345,291	114,726	-	230,565	8,612	507	(1,056)	(8,711)	-	-	-	352,102	122,185	-	229,917
- Bridges	-	59,887	24,150	-	35,737	197	159	(6)	(636)	-	-	-	60,012	24,720	-	35,292
- Footpaths	-	22,552	12,680	-	9,872	462	159	(28)	(471)	-	-	-	23,068	13,074	-	9,994
- Bulk earthworks (non-depreciable)	-	221,160	-	-	221,160	-	-	-	-	-	-	-	221,160	-	-	221,160
- Stormwater drainage	-	120,538	42,489	-	78,049	117	-	-	(1,185)	-	-	-	120,655	43,674	-	76,981
- Water supply network	-	264,380	74,889	-	189,491	2,597	625	(568)	(4,058)	-	2,767	-	270,198	79,344	-	190,854
- Sewerage network	-	212,292	57,154	-	155,138	1,958	344	(415)	(3,248)	-	2,294	-	216,836	60,765	-	156,071
- Swimming pools	-	3,654	2,308	-	1,346	-	-	-	(101)	-	-	-	3,654	2,409	-	1,245
- Other open space/recreational assets	-	6,112	3,234	-	2,878	64	6	-	(161)	(419)	2,809	-	11,147	5,970	-	5,177
Other assets:																
- Other	-	2,330	1,012	-	1,318	-	77	-	(96)	(731)	-	-	1,191	623	-	568
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	1,021	1,392,441	372,354	-	1,021,108	23,872	2,211	(3,018)	(21,774)	16	31,060	8,018	1,442,380	396,923	-	1,053,475

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Refer to Note 27. Fair value measurement for information regarding the fair value of other infrastructure, property, plant and equipment.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 9b. Externally restricted infrastructure, property, plant and equipment

\$ '000	Actual 2016				Actual 2015			
	At cost	At fair value	A/Dep & impairm't	Carrying value	At cost	At fair value	A/Dep & impairm't	Carrying value
Water supply								
Plant and equipment	-	3,958	1,632	2,326	-	4,063	1,874	2,189
Office equipment	-	259	237	22	-	246	233	13
Furniture and fittings	-	2	2	-	-	2	2	-
Land								
- Operational land	-	2,112	-	2,112	-	2,112	-	2,112
- Community land	-	405	-	405	-	409	-	409
Infrastructure	-	270,200	79,345	190,855	-	264,380	74,888	189,492
Total water supply	-	276,936	81,216	195,720	-	271,212	76,997	194,215
Sewerage services								
WIP	-	2	-	2	-	-	-	-
Plant and equipment	-	791	709	82	-	750	695	55
Office equipment	-	471	439	32	-	466	430	36
Furniture and fittings	-	3	3	-	-	3	3	-
Land								
- Operational land	-	2,560	-	2,560	-	2,560	-	2,560
- Community land	-	166	-	166	-	166	-	166
Buildings	-	36	11	25	-	32	10	22
Infrastructure	-	216,836	60,765	156,071	-	212,291	57,154	155,137
Total sewerage services	-	220,865	61,927	158,938	-	216,268	58,292	157,976
Domestic waste management								
Plant and equipment	-	594	214	380	-	582	169	413
Other assets	-	275	274	1	-	275	274	1
Total DWM	-	869	488	381	-	857	443	414
TOTAL RESTRICTED I,PP&E	-	498,670	143,631	355,039	-	488,337	135,732	352,605

Note 9c. Infrastructure, property, plant and equipment – current year impairments

Council has recognised no impairment losses during the reporting period nor reversed any prior period losses.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		4,926	618	3,349	581
Accrued expenses:					
– Borrowings		282	–	321	–
Advances		509	–	463	–
Total payables		5,717	618	4,133	581
Borrowings					
Loans – secured ¹		4,572	41,339	4,739	45,910
Government advances		188	77	233	467
Total borrowings		4,760	41,416	4,972	46,377
Provisions					
Employee benefits:					
Annual leave		1,857	–	1,932	–
Sick leave		1,750	–	1,867	–
Long service leave		4,626	387	4,338	393
Total provisions		8,233	387	8,137	393
<u>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</u>		<u>18,710</u>	<u>42,421</u>	<u>17,242</u>	<u>47,351</u>
(i) Liabilities relating to restricted assets					
		2016		2015	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		1,613	17,718	1,691	19,199
Sewer		1,229	16,675	1,195	17,807
Other		513	–	463	–
Tourist parks		163	–	207	365
Liabilities relating to externally restricted assets		<u>3,518</u>	<u>34,393</u>	<u>3,556</u>	<u>37,371</u>
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		<u>3,518</u>	<u>34,393</u>	<u>3,556</u>	<u>37,371</u>
Total liabilities relating to unrestricted assets		<u>15,192</u>	<u>8,028</u>	<u>13,686</u>	<u>9,980</u>
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		<u>18,710</u>	<u>42,421</u>	<u>17,242</u>	<u>47,351</u>

¹ Loans are secured over the general rating income of Council

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 15.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 10a. Payables, borrowings and provisions (continued)

\$ '000	Actual 2016	Actual 2015
(ii) Current liabilities not anticipated to be settled within the next twelve months		
The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	6,227	6,175
	6,227	6,175

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2016	Actual 2015
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	35,550	39,292
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		35,550	39,292
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		2,236	13,331
Adjust for non-cash items:			
Depreciation and amortisation		21,774	31,247
Net losses/(gains) on disposal of assets		2,018	2,040
Non-cash capital grants and contributions		(330)	(19,802)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(1,048)	2,106
Decrease/(increase) in inventories		(4)	20
Decrease/(increase) in other assets		(161)	–
Increase/(decrease) in payables		1,614	202
Increase/(decrease) in accrued interest payable		(39)	(27)
Increase/(decrease) in other liabilities		46	9
Increase/(decrease) in employee leave entitlements		90	115
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		26,196	29,241
(c) Non-cash investing and financing activities			
RMS dedications		–	18,044
Developer dedicated assets		330	1,758
Total non-cash investing and financing activities		330	19,802
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Credit cards/purchase cards		130	130
Total financing arrangements		130	130
(ii) Secured loan liabilities			
Loans are secured by a mortgage over future years rate revenue only.			

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, plant and equipment			
John Lane Reservoir Roof Refurbishment		72	–
NSW Rural Fire Service Control Centre		221	–
Crescent Head Wastewater Treatment Plant		301	–
Gladstone Wastewater Treatment Plant		316	–
Riverside Park - Fixed Wharf & Floating Pontoon		212	–
Jerseyville - Modular Floating Pontoon		114	–
Smith street redevelopment		–	2,420
Hat head water reservoir roof		–	114
Stuarts Point caravan park upgrade		–	117
Foothpath SWR flagstaff extension		–	214
Total commitments		1,236	2,865
These expenditures are payable as follows:			
Within the next year		1,236	2,865
Total payable		1,236	2,865
Sources for funding of capital commitments:			
Unrestricted general funds		–	–
Sect 64 and 94 funds/reserves		–	410
Unexpended grants		547	–
Externally restricted reserves		–	142
Internally restricted reserves		–	117
Unexpended loans		689	2,196
Total sources of funding		1,236	2,865

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

Nil

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2016

Note 13a(i). Statement of performance measurement – indicators (consolidated)

\$ '000	Amounts	Indicator	Prior periods	
	2016	2016	2015	2014
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>(267)</u>	-0.41%	-14.96%	-39.93%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	64,615			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>50,244</u>	72.67%	52.26%	74.30%
Total continuing operating revenue ⁽¹⁾	69,136			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	<u>18,459</u>	2.06x	2.86x	2.31x
Current liabilities less specific purpose liabilities ^(3, 4)	8,965			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>24,353</u>	3.04x	3.00x	1.53x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	8,019			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	<u>2,229</u>	6.52%	4.44%	4.58%
Rates, annual and extra charges collectible	34,167			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	<u>35,550</u>	8.41 mths	9.2 mths	6.9 mths
Payments from cash flow of operating and financing activities	4,225			

Notes

⁽¹⁾ Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

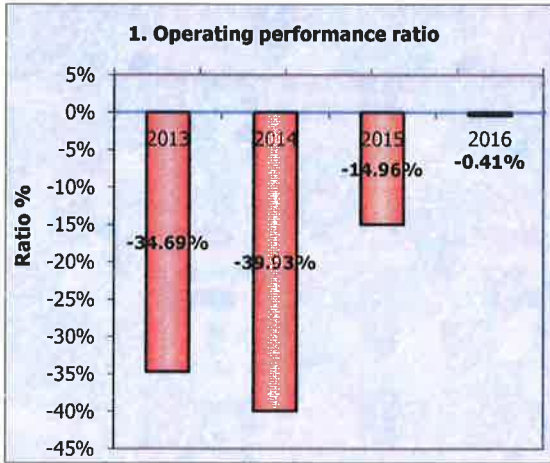
⁽³⁾ Refer to Note 10(a).

⁽⁴⁾ Refer to Note 10(a)(ii) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2016

Note 13a(ii). Local government industry indicators – graphs (consolidated)



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

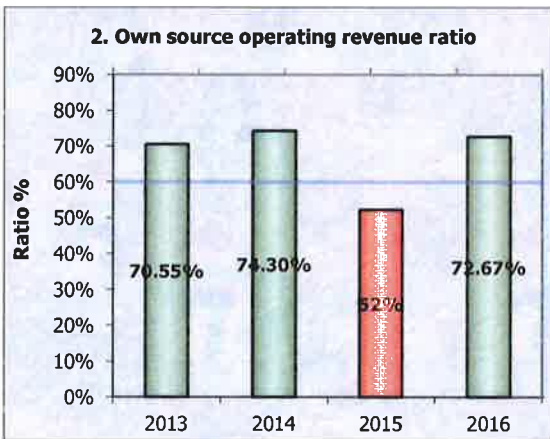
Commentary on 2015/16 result

2015/16 ratio -0.41%

Council's performance is marginally below benchmark, the improvement in the ratio is attributed to the impact of the revaluation of the Council road network at 30 June 2015 and the resultant decline in the depreciation expense. The respective fund ratio's are detailed in Note 13b and reveal that the General Fund is above the ratio (+2.05%) whilst the Water and Sewer Funds are in a negative position.

Benchmark: ——— Minimum >=0.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

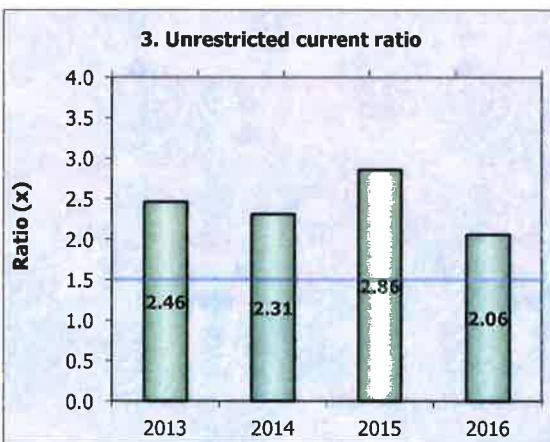
Commentary on 2015/16 result

2015/16 ratio 72.67%

Council is above benchmark, fluctuations in the ratio from year to year are reflective of the variations in the value of grants and contributions received by Council.

Benchmark: ——— Minimum >=60.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

Commentary on 2015/16 result

2015/16 ratio 2.06x

The ratio of 2.06 means that Council has \$2.06 in liquidity for every \$1.00 in current liabilities and continues to reflect Council's strong short term financial position.

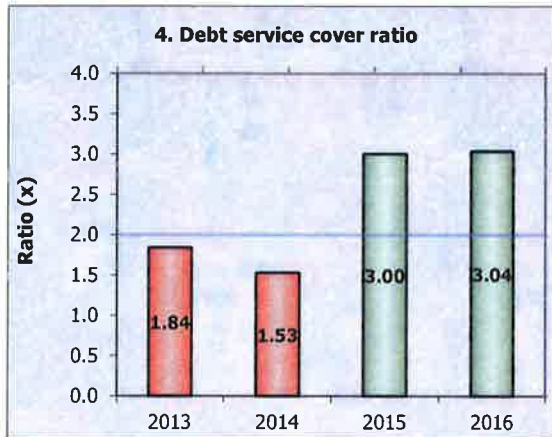
Benchmark: ——— Minimum >=1.50
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2016

Note 13a(ii). Local government industry indicators – graphs (consolidated)



Benchmark: Minimum ≥ 2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of debt service cover ratio

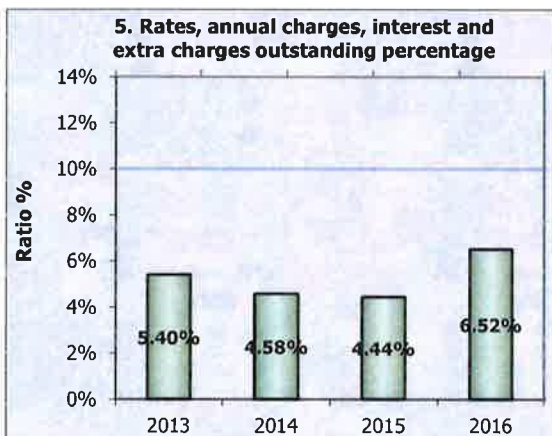
This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2015/16 result

2015/16 ratio 3.04x

A breakdown of the ratio by Fund is disclosed in Note 13b. The General Fund ratio is 5.11 which is well above benchmark whilst the respective Water and Sewer Fund ratio's of 1.76 and 1.76 indicate the level of borrowings required to address the significant and ongoing infrastructure renewal programs within the funds.

Ratio achieves benchmark
 Ratio is outside benchmark



Benchmark: Maximum $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of rates and annual charges outstanding ratio

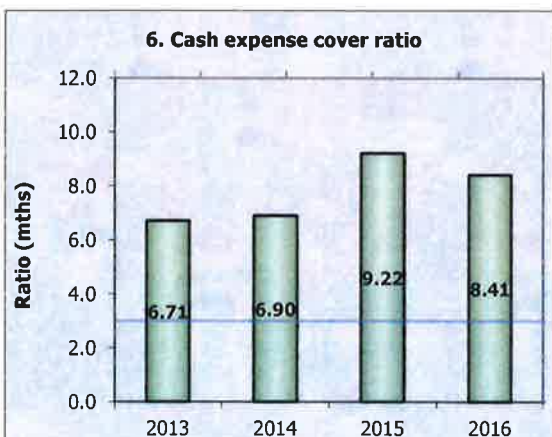
To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2015/16 result

2015/16 ratio 6.52%

Council's ratio is within the benchmark, the increase in the level of the rates and annual charges outstanding reflects the introduction of the single bill during the year and decline in the level of recovery action undertaken.

Ratio is within Benchmark
 Ratio is outside Benchmark



Benchmark: Minimum ≥ 3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2015/16 result

2015/16 ratio 8.41 mths

The Council ratio is above benchmark and is indicative of the strong short term financial position of Council.

Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 13b. Statement of performance measurement – indicators (by fund)

\$ '000	Water 2016	Sewer 2016	General ⁵ 2016
Local government industry indicators – by fund			
1. Operating performance ratio			
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	-6.74%	-5.57%	2.05%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	prior period: -7.29%	prior period: -13.93%	prior period: -16.11%
2. Own source operating revenue ratio			
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	90.88%	93.72%	66.19%
Total continuing operating revenue ⁽¹⁾	prior period: 79.22%	prior period: 93.69%	prior period: 43.33%
3. Unrestricted current ratio			
Current assets less all external restrictions ⁽²⁾	3.40x	4.46x	2.06x
Current liabilities less specific purpose liabilities ^(3,4)	prior period: 3.04x	prior period: 3.53x	prior period: 2.86x
4. Debt service cover ratio			
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	1.76x	1.76x	5.11x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	prior period: 1.57x	prior period: 1.49x	prior period: 5.28x
5. Rates, annual charges, interest and extra charges outstanding percentage			
Rates, annual and extra charges outstanding	11.61%	6.69%	5.48%
Rates, annual and extra charges collectible	prior period: 8.49%	prior period: 4.66%	prior period: 3.43%
6. Cash expense cover ratio			
Current year's cash and cash equivalents plus all term deposits	5.80	13.17	7.96
Payments from cash flow of operating and financing activities	prior period: 6.87 mths	prior period: 13.27 mths	prior period: 8.86 mths

Notes

(1)-(4) Refer to Notes at Note 13a(i) above.

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 14. Investment properties

\$ '000

Council has not classified any land or buildings as 'investment properties'.

Note 15. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including **(1)** price risk, **(2)** credit risk, **(3)** liquidity risk and **(4)** interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	35,550	39,292	35,550	39,292
Receivables	8,829	7,785	8,829	7,785
Total financial assets	44,379	47,077	44,379	47,077
Financial liabilities				
Payables	6,335	4,714	6,335	4,705
Loans/advances	46,176	51,349	57,190	59,900
Total financial liabilities	52,511	56,063	63,525	64,605

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Refer to Note 27. Fair value measurement for information regarding the fair value of financial assets and liabilities.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council has an investment policy which complies with the *Local Government Act 1993* and Minister's investment order. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

(a) Market risk – price risk and interest rate risk

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2016				
Possible impact of a 1% movement in interest rates	356	356	(356)	(356)
2015				
Possible impact of a 1% movement in interest rates	393	393	(393)	(393)

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

A profile of Council's receivables credit risk at balance date follows:

		2016	2016	2015	2015
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		0%	71%	0%	73%
Overdue		100%	29%	100%	27%
		100%	100%	100%	100%
(ii) Ageing of receivables – value					
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Rates and annual charges	Other receivables				
Current	Current	–	4,702	–	4,210
< 1 year overdue	0 – 30 days overdue	2,229	–	1,390	–
1 – 2 years overdue	30 – 60 days overdue	–	200	–	154
2 – 5 years overdue	60 – 90 days overdue	–	328	–	97
> 5 years overdue	> 90 days overdue	–	1,379	–	1,943
		2,229	6,609	1,390	6,404
(iii) Movement in provision for impairment of receivables					
				2016	2015
Balance at the beginning of the year				9	9
Balance at the end of the year				9	9

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2016									
Trade/other payables	–	5,717	618	–	–	–	–	6,335	6,335
Loans and advances	–	<u>7,360</u>	<u>6,492</u>	<u>5,963</u>	<u>5,513</u>	<u>4,632</u>	<u>35,005</u>	<u>64,965</u>	46,176
Total financial liabilities	–	<u>13,077</u>	<u>7,110</u>	<u>5,963</u>	<u>5,513</u>	<u>4,632</u>	<u>35,005</u>	<u>71,300</u>	52,511
2015									
Trade/other payables	–	4,133	581	–	–	–	–	4,714	4,714
Loans and advances	–	<u>7,869</u>	<u>7,411</u>	<u>6,550</u>	<u>6,019</u>	<u>5,567</u>	<u>39,637</u>	<u>73,053</u>	51,349
Total financial liabilities	–	<u>12,002</u>	<u>7,992</u>	<u>6,550</u>	<u>6,019</u>	<u>5,567</u>	<u>39,637</u>	<u>77,767</u>	56,063

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through the diversification of borrowing types, maturities and interest rate structures.

The following interest rates were applicable to Council's borrowings at balance date:

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	6,335	0.00%	4,714	0.00%
Loans and advances – fixed interest rate	<u>46,176</u>	5.84%	<u>51,349</u>	5.83%
	<u>52,511</u>		<u>56,063</u>	

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 22 June 2015.

While the Income Statement included in this General Purpose Financial Report must disclose the original budget adopted by Council, the *Local Government Act 1993* requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Note that for variations* of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----	
REVENUES				
User charges and fees	14,669	16,332	1,663	11% F
The significant income items that exceeded the budget estimate are:-				
Income from tourist parks exceeded budget by \$1,366,000. This includes \$551,000 from fees reflecting a 9.62% increase in turnover from the prior year, as well as Council receiving a \$801,000 lease assignment fee.				
Insurance payment of \$140,000 in relation to the Hat Head reservoir.				
Other revenues	83	94	11	13% F
Income of \$19,000 from the receipt of employment entitlements for staff who have transferred from other Councils.				
Operating grants and contributions	12,283	14,371	2,088	17% F
Additional grant income received during the year includes:-				
Roads to Recovery \$701,000, increased allocation from the Federal Government.				
Noxious weed grant of \$156,000 for the control of tropical soda apple and sengal tea.				
Community service program grants of \$126,000 and client contributions of \$143,000.				
Midwaste \$535,000, Council is the administrator of the budget for Midwaste on behalf of the member council's.				
Pedestrian facilities grant of \$108,000 and increase in block grant of \$150,000, both funded by RMS.				
Capital grants and contributions	5,890	4,521	(1,369)	(23%) U
Additional income in respect of the fire control centre \$237,000, cycleways construction \$73,000 and section 64/94 contributions \$918,000 are off set by a reduction in grants for the water supply fluoridation \$2,000,000 with work scheduled to commence in 2016/17. Council was also unsuccessful in its application for a grant to construct public toilets at Crescent Head \$410,000, and \$300,000 of capital contributions which were included in the Council budget in respect of bypass associated roadwork rehabilitation were paid in the prior year.				

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----	
EXPENSES				
Borrowing costs	3,068	2,846	222	7% F
Reduction in borrowing costs due to the deferment of loan borrowing in the Water Fund in line with cash flow requirements together with a reduction in interest expenses due to lower than anticipated interest rates in respect of the prior year borrowings.				
Depreciation and amortisation	19,795	21,774	(1,979)	(10%) U
Depreciation underestimated for the road network \$913,000, drainage \$229,000, fleet \$100,000 and sewer fund \$570,000. This increase relates to the dedication of road network assets in the capital program in 2014/15 to the value of \$18M.				
Other expenses	3,866	3,485	381	10% F
Reduction in electricity expenses reflects tariff and usage reductions.				
Net losses from disposal of assets	-	2,018	(2,018)	0% U
Principally relating to the write off of infrastructure as a result of asset renewal works in the year, including road network assets \$1,091,000, water assets \$568,000 and sewer \$414,000.				
Budget variations relating to Council's Cash Flow Statement include:				
Cash flows from operating activities	21,742	26,196	4,454	20.5% F
Increase in the result attributed to additional income from rates and annual charges \$518,000 user charges and fees \$1,663,000, grants contributions of \$619,000 and reduction in operating expenses of some \$1,582,000. The reduction in expenses includes electricity savings of \$404,000, borrowing costs \$222,000 and the capitalisation of costs \$518,000 identified as asset renewals.				
Cash flows from financing activities	180	(5,173)	(5,353)	(2973.9%) U
Loan borrowing of \$5,180,000 in the water fund were not required due to the rescheduling of works to future years.				

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2016

Note 17. Statement of developer contributions

\$ '000

Council recovers contributions, raises levies and enters into planning agreements on development works that are subject to a development consent issued by Council. All contributions must be spent/utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

The following tables detail the receipt, interest and use of the above contributions and levies and the value of all remaining funds which are 'restricted' in their future use.

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	23	3	-	-	-	-	26	-
Roads	1,385	235	-	21	(415)	-	1,226	-
Parking	7	-	-	-	-	-	7	-
Community facilities	182	47	-	4	(2)	-	231	-
SWR plan	977	97	-	20	(94)	-	1,000	-
Public domain	266	46	-	-	(312)	-	-	-
Administration	58	26	-	2	-	-	86	-
\$94 contributions – under a plan	2,898	454	-	47	(823)	-	2,576	-
Total \$94 revenue under plans	2,898	454	-	47	(823)	-	2,576	-
S64 contributions	4,685	820	330	87	(629)	-	4,963	-
Total contributions	7,583	1,274	330	134	(1,452)	-	7,539	-

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2016

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN NUMBER 1

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	23	3	-	-	-	-	26	-
Roads	1,385	235	-	21	(415)	-	1,226	-
Parking	7	-	-	-	-	-	7	-
Community facilities	182	47	-	4	(2)	-	231	-
SWR plan	977	97	-	20	(94)	-	1,000	-
Public domain	266	46	-	-	(312)	-	-	-
Administration	58	26	-	2	-	-	86	-
Total	2,898	454	-	47	(823)	-	2,576	-

S64 contributions

CONTRIBUTION PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Water	2,565	468	162	50	(267)	-	2,816	-
Sewerage	2,120	352	168	37	(362)	-	2,147	-
Total	4,685	820	330	87	(629)	-	4,963	-

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council participates in an employer-sponsored defined benefit superannuation scheme, and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

The schemes most recent full actuarial review indicated that the net assets of the scheme were not sufficient to meet the accrued benefits of the schemes defined benefit member category with member councils required to make significantly higher contributions in future years.

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of its share of the net deficit and accordingly Council has not recorded any net liability from it's defined benefit scheme obligations in accordance with AASB 119.

Future contributions made to the defined benefit scheme to rectify the net deficit position will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

(ii) Statewide Limited

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) Other Guarantees

Council has provided no other Guarantees other than those listed above.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 18. Contingencies and other assets/liabilities not recognised (continued)

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other liabilities

(i) Third party claims

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) S94 plans

Council levies section 94/94A contributions upon various development across the Council area through the required contributions plans.

As part of these plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

As well, these plans indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or where a shortfall exists by the use of Council's general funds.

These future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intention to spend funds in the manner and timing set out in those plans.

ASSETS NOT RECOGNISED:

(i) Land under roads

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities

\$ '000

Council's objectives can and in some cases are best met through the use of separate entities and operations.

These operations and entities range from 100% ownership and control through to lower levels of ownership and control via co-operative arrangements with other councils, bodies and other outside organisations.

The accounting and reporting for these various entities, operations and arrangements varies in accordance with accounting standards, depending on the level of council's (i) interest and (ii) control and the type (form) of entity/operation, as follows;

Controlled entities (subsidiaries)

Note 19(a)

Operational arrangements where Council's control (but not necessarily interest) exceeds 50%.

Joint ventures and associates

Note 19(b)

Joint ventures are operational arrangements where the parties that have joint control have rights to the net assets of the arrangement.

Associates are separate entities where Council has significant influence over the operations (but neither controls nor jointly controls them).

Joint operations

Note 19(c)

Operational arrangements where the parties that have joint control have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

Unconsolidated structured entities

Note 19(d)

Unconsolidated structured entities represent "special vehicles" that Council has an interest in but which are not controlled by Council and therefore not consolidated as a subsidiary, joint arrangement or associate. Attributes of structured entities include restricted activities, a narrow and well-defined objective and insufficient equity to finance its activities without financial support.

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

(i) Subsidiaries disclosed under Note 19(a) and joint operations disclosed at Note 19(c) are accounted for on a 'line by line' consolidation basis within the Income Statement and Statement of Financial Position.

(ii) Joint ventures and associates as per Note 19(b) are accounted for using the equity accounting method and are disclosed as a 1 line entry in both the Income Statement and Statement of Financial Position.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities (continued)

 \$ '000

(a) Controlled entities (subsidiaries) – being entities and operations controlled by Council

Council has no interest in any controlled entities (subsidiaries).

(b) Joint ventures and associates

Council has no interest in any joint ventures or associates.

(c) Joint operations**(a) Council is involved in the following joint operations (JO's)**

Name of joint operation	Principal activity
Mid North Coast Co-op Library	Library

Council has not recognised its share of the Library as it is deemed immaterial.

(b) Council assets employed in the joint operations	2016	2015
Council's share of assets jointly owned with other partners		
Current assets	78	98
Other non-current assets	1,970	1,872
Total net assets employed – Council and jointly owned	2,048	1,970

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

None.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

\$ '000	Notes	Actual 2016	Actual 2015
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		373,848	360,517
a. Net operating result for the year		2,236	13,331
Balance at end of the reporting period		376,084	373,848
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		661,150	630,090
Total		661,150	630,090
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		630,090	774,082
– Revaluations for the year	9(a)	31,060	(143,992)
– Balance at end of year		661,150	630,090
TOTAL VALUE OF RESERVES		661,150	630,090

(iii) Nature and purpose of reserves**Infrastructure, property, plant and equipment revaluation reserve**

– The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrements of non-current asset values due to their revaluation.

(c) Correction of error/s relating to a previous reporting period

Council made no correction of errors during the current reporting period.

(d) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
	Water	Sewer	General ¹
Continuing operations			
Income from continuing operations			
Rates and annual charges	3,682	8,368	21,149
User charges and fees	6,500	1,019	11,140
Interest and investment revenue	144	37	1,180
Other revenues	–	–	94
Grants and contributions provided for operating purposes	223	112	14,036
Grants and contributions provided for capital purposes	712	520	3,289
Other income			
Net gains from disposal of assets	–	–	–
Total income from continuing operations	11,261	10,056	50,888
Expenses from continuing operations			
Employee benefits and on-costs	1,754	1,822	17,048
Borrowing costs	1,249	1,077	520
Materials and contracts	3,295	3,451	12,476
Depreciation and amortisation	4,398	3,273	14,103
Other expenses	563	444	2,478
Net losses from the disposal of assets	522	415	1,081
Total expenses from continuing operations	11,781	10,482	47,706
Operating result from continuing operations	(520)	(426)	3,182
Net operating result for the year before grants and contributions provided for capital purposes	(1,232)	(946)	(107)

¹ General fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

Kempsey Shire Council

Notes to the Financial Statements

as at 30 June 2016

Note 21. Financial result and financial position by fund (continued)

Statement of Financial Position by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	4,002	8,627	22,921
Receivables	2,518	1,013	4,710
Inventories	–	–	350
Other	–	–	161
Total current assets	6,520	9,640	28,142
Non-current assets			
Receivables	–	–	588
Infrastructure, property, plant and equipment	195,720	158,938	698,817
Total non-current assets	195,720	158,938	699,405
TOTAL ASSETS	202,240	168,578	727,547
LIABILITIES			
Current liabilities			
Payables	132	98	5,487
Borrowings	1,481	1,131	2,148
Provisions	–	–	8,233
Total current liabilities	1,613	1,229	15,868
Non-current liabilities			
Payables	–	–	618
Borrowings	17,718	16,675	7,023
Provisions	–	–	387
Total non-current liabilities	17,718	16,675	8,028
TOTAL LIABILITIES	19,331	17,904	23,896
Net assets	182,909	150,674	703,651
EQUITY			
Retained earnings	61,736	49,134	265,214
Revaluation reserves	121,173	101,540	438,437
Total equity	182,909	150,674	703,651

¹ General Fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.

Note 22. 'Held for sale' non-current assets and disposal groups

Council did not classify any non-current assets or disposal groups as 'held for sale'.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 23. Events occurring after the reporting date

\$ '000

Events that occur between the end of the reporting period (30 June 2016) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the applicable 'authorised for issue' date relating to these General Purpose Financial Statements.

Accordingly, the 'authorised for issue' date is 27/10/16.

Events that occur after the reporting period represent one of two types:

(i) Events that provide evidence of conditions that existed at the reporting period

These financial statements (and the figures therein) incorporate all 'adjusting events' that provided evidence of conditions that existed at 30 June 2016.

(ii) Events that provide evidence of conditions that arose after the reporting period

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2016 and which are only indicative of conditions that arose after 30 June 2016.

Council is unaware of any material or significant 'non-adjusting events' that should be disclosed.

Note 24. Discontinued operations

Council has not classified any of its operations as 'discontinued'.

Note 25. Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance.

Council is unaware of any control over intangible assets that warrant recognition in the financial statements, including either internally generated and developed assets or purchased assets.

Note 26. Reinstatement, rehabilitation and restoration liabilities

Council has no outstanding obligations to make, restore, rehabilitate or reinstate any of its assets/operations.

Council does however operate a Waste Disposal Facility on the Crescent Head Road, restoration works are budgeted for on an annual basis in accordance with the waste depots licence requirements.

Previous Waste Depots operated at Stuarts Point, Kempsey and South West Rocks have been reinstated.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

2016	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	–	–	10,137	10,137
Office equipment	30/06/16	–	–	778	778
Furniture and fittings	30/06/16	–	–	259	259
Operational land	30/06/13	–	–	23,899	23,899
Community land	30/06/16	–	–	29,879	29,879
Land Improvements – non depreciable	30/06/16	–	–	20,631	20,631
Land Improvements – depreciable	30/06/16	–	–	10,068	10,068
Buildings – non specialised	30/06/13	–	–	16,389	16,389
Buildings – specialised	30/06/13	–	–	6,158	6,158
Roads, bridges, footpaths	30/06/15	–	–	496,363	496,363
Stormwater drainage	30/06/15	–	–	76,981	76,981
Water supply network	30/06/12	–	–	190,854	190,854
Sewerage network	30/06/12	–	–	156,071	156,071
Swimming pools	30/06/16	–	–	1,245	1,245
Other open space/recreational assets	30/06/16	–	–	5,177	5,177
Other	30/06/16	–	–	568	568
Work in progress	30/06/16	–	–	8,018	8,018
Total infrastructure, property, plant and equipment		–	–	1,053,475	1,053,475

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values: (continued)

2015	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/15	–	–	9,632	9,632
Office equipment	30/06/15	–	–	707	707
Furniture and fittings	30/06/15	–	–	267	267
Operational land	30/06/13	–	–	23,899	23,899
Community land	30/06/11	–	–	27,921	27,921
Land Improvements – non depreciable	30/06/96	–	–	906	906
Land Improvements – depreciable	30/06/96	–	–	7,595	7,595
Buildings – non specialised	30/06/13	–	–	15,746	15,746
Buildings – specialised	30/06/13	–	–	7,860	7,860
Roads, bridges, footpaths	30/06/15	–	–	497,334	497,334
Stormwater drainage	30/06/15	–	–	78,049	78,049
Water supply network	30/06/12	–	–	189,491	189,491
Sewerage network	30/06/13	–	–	155,138	155,138
Swimming pools	30/06/95	–	–	1,346	1,346
Other open space/recreational assets	30/06/15	–	–	2,878	2,878
Other	30/06/15	–	–	1,318	1,318
Work in progress	30/06/15	–	–	1,021	1,021
Total infrastructure, property, plant and equipment		–	–	1,021,108	1,021,108

(2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

(3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

There are no classes of infrastructure, property, plant and equipment that are valued using level 2 inputs.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

	Plant and equipment	Office equipment	Furniture and fittings	Operational land	Total
Opening balance – 1/7/14	9,444	713	243	23,503	33,903
Transfers from/(to) another asset class	–	–	–	71	71
Purchases (GBV)	2,398	190	63	430	3,081
Disposals (WDV)	(826)	–	–	(105)	(931)
Depreciation and impairment	(1,384)	(196)	(39)	–	(1,619)
Closing balance – 30/6/15	9,632	707	267	23,899	34,505
Transfers from/(to) another asset class	14	–	–	–	14
Purchases (GBV)	2,780	257	38	–	3,075
Disposals (WDV)	(945)	–	–	–	(945)
Depreciation and impairment	(1,344)	(186)	(46)	–	(1,576)
Closing balance – 30/6/16	10,137	778	259	23,899	35,073

	Community land	Land improvement -nt non-depr	Land improvement -ment depr	Buildings non- specialised	Total
Opening balance – 1/7/14	27,992	442	7,797	16,733	52,964
Transfers from/(to) another asset class	(71)	154	(2,254)	117	(2,054)
Purchases (GBV)	–	310	2,223	79	2,612
Disposals (WDV)	–	–	–	(325)	(325)
Depreciation and impairment	–	–	(171)	(858)	(1,029)
Closing balance – 30/6/15	27,921	906	7,595	15,746	52,168
Transfers from/(to) another asset class	–	–	1,149	1,349	2,498
Purchases (GBV)	23	1	54	208	286
Depreciation and impairment	–	–	(261)	(914)	(1,175)
Revaluation	1,935	19,724	1,531	–	23,190
Closing balance – 30/6/16	29,879	20,631	10,068	16,389	76,967

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

a. The following tables present the changes in level 3 fair value asset classes. (continued)

	Buildings specialised	Roads bridges foothpaths	Storm water drainage	Water supply network	Total
Opening balance – 1/7/14	8,330	668,130	51,218	186,849	914,527
Transfers from/(to) another asset class	(117)	–	–	–	(117)
Purchases (GBV)	138	25,831	287	4,676	30,932
Disposals (WDV)	–	(284)	–	(968)	(1,252)
Depreciation and impairment	(491)	(19,712)	(1,073)	(3,807)	(25,083)
Revaluations	–	(176,631)	27,617	2,741	(146,273)
Closing balance – 30/6/15	7,860	497,334	78,049	189,491	772,734
Transfers from/(to) another asset class	(1,346)	–	–	–	(1,346)
Purchases (GBV)	–	9,937	117	3,222	13,276
Disposals (WDV)	–	(1,090)	–	(568)	(1,658)
Depreciation and impairment	(356)	(9,818)	(1,185)	(4,058)	(15,417)
FV gains – other comprehensive income	–	–	–	2,767	2,767
Closing balance – 30/6/16	6,158	496,363	76,981	190,854	770,356

	Sewerage network	Other	WIP	Total
Opening balance – 1/7/14	154,840	1,375	222	156,437
Purchases (GBV)	1,569	35	799	2,403
Disposals (WDV)	(409)	–	–	(409)
Depreciation and impairment	(3,143)	(92)	–	(3,235)
Revaluations	2,281	–	–	2,281
Closing balance – 30/6/15	155,138	1,318	1,021	157,477
Transfers from/(to) another asset class	–	(731)	–	(731)
Purchases (GBV)	2,302	77	6,997	9,376
Disposals (WDV)	(415)	–	–	(415)
Depreciation and impairment	(3,248)	(96)	–	(3,344)
Revaluations	2,294	–	–	2,294
Closing balance – 30/6/16	156,071	568	8,018	164,657

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

a. The following tables present the changes in level 3 fair value asset classes. (continued)

	Swimming pools	Open space/ recreational	Total
Opening balance – 1/7/14	1,447	712	2,159
Transfers from/(to) another asset class	–	2,100	2,100
Purchases (GBV)	–	246	246
Depreciation and impairment	(101)	(180)	(281)
Closing balance – 30/6/15	1,346	2,878	4,224
Transfers from/(to) another asset class	–	(419)	(419)
Purchases (GBV)	–	70	70
Depreciation and impairment	(101)	(161)	(262)
Revaluations	–	2,809	2,809
Closing balance – 30/6/16	1,245	5,177	6,422

b. Information relating to the transfers into and out of the level 3 fair valuation hierarchy (as disclosed in the table above) includes:

Nil

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

c. The valuation process for level 3 fair value measurements

Property, plant and equipment, furniture and fittings incorporates:

Major plant
Fleet vehicles
Minor plant
Furniture and fittings
Office equipment

All are disclosed at fair value in the notes. Council assumes that the carrying amount reflects the fair value of the items as shown above.

The unobservable Level 3 inputs include:

- Pattern of consumption
- Useful life
- Asset Condition
- Residual Value

There has been no change to the valuation process during the reporting period.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

c. The valuation process for level 3 fair value measurements (continued)

Operational land

Council's 'Operational' Land by definition has no special restriction other than those that may apply to any piece of land.

Council obtains its fair values for operational land from an external valuer every 5 years (last valuation being 2013) using Level 3 inputs.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account the current market price in an active and liquid market of the same or similar asset.

The unobservable Level 3 inputs used include:

- Rate per square Metre

The 'Market Approach' is used to value Operational Land. There has been no change to the valuation process during the reporting period.

Community land

Council's 'Community' land (including owned by Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under Section 94 of the Environmental Planning and Assessment Act 1979). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land.

Community Land:

- Cannot be sold
- Cannot be leased, licensed, or any other estate granted over the land for more than 21 years and
- Must have a plan of management for it.

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

c. The valuation process for level 3 fair value measurements (continued)

Community land (continued)

In relation to Community Land the Division of Local Government has reviewed its positions on the use of the Valuer General's Valuations of community land and in association with the Local government Accounting Advisory Group, the Division has determined that community land may be valued as follows:

The NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land under clause 31 of AASB 116. Council fair values community land using unobservable Level 3 inputs based on inputs on either the UCV (Unimproved Capital Value) provided by the Valuer General or an average unit rate based on the UCV and allocated by Council against those properties where the Valuer General did not provide a UCV.

The 'Market Approach' is used to value Community Land. There has been no change to the valuation process during the reporting period.

Land improvements – non depreciable and depreciable

Council's Land Improvements incorporates fencing, landscaping, earthworks and playgrounds.

Council carries fair values of land serves using the following unobservable Level 3 inputs:

- Gross replacement cost
- Asset condition
- Non Depreciable
- Remaining useful life

Land improvements where valued at Fair value with the valuation conducted in the current year.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

c. The valuation process for level 3 fair value measurements (continued)

Buildings – non-specialised and specialised

Council Buildings include libraries, public amenities, sporting club houses, depot buildings, workshops, community centres, rural fire service buildings and tourist caravan parks.

Valuations are carried out by an external valuer using the cost approach. This approach estimates the replacement cost for each building by componentising the building (for complex structures) into significant parts with different useful life and taking into account a range of factors. Buildings are physically inspected and values are provided based on extensive professional judgement, condition and consumption rates.

As such these assets are classified as having being valued using the following unobservable Level 3 inputs:

- Consumption rate
- Future Economic Benefits
- Condition
- Useful life of an asset

The 'Cost Approach' is used to value specialised buildings. There has been no change to the valuation process during the reporting period.

Roads, water and sewer networks.

This asset class comprises the Roads, Bridges, Car Parks, Kerb & Guttering, Footpaths, Cycleways together with Water and Sewerage Networks.

The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. Valuations for the road, comprising surface, pavement, and formation were based on calculations carried out in 2015 utilising an internal engineering expertise utilising asset data sourced from pavement management survey and staff assessments. Water and Sewerage infrastructure was valued in 2012 utilising a mix of internal engineering expertise and the use of external specialist valuers.

Council fair values road infrastructure using unobservable Level 3 inputs at a component level. Council fair values kerb and guttering and footpaths using unobservable Level 3 inputs at a non-componentised level.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

c. The valuation process for level 3 fair value measurements (continued)

Roads, water and sewer networks (continued)

The 'Cost Approach' is used to value these assets by componentising the assets into significant parts and then rolling up these component values to provide an overall valuation for each significant assets (e.g. road, water treatment facility, dam, pump Station, sewer treatment plant) within Council's Asset System. Kerb and guttering, footpaths, water mains and sewers are also valued using the "Cost Approach" however this is done on a non compartmentised basis.

The level of componentisation adopted by Council is in accordance with AASB 116 and OLG Circular 09-09.

The unobservable Level 3 inputs used include:

- Pattern of Consumption
- Residual Value
- Asset condition
- Remaining useful life
- Current replacement cost

There was no change in valuation techniques from the prior year.

Stormwater Drainage

Council's Drainage Assets comprises pits, pipes, culverts, open channels, headwalls and flood mitigation levees, drains and gate structures.

Council carries fair values drainage assets using unobservable Level 3 inputs which include:

- Pattern of Consumption
- Asset condition
- Residual value
- Current replacement cost

The 'Cost Approach' is used to value drainage assets. There has been no change to the valuation during the reporting period.

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) (continued)

c. The valuation process for level 3 fair value measurements (continued)

Other assets, swimming pools and other open space/recreational assets

Council's Other Assets includes powerheads, waste systems, water tanks, landfill lids and recycling facilities.

Council carries fair values of Other Assets using Level 3 inputs. The unobservable Level 3 inputs include:

- Pattern of Consumption
- Asset condition
- Residual value
- Current replacement cost

The 'Cost Approach' is used to value other assets. There has been no change to the valuation process during the reporting period.

(5). Highest and best use

All of Council's non-financial assets are considered to be utilised for their highest and best use.



**KEMPSEY SHIRE COUNCIL
GENERAL PURPOSE FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT**

Report on the Financial Statements

We have audited the accompanying financial statements of Kempsey Shire Council ("the Council"), which comprises the statement of financial position as at 30 June 2016, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the statement by Councillors' and Management.

Council's Responsibility for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as the Council determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

Our audit responsibility does not extend to the original budget information included in the income statement, statement of cash flows, Note 2(a) and Note 16 material budget variation explanations, and accordingly, we do not express an opinion on such. In addition, our audit did not include an analysis of the prudence of business decisions made by Council or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Opinion

In our opinion:


- a) The Council's accounting records have been kept in accordance with the requirements of the *Local Government Act, 1993*, Chapter 13, Part 3, Division 2;
- b) The financial statements:
 - i. Have been prepared in accordance with the requirements of this Division;
 - ii. Are consistent with the Council's accounting records;
 - iii. Present fairly, in all material respects, the Council's financial position as at 30 June 2016, and of its performance and its cash flows for the year then ended; and
 - iv. Are in accordance with applicable Accounting Standards;
- c) All information relevant to the conduct of the audit has been obtained; and
- d) There are no material deficiencies in the accounting records or financial statements that have come to light in the course of the audit.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the general purpose financial statements of Kempsey Shire Council for the financial year ended 30 June 2016 published in the annual report and included on Council's website. The Council is responsible for the integrity of the Council's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial statements identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial statements. If users of the financial statements are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements to confirm the information contained in this website version of the financial statements.

Dated at Lismore this 27th day of October 2016

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**



.....
G W DWYER (Partner)
Registered Company Auditor

Kempsey Shire Council

Report to Council under s417 of the Local
Government Act 1993
30 June 2016



KEMPSEY
Shire Council



**Thomas
Noble &
Russell**

Accountants | Auditors | Business Advisers



www.tnr.com.au

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Overview

We are pleased to advise that we have completed the audit of Council's financial reports for the year ended 30 June 2016, in accordance with Section 415 of the *Local Government Act 1993*. The financial reports that have been subject to independent audit are the:

- General purpose financial report; and
- Special purpose financial report.

Unmodified independent audit reports have been issued to the Council for the 2016 year and these are attached to each financial report. Further commentary as required by the *Local Government Act 1993* is provided in this report.

This report should be read in conjunction with our audit opinion on the general purpose financial report provided under Section 417(2) of the *Local Government Act 1993*. Section 417 (3) of the *Local Government Act 1993* requires us to consider and provide comment on the material items affecting the general purpose financial report and other matters pertinent to the audit. Arising from the audit, there are a number of observations we wish to raise concerning the trends in Council's finances.

Income Statement






This section provides Council with an overview of your financial results and includes commentary on key elements of the financial statements.

Consolidated Operating Result	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Revenues from continuing operations	64,615	64,364	Council's consolidated surplus from all activities for 2016 was \$2,236,000. This compares to a surplus in 2015 of \$13,331,000.
Expenses from continuing operations	(43,108)	(42,745)	
Result from continuing operations before depreciation, capital revenue and loss on disposal of assets	21,507	21,619	Refer to the 'Material Revenue and Expense Movements' section of this report for audit comments in relation to material movements in operating results.
Less: depreciation expense	(21,774)	(31,247)	
Operating deficit after depreciation and before capital revenue and loss on disposal of assets	(267)	(9,628)	
Loss on disposal of assets	(2,018)	(2,040)	
Capital grants and contributions	4,521	24,999	
Operating surplus from all activities	2,236	13,331	

Results by Fund

Operating Result by Fund	General		Water		Sewer	
	Current Year (\$'000)	Prior Year (\$'000)	Current Year (\$'000)	Prior Year (\$'000)	Current Year (\$'000)	Prior Year (\$'000)
Revenues from continuing operations	47,599	47,355	10,549	10,415	9,536	8,909
Expenses from continuing operations	(32,522)	(31,117)	(6,861)	(6,997)	(6,794)	(6,946)
Result from continuing operations before depreciation, capital revenue and loss on disposal of assets	15,077	16,238	3,688	3,418	2,742	1,963
Less: depreciation expense	(14,103)	(23,866)	(4,398)	(4,177)	(3,273)	(3,204)
Operating result after depreciation and before capital revenue and loss on disposal of assets	974	(7,628)	(710)	(759)	(531)	(1,241)
Loss on disposal of assets	(1,081)	(613)	(522)	(1,018)	(415)	(409)
Capital grants and contributions	3,289	22,204	712	2,321	520	474
Operating result from all activities	3,182	13,963	(520)	544	(426)	(1,176)

Material Revenue and Expense Movements

Line Item	Increase / (Decrease)	Audit Comment
Revenues		
Rates & annual charges	2,764,000 	Partly attributable to the special rate variation approved by the Minister for Local Government totalling 10% for ordinary rates. Domestic waste management annual charges increased in aggregate by 12.2%. The water and sewerage annual charge also increased by 5% and 7.5% respectively.
User charges & fees	791,000 	Largely attributable to increased income from caravan parks and camping grounds totalling \$1.1 million.
Operating grants & contributions	(3,288,000) 	In 2015 Council received a cash contribution of \$3.5 million from the RMS relating to the transfer of the Macleay Valley Way. The Federal Government has allocated additional Roads to Recovery funding for the 2016 and 2017 financial years.
Capital grants & contributions	(20,478,000) 	In 2015 RMS contributions included an \$18.1 million non-cash contribution relating to the transfer of the Macleay Valley Way. Council also received a \$2 million grant for the aerodrome in 2015.
Expenses		
Depreciation	(9,473,000) 	Largely relates to reduced depreciation for roads, bridges and footpaths. This is reflective of revised useful life and condition assessments made for these asset classes as part of the 30 June 2015 revaluation.

Income Statement ratios

Operating Performance Ratio

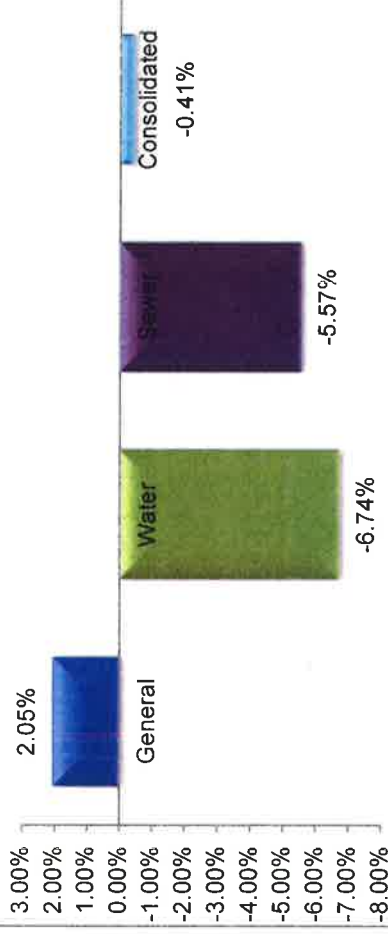
This ratio measures a Council's achievement of containing operating expenditure within operating revenue (achieving a surplus after depreciation but before capital items). The benchmark is greater than 0%.

As illustrated, only Council's General Fund has an operating surplus after depreciation but before capital items. Council's General Fund performance has been significantly improved by the reduction in depreciation previously discussed.

Council should continue to improve the operating performance of the Water and Sewer Funds to achieve the greater than 0% benchmark.

It is important to distinguish that this ratio is focusing on operating performance and hence capital grants and contributions and fair value adjustments are excluded.

Operating Performance by Fund

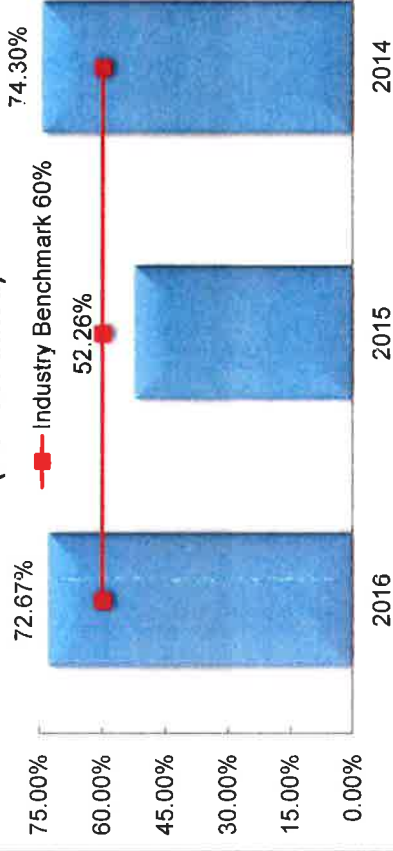


Own Source Operating Revenue Ratio

Local Government performance benchmarking analyses the ability of Council to generate its own revenue sources rather than over-reliance on grants and contributions (capital and operating) received from external sources. The graph illustrates that Council sources 72.67% of its consolidated revenue from rates, annual charges, user charges, interest etc. which exceeds the industry benchmark of 60%.

The 2015 ratio was significantly impacted by \$21.5 million of cash and non-cash contributions received from the RMS relating to the transfer of the Macleay Valley Way.

Own Source Operating Revenue Ratio (Consolidated)



Capital Grants & Contributions

Council receives capital grants and contributions from various sources each financial year to renew existing assets as well as construct new assets. Capital contributions include developer contributions as well as dedications received by Council on the finalisation of a development.

Capital grants received during the year amounted to \$1,151,000 and included grants for bushfire and emergency services - \$617,000 and grants for waste \$339,000.

Capital contributions received during the year amounted to \$3,370,000. The table below provides an understanding of the nature and quantum of contributions received during the financial year:

Capital Contribution Type	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
S 94 – Contributions towards amenities/services	454	614	Capital contributions has decreased from 2015 by \$18,973,000 largely due to the dedication of road infrastructure on transfer of the Macleay Valley Way in 2015.
S 64 – Water Supply Contributions	468	612	
S 64 – Sewerage Service Contributions	352	227	The use of cash contributions received during each year is restricted and accordingly they are not available for use in Council's general operations.
Total Developer Contributions	1,274	1,453	
Non-cash Developer Dedications	330	1,758	
RMS Contributions	1,632	18,790	
Other Contributions	134	342	
Total	3,370	22,343	

Statement of Cashflows

Line Item	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Operating & capital receipts	71,728	75,206	
Operating payments	(45,532)	(45,965)	The cash result from operations has reduced from \$29,241,000 in 2015 to \$26,196,000 in 2016.
Net cash result from operations	26,196	29,241	
Net sale/(purchase) of IPPE	(24,769)	(18,595)	The sale/purchase of infrastructure, property, plant and equipment can fluctuate year on year depending on the timing of capital projects.
Other investing activities	4	4	
New borrowings	-	4,000	No new borrowings were obtained during the current year.
Repayments of borrowings	(5,173)	(5,190)	
Net Movement in cash	(3,742)	9,460	
Cash at the start of the year	39,292	29,832	
Closing cash position	35,550	39,292	

Statement of Financial Position

Line Item	Current Year (\$,000)	Prior Year (\$,000)	Audit Comments
Current Assets	44,302	46,705	We provide commentary on some of the material assets and liabilities appearing on Council's statement of financial position as at 30 June 2016 together with related Office of Local Government benchmark data below.
Non-Current Assets	1,054,063	1,021,826	
Total Assets	1,098,365	1,068,531	
Current Liabilities	18,710	17,242	
Non-Current Liabilities	42,421	47,351	
Total Liabilities	61,131	64,593	
Equity	1,037,234	1,003,938	

Unrestricted Net Current Assets

Line Item	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Current Assets	44,302	46,705	
Externally restricted cash & investments	(21,983)	(21,962)	
Externally restricted receivables	(3,860)	(3,267)	
Current Assets less all External restrictions	18,459	21,476	
Current Liabilities	18,710	17,242	
Externally restricted liabilities	(3,518)	(3,556)	
Liabilities classified as current in the financial report but not expected to be paid in the next 12 months	(6,227)	(6,175)	
Current Liabilities less Specific Purpose Liabilities	8,965	7,511	
Unrestricted Current Net Assets before Internal Reserves	9,494	13,965	

Cash & Investments

Cash & Investments	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Externally Restricted			
<i>Monies can only be spent in accordance with legislation, grant agreement or developer contribution plan specifications</i>	21,983	21,962	Council is managing its investment portfolio in accordance with the Minister's Investment Order which is applicable to all local government authorities.
Internally Restricted			
<i>Money set aside for special projects via Council resolution</i>	10,893	16,550	Council has set aside internally restricted reserves at 30 June 2016 which are shown in the table below.
Unrestricted			
<i>Funds forming part of working capital used for day-to-day Council operations</i>	2,674	780	
Total Cash & Investments	35,550	39,292	

Cash & Investments (Cont'd)

Internally Restricted Cash	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Bypass Works	1,046	2,886	Council has resolved to set aside funds for these special purpose reserves.
Community Projects Reserve	976	976	
Community Services Equipment	113	318	There have been significant decreases in reserves for general fund unexpended loans (\$3,535,000) and Bypass works (\$1,840,000).
Computer	133	107	
Employee Benefits	1,193	1,403	
Environmental Levy works reserve	1,337	1,068	
General Fleet Reserve	1,428	1,078	
General Fund uncompleted works reserve	1,085	1,493	
General Fund Unexpended Loans	1,345	4,880	
Insurance	348	348	
Property Sales Reserve	402	426	
Quarry Restoration	401	440	
Waste Facility	320	389	
Other	766	738	
Total Internal Restrictions	10,893	16,550	

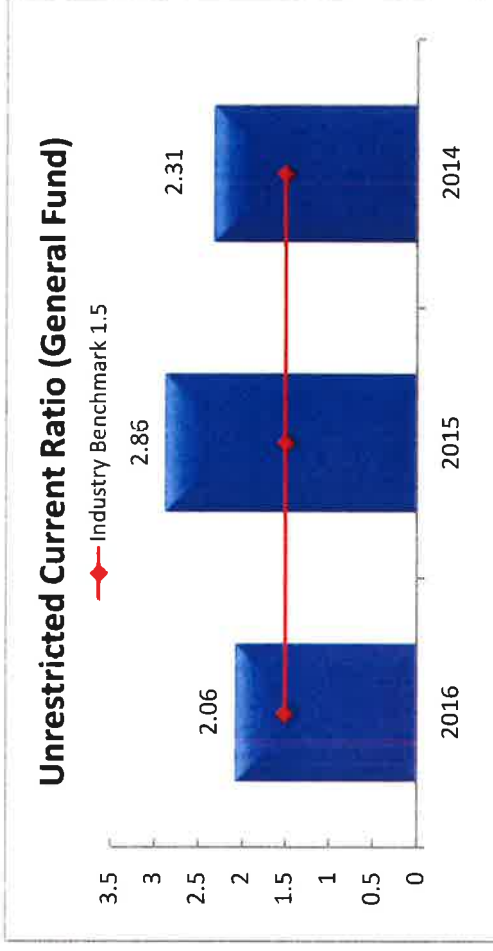
Statement of Financial Position Ratios

Unrestricted Current Ratio

The unrestricted current ratio provides a measure of Council's capacity / liquidity to meet its commitments from current assets net of externally restricted assets.

The Office of Local Government and NSW Treasury consider that this ratio should be at least 1.5.

At 30 June 2016 Council's General Fund has \$2.06 in liquid current assets for every \$1 of current liabilities. This is above the industry benchmark.

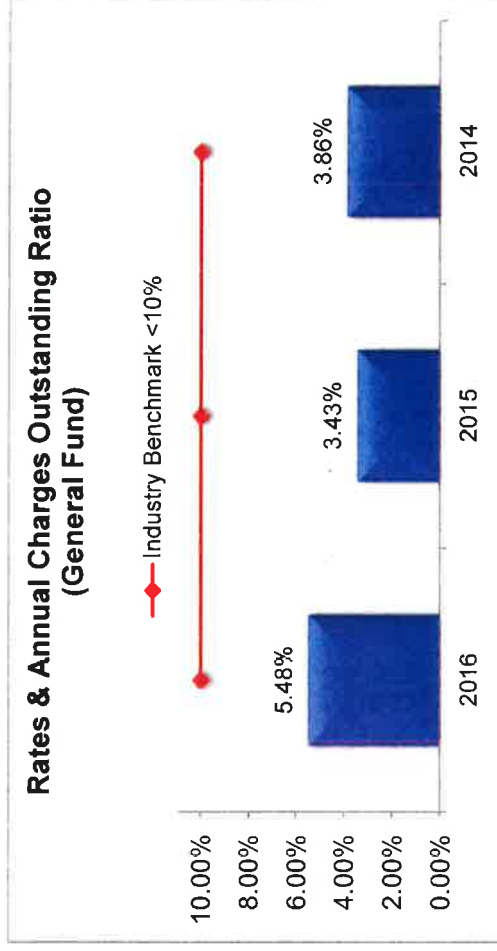


Rates & Annual Charges Outstanding Ratio

This is a financial performance indicator that assesses the effectiveness of Council's revenue collection processes.

Council's General Fund rates and annual charges outstanding ratio has increased from 3.43% in 2015 to 5.48% as at 30 June 2016. The NSW Office of Local Government benchmark is less than 10% for rural Council's.

Whilst Council's ratio is still well below the 10% benchmark, given the current year increase, Council should continue to monitor compliance with its policies and procedures in relation to revenue collection.



Infrastructure, Property, Plant & Equipment Matters

Council Constructed / Purchased Additions

Each year Council budgets to renew or capitalise new assets. An illustration of I,P,P&E capitalised over the past two years is provided below:

Line Item	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Council Constructed / Purchased Assets:			
Land and Buildings	286	3,180	Council constructed / purchased additions has decreased by \$13,191,000 on the prior year. The decrease largely relates to the dedication of road infrastructure on transfer of the Macleay Valley Way in 2015. This is partly offset by a work in progress increase of \$6,198,000. The projects that contribute to the increase in work in progress are Macleay Valley Way (\$1.3 million), Smith street (\$4.1 million) and Kempsey Fire control centre (\$663,000). The rate at which Council's assets are being renewed is measured by the Building and Infrastructure Renewal Ratio.
Plant and Equipment	3,075	2,651	
Roads and Drainage Network	10,054	8,074	
Water Network	3,060	3,166	
Sewerage Network	2,134	1,321	
Other Assets	147	281	
Work in Progress	6,997	799	
Non-Cash Developer Contributions	330	1,758	
Non-Cash Grants/Contributions	-	18,044	
Total Asset Additions	26,083	39,274	
Asset additions – Renewals	23,872	11,702	
Asset additions – New	2,211	27,572	

Depreciation

Asset Class	Current Year		Prior Year		Audit Comments
	WDV \$'000	Depreciation Expense \$'000	WDV \$'000	Depreciation Expense \$'000	
Plant & Equipment	10,137	1,344	9,632	1,384	The largest asset or liability appearing on Council's statement of financial position is I,P,P&E. Note 9 to the general purpose financial statements provides an understanding of Council's I,P,P&E and illustrates that Council is responsible for maintaining and improving assets with a written down value of approximately \$1.053 billion. The movements in roads, bridges and footpaths depreciation are the result of the revaluation performed as at 30 June 2015.
Operational & Community Land	53,778	-	51,820	-	
Land Improvements	30,699	261	8,501	171	
Buildings	22,547	1,270	23,606	1,349	
Roads, Bridges & Footpaths	275,203	9,818	276,174	19,712	
Road Bulk Earthworks	221,160	-	221,160	-	
Stormwater Drainage	76,981	1,185	78,049	1,073	
Water Supply Infrastructure	190,854	4,058	189,491	3,807	
Sewer Supply Infrastructure	156,071	3,248	155,138	3,143	
Swimming Pools	1,245	101	1,346	101	
Other Open Space/Recreational Assets	5,177	161	2,878	180	
Work in Progress	8,018	-	1,021	-	
Other Assets	1,605	328	2,292	327	
	1,053,475	21,774	1,021,108	31,247	

Asset Revaluations

Asset Class	WDV Prior to Revaluation \$'000	Revaluation Increase / (Decrease) \$'000	WDV Subsequent to Revaluation \$'000	Audit Comments
Land - revalued:				
- Community Land	27,944	1,935	29,879	Council has revalued Community land, Land improvements and Other open space/recreational assets during 2016. The revaluation increment was \$25,999,000 with the majority relating to non-depreciable land improvements which have not been subject to comprehensive revaluation since 1996.
Land Improvements - revalued:				
- Land improvements - non-depreciable	907	19,724	20,631	In accordance with the requirement to maintain assets at fair value, the Council considered indices for all other asset classes. Indexation was applied to the water and sewerage infrastructure asset classes. As a result of the indexation increments of \$5,061,000 were recognised, these amounts were credited to the Asset Revaluation Reserve.
- Land improvements - depreciable	8,537	1,531	10,068	
Infrastructure - revalued:				
- Other Open Space/Recreational Assets	2,368	2,809	5,177	It is important that Council continues to regularly reassess the remaining useful lives of assets and their condition in future revaluations.
Infrastructure - indexed:				
- Water Supply Network	188,087	2,767	190,854	
- Sewerage Network	153,777	2,294	156,071	
	381,620	31,060	412,680	

Asset Management Performance Indicators

The NSW Office of Local Government has introduced several performance indicators designed to provide Council with measures of asset management.

Audit of Asset Management Information

The Office of Local Government is planning to introduce an audit of special schedule 7. At this point in time it is unclear when the first audit will be undertaken as the framework to allow information to be prepared consistently across all NSW council's is yet to be finalised. In early 2016, the Office of Local Government undertook an audit of each council's preparedness for the audit of special schedule 7. The results of this audit indicated that most local government authorities require greater investment in asset management practices. The review of Kempsey Shire Council's asset management practices generally indicated that there is moderate compliance with most aspects of asset management best practice however further improvement is required.

To ensure Council's asset management practices and systems continue to mature and also prepare for a possible audit of special schedule 7 it will be important to:

- Review the information contained in special schedule 7 to ensure it is accurate;
- Continue to review and update asset management plans, policies and procedures;
- Ensure that asset management is appropriately resourced to maximise the effectiveness of infrastructure management; and
- Continue to collect and analyse asset data to inform the asset management process and inform decision-making on building new infrastructure or renewing or repairing existing assets.

Creating financial capacity to fund asset maintenance, renewals and new capital projects is one of the most difficult issues facing the Local Government industry in Australia. The ability to satisfy the industry parameters for asset renewals is a key goal for any local government authority which will only be achieved by:

- Having asset management and financial systems that accurately identify and record renewals expenditure throughout each year;
- Ensuring that the depreciation expense disclosed in the financial report reflects the actual consumption of each asset;
- Ensuring policies and procedures are updated so that Council personnel have sound guidance on capital v maintenance and renewals v new capital works;
- Accurately recording renewals expenditure where projects include replacing an existing asset with greater capacity; and
- Constantly reviewing Council's operations so that the maximum available resources can be directed toward asset renewal.

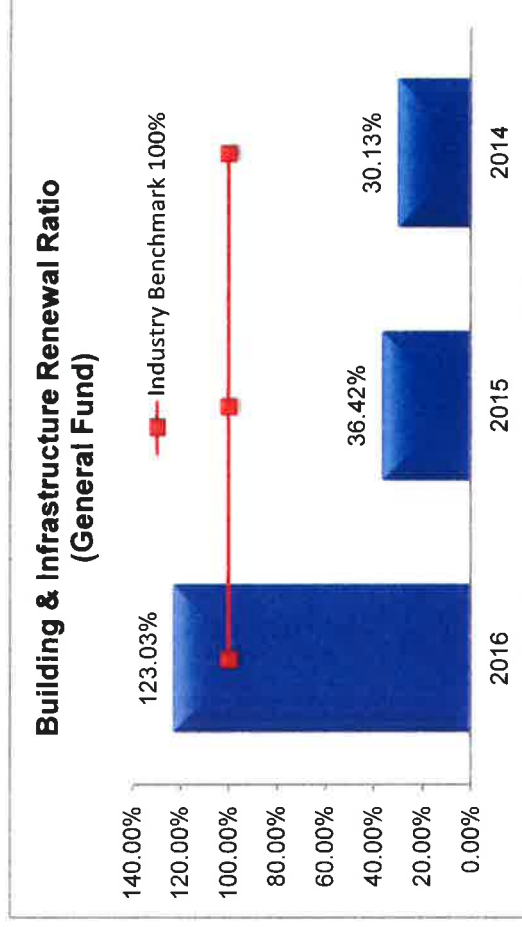
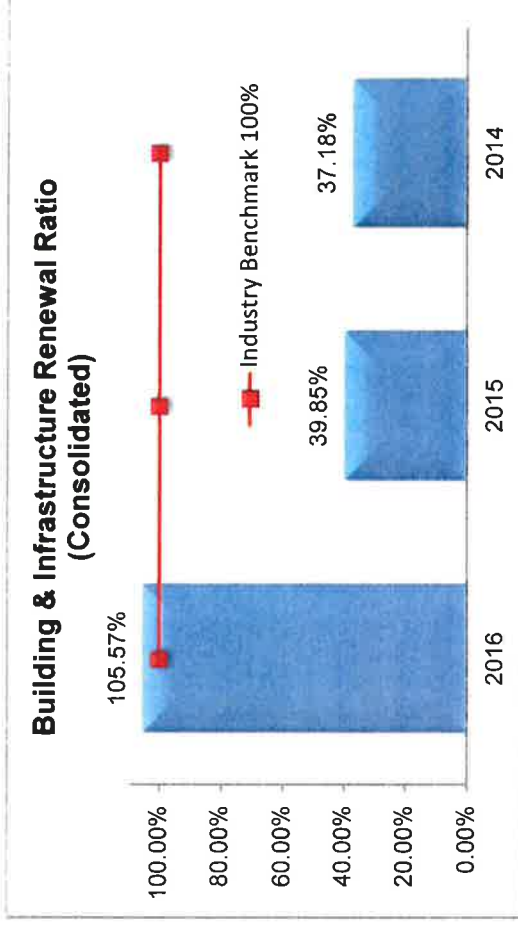
Building & Infrastructure Renewals Ratio

This ratio assesses the rate at which buildings and infrastructure assets are being renewed against the rate at which they are depreciating. The buildings and infrastructure renewals ratio is calculated based on replacement of existing assets with assets of equivalent capacity or performance as opposed to the acquisition of new assets. Expenditure incurred to add capacity to existing assets is excluded from this ratio.

Industry benchmarking recommends that asset renewals equate to 100% of the related depreciation expense.

Council is now satisfying the industry benchmark on a consolidated basis and for General Fund. This means that General Fund is renewing assets equivalent to the rate at which they are depreciating. The significant improvement in this ratio has resulted from significant reduction in depreciation previously discussed.

The challenge facing all local government authorities is to improve this ratio to satisfy this industry benchmark continuously, particularly in the General Fund, which is subject to rate pegging limits and special rate variations.

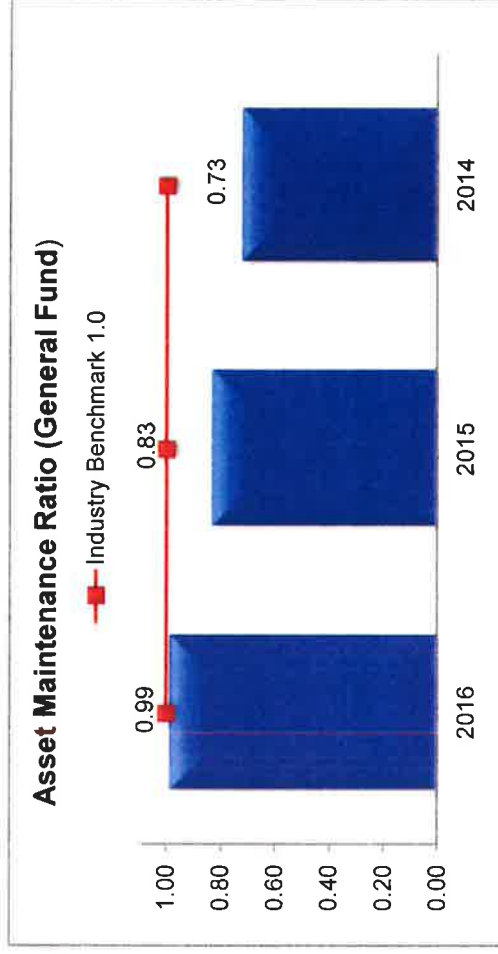
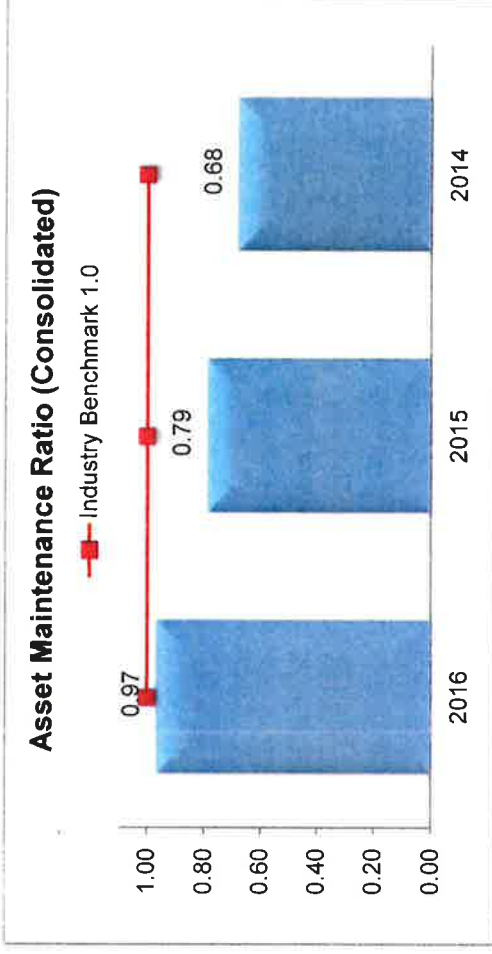


Asset Maintenance Ratio

This ratio compares actual versus required (as estimated by Council staff) annual asset maintenance. A ratio of above 1.0 indicates that the Council is investing enough funds within the year to stop the Infrastructure Backlog from growing. This ratio is highly dependent on accurate and consistent required maintenance and quantified infrastructure backlog calculations.

The benchmark for this ratio is greater than 1.0.

Council's ratios have improved and these graphs illustrate that Council is spending sufficient funds on asset maintenance to ensure their condition does not deteriorate below a satisfactory standard



Debt Levels

Loan Liability

Line Item	Current Year (\$'000)	Prior Year (\$'000)	Audit Comments
Current Loan Liability	4,760	4,972	Council's loan liability represents 76% of total liabilities.
Non-Current Loan Liability	41,416	46,377	Council did not obtain any new borrowings during the current year.
Total Loan Liability	46,176	51,349	The reduction in overall loan liabilities is due to principle repayments during the financial year.
By Fund			
General Fund (incl. Domestic Waste)	9,171	11,702	
Water Fund	17,806	18,898	
Sewer Fund	19,199	20,749	
Total	46,176	51,349	

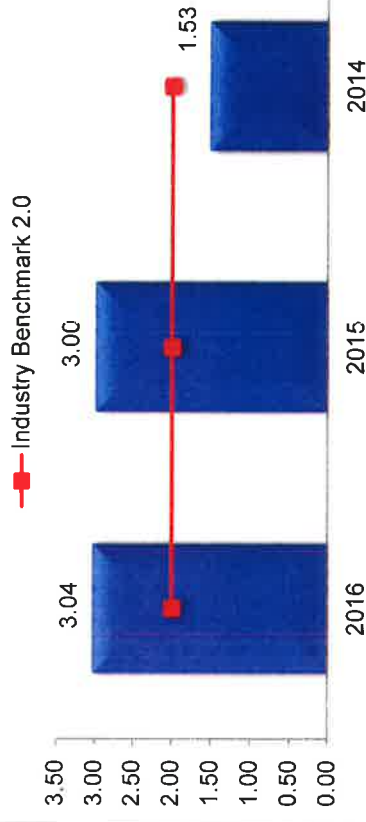
Debt Service Cover Ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. The benchmark for the ratio is greater than 2.

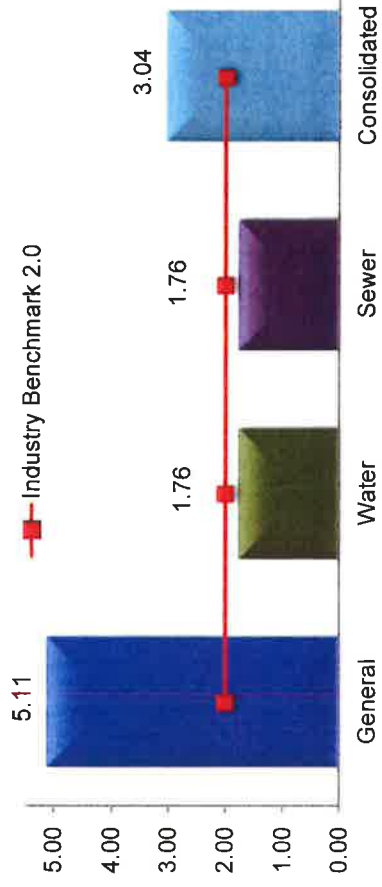
For the General Fund, the graph illustrates that Council is generating sufficient cash to satisfy its debt repayment obligations.

Both the Water and Sewer Fund debt service cover ratios remain below the benchmark in 2016. We suggest Council continues to monitor cash flow over the short to medium term to ensure it is sufficient to support debt service costs.

Debt Service Cover Ratio (Consolidated)



Debt Service Cover Ratio (by Fund)



Other matters

Financial Report Planning

The 2017 and future financial years will be impacted by several Australian Accounting Standards:

AASB No.	Application Date	Impact
AASB 2015-6 <i>Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i>	1 July 2016	Introduces reporting of related party transactions to local government including disclosure of key management remuneration.
AASB 9 <i>Financial Instruments</i>	1 January 2018	Impacts recognition and reporting of certain financial instruments as well as the way in which the provision for impairment is calculated for receivables.
AASB 15 <i>Revenue From Contracts With Customers</i>	1 January 2019	Introduces changes to the way in which certain revenue streams are recognised and reported. May have a significant influence on revenue recognition for grants and contributions. The AASB have recently released a draft Accounting Standard which is applicable to not-for-profit entities that complements AASB 15. This Standard will provide not-for-profit entities with clearer and simpler requirements for recognition, measurement and disclosure of income. This draft provides transitional relief to allow for comparatives not to be restated in the year of implementation.
AASB 16 <i>Leases</i>	1 January 2019	Requires financial statements to capitalise certain operating leases.

Council's finance team should assess the impact of new Accounting Standards well in advance of their implementation period to determine the likely impact on future financial reporting. This information should be included in the notes to the financial statements.

Local Government Act Amendment

The NSW Parliament recently passed the Local Government Amendment (Governance & Planning) Bill 2016. There are a number of important amendments contained in this bill which are discussed below:

■ Introduction of NSW Auditor-General as Auditor of Local Government in NSW

The Bill appoints the Auditor-General as the auditor of all NSW Local Government Authorities. This appointment is effective 1 July 2016 and will result in most existing local government auditors being appointed as contractors to the Auditor-General. The NSW Audit Office will release information on how the audit of local government in NSW will be conducted for the 2017 and future years.

■ Audit, Risk & Improvement Committee

Section 428A of the Local Government Amendment (Governance & Planning) Bill 2016 requires all Councils to establish an Audit, Risk & Improvement Committee. The Council does not current have an Audit Committee. The legislation prescribes the name of the committee and is prescriptive in what its responsibilities are.

Aside from the traditional responsibilities of a committee of this nature, the additional areas prescribed as being the responsibility of the Audit, Risk and Improvements Committee include review of:

- implementation of the strategic plan, delivery program and strategies
- service reviews
- collection of performance measurement data by the council, and
- providing information on how to improve the council's performance.

Council is not required to establish an Audit, Risk and Improvement Committee until 6 months after the next ordinary election of councillors however it would be prudent to commence a review of the existing Committee charter to ensure it reflects the new legislative requirements and allow all committee members and Council staff to develop an approach that will achieve the desired outcomes.


Internal Control Environment

No significant breakdowns of internal control were encountered during the course of our audit nor did we become aware of the existence of items comprising material error, sufficient to cause us to issue a modified audit opinion. We will issue a separate report to Council which identifies internal control weaknesses and other audit observations in due course.

Subject to the foregoing comments the books of account and records of the Council were maintained in good order and condition and the information and explanations required during the course of our work were readily supplied by the General Manager and his staff.

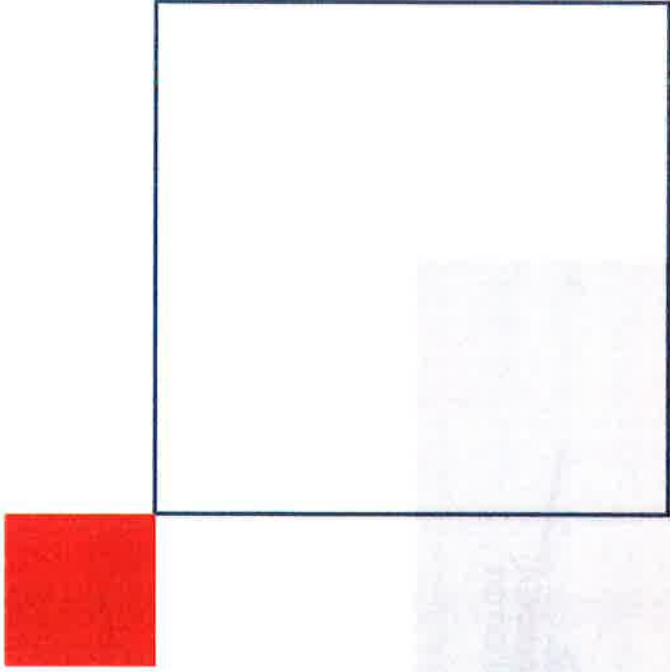
Yours faithfully

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**



G W DWYER
(PARTNER)
REGISTERED COMPANY AUDITOR

Dated at Lismore this 27th day of October 2016



Thomas
Noble &
Russell

Accountants | Auditors | Business Advisers

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Kempsey Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016

"Focusing on our community"



Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

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2. Special Purpose Financial Statements:	
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Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	n/a
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Statement of Financial Position – Other Business Activities	n/a
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Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Kempsey Shire Council

Special Purpose Financial Statements for the year ended 30 June 2016

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these financial statements:

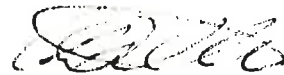
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 27 September 2016.



Liz Campbell
Mayor



Ashely Williams
Councillor



Daryl Hagger
General manager (Acting)



Tony Curtin
Responsible accounting officer

Kempsey Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	3,682	3,485
User charges	6,206	6,296
Fees	294	136
Interest	144	170
Grants and contributions provided for non-capital purposes	223	326
Profit from the sale of assets	-	-
Other income	-	2
Total income from continuing operations	10,549	10,415
Expenses from continuing operations		
Employee benefits and on-costs	1,754	1,684
Borrowing costs	1,249	1,252
Materials and contracts	1,597	1,930
Depreciation and impairment	4,398	4,177
Water purchase charges	-	-
Loss on sale of assets	522	1,018
Calculated taxation equivalents	36	36
Debt guarantee fee (if applicable)	96	104
Other expenses	2,226	2,095
Total expenses from continuing operations	11,878	12,296
Surplus (deficit) from continuing operations before capital amounts	(1,329)	(1,881)
Grants and contributions provided for capital purposes	712	2,321
Surplus (deficit) from continuing operations after capital amounts	(617)	440
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from all operations before tax	(617)	440
Less: corporate taxation equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	(617)	440
Plus opening retained profits	62,257	61,713
Plus/less: prior period adjustments	-	-
Plus adjustments for amounts unpaid:		
- Taxation equivalent payments	36	36
- Debt guarantee fees	96	104
- Corporate taxation equivalent	-	-
Less:		
- Tax equivalent dividend paid	(36)	(36)
- Surplus dividend paid	-	-
Closing retained profits	61,736	62,257
Return on capital %	0.0%	-0.3%
Subsidy from Council	n/a	n/a
Calculation of dividend payable:		
Surplus (deficit) after tax	(617)	440
Less: capital grants and contributions (excluding developer contributions)	(82)	-
Surplus for dividend calculation purposes	-	440
Potential dividend calculated from surplus	-	220

Kempsey Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	8,368	7,730
User charges	715	670
Liquid trade waste charges	200	178
Fees	104	74
Interest	37	80
Grants and contributions provided for non-capital purposes	112	117
Profit from the sale of assets	-	-
Other income	-	60
Total income from continuing operations	9,536	8,909
Expenses from continuing operations		
Employee benefits and on-costs	1,822	1,781
Borrowing costs	1,077	1,042
Materials and contracts	1,973	2,315
Depreciation and impairment	3,273	3,204
Loss on sale of assets	415	409
Calculated taxation equivalents	26	26
Debt guarantee fee (if applicable)	89	94
Other expenses	1,896	1,782
Total expenses from continuing operations	10,571	10,653
Surplus (deficit) from continuing operations before capital amounts	(1,035)	(1,744)
Grants and contributions provided for capital purposes	520	474
Surplus (deficit) from continuing operations after capital amounts	(515)	(1,270)
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from all operations before tax	(515)	(1,270)
Less: corporate taxation equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	(515)	(1,270)
Plus opening retained profits	49,559	50,735
Plus/less: prior period adjustments	-	-
Plus adjustments for amounts unpaid:		
- Taxation equivalent payments	26	26
- Debt guarantee fees	89	94
- Corporate taxation equivalent	-	-
Less:		
- Tax equivalent dividend paid	(26)	(26)
- Surplus dividend paid	-	-
Closing retained profits	49,133	49,559
Return on capital %	0.0%	-0.4%
Subsidy from Council	n/a	n/a
Calculation of dividend payable:		
Surplus (deficit) after tax	(515)	(1,270)
Less: capital grants and contributions (excluding developer contributions)	-	-
Surplus for dividend calculation purposes	-	-
Potential dividend calculated from surplus	-	-

Kempsey Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	4,002	5,119
Investments	–	–
Receivables	2,518	2,223
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	6,520	7,342
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	195,720	194,215
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	195,720	194,215
TOTAL ASSETS	202,240	201,557
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	132	141
Borrowings	1,481	1,550
Provisions	–	–
Total current liabilities	1,613	1,691
Non-current liabilities		
Payables	–	–
Borrowings	17,718	19,199
Provisions	–	–
Total non-current liabilities	17,718	19,199
TOTAL LIABILITIES	19,331	20,890
NET ASSETS	182,909	180,667
EQUITY		
Retained earnings	61,736	62,257
Revaluation reserves	121,173	118,410
Council equity interest	182,909	180,667
Non-controlling equity interest	–	–
TOTAL EQUITY	182,909	180,667

Kempsey Shire Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	8,627	9,014
Investments	–	–
Receivables	1,013	818
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total Current Assets	9,640	9,832
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	158,938	157,976
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	158,938	157,976
TOTAL ASSETS	168,578	167,808
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	98	104
Borrowings	1,131	1,091
Provisions	–	–
Total current liabilities	1,229	1,195
Non-current liabilities		
Payables	–	–
Borrowings	16,675	17,807
Provisions	–	–
Total non-current liabilities	16,675	17,807
TOTAL LIABILITIES	17,904	19,002
NET ASSETS	150,674	148,806
EQUITY		
Retained earnings	49,134	49,559
Revaluation reserves	101,540	99,247
Council equity interest	150,674	148,806
Non-controlling equity interest	–	–
TOTAL EQUITY	150,674	148,806

Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	8
2	Water Supply Business Best-Practice Management disclosure requirements	11
3	Sewerage Business Best-Practice Management disclosure requirements	13

Kempsey Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Office of Local Government.

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in the SPFS, unless otherwise stated, have been prepared in accordance with:

- the recognition and measurement criteria of relevant Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and
- Australian Accounting Interpretations.

The disclosures in the SPFS have been prepared in accordance with:

- the Local Government Act (1993) NSW,
- the Local Government (General) Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis, based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 government policy statement, *Application of National Competition Policy to Local Government*.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality*, issued by the Office of Local Government in July 1997, has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide standards for disclosure. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

a. Water Supply

Water supply services within the Kempsey Shire Council Area

b. Sewerage Service

Sewerage services within the Kempsey Shire Council area

Category 2

(where gross operating turnover is less than \$2 million)

Nil

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, with the exception of some figures disclosed in Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where

Kempsey Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council-nominated business activities and are reflected in these financial statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred in the Best-Practice Management of Water Supply and Sewerage Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance against the Best-Practice Management of Water Supply and Sewerage Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of each reported business activity.

While income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level (gain or loss from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved.

Since this taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations, it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in Council's General Purpose Financial Statements.

The 30% rate applied is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The policy statement requires that councils with category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The rate of return on capital is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.99% at 30/6/16.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

The dividend, calculated and approved in accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, must not exceed either:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2016 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a Dividend Payment Form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the NSW Office of Water prior to making the dividend and only after it has approved the payment.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 2. Water supply business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	132,000
(ii)	Number of assessments multiplied by \$3/assessment	35,970
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	35,970
(iv)	Amounts actually paid for tax equivalents	35,970

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	–
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	323,730
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	(2,415,000)

2016 Surplus	(699,000)	2015 Surplus	440,000	2014 Surplus	(2,156,000)
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	YES
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	YES
(iii)	Sound water conservation and demand management implemented	YES
(iv)	Sound drought management implemented	YES
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	11,138
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	55.95%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	193,372
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	5,532
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	4,009
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	0.65%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 3. Sewerage business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i) Calculated tax equivalents	115,000
(ii) Number of assessments multiplied by \$3/assessment	26,337
(iii) Amounts payable for tax equivalents [lesser of (i) and (ii)]	26,337
(iv) Amounts actually paid for tax equivalents	26,337

2. Dividend from surplus

(i) 50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	-
(ii) Number of assessments x (\$30 less tax equivalent charges per assessment)	237,033
(iii) Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	(4,469,000)

2016 Surplus	(515,000)	2015 Surplus	(1,270,000)	2014 Surplus	(2,684,000)
		2015 Dividend	-	2014 Dividend	-

(iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v) Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	-
(vi) Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i) Completion of strategic business plan (including financial plan)	YES
(ii) Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
Complying charges (a) Residential [item 2 (c) in table 1]	YES
(b) Non-residential [item 2 (c) in table 1]	YES
(c) Trade waste [item 2 (d) in table 1]	YES
DSP with commercial developer charges [item 2 (e) in table 1]	YES
Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii) Complete performance reporting form (by 15 September each year)	YES
(iv) a. Integrated water cycle management evaluation	YES
b. Complete and implement integrated water cycle management strategy	YES

Kempsey Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 3. Sewerage business

best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	9,980
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	158,822
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	5,250
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	2,355
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	0.94%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	20,295
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.29%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	6,364
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	0.78%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	7.31%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest		1.20
	Earnings before interest and tax (EBIT):		2,680
	Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c)		
	Net interest:		2,239
	Interest expense (w4a + s4a) – interest income (w9 + s10)		
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	(1,008)
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	262

- Notes:
1. References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 2. The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



**KEMPSEY SHIRE COUNCIL
SPECIAL PURPOSE FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT**

Report on the Financial Statements

We have audited the accompanying financial statements, being special purpose financial statements, of Kempsey Shire Council ("the Council"), which comprises the statement of financial position as at 30 June 2016, the income statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Councillors' and Management.

Council's Responsibility for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements and has determined that the basis of preparation described in Note 1 to the financial statements is appropriate to meet the requirements of the *Local Government Act 1993* and meet the needs of the NSW Office of Local Government. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

Our audit responsibility does not extend to the best practice management disclosures in note 2 and note 3, and accordingly, we do not express an opinion on such. In addition, our audit did not include an analysis of the prudence of business decisions made by Council or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Opinion

In our opinion, the special purpose financial statements of Kempsey Shire Council:

- a) Have been prepared in accordance with the requirements of those applicable Australian Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting;
 - i. Are consistent with the Council's accounting records;
 - ii. Present fairly, in all material respects, the financial position of Council's nominated Business Activities as at 30 June 2016 and the results of their operations for the year then ended;
- b) All information relevant to the conduct of the audit has been obtained; and
- c) There are no material deficiencies in the accounting records or financial statements that we have become aware of in the course of the audit.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the NSW Office of Local Government. As a result, the financial statements may not be suitable for another purpose.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the special purpose financial statements of Kempsey Shire Council for the financial year ended 30 June 2016 published in the annual report and included on Council's website. The Council is responsible for the integrity of the website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial statements identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial statements. If users of the financial statements are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements to confirm the information contained in this website version of the financial statements.

Dated at Lismore this 27th day of October 2016

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

G W DWYER (Partner)
Registered Company Auditor

Kempsey Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2016

"Focusing on our community"



Kempsey Shire Council

Special Schedules

for the year ended 30 June 2016

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Special Schedules¹		
Special Schedule 1	Net Cost of Services	2
Special Schedule 2(a)	Statement of Long Term Debt (all purposes)	4
Special Schedule 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
Special Schedule 3	Water Supply Operations – incl. Income Statement	5
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¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

(i) These Special Schedules have been designed to meet the requirements of special purpose users such as;

- the NSW Grants Commission
- the Australian Bureau of Statistics (ABS),
- the NSW Office of Water (NOW), and
- the Office of Local Government (OLG).

(ii) The financial data is collected for various uses including;

- the allocation of Financial Assistance Grants,
- the incorporation of Local Government financial figures in national statistics,
- the monitoring of loan approvals,
- the allocation of borrowing rights, and
- the monitoring of the financial activities of specific services.

Kempsey Shire Council

Special Schedule 1 – Net Cost of Services
for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	224	–	–	(224)
Administration	9,166	496	–	(8,670)
Public order and safety				
Fire service levy, fire protection, emergency services	876	294	617	35
Beach control	163	2	–	(161)
Enforcement of local government regulations	–	6	–	6
Animal control	20	23	–	3
Other	–	1	–	1
Total public order and safety	1,059	326	617	(116)
Health	–	71	–	71
Environment				
Noxious plants and insect/vermin control	376	246	–	(130)
Other environmental protection	678	200	–	(478)
Solid waste management	6,842	8,301	339	1,798
Street cleaning	142	–	–	(142)
Drainage	1,136	16	48	(1,072)
Stormwater management	462	–	3	(459)
Total environment	9,636	8,763	390	(483)
Community services and education				
Administration and education	39	27	–	(12)
Social protection (welfare)	391	1,830	–	1,439
Aged persons and disabled	2,325	298	–	(2,027)
Children's services	67	13	–	(54)
Total community services and education	2,822	2,168	–	(654)
Housing and community amenities				
Public cemeteries	366	277	–	(89)
Public conveniences	514	–	–	(514)
Street lighting	570	81	–	(489)
Town planning	110	431	26	347
Other community amenities	–	–	–	–
Total housing and community amenities	1,560	789	26	(745)
Water supplies	11,635	10,119	712	(804)
Sewerage services	10,273	9,269	520	(484)

Kempsey Shire Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	884	68	31	(785)
Museums	–	4	–	4
Art galleries	–	–	–	–
Community centres and halls	271	5	5	(261)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	83	5	–	(78)
Sporting grounds and venues	547	4	47	(496)
Swimming pools	683	1	–	(682)
Parks and gardens (lakes)	1,215	3	–	(1,212)
Other sport and recreation	–	4	–	4
Total recreation and culture	3,683	94	83	(3,506)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	1	259	–	258
Other mining, manufacturing and construction	58	–	–	(58)
Total mining, manufacturing and const.	59	259	–	200
Transport and communication				
Urban roads (UR) – local	725	2,336	315	1,926
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	5,611	37	378	(5,196)
Sealed rural roads (SRR) – regional	2,687	1,698	1,319	330
Unsealed rural roads (URR) – local	3,372	32	8	(3,332)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	36	–	–	(36)
Bridges on SRR – local	352	–	–	(352)
Bridges on URR – local	212	–	–	(212)
Bridges on regional roads	207	–	–	(207)
Parking areas	100	33	–	(67)
Footpaths	638	189	–	(449)
Aerodromes	237	35	–	(202)
Other transport and communication	86	–	111	25
Total transport and communication	14,263	4,360	2,131	(7,772)
Economic affairs				
Camping areas and caravan parks	1,752	4,336	42	2,626
Other economic affairs	768	477	–	(291)
Total economic affairs	2,520	4,813	42	2,335
Totals – functions	66,900	41,527	4,521	(20,852)
General purpose revenues ⁽¹⁾		23,088		23,088
Share of interests – joint ventures and associates using the equity method	–	–	–	–
NET OPERATING RESULT ⁽²⁾	66,900	64,615	4,521	2,236

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

Kempsey Shire Council

Special Schedule 2(a) – Statement of Long Term Debt (all purpose)
for the year ended 30 June 2016

Classification of debt	Principal outstanding at beginning of the year		New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year	
	Current	Non-current		From revenue	Sinking funds			Current	Non-current
Loans (by source)									
Commonwealth government	-	-	-	-	-	-	-	-	-
Treasury corporation	-	-	-	-	-	-	-	-	-
Other state government	233	467	-	435	-	-	18	188	77
Public subscription	-	-	-	-	-	-	-	-	-
Financial institutions	4,739	45,910	-	4,738	-	-	2,828	4,572	41,339
Other	-	-	-	-	-	-	-	-	-
Total loans	4,972	46,377	-	5,173	-	-	2,846	4,760	41,416
Other long term debt									
Ratepayers advances	-	-	-	-	-	-	-	-	-
Government advances	-	-	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-	-	-
Deferred payments	-	-	-	-	-	-	-	-	-
Total long term debt	-	-	-	-	-	-	-	-	-
Total debt	4,972	46,377	-	5,173	-	-	2,846	4,760	41,416
									46,176

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

Kempsey Shire Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	1,131	1,301
b. Engineering and supervision	1,097	972
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	161	201
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	24	50
d. Maintenance expenses	986	988
– Reservoirs		
e. Operation expenses	4	15
f. Maintenance expenses	1	9
– Pumping stations		
g. Operation expenses (excluding energy costs)	–	–
h. Energy costs	399	565
i. Maintenance expenses	238	340
– Treatment		
j. Operation expenses (excluding chemical costs)	883	1,081
k. Chemical costs	194	134
l. Maintenance expenses	303	237
– Other		
m. Operation expenses	62	73
n. Maintenance expenses	49	6
o. Purchase of water	–	–
3. Depreciation expenses		
a. System assets	4,058	3,807
b. Plant and equipment	340	370
4. Miscellaneous expenses		
a. Interest expenses	1,249	1,252
b. Revaluation decrements	–	–
c. Other expenses	17	(291)
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	63	63
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	11,259	11,173

Kempsey Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges		
a. Access (including rates)	2,873	2,591
b. Usage charges	3,649	3,738
7. Non-residential charges		
a. Access (including rates)	809	895
b. Usage charges	2,557	2,558
8. Extra charges	94	116
9. Interest income	50	54
10. Other income	294	136
10a. Aboriginal Communities Water and Sewerage Program	73	137
11. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	150	148
c. Other grants	–	41
12. Contributions		
a. Developer charges	630	2,321
b. Developer provided assets	–	–
c. Other contributions	82	–
13. Total income	<u>11,261</u>	<u>12,735</u>
14. Gain (or loss) on disposal of assets	(522)	(1,018)
15. Operating result	<u>(520)</u>	<u>544</u>
15a. Operating result (less grants for acquisition of assets)	(520)	544

Kempsey Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	625	2,383
c. Renewals	2,597	2,293
d. Plant and equipment	787	680
17. Repayment of debt	1,550	1,719
18. Totals	5,559	7,075
Non-operating funds employed		
19. Proceeds from disposal of assets	363	66
20. Borrowing utilised	986	1,956
21. Totals	1,349	2,022
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	10,302	10,243
b. Residential (unoccupied, ie. vacant lot)	359	400
c. Non-residential (occupied)	1,286	1,343
d. Non-residential (unoccupied, ie. vacant lot)	43	44
23. Number of ETs for which developer charges were received	50 ET	66 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 273,240	\$ 268,758

Kempsey Shire Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	952	–	952
b. Special purpose grants	10	–	10
c. Accrued leave	–	–	–
d. Unexpended loans	81	–	81
e. Sinking fund	–	–	–
f. Other	2,959	–	2,959
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	477	–	477
c. User charges	–	–	–
d. Other	2,041	–	2,041
27. Inventories	–	–	–
28. Property, plant and equipment			
a. System assets	–	193,372	193,372
b. Plant and equipment	–	2,348	2,348
29. Other assets	–	–	–
30. Total assets	6,520	195,720	202,240
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	132	–	132
33. Borrowings	1,481	17,718	19,199
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	1,613	17,718	19,331
36. NET ASSETS COMMITTED	4,907	178,002	182,909
EQUITY			
37. Accumulated surplus			61,736
38. Asset revaluation reserve			121,173
39. TOTAL EQUITY			182,909
Note to system assets:			
40. Current replacement cost of system assets			272,717
41. Accumulated current cost depreciation of system assets			(79,345)
42. Written down current cost of system assets			193,372

Kempsey Shire Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	845	798
b. Engineering and supervision	1,035	1,006
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	10	14
b. Maintenance expenses	548	659
– Pumping stations		
c. Operation expenses (excluding energy costs)	236	287
d. Energy costs	201	240
e. Maintenance expenses	341	347
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	996	1,087
g. Chemical costs	150	154
h. Energy costs	200	260
i. Effluent management	–	–
j. Biosolids management	336	225
k. Maintenance expenses	295	382
– Other		
l. Operation expenses	34	12
m. Maintenance expenses	23	36
3. Depreciation expenses		
a. System assets	3,248	3,144
b. Plant and equipment	25	60
4. Miscellaneous expenses		
a. Interest expenses	1,077	1,042
b. Revaluation decrements	–	–
c. Other expenses	433	379
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	36	18
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	10,069	10,150

Kempsey Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges (including rates)	7,045	6,519
7. Non-residential charges		
a. Access (including rates)	1,323	1,211
b. Usage charges	715	670
8. Trade waste charges		
a. Annual fees	31	26
b. Usage charges	200	178
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	–	–
10. Interest income	37	80
11. Other income	34	84
11a. Aboriginal Communities Water and Sewerage Program	41	23
12. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	112	110
c. Other grants	–	–
13. Contributions		
a. Developer charges	520	474
b. Developer provided assets	–	–
c. Other contributions	–	8
14. Total income	<u>10,058</u>	<u>9,383</u>
15. Gain (or loss) on disposal of assets	(415)	(409)
16. Operating result	<u>(426)</u>	<u>(1,176)</u>
16a. Operating result (less grants for acquisition of assets)	(426)	(1,176)

Kempsey Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	344	352
c. Renewals	1,958	1,245
d. Plant and equipment	53	30
18. Repayment of debt	1,091	981
19. Totals	3,446	2,608
Non-operating funds employed		
20. Proceeds from disposal of assets	–	–
21. Borrowing utilised	1,482	1,087
22. Totals	1,482	1,087
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	7,775	7,967
b. Residential (unoccupied, ie. vacant lot)	354	161
c. Non-residential (occupied)	606	601
d. Non-residential (unoccupied, ie. vacant lot)	44	41
24. Number of ETs for which developer charges were received	44 ET	29 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 203,857	\$ 199,620

Kempsey Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	2,147	–	2,147
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	2,009	–	2,009
e. Sinking fund	–	–	–
f. Other	4,471	–	4,471
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	585	–	585
c. User charges	326	–	326
d. Other	102	–	102
28. Inventories	–	–	–
29. Property, plant and equipment			
a. System assets	–	158,822	158,822
b. Plant and equipment	–	116	116
30. Other assets	–	–	–
31. Total assets	9,640	158,938	168,578
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	98	–	98
34. Borrowings	1,131	16,675	17,806
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	1,229	16,675	17,904
37. NET ASSETS COMMITTED	8,411	142,263	150,674
EQUITY			
38. Accumulated surplus			49,134
39. Asset revaluation reserve			101,540
40. TOTAL EQUITY			150,674
Note to system assets:			
41. Current replacement cost of system assets			219,598
42. Accumulated current cost depreciation of system assets			(60,776)
43. Written down current cost of system assets			158,822

Kempsey Shire Council

Notes to Special Schedules 3 and 5 for the year ended 30 June 2016

Administration ⁽¹⁾

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Other technical and supervision staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.

Operational expenses (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

Maintenance expenses (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

Other expenses (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

Impairment losses (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

Aboriginal Communities Water and Sewerage Program (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

Residential charges ⁽²⁾ (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

Non-residential charges ⁽²⁾ (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

Other income (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

Other contributions (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*.

Notes:

⁽¹⁾ Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

⁽²⁾ To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016

Asset class		Asset category	Estimated cost		Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
			to bring assets to satisfactory standard	to bring to the agreed level of service set by Council						1	2	3	4	5
Buildings		Buildings – non-specialised	991	991	662	605	16,389	37,138	3%	19%	60%	18%	0%	
		Buildings – specialised	–	–	244	224	6,158	12,531	0%	6%	62%	32%	0%	
		Sub-total	991	991	906	829	22,547	49,669	2.1%	15.7%	60.5%	21.5%	0.1%	
Roads		Sealed roads	–	–	3,108	3,139	175,450	248,034	4%	80%	11%	3%	2%	
		Unsealed roads	–	–	1,020	1,508	12,746	23,741	1%	90%	9%	0%	0%	
		Bridges	–	–	599	202	35,292	60,011	16%	60%	16%	7%	1%	
		Footpaths	–	–	226	174	9,994	23,067	5%	11%	60%	23%	1%	
		Other road assets	–	–	866	354	41,721	80,326	1%	13%	72%	14%	0%	
		Sub-total	–	–	5,819	5,377	496,363	656,339	37.0%	41.0%	16.9%	4.3%	0.9%	
Water supply network		Water supply network	26,900	26,900	3,940	3,620	190,854	270,199	47%	22%	18%	8%	5%	
		Sub-total	26,900	26,900	3,940	3,620	190,854	270,199	47.0%	22.0%	18.0%	8.0%	5.0%	
Sewerage network		Sewerage network	56,992	56,992	3,832	3,710	156,071	216,836	39%	11%	17%	20%	13%	
		Sub-total	56,992	56,992	3,832	3,710	156,071	216,836	39.0%	11.0%	17.0%	20.0%	13.0%	

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	64	64	1,205	426	76,981	120,654	22%	24%	28%	13%	13%
	Sub-total	64	64	1,205	426	76,981	120,654	22.0%	24.0%	28.0%	13.0%	13.0%
Open space/recreational assets	Swimming pools/Other Recreation	–	–	1,122	2,305	6,422	9,418	0%	99%	1%	0%	0%
	Sub-total	–	–	1,122	2,305	6,422	9,418	0.0%	99.0%	1.0%	0.0%	0.0%
	TOTAL – ALL ASSETS	84,947	84,947	16,824	16,267	949,238	1,323,115	36.4%	30.1%	19.7%	9.0%	4.8%

Notes:

a Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

1	Excellent	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Average	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	<u>20,946</u>	105.57%	39.85%	37.18%
Depreciation, amortisation and impairment	<u>19,841</u>			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	<u>84,947</u>	11.67%	17.91%	14.24%
Carrying value of infrastructure assets	<u>728,078</u>			
3. Asset maintenance ratio				
Actual asset maintenance	<u>16,267</u>	0.97	0.79	0.68
Required asset maintenance	<u>16,824</u>			
4. Capital expenditure ratio				
Annual capital expenditure	<u>23,065</u>	1.06	1.16	0.56
Annual depreciation	<u>21,774</u>			

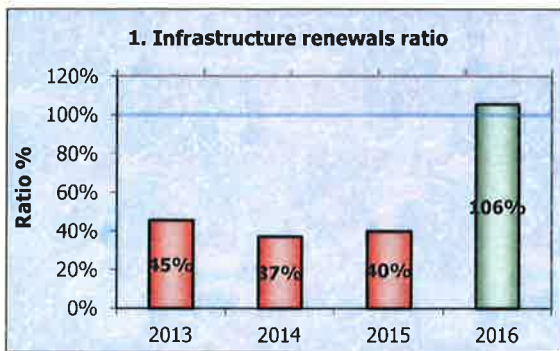
Notes

* All asset performance indicators are calculated using the asset classes identified in the previous table.

⁽¹⁾ Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2016



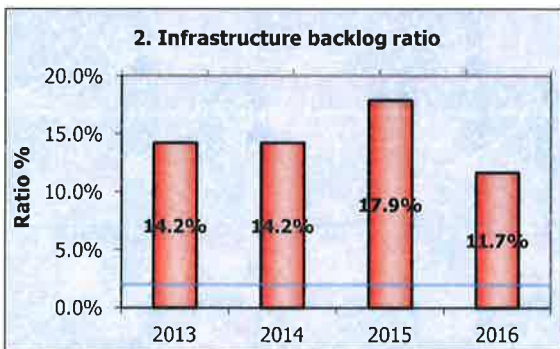
Benchmark: Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of asset renewals ratio

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2015/16 result	
2015/16 Ratio	105.57%
Council's ratio is above benchmark and reflects the major capital works program particularly in respect of road network assets in the 2015/16 year.	

Ratio achieves benchmark
 Ratio is outside benchmark



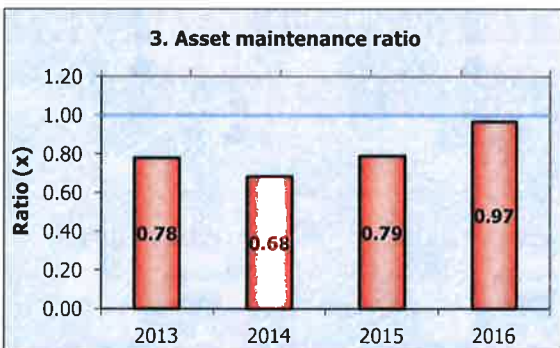
Benchmark: Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2015/16 result	
2015/16 Ratio	11.67%
Council's General Fund ratio is 0.27% and is within benchmark, the Water & Sewer ratio's of 14.09% and 36.52% are above benchmark. Council's Water & Sewer Funds capital budgets for the next three years total some \$50 million and will address backlog identified issues.	

Ratio achieves benchmark
 Ratio is outside benchmark



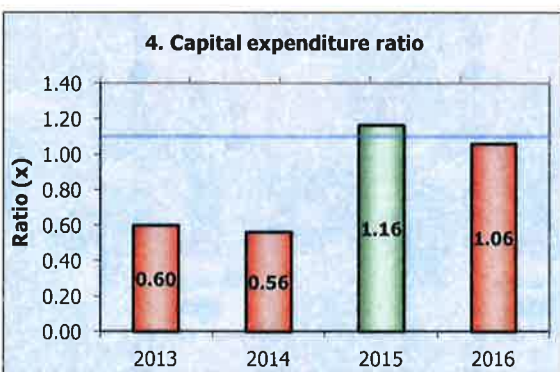
Benchmark: Minimum > 1.00
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2015/16 result	
2015/16 Ratio	0.97 x
The Council ratio is marginally under benchmark, strategies incorporated within the Council ten year financial plan address this shortfall.	

Ratio achieves benchmark
 Ratio is outside benchmark



Benchmark: Minimum > 1.10
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of capital expenditure ratio

To assess the extent to which a Council is expanding its asset base thru capital expenditure on both new assets and the replacement and renewal of existing assets.

Commentary on 2015/16 result	
2015/16 Ratio	1.06 x
The improvement in this ratio over recent years reflects Council's commitment to ensuring the principles of financial sustainability are addressed.	

Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2016

\$ '000	Water 2016	Sewer 2016	General ⁽¹⁾ 2016
Infrastructure asset performance indicators by fund			
1. Infrastructure renewals ratio			
<u>Asset renewals ⁽²⁾</u>	79.40%	70.87%	123.03%
Depreciation, amortisation and impairment			
prior period:	60.23%	39.61%	36.42%
2. Infrastructure backlog ratio			
<u>Estimated cost to bring assets to a satisfactory standard</u>	14.09%	36.52%	0.27%
Carrying value of infrastructure assets			
prior period:	8.44%	33.91%	16.10%
3. Asset maintenance ratio			
<u>Actual asset maintenance</u>	0.92	0.97	0.99
Required asset maintenance			
prior period:	1.00	0.54	0.83
4. Capital expenditure ratio			
<u>Annual capital expenditure</u>	0.91	0.72	1.18
Annual depreciation			
prior period:	1.28	0.51	1.23

Notes

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Kempsey Shire Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	15,375	16,946
Plus or minus adjustments ⁽²⁾	b	42	30
Notional general income	c = (a + b)	15,417	16,976
Permissible income calculation			
Special variation percentage ⁽³⁾	d	10.00%	10.00%
Or rate peg percentage	e		
Or crown land adjustment (incl. rate peg percentage)	f		
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	1,542	1,698
Or plus rate peg amount	i = c x e	–	–
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
Sub-total	k = (c + g + h + i + j)	16,959	18,674
Plus (or minus) last year's carry forward total	l	3	16
Less valuation objections claimed in the previous year	m	–	–
Sub-total	n = (l + m)	3	16
Total permissible income	o = k + n	16,962	18,690
Less notional general income yield	p	16,946	18,685
Catch-up or (excess) result	q = o – p	16	5
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	–	–
Less unused catch-up ⁽⁵⁾	s	–	–
Carry forward to next year	t = q + r – s	16	5

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.



**KEMPSEY SHIRE COUNCIL
SPECIAL SCHEDULE NO 8
INDEPENDENT AUDITORS' REPORT**

REPORT ON SPECIAL SCHEDULE NO 8

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Kempsey Shire Council for the year ending 30 June 2017.

Responsibility of Council for Special Schedule No. 8

The Council is responsible for the preparation and fair presentation of Special Schedule No. 8 in accordance with the *Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 24*. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on Special Schedule No. 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No. 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 8.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In our opinion, Special Schedule No. 8 of Kempsey Shire Council for 2016/17 is properly drawn up in accordance with the requirements of the NSW Office of Local Government and in accordance with the books and records of the Council.


Basis of Accounting

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the NSW Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.

Dated at Lismore this 27th day of October 2016

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

Per:


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G W DWYER (Partner)

KEMPSEY SHIRE COUNCIL

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