

Kempsey Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2015

"Focusing on our community"



Kempsey Shire Council

General Purpose Financial Statements

for the financial year ended 30 June 2015

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Overview

(i) These financial statements are General Purpose Financial Statements and cover the consolidated 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 (LGA) 1993 of NSW.

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

- the ability to provide goods, services & facilities, and to carry out activities appropriate to the current & 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 30 October 2015. Council has the power to amend and reissue these financial statements.

Kempsey Shire Council

General Purpose Financial Statements

for the financial year ended 30 June 2015

Statement by Councillors and Management

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

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

- The Local Government Act 1993 (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
- accords with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 15 September 2015.



Liz Campbell
MAYOR



Lou Kesby
DEPUTY MAYOR



David Rawlings
GENERAL MANAGER



Tony Curtin
RESPONSIBLE ACCOUNTING OFFICER

Kempsey Shire Council

Income Statement

for the financial year ended 30 June 2015

Budget ¹ 2015	\$ '000	Notes	Actual 2015	Actual 2014
Income from Continuing Operations				
<i>Revenue:</i>				
29,725	Rates & Annual Charges	3a	29,693	27,522
13,685	User Charges & Fees	3b	15,541	14,761
1,363	Interest & Investment Revenue	3c	1,350	1,184
177	Other Revenues	3d	121	134
10,480	Grants & Contributions provided for Operating Purposes	3e,f	17,659	9,865 ²
4,295	Grants & Contributions provided for Capital Purposes	3e,f	24,999	5,217
<i>Other Income:</i>				
-	Net Share of interests in Joint Ventures & Associates using the equity method	19	-	-
59,725	Total Income from Continuing Operations		89,363	58,683
Expenses from Continuing Operations				
20,576	Employee Benefits & On-Costs	4a	20,293	20,704
3,512	Borrowing Costs	4b	3,014	3,274
15,223	Materials & Contracts	4c	15,755	16,341
31,160	Depreciation & Amortisation	4d	31,247	30,530
4,232	Other Expenses	4e	3,683	3,966
-	Net Losses from the Disposal of Assets	5	2,040	4,721
74,703	Total Expenses from Continuing Operations		76,032	79,536
(14,978)	Operating Result from Continuing Operations		13,331	(20,853)
(14,978)	Net Operating Result for the Year		13,331	(20,853)
(14,978)	Net Operating Result attributable to Council		13,331	(20,853)
-	Net Operating Result attributable to Non-controlling Interests		-	-
(19,273)	Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		(11,668)	(26,070)

¹ Original Budget as approved by Council - refer Note 16

² Financial Assistance Grants for 13/14 were lower reflecting one off timing differences due to a change in how the grant was paid in prior years - refer Note 3 (e)

Kempsey Shire Council

Statement of Comprehensive Income
for the financial year ended 30 June 2015

\$ '000	Notes	Actual 2015	Actual 2014
Net Operating Result for the year (as per Income statement)		13,331	(20,853)
Other Comprehensive Income:			
Amounts which will not be reclassified subsequently to the Operating Result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	(143,992)	32,792
Total Items which will not be reclassified subsequently to the Operating Result		(143,992)	32,792
Amounts which will be reclassified subsequently to the Operating Result when specific conditions are met			
Nil			
Total Other Comprehensive Income for the year		(143,992)	32,792
Total Comprehensive Income for the Year		(130,661)	11,939
Total Comprehensive Income attributable to Council		(130,661)	11,939
Total Comprehensive Income attributable to Non-controlling Interests		-	-

Kempsey Shire Council

Statement of Financial Position

as at 30 June 2015

\$ '000	Notes	Actual 2015	Actual 2014
ASSETS			
Current Assets			
Cash & Cash Equivalents	6a	39,292	29,832
Investments	6b	-	-
Receivables	7	7,067	9,042
Inventories	8	346	366
Other	8	-	-
Non-current assets classified as "held for sale"	22	-	-
Total Current Assets		46,705	39,240
Non-Current Assets			
Investments	6b	-	-
Receivables	7	718	853
Inventories	8	-	-
Infrastructure, Property, Plant & Equipment	9	1,021,108	1,159,990
Investments accounted for using the equity method	19	-	-
Investment Property	14	-	-
Intangible Assets	25	-	-
Other	8	-	-
Total Non-Current Assets		1,021,826	1,160,843
TOTAL ASSETS		1,068,531	1,200,083
LIABILITIES			
Current Liabilities			
Payables	10	4,133	3,973
Borrowings	10	4,972	5,160
Provisions	10	8,137	8,076
Total Current Liabilities		17,242	17,209
Non-Current Liabilities			
Payables	10	581	557
Borrowings	10	46,377	47,379
Provisions	10	393	339
Total Non-Current Liabilities		47,351	48,275
TOTAL LIABILITIES		64,593	65,484
Net Assets		1,003,938	1,134,599
EQUITY			
Retained Earnings	20	373,848	360,517
Revaluation Reserves	20	630,090	774,082
Council Equity Interest		1,003,938	1,134,599
Non-controlling Equity Interests		-	-
Total Equity		1,003,938	1,134,599

Kempsey Shire Council

Statement of Changes in Equity
for the financial year ended 30 June 2015

\$ '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

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non- controlling Interest	Total Equity
2014						
Opening Balance (as per Last Year's Audited Accounts)		381,370	741,290	1,122,660	-	1,122,660
a. Correction of Prior Period Errors	20 (c)	-	-	-	-	-
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
Revised Opening Balance (as at 1/7/13)		381,370	741,290	1,122,660	-	1,122,660
c. Net Operating Result for the Year		(20,853)	-	(20,853)	-	(20,853)
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	32,792	32,792	-	32,792
Other Comprehensive Income		-	32,792	32,792	-	32,792
Total Comprehensive Income (c&d)		(20,853)	32,792	11,939	-	11,939
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		360,517	774,082	1,134,599	-	1,134,599

Kempsey Shire Council

Statement of Cash Flows

for the financial year ended 30 June 2015

Budget 2015	\$ '000	Notes	Actual 2015	Actual 2014
Cash Flows from Operating Activities				
Receipts:				
29,901	Rates & Annual Charges		29,677	27,705
16,352	User Charges & Fees		15,889	15,392
1,390	Investment & Interest Revenue Received		1,362	1,194
15,156	Grants & Contributions		24,907	13,895
196	Other		3,371	1,986
Payments:				
(20,171)	Employee Benefits & On-Costs		(20,268)	(20,973)
(18,764)	Materials & Contracts		(18,625)	(18,428)
(3,525)	Borrowing Costs		(3,041)	(3,254)
(3,993)	Other		(4,031)	(4,343)
<u>16,542</u>	Net Cash provided (or used in) Operating Activities	11b	<u>29,241</u>	<u>13,174</u>
Cash Flows from Investing Activities				
Receipts:				
-	Sale of Infrastructure, Property, Plant & Equipment		877	592
14	Deferred Debtors Receipts		4	7
Payments:				
(21,967)	Purchase of Infrastructure, Property, Plant & Equipment		(19,472)	(17,115)
<u>(21,953)</u>	Net Cash provided (or used in) Investing Activities		<u>(18,591)</u>	<u>(16,516)</u>
Cash Flows from Financing Activities				
Receipts:				
11,280	Proceeds from Borrowings & Advances		4,000	9,600
Payments:				
(5,151)	Repayment of Borrowings & Advances		(5,190)	(4,874)
<u>6,129</u>	Net Cash Flow provided (used in) Financing Activities		<u>(1,190)</u>	<u>4,726</u>
718	Net Increase/(Decrease) in Cash & Cash Equivalents		9,460	1,384
25,376	plus: Cash & Cash Equivalents - beginning of year	11a	29,832	28,448
<u>26,094</u>	Cash & Cash Equivalents - end of the year	11a	<u>39,292</u>	<u>29,832</u>
Additional Information:				
	plus: Investments on hand - end of year	6b	-	-
	Total Cash, Cash Equivalents & Investments		<u>39,292</u>	<u>29,832</u>

Please refer to Note 11 for information on the following:

- Non Cash Financing & Investing Activities.
- Financing Arrangements.
- Net cash flow disclosures relating to any Discontinued Operations

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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n/a - not applicable

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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) & 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 IFRS's, 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), Regulations and Local Government Code of Accounting Practice & 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

During the current year, the following relevant accounting standards became mandatory and have been adopted by Council:

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosures of Interests in Other Entities

AASB 10 introduced a new definition of control based on the substance of the relationship and required Councils to consider their involvement with other entities regardless of whether there was a financial interest.

AASB 11 classified joint arrangements into either joint ventures (equity accounting) or joint operations (accounting for share of assets and liabilities).

AASB 12 has increased the level of disclosures required where Council has any interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities.

Council together with the Port Macquarie-Hastings Council operate Mid North Coast Co-Operative Library, Council's financial contribution is incorporated within the financial reports.

(iv) Early adoption of Accounting Standards

With the exception of AASB 2015 – 7, Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2014.

Refer further to paragraph (ab) relating to a summary of the effects of Standards with future operative dates.

(v) Basis of Accounting

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

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

- (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 (eg. Infrastructure, Property, Plant & 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.

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.

Critical judgements in applying Council's accounting policies

- (i) Impairment of Receivables - Council has made a significant judgement about the impairment of a number of its receivables in Note 7.
- (ii) Projected Section 94 Commitments - Council has used significant judgement in determining future Section 94 income and expenditure in Note 17.

(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

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

charge against the rateable property that will be recovered when the property is next sold.

Control over granted 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.

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 & 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 financial statements incorporate **(i)** the assets and liabilities of Council and any entities (or operations) that it **controls** (as at 30 June 2015) and **(ii)** all the related operating results (for the financial year ended the 30th June 2015).

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

In the process of reporting on Council's activities as a single unit, all inter-entity year end balances and

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

reporting period transactions have been eliminated in full between Council and its controlled entities.

(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 which must be applied only for the 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) Joint Arrangements

Joint 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 expenses of all Joint Operation activities have been incorporated throughout the financial statements under the appropriate notes & 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 parties 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 & reserves are recognised in the balance sheet.

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

(iv) Associates

Council has no interest in any Associates.

(v) County Councils

Council is not a member of any County Councils.

(vi) Unconsolidated Structured Entities

Council has no interest in any Unconsolidated Structured Entities.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

(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.

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 which 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 & 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/intention for which the investment was acquired & 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 &/or are expected to be realised within 12 months of the balance sheet date.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

(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 & 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.

(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 & 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.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

(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 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 undertake its investment of money 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

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.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

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 & Annual Charges) are generally due for settlement no more than 30 days from the date of recognition.

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

A provision for impairment (ie. an allowance account) relating to receivables is established when there is objective evidence that the 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

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.

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.

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

(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**
(as approximated by depreciated historical cost)
- **Buildings – Specialised/Non Specialised**
(External Valuation)
- **Other Structures**
(as approximated by depreciated historical cost)
- **Roads Assets incl. roads, bridges & 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**
(as approximated by depreciated historical cost)
- **Other Assets**
(as approximated by depreciated historical cost)
- **Investment Properties** – refer Note 1(p),

Initial Recognition

On initial recognition, an assets 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 (ie. 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 & 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.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

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:

Land

- council land	100% Capitalised
- open space	100% Capitalised
- land under roads (purchases after 30/6/08)	100% Capitalised

Plant & Equipment

Office Furniture	> \$1,000
Office Equipment	> \$1,000
Other Plant & Equipment	> \$1,000

Buildings & Land Improvements

Park Furniture & Equipment	> \$2,000
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Building

- construction/extensions	100% Capitalised
- renovations	> \$10,000

Other Structures	> \$2,000
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Water & Sewer Assets

Reticulation extensions	> \$5,000
Other	> \$5,000

Stormwater Assets

Drains & Culverts	> \$5,000
Other	> \$5,000

Transport Assets

Road construction & reconstruction	> \$5,000
Reseal/Re-sheet & major repairs	> \$5,000

Bridge construction & reconstruction	> \$5,000
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Other Infrastructure Assets

Swimming Pools	> \$2,000
Other Open Space/Recreational Assets	> \$2,000

Other Infrastructure	> \$2,000
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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:

Plant & Equipment

- Office Equipment	5 to 10 years
- Office furniture	4 years
- Computer Equipment	3 to 10 years
- Vehicles & Road Making equip.	5 to 13 years
- Other plant and equipment	3 to 10 years

Buildings

- Buildings	50 to 100 years
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Water & Sewer Assets

- Water Mains	30 to 80 years
- Dams and reservoirs	70 to 100 years
- Pumps	5 to 15 years

- Sewer Mains	45 to 70 years
- Treatment Works	30 to 50 years
- Pumps and telemetry	20 years

Stormwater Assets

- Drains	80 to 100 years
- Flood Mitigation Systems	10 to 100 years

Transportation Assets

- Sealed Roads: Surface	15 to 25 years
- Sealed Roads: Pavement	30 to 80 years
- Unsealed roads	7 to 10 years
- Bridge:	50 to 100 years

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

- Footpaths:	25 to 50 years	
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Other Infrastructure Assets

- Land Improvements	10 to 100 years	
- Bulk earthworks	Infinite	
- Swimming Pools	30-50 years	
- Other Open Space/ Recreational Assets	25-100 years	

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 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.

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

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 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.

(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

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

assets, their values and depreciation charges within these financial statements

(p) Investment property

Investment property comprises land &/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.

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 which 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, eg 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.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

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 relating to 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" & 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, 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 & 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 which are unpaid.

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

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

(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:

- 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 & 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

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

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 4 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.

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 Mr M Stevenson (BSc, FIA, FIAA) on 20/02/2013.

However the position is monitored annually and the Actuary has estimated that as at 30 June 2015 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 2015 was \$ 595,025.

The amount of additional contributions included in the total employer contribution advised above is \$ 231,837.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$ 846,000 as at 30 June 2015.

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.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

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 30/06/15.

(y) Self insurance

Council does not self insure.

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

(z) Allocation between current and non-current assets & 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 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 & 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, ie. they are inclusive of GST where applicable.

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

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

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

(ab) New accounting standards and interpretations

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2015.

Apart from AASB 2015-7, which relieves Council from providing quantitative information about the significant unobservable inputs within level 3 fair value measurements, Council has not adopted any of these standards early.

Council's assessment of the impact of these new standards and interpretations is set out below.

Apart from the AASB disclosures below, there are no other standards that are "not yet effective" which are expected to have a material impact on Council in the current or future reporting periods and on foreseeable future transactions.

Applicable to Local Government:

AASB 9 - Financial Instruments (and associated amending standards)

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and has an effective date for reporting periods beginning on or after 1 January 2018 (and must be applied retrospectively).

The overriding impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets.

Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories:

- fair value and
- amortised cost (where financial assets will only be able to be measured at amortised cost where very specific conditions are met).

AASB 15 - Revenue from contracts with customers and associated amending standards

AASB 15 will introduce a five step process for revenue recognition with the core principle of the new Standard being that entities recognise revenue so as to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

The changes in revenue recognition requirements in AASB 15 may cause changes to accounting policies relating to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.

The full impact of AASB 15 has not yet been ascertained or quantified.

AASB 15 will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2017.

AASB 124 - Related Party Disclosures

From 1 July 2016, AASB 124 Related Party Disclosures will apply to Council.

This means that Council will be required to disclose information about related parties and Council transactions with those related parties.

Related parties will more than likely include the Mayor, Councillors and certain Council staff. In addition, the close family members of those people and any organisations that they control or are associated with will be classified as related parties (and fall under the related party reporting requirements).

AASB 2014 - 10 Sale or contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in AASB 10 and those in AASB 128 (2011), in dealing with the

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

Note 1. Summary of Significant Accounting Policies

sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not).

A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2016.

This standard will only impact Council where there has been a sale or contribution of assets between the entity and the associate/joint venture.

AASB 2014 - 3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]

This Standard amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

The amendments require:

- (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and
- (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

This Standard also makes an editorial correction to AASB 11.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2016.

If a joint operation is acquired during the reporting period, then this standard clarifies the accounting for the acquisition to be in accordance with AASB 3, i.e. assets and liabilities acquired to be measured at fair value.

Not applicable to Local Government per se;

None

(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 financial year ended 30 June 2015

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	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2015	2015	2014	2015	2015	2014	2015	2015	2014	2015	2014	2015	2014
Governance	-	-	-	229	203	181	(229)	(203)	(181)	-	-	-	-
Administration	554	1,499	586	8,907	8,005	10,992	(8,353)	(6,506)	(10,406)	50	34	30,272	28,720
Health	27,945	32,264	29,546	32,704	33,944	34,481	(4,759)	(1,680)	(4,935)	3,181	3,862	428,763	419,606
Wealth	8,081	32,846	9,945	28,093	28,527	28,263	(20,012)	4,319	(18,318)	3,269	2,235	489,693	697,197
Safe	1,070	906	778	2,042	2,499	2,811	(972)	(1,593)	(2,033)	831	777	95,892	30,044
Social	186	259	570	2,728	2,854	2,808	(2,542)	(2,595)	(2,238)	71	485	23,911	24,516
Total Functions & Activities	37,836	67,774	41,425	74,703	76,032	79,536	(36,867)	(8,258)	(38,111)	7,402	7,393	1,068,531	1,200,083
Share of gains/(losses) in Associates & Joint Ventures (using the Equity Method)	-	-	-	-	-	-	-	-	-	-	-	-	-
General Purpose Income ¹	21,889	21,589	17,258	-	-	-	21,889	21,589	17,258	5,996	3,129	-	-
Operating Result from Continuing Operations	59,725	89,363	58,683	74,703	76,032	79,536	(14,978)	13,331	(20,853)	13,398	10,522	1,068,531	1,200,083

1. Includes: Rates & Annual Charges (incl. Ex-Gratia), Untied General Purpose Grants & Unrestricted Interest & Investment Income.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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 financial year ended 30 June 2015

Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2015	Actual 2014
(a) Rates & Annual Charges			
Ordinary Rates			
Residential		10,553	9,600
Farmland		2,432	2,197
Business		1,563	1,433
Total Ordinary Rates		14,548	13,230
Special Rates			
Nil			
Annual Charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		3,779	3,657
Water Supply Services		3,221	3,119
Sewerage Services		7,571	6,982
Waste Management Services (non-domestic)		278	271
On-Site Sewerage Management Charge		296	263
Total Annual Charges		15,145	14,292
TOTAL RATES & ANNUAL CHARGES		29,693	27,522

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 financial year ended 30 June 2015

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2015	Actual 2014
(b) User Charges & Fees			
Specific User Charges (per s.502 - Specific "actual use" charges)			
Domestic Waste Management Services		-	9
Water Supply Services		6,147	5,679
Sewerage Services		774	684
Waste Management Services (non-domestic)		2,937	2,951
Total User Charges		9,858	9,323
Other User Charges & Fees			
(i) Fees & Charges - Statutory & Regulatory Functions (per s.608)			
Discretionary Fees		713	638
Private Works - Section 67		144	296
Regulatory/ Statutory Fees		486	450
Total Fees & Charges - Statutory/Regulatory		1,343	1,384
(ii) Fees & Charges - Other (incl. General User Charges) (per s.608)			
Aerodrome		65	56
Aged Housing Rental		55	41
Caravan Parks & Camping Grounds		3,168	3,072
Cemeteries		329	263
Property Rentals		156	214
Saleyards		301	208
Sewerage Services		118	93
Water Supply		123	99
Other		25	8
Total Fees & Charges - Other		4,340	4,054
TOTAL USER CHARGES & FEES		15,541	14,761

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2015	Actual 2014
(c) Interest & Investment Revenue (incl. losses)			
Interest & Dividends			
- Interest on Overdue Rates & Annual Charges (incl. Special Purpose Rates)		268	291
- Interest earned on Investments (interest & coupon payment income)		1,082	887
- Interest on Deferred Debtors		-	6
<u>TOTAL INTEREST & INVESTMENT REVENUE</u>		<u>1,350</u>	<u>1,184</u>
Interest Revenue is attributable to:			
Unrestricted Investments/Financial Assets:			
Overdue Rates & Annual Charges (General Fund)		268	145
General Council Cash & Investments		777	754
Restricted Investments/Funds - External:			
Development Contributions			
- Section 94		55	56
- Section 64		95	84
Water Fund Operations		119	146
Sewerage Fund Operations		36	-
<u>Total Interest & Investment Revenue Recognised</u>		<u>1,350</u>	<u>1,184</u>
(d) Other Revenues			
Fines		33	66
Long Service Leave Contributions		9	2
OH & S Incentive Rebate		79	40
Other		-	26
<u>TOTAL OTHER REVENUE</u>		<u>121</u>	<u>134</u>

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 3. Income from Continuing Operations (continued)

\$ '000	2015 Operating	2014 Operating	2015 Capital	2014 Capital
(e) Grants				
General Purpose (Untied)				
Financial Assistance	5,623	2,777	-	-
Pensioners' Rates Subsidies - General Component	373	352	-	-
Total General Purpose	5,996	3,129	-	-

¹ The Financial Assistance Grant for the comparative 13/14 year reflects a one off timing difference (reduction). This grant ceased being paid in advance in the 13/14 year by up to 50% as had occurred in previous years.

Specific Purpose

Pensioners' Rates Subsidies:

- Water	148	145	-	-
- Sewerage	110	108	-	-
- Domestic Waste Management	132	133	-	-
Water Supplies	178	282	-	800
Sewerage Services	23	-	-	-
Bushfire & Emergency Services	270	307	106	27
Community Services	1,751	1,975	-	-
Economic Development	4	-	-	-
Emergency Services	-	-	-	100
Environmental Protection	104	75	-	(4)
Flood Damage - Department of Commerce	201	(1)	-	-
Flood Mitigation	87	87	81	174
Library	55	70	31	31
LIRS Subsidy	38	761	-	-
Noxious Weeds	259	95	-	-
Recreation & Culture	-	71	-	135
Street Lighting	81	81	-	-
Other	52	55	-	188
Transport (Roads to Recovery)	818	-	-	808
Transport (Other Roads & Bridges Funding)	-	-	323	565
Waste Levy	-	-	115	325
Midwaste	435	-	-	-
Aerodrome	-	-	2,000	-
Total Specific Purpose	4,746	4,244	2,656	3,149
Total Grants	10,742	7,373	2,656	3,149

Grant Revenue is attributable to:

- Commonwealth Funding	7,737	4,150	2,000	808
- State Funding	3,005	3,223	656	2,341
	10,742	7,373	2,656	3,149

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 3. Income from Continuing Operations (continued)

\$ '000	2015 Operating	2014 Operating	2015 Capital	2014 Capital
(f) Contributions				
Developer Contributions:				
(s93 & s94 - EP&A Act, s64 of the LGA):				
S 94 - Contributions towards amenities/services	-	-	614	442
S 64 - Water Supply Contributions	-	-	612	163
S 64 - Sewerage Service Contributions	-	-	227	61
Total Developer Contributions	17 -	-	1,453	666
Other Contributions:				
Bushfire Services	-	-	70	-
Community Services	187	155	-	-
Domestic Waste	112	110	-	-
Recreation & Culture	-	-	24	30
Roads & Bridges	-	-	-	100
RMS Contributions (Regional Roads, Block Grant)	6,406	2,128	18,790	1,263
Sewerage (excl. Section 64 contributions)	-	-	247	-
Swimming Pools	-	-	-	9
Water Supplies (excl. Section 64 contributions)	-	-	1,709	-
Midwaste	110	-	-	-
Other	102	99	50	-
Total Other Contributions	6,917	2,492	20,890	1,402
Total Contributions	6,917	2,492	22,343	2,068
TOTAL GRANTS & CONTRIBUTIONS	17,659	9,865	24,999	5,217

\$ '000	Actual 2015	Actual 2014
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(g) Restrictions relating to Grants and Contributions

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

Unexpended at the Close of the Previous Reporting Period	8,826	8,662
add: Grants & contributions recognised in the current period but not yet spent:	2,263	1,573
less: Grants & contributions recognised in a previous reporting period now spent:	(1,964)	(1,409)

Net Increase (Decrease) in Restricted Assets during the Period

299	164
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Unexpended and held as Restricted Assets

9,125	8,826
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Comprising:

- Specific Purpose Unexpended Grants	1,543	1,685
- Developer Contributions	7,583	7,142
	9,125	8,826

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2015	Actual 2014
(a) Employee Benefits & On-Costs			
Salaries and Wages		15,774	15,353
Travelling		804	847
Employee Leave Entitlements (ELE)		2,909	3,017
Superannuation		2,029	1,958
Workers' Compensation Insurance		646	802
Fringe Benefit Tax (FBT)		12	8
Payroll Tax		273	261
Training Costs (other than Salaries & Wages)		172	204
Total Employee Costs		22,619	22,450
less: Capitalised Costs		(2,326)	(1,746)
TOTAL EMPLOYEE COSTS EXPENSED		20,293	20,704
Number of "Equivalent Full Time" Employees at year end		298	286
(b) Borrowing Costs			
(i) Interest Bearing Liability Costs			
Interest on Loans		2,984	3,228
Interest on Advances		30	46
Total Interest Bearing Liability Costs Expensed		3,014	3,274
(ii) Other Borrowing Costs			
Nil			
TOTAL BORROWING COSTS EXPENSED		3,014	3,274
(c) Materials & Contracts			
Raw Materials & Consumables		15,309	16,191
Auditors Remuneration ⁽¹⁾		52	45
Legal Expenses:			
- Legal Expenses: Planning & Development		52	39
- Legal Expenses: Other		342	66
TOTAL MATERIALS & CONTRACTS		15,755	16,341
Auditor Remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor (& the Auditors of other Consolidated Entities):			
Audit and Other Assurance Services			
- Audit & review of financial statements: Council's Auditor		52	45
Remuneration for audit and other assurance services		52	45
Total Auditor Remuneration		52	45

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2015	Actual 2014	Actual 2015	Actual 2014
(d) Depreciation, Amortisation & Impairment					
Plant and Equipment		-	-	1,384	1,533
Office Equipment		-	-	196	223
Furniture & Fittings		-	-	39	32
Land Improvements (depreciable)		-	-	171	293
Buildings - Non Specialised		-	-	858	896
Buildings - Specialised		-	-	491	510
Infrastructure:					
- Roads		-	-	18,720	17,737
- Bridges		-	-	833	838
- Footpaths		-	-	159	147
- Stormwater Drainage		-	-	1,073	1,040
- Water Supply Network		-	-	3,807	3,677
- Sewerage Network		-	-	3,143	3,369
- Swimming Pools		-	-	101	101
- Other Open Space/Recreational Assets		-	-	180	53
Other Assets					
- Other		-	-	92	81
<u>TOTAL DEPRECIATION & IMPAIRMENT COSTS EXPENSED</u>		-	-	31,247	30,530

\$ '000	Notes	Actual	Actual
		2015	2014

(e) Other Expenses

Other Expenses for the year include the following:

Councillor Expenses - Mayoral Fee	39	38
Councillor Expenses - Councillors' Fees	161	157
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)	42	65
Donations, Contributions & Assistance to other organisations (Section 356)	47	36
Electricity & Heating	1,757	1,801
Insurance	678	893
Street Lighting	606	612
Telephone & Communications	353	364
<u>TOTAL OTHER EXPENSES</u>	3,683	3,966

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2015	Actual 2014
Property (excl. Investment Property)			
Proceeds from Disposal - Property		326	16
less: Carrying Amount of Property Assets Sold / Written Off		(430)	(286)
Net Gain/(Loss) on Disposal		(104)	(270)
Plant & Equipment			
Proceeds from Disposal - Plant & Equipment		551	576
less: Carrying Amount of P&E Assets Sold / Written Off		(826)	(774)
Net Gain/(Loss) on Disposal		(275)	(198)
Infrastructure			
Proceeds from Disposal - Infrastructure		-	-
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(1,661)	(4,253)
Net Gain/(Loss) on Disposal		(1,661)	(4,253)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(2,040)	(4,721)

Note 6a. - Cash Assets and Note 6b. - Investments

\$ '000	Notes	2015 Actual Current	2015 Actual Non Current	2014 Actual Current	2014 Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		2,464	-	796	-
Cash-Equivalent Assets ¹					
- Deposits at Call		36,828	-	29,036	-
Total Cash & Cash Equivalents		39,292	-	29,832	-
Investments (Note 6b)					
Nil					
TOTAL CASH ASSETS, CASH EQUIVALENTS & INVESTMENTS		39,292	-	29,832	-

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

Cash, Cash Equivalents & Investments were classified at year end in accordance with AASB 139 as follows:

Cash & Cash Equivalents					
a. "At Fair Value through the Profit & Loss"		39,292	-	29,832	-

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 6c. Restricted Cash, Cash Equivalents & Investments - Details

\$ '000	2015	2015	2014	2014
	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Total Cash, Cash Equivalents and Investments	39,292	-	29,832	-
attributable to:				
External Restrictions (refer below)	21,962	-	18,428	-
Internal Restrictions (refer below)	16,550	-	11,404	-
Unrestricted	780	-	1	-
	39,292	-	29,832	-

2015 \$ '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)	1,023	2,000	(1,956)	1,067
Specific Purpose Unexpended Loans-Sewer (A)	2,578	2,000	(1,087)	3,491
RMS (formerly RTA) Advances (B)	454	10	(1)	463
External Restrictions - Included in Liabilities	4,055	4,010	(3,044)	5,021

External Restrictions - Other

Developer Contributions - General (C)	2,996	669	(767)	2,898
Developer Contributions - Water Fund (C)	389	1,095	(395)	1,089
Developer Contributions - Sewer Fund (C)	2,081	270	(231)	2,120
Specific Purpose Unexpended Grants (D)	1,571	983	(1,060)	1,493
Specific Purpose Unexpended Grants-Water Fund (D)	114	-	(64)	50
Water Augmentation Reserve (E)	626	581	(202)	1,005
Water Fleet Reserve (E)	693	758	(522)	929
Water Tariff Equalisation Reserve (E)	602	-	-	602
Water Uncompleted Works Reserve (E)	792	377	(792)	377
Sewerage Services (E)	246	-	-	143
Sewerage Augmentation Reserve (E)	2,292	968	(19)	3,241
Sewerage Uncompleted Works Reserve (E)	88	19	(88)	19
Domestic Waste Management (E)	868	59	-	927
Contributions - Ancillary Works	34	1	-	35
On-site Sewerage Management Reserve	70	77	(13)	134
SWR Reserve Reserve	431	536	(555)	412
4 Shore Caravan Parks Reserve	480	1,753	(1,122)	1,111
Midwaste	-	356	-	356
External Restrictions - Other	14,373	8,502	(5,830)	16,941
Total External Restrictions	18,428	12,512	(8,874)	21,962

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 6c. Restricted Cash, Cash Equivalents & Investments - Details (continued)

2015 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
Internal Restrictions				
Employees Leave Entitlement	1,458	409	(464)	1,403
Aerodrome	3	-	-	3
Bridge Construction	39	-	-	39
Cemetery Headstone Restoration Reserve	63	16	(5)	74
Community Projects Reserve	1,153	-	(177)	976
Community Service Equipment	129	228	(39)	318
Computer	56	51	-	107
Co-operative Library Computer	64	5	-	69
Environmental Levy Works Reserve	720	604	(256)	1,068
General Fleet	196	2,440	(1,558)	1,078
General Fund Uncompleted Works Reserve	-	1,493	-	1,493
General Fund Unexpended Loans	5,805	-	(925)	4,880
Industrial Subdivision	6	-	-	6
Insurance	138	210	-	348
Landfill Reserve	150	269	(30)	389
Organisational Development	18	-	-	18
Property Sales	803	-	(377)	426
Quarry Restoration	453	-	(13)	440
Residential Subdivision	33	-	-	33
Road Reserves	102	-	-	102
SES Building	15	18	-	33
Mayoral Fund	-	46	-	46
Akubra Place	-	315	-	315
By-Pass Reserve	-	4,192	(1,306)	2,886
Total Internal Restrictions	11,404	10,296	(5,150)	16,550
TOTAL RESTRICTIONS	29,832	22,808	(14,024)	38,512

- 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.
- C Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- D Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1)
- E Water, Sewerage, Domestic Waste Management (DWM) & 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 financial year ended 30 June 2015

Note 7. Receivables

\$ '000	Notes	2015		2014	
		Current	Non Current	Current	Non Current
Purpose					
Rates & Annual Charges		1,390	-	1,343	-
User Charges & Fees		2,441	-	2,002	-
Private Works (Miscellaneous Debtors)		1,429	-	1,880	-
Accrued Revenues					
- Interest on Investments		82	-	94	-
Government Grants & Subsidies		1,164	557	2,311	676
Deferred Debtors		40	161	28	177
Net GST Receivable		321	-	234	-
PWD Subsidised Scheme Debtors		99	-	99	-
RTA Debtors		110	-	1,059	-
Other Debtors		-	-	1	-
Total		7,076	718	9,051	853
less: Provision for Impairment					
Other Debtors		(9)	-	(9)	-
Total Provision for Impairment - Receivables		(9)	-	(9)	-
<u>TOTAL NET RECEIVABLES</u>		<u>7,067</u>	<u>718</u>	<u>9,042</u>	<u>853</u>
Externally Restricted Receivables					
Water Supply					
- Specific Purpose Grants		-	-	400	-
- Rates & Availability Charges		332	-	310	-
- Other		1,891	-	1,681	-
Sewerage Services					
- Rates & Availability Charges		376	-	343	-
- Other		442	-	364	-
Domestic Waste Management		226	-	224	-
Total External Restrictions		3,267	-	3,322	-
Internally Restricted Receivables					
Nil					
Unrestricted Receivables		3,800	718	5,720	853
TOTAL NET RECEIVABLES		<u>7,067</u>	<u>718</u>	<u>9,042</u>	<u>853</u>

Notes on Debtors above:

- (i) Rates & 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 & charges at 8.50% (2014 9.00%).
Generally all other receivables are non interest bearing.
- (iv) Please refer to Note 15 for issues concerning Credit Risk and Fair Value disclosures.
- (vi) \$1,476,000 of the Water receivables represents the deficit in Section 64 Contributions restrictions.

Kempsey Shire Council

Notes to the Financial Statements
for the financial year ended 30 June 2015

Note 8. Inventories & Other Assets

\$ '000	Notes	2015		2014	
		Current	Non Current	Current	Non Current
Inventories					
Stores & Materials		340	-	314	-
Work in Progress		6	-	52	-
Total Inventories		346	-	366	-
Other Assets					
Nil					
TOTAL INVENTORIES / OTHER ASSETS		346	-	366	-

Externally Restricted Assets

There are no restrictions applicable to the above assets.

Kempsey Shire Council

Notes to the Financial Statements
for the financial year ended 30 June 2015

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2014					Asset Movements during the Reporting Period						as at 30/6/2015				
	At Cost	At Fair Value	Accumulated		Carrying Value	Asset Additions	WDV of Asset Disposals	Depreciation Expense	Adjustments & Transfers	Revaluation Decrements to Equity (ARR)	Revaluation Increments to Equity (ARR)	At Cost	At Fair Value	Accumulated		Carrying Value
			Dep'n	Impairment										Dep'n	Impairment	
Capital Work in Progress	222	-	-	-	222	799	-	-	-	-	-	1,021	-	-	-	1,021
Plant & Equipment	-	17,991	8,547	-	9,444	2,398	(826)	(1,384)	-	-	-	-	18,519	8,887	-	9,632
Office Equipment	-	2,737	2,024	-	713	190	-	(196)	-	-	-	-	2,927	2,220	-	707
Furniture & Fittings	-	1,047	804	-	243	63	-	(39)	-	-	-	-	1,110	843	-	267
Land:																
- Operational Land	-	23,503	-	-	23,503	430	(105)	-	71	-	-	-	23,899	-	-	23,899
- Community Land	-	27,992	-	-	27,992	-	-	-	(71)	-	-	-	27,921	-	-	27,921
Land Improvements - non depreciable	-	442	-	-	442	310	-	-	154	-	-	-	906	-	-	906
Land Improvements - depreciable	-	11,869	4,072	-	7,797	2,223	-	(171)	(2,254)	-	-	-	9,505	1,910	-	7,595
Buildings - Non Specialised	-	33,767	17,034	-	16,733	79	(325)	(858)	117	-	-	-	33,273	17,527	-	15,746
Buildings - Specialised	-	16,098	7,768	-	8,330	138	-	(491)	(117)	-	-	-	16,185	8,325	-	7,860
Infrastructure:																
- Roads	-	564,950	179,901	-	385,049	21,679	(249)	(18,719)	-	(157,195)	-	-	345,291	114,726	-	230,565
- Bridges	-	63,350	32,687	-	30,663	4,096	(35)	(834)	-	-	1,847	-	59,887	24,150	-	35,737
- Footpaths	-	7,277	3,086	-	4,191	56	-	(159)	-	-	5,784	-	22,552	12,680	-	9,872
- Bulk Earthworks (non-depreciable)	-	248,227	-	-	248,227	-	-	-	-	(27,067)	-	-	221,160	-	-	221,160
- Stormwater Drainage	-	94,434	43,216	-	51,218	287	-	(1,073)	-	-	27,617	-	120,538	42,489	-	78,049
- Water Supply Network	-	257,794	70,945	-	186,849	4,676	(968)	(3,807)	-	-	2,741	-	264,380	74,889	-	189,491
- Sewerage Network	-	208,378	53,538	-	154,840	1,569	(409)	(3,143)	-	-	2,281	-	212,292	57,154	-	155,138
- Swimming Pools	-	3,654	2,207	-	1,447	-	-	(101)	-	-	-	-	3,654	2,308	-	1,346
- Other Open Space/Recreational Assets	-	1,429	717	-	712	246	-	(180)	2,100	-	-	-	6,112	3,234	-	2,878
Other Assets:																
- Other	-	2,295	920	-	1,375	35	-	(92)	-	-	-	-	2,330	1,012	-	1,318
TOTAL INFRASTRUCTURE, PROPERTY, PLANT & EQUIP.	222	1,587,234	427,466	-	1,159,990	39,274	(2,917)	(31,247)	-	(184,262)	40,270	1,021	1,392,441	372,354	-	1,021,108

Additions to Buildings & Infrastructure Assets are made up of Asset Renewals (\$11,702) and New Assets (\$21,124).
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 & Equipment.

Kempsey Shire Council

Notes to the Financial Statements
for the financial year ended 30 June 2015

Note 9b. Externally Restricted Infrastructure, Property, Plant & Equipment

\$ '000	Actual				Actual			
	2015				2014			
Class of Asset	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 & Equipment	-	4,063	1,874	2,189	-	3,600	1,617	1,983
Office Equipment	-	246	233	13	-	247	229	18
Furniture & Fittings	-	2	2	-	-	2	2	-
Land								
- Operational Land	-	2,112	-	2,112	-	2,112	-	2,112
- Community Land	-	409	-	409	-	409	-	409
Infrastructure	-	264,380	74,888	189,492	-	257,794	70,945	186,849
Total Water Supply	-	271,212	76,997	194,215	-	264,164	72,793	191,371
Sewerage Services								
Plant & Equipment	-	750	695	55	-	718	650	68
Office Equipment	-	466	430	36	-	466	415	51
Furniture & Fittings	-	3	3	-	-	3	3	-
Land								
- Operational Land	-	2,560	-	2,560	-	2,533	-	2,533
- Community Land	-	166	-	166	-	166	-	166
Buildings	-	32	10	22	-	32	9	23
Infrastructure	-	212,291	57,154	155,137	-	208,378	53,538	154,840
Total Sewerage Services	-	216,268	58,292	157,976	-	212,296	54,615	157,681
Domestic Waste Management								
Plant & Equipment	-	582	169	413	-	582	125	457
Other Assets	-	275	274	1	-	275	274	1
Total DWM	-	857	443	414	-	857	399	458
TOTAL RESTRICTED I,PP&E	-	488,337	135,732	352,605	-	477,317	127,807	349,510

Note 9c. Infrastructure, Property, Plant & 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 financial year ended 30 June 2015

Note 10a. Payables, Borrowings & Provisions

\$ '000	Notes	2015		2014	
		Current	Non Current	Current	Non Current
Payables					
Goods & Services - operating expenditure		3,349	581	3,171	557
Accrued Expenses:					
- Borrowings		321	-	348	-
Advances		463	-	454	-
Total Payables		4,133	581	3,973	557
Borrowings					
Loans - Secured ¹		4,739	45,910	4,793	46,679
Government Advances		233	467	367	700
Total Borrowings		4,972	46,377	5,160	47,379
Provisions					
Employee Benefits:					
Annual Leave		1,932	-	1,862	-
Sick Leave		1,867	-	1,894	-
Long Service Leave		4,338	393	4,320	339
Total Provisions		8,137	393	8,076	339
Total Payables, Borrowings & Provisions		17,242	47,351	17,209	48,275
(i) Liabilities relating to Restricted Assets					
		2015		2014	
		Current	Non Current	Current	Non Current
Externally Restricted Assets					
Water		1,691	19,199	1,869	18,749
Sewer		1,195	17,807	1,076	16,897
Other		463	-	-	-
RTA & other advances		-	-	454	-
Tourist Parks		207	365	341	573
Liabilities relating to externally restricted assets		3,556	37,371	3,740	36,219
Internally Restricted Assets					
Nil					
Total Liabilities relating to restricted assets		3,556	37,371	3,740	36,219
Total Liabilities relating to Unrestricted Assets		13,686	9,980	13,469	12,056
TOTAL PAYABLES, BORROWINGS & PROVISIONS		17,242	47,351	17,209	48,275

¹. Loans are secured over the General Rating Income of Council

Disclosures on Liability Interest Rate Risk Exposures, Fair Value Disclosures & Security can be found in Note 15.

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

Note 10a. Payables, Borrowings & Provisions (continued)

\$ '000	Actual 2015	Actual 2014
(ii) Current Liabilities not anticipated to be settled within the next 12 months		
The following Liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions - Employees Benefits	6,175	5,896
	<u>6,175</u>	<u>5,896</u>

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2015	Actual 2014
(a) Reconciliation of Cash Assets			
Total Cash & Cash Equivalent Assets	6a	39,292	29,832
Less Bank Overdraft	10	-	-
BALANCE as per the STATEMENT of CASH FLOWS		39,292	29,832
(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities			
Net Operating Result from Income Statement		13,331	(20,853)
Adjust for non cash items:			
Depreciation & Amortisation		31,247	30,530
Net Losses/(Gains) on Disposal of Assets		2,040	4,721
Non Cash Capital Grants and Contributions		(19,802)	-
+/- Movement in Operating Assets and Liabilities & Other Cash Items:			
Decrease/(Increase) in Receivables		2,106	(1,892)
Decrease/(Increase) in Inventories		20	24
Increase/(Decrease) in Payables		202	814
Increase/(Decrease) in accrued Interest Payable		(27)	20
Increase/(Decrease) in Other Liabilities		9	(22)
Increase/(Decrease) in Employee Leave Entitlements		115	(168)
NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS		29,241	13,174
(c) Non-Cash Investing & Financing Activities			
RMS Dedications		18,044	-
Developer Dedicated Assets		1,758	-
Total Non-Cash Investing & Financing Activities		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 financial year ended 30 June 2015

Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2015	Actual 2014
(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 & Equipment			
Water Supply		-	132
Matty's Flat Wharf & Pontoon		-	6
SES Building - Gladstone		-	8
Kempsey Airport Redevelopment		-	1,588
South West Rocks Treatment Plant - Replace Membrane		-	377
Smith Street Redevelopment		2,420	-
Hat Head Water Reservoir Roof		114	-
Stuarts Point Caravan Park Upgrade		117	-
Foothpath SWR Flagstaff Extension		214	-
Total Commitments		2,865	2,111
These expenditures are payable as follows:			
Within the next year		2,865	2,111
Total Payable		2,865	2,111
Sources for Funding of Capital Commitments:			
Unrestricted General Funds		-	6
Sect 64 & 94 Funds/Reserves		410	-
Externally Restricted Reserves		142	2,097
Internally Restricted Reserves		117	8
Unexpended Loans		2,196	-
Total Sources of Funding		2,865	2,111

(b) Finance Lease Commitments

Nil

(c) Operating Lease Commitments (Non Cancellable)

Nil

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 13a(i). Statement of Performance Measurement - Indicators (Consolidated)

\$ '000	Amounts 2015	Indicator 2015	Prior Periods 2014 2013	
Local Government Industry Indicators - Consolidated				
1. Operating Performance Ratio				
Total continuing operating revenue ⁽¹⁾				
<u>(excl. Capital Grants & Contributions) - Operating Expenses</u>	<u>(9,628)</u>	-14.96%	-39.93%	-34.69%
Total continuing operating revenue ⁽¹⁾	64,364			
(excl. Capital Grants & Contributions)				
2. Own Source Operating Revenue Ratio				
Total continuing operating revenue ⁽¹⁾				
<u>(excl. ALL Grants & Contributions)</u>	<u>46,705</u>	52.26%	74.30%	70.55%
Total continuing operating revenue ⁽¹⁾	89,363			
3. Unrestricted Current Ratio				
Current Assets less all External Restrictions ⁽²⁾	<u>21,477</u>	2.86x	2.31	2.46
Current Liabilities less Specific Purpose Liabilities ^(3, 4)	<u>7,511</u>			
4. Debt Service Cover Ratio				
Operating Result ⁽¹⁾ before capital excluding interest and depreciation / impairment / amortisation	<u>24,633</u>	3.00x	1.53	1.84
Principal Repayments (from the Statement of Cash Flows)	<u>8,204</u>			
+ Borrowing Costs (from the Income Statement)				
5. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage				
Rates, Annual and Extra Charges Outstanding	<u>1,390</u>	4.44%	4.58%	5.40%
Rates, Annual and Extra Charges Collectible	<u>31,304</u>			
6. Cash Expense Cover Ratio				
Current Year's Cash and Cash Equivalents				
<u>+ All Term Deposits</u>	<u>39,292</u>	9.22 mths	6.90	6.71
Payments from cash flow of operating and financing activities	<u>4,263</u>			

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 & associates.

(2) Refer Notes 6-8 inclusive.

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

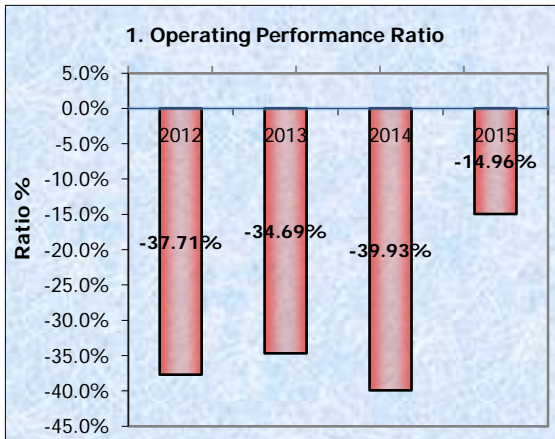
(3) Refer to Note 10(a).

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

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

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 2014/15 Result

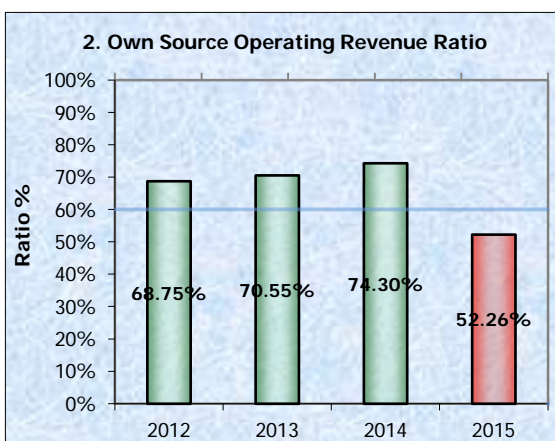
2014/15 Ratio -14.96%

Council's ratio is significantly below the benchmark, depreciation expenses of \$31.2 million dollars are factored into the calculation as they represent the allocation of the value of Council's assets over their useful life.

Benchmark: — Minimum $\geq 0.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

Ratio is within 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 & contributions.

Commentary on 2014/15 Result

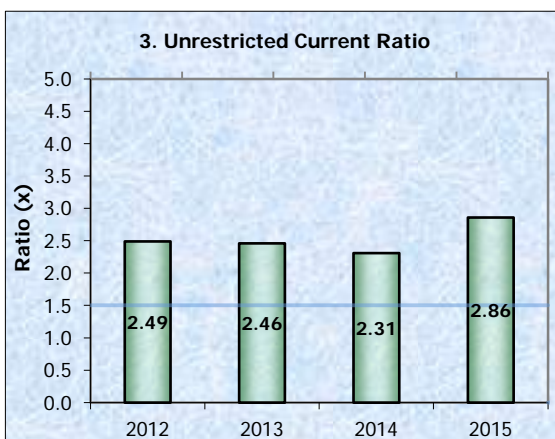
2014/15 Ratio 52.26%

Council's ratio is below the benchmark. Fluctuations in the ratio from year to year are reflective of the variations in the value of grants and contributions received by Council. In 2014/15 the transfer of the Macleay Valley Way \$22 million has distorted the ratio.

Benchmark: — Minimum $\geq 60.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

Ratio is within 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 2014/15 Result

2014/15 Ratio 2.86x

The ratio of 2.86 means that Council has \$2.86 in liquid assets for every \$1.00 in current liabilities. The ratio reflects Council's strong short term financial position.

Benchmark: — Minimum ≥ 1.50

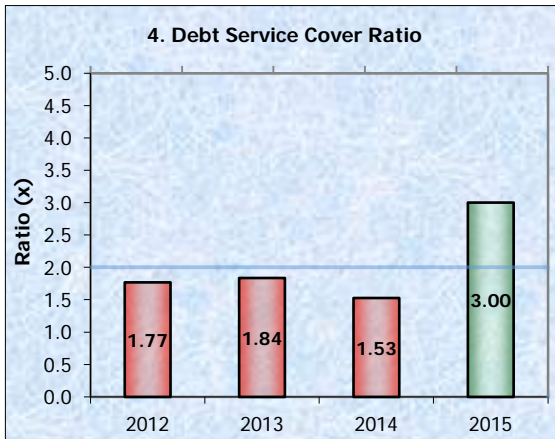
Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

Ratio is within Benchmark
 Ratio is outside Benchmark

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

Note 13a(ii). Local Government Industry Indicators - Graphs (Consolidated)



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 2014/15 Result

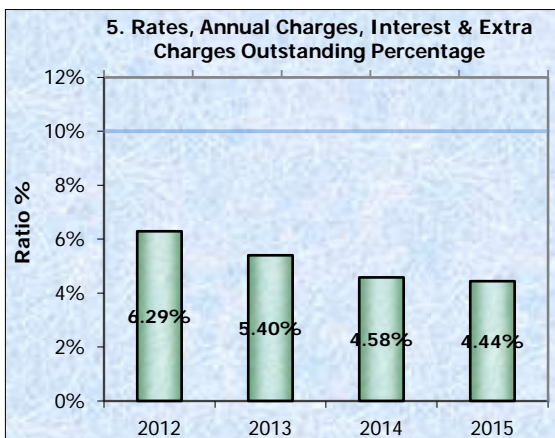
2014/15 Ratio 3.00x

A breakdown of the ratio by Fund is disclosed in Note 13b. The General Fund ratio is 5.28 which is above benchmark whilst the Water and Sewer Fund ratio's of 1.57 and 1.49 respectively indicate the reliance on borrowings to finance the significant infrastructure renewal programs that have and continue to be undertaken.

Benchmark: Minimum ≥ 2.00

Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

Ratio is within Benchmark
 Ratio is outside Benchmark



Purpose of Rates & 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 2014/15 Result

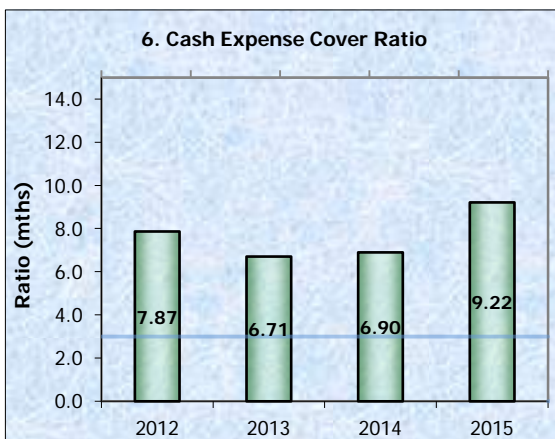
2014/15 Ratio 4.44%

Council's percentage of 4.44% is well below benchmark and is reflective of Council's ongoing focus on the management of ratepayer accounts.

Benchmark: Maximum $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

Ratio is within Benchmark
 Ratio is outside Benchmark



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 2014/15 Result

2014/15 Ratio 9.22 mths

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

Benchmark: Minimum ≥ 3.00

Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

Ratio is within Benchmark
 Ratio is outside Benchmark

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 13b. Statement of Performance Measurement - Indicators (by Fund)

\$ '000	Water 2015	Sewer 2015	General ⁵ 2015
Local Government Industry Indicators - by Fund			
1. Operating Performance Ratio			
Total continuing operating revenue ⁽¹⁾			
<u>(excl. Capital Grants & Contributions) - Operating Expenses</u>	-7.29%	-13.93%	-16.11%
Total continuing operating revenue ⁽¹⁾			
(excl. Capital Grants & Contributions)	prior period: -17.61%	-25.58%	-46.60%
2. Own Source Operating Revenue Ratio			
Total continuing operating revenue ⁽¹⁾			
<u>(excl. ALL Grants & Contributions)</u>	79.22%	93.69%	43.33%
Total continuing operating revenue ⁽¹⁾			
	prior period: 87.24%	97.94%	67.73%
3. Unrestricted Current Ratio			
<u>Current Assets less all External Restrictions ⁽²⁾</u>	3.04x	3.53x	2.86x
Current Liabilities less Specific Purpose Liabilities ^(3, 4)			
	prior period: 2.73	3.10	2.31
4. Debt Service Cover Ratio			
<u>Operating Result ⁽¹⁾ before capital excluding interest and depreciation / impairment / amortisation</u>	1.57x	1.49x	5.28x
Principal Repayments (from the Statement of Cash Flows) + Borrowing Costs (from the Income Statement)			
	prior period: 1.24	1.23	2.02
5. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage			
<u>Rates, Annual and Extra Charges Outstanding</u>	8.49%	4.66%	3.43%
Rates, Annual and Extra Charges Collectible			
	prior period: 8.05%	4.53%	3.86%
6. Cash Expense Cover Ratio			
Current Year's Cash and Cash Equivalents <u>+ All Term Deposits</u>	6.87	13.27	8.86
Payments from cash flow of operating and financing activities	mths	mths	mths
	prior period: 5.54	11.38	6.27

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 & Sewer activities which are listed separately.

Kempsey Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2015

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 & Financial Liabilities recognised in the financial statements is presented below.

	Carrying Value		Fair Value	
	2015	2014	2015	2014
Financial Assets				
Cash and Cash Equivalents	39,292	29,832	39,292	29,832
Receivables	7,785	9,895	7,785	9,894
Total Financial Assets	47,077	39,727	47,077	39,726
Financial Liabilities				
Payables	4,714	4,530	4,705	4,530
Loans / Advances	51,349	52,539	59,900	73,008
Total Financial Liabilities	56,063	57,069	64,605	77,538

Fair Value is determined as follows:

- **Cash & Cash Equivalents, Receivables, Payables** - are estimated to be the carrying value which approximates mkt value.
- **Borrowings & Held to Maturity Investments** - are based upon estimated future cash flows discounted by the current market interest rates applicable to assets & liabilities with similar risk profiles, unless quoted market prices are available.
- Financial Assets classified (i) **"at fair value through profit & 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 & liabilities

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 15. Financial Risk Management (continued)

\$ '000

(a) Cash & Cash Equivalents, Financial assets 'at fair value through the profit & Loss' "Available-for-sale" financial assets & "Held-to-maturity" Investments

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

Council has an Investment Policy which complies with the Local Government Act & Minister's Investment Order. This Policy is regularly reviewed by Council and it's 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.

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
2015				
Possible impact of a 1% movement in Interest Rates	393	393	(393)	(393)
2014				
Possible impact of a 1% movement in Interest Rates	298	298	(298)	(298)

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 15. Financial Risk Management (continued)

\$ '000

(b) Receivables

Council's major receivables comprise **(i)** Rates & Annual charges and **(ii)** User Charges & 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 & 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.

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:

	2015 Rates & Annual Charges	2015 Other Receivables	2014 Rates & Annual Charges	2014 Other Receivables
(i) Ageing of Receivables - %				
Current (not yet overdue)	0%	73%	0%	73%
Overdue	100%	27%	100%	27%
	100%	100%	100%	100%

	Rates & Annual Charges	Other Receivables	Rates & Annual Charges	Other Receivables
(ii) Ageing of Receivables - value				
Rates & Annual Charges				
Current	-	4,210	-	6,273
< 1 year overdue	1,390	-	1,343	-
1 - 2 years overdue	-	154	-	242
2 - 5 years overdue	-	97	-	62
> 5 years overdue	-	1,943	-	1,984
	1,390	6,404	1,343	8,561

(iii) Movement in Provision for Impairment of Receivables

	2015	2014
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 financial year ended 30 June 2015

Note 15. Financial Risk Management (continued)

\$ '000

(c) Payables & Borrowings

Payables & 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 & overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's Payables & 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		
2015									
Trade/Other Payables	-	4,133	581	-	-	-	-	4,714	4,714
Loans & Advances	-	7,869	7,411	6,550	6,019	5,567	39,637	73,053	51,349
Total Financial Liabilities	-	12,002	7,992	6,550	6,019	5,567	39,637	77,767	56,063
2014									
Trade/Other Payables	-	3,973	557	-	-	-	-	4,530	4,530
Loans & Advances	-	10,042	7,435	6,707	5,848	5,339	39,681	75,052	52,539
Total Financial Liabilities	-	14,015	7,992	6,707	5,848	5,339	39,681	79,582	57,069

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

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

	2015		2014	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables	4,714	0.0%	4,530	0.0%
Loans & Advances - Fixed Interest Rate	51,349	5.8%	52,539	6.0%
	<u>56,063</u>		<u>57,069</u>	

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 14/15 was adopted by the Council on 20 May 2014.

While the Income Statement included in this General Purpose Financial Report must disclose the Original Budget adopted by Council, the Local Government Act 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	2015 Budget	2015 Actual	2015 ----- Variance* -----	
REVENUES				
User Charges & Fees	13,685	15,541	1,856	14% F
Fees & Charges which exceeded the budget estimate include:-				
Income from Council's business undertakings including Caravan Parks of \$326,000 due to higher occupancy rates, Saleyard Fees of \$25,000 due to more sale events being held than budgeted, Private Works of \$54,000 and Cemetery Fees of \$44,000				
Water Sales \$487,000 which reflects the higher water consumption.				
Waste Fees \$743,000 reflective of higher usage particularly from the receipt of demolition material.				
Other Revenues	177	121	(56)	(32%) U
Reduction in income from fines of \$58,000 due to Council not employing a Car Parking Ranger on a full time basis during 14/15.				
Operating Grants & Contributions	10,480	17,659	7,179	69% F
Additional income received during the year includes:				
Roads & Maritime Services Kempsey Bypass settlement \$3,491,000.				
Contribution from Bypass Alliance for road restoration \$700,000.				
Midwaste \$535,000. Council is now the Administrator of the budget for Midwaste on behalf of it's 8 member councils.				
Community Services Programs \$165,000.				
Flood damage grants \$740,000.				
Noxious Weed Program \$195,000 due to additional grant funding for control of Tropical Soda Apple				
Capital Grants & Contributions	4,295	24,999	20,704	482% F
Additional income received during the year includes:				
Contributed Water and Sewer Assets \$1,756,000 and Road assets of \$18,044,000 from RMS following the by pass construction.				
Contribution for Water extension at South Kempsey of \$200,000,				
and Section 64/94 income \$948,000 which is in line with additional development in the council area.				

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 16. Material Budget Variations (continued)

\$ '000	2015 Budget	2015 Actual	2015 Variance*		
EXPENSES					
Borrowing Costs	3,512	3,014	498	14%	F
Reduction in costs due to the deferment of loan borrowing in the Sewer Fund in line with cash flow requirements together with savings in interest following the restructuring of Water and Sewer Loans in the 2013/14 year.					
Other Expenses	4,232	3,683	549	13%	F
Reduction in insurance costs of \$360,000 resulting from changes both in Policy excess and extension of the term of the comprehensive fleet policy in the prior year. Electricity costs were underbudget by \$300,000 whilst telephone costs exceeded budget by \$114,000.					
Net Losses from Disposal of Assets	-	2,040	(2,040)	0%	U
Council's 2014/15 Budget provided a gross budget for plant and infrastructure renewals. The net loss on asset disposal relates to the write off of infrastructure assets \$1,661,000, property \$104,000 and plant of \$275,000.					

Budget Variations relating to Council's Cash Flow Statement include:

Cash Flows from Operating Activities	16,542	29,241	12,699	76.8%	F
Increase result attributed to additional income generated from user charges and fees \$1,856,000 and grants and contributions \$8,063,000 together with savings in loan borrowing costs.					
Cash Flows from Investing Activities	(21,953)	(18,591)	3,362	(15.3%)	F
A reduction in expenditure resulting from the deferral of works on the West Kempsey Sewerage Treatment Plant \$7,000,000 is offset in part by new and renewal works funded from additional Grants and Contributions received by Council in 2014/15.					
Cash Flows from Financing Activities	6,129	(1,190)	(7,319)	(119.4%)	U
Loan Borrowings totalling \$7,280,000 for works in the Water and Sewer Funds were not required due to the rescheduling of works to future years.					

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 17. Statement of Developer Contributions

\$ '000

Council recovers contributions, raises levies & 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 & levies and the value of all remaining funds which are "restricted" in their future use.

SUMMARY OF CONTRIBUTIONS & LEVIES

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	23	-	-	-	-	-	23	-	(23)	-	-
Roads	1,581	364	-	26	(586)	-	1,385	6,835	-	8,220	-
Parking	7	-	-	-	-	-	7	-	-	7	-
Community Facilities	191	22	-	4	(35)	-	182	24	(206)	-	-
SWR Plan	984	119	-	20	(146)	-	977	18,184	(19,161)	-	-
Public Domain	176	86	-	4	-	-	266	1,797	(2,063)	-	-
Administration	34	23	-	1	-	-	58	-	(57)	1	-
S94 Contributions - under a Plan	2,996	614	-	55	(767)	-	2,898	26,840	(21,510)	8,228	-
Total S94 Revenue Under Plans	2,996	614	-	55	(767)	-	2,898				-
S64 Contributions	4,146	839	-	95	(395)	-	4,685				
Total Contributions	7,142	1,453	-	150	(1,162)	-	7,583	26,840	(21,510)	8,228	-

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	23	-	-	-	-	-	23	-	(23)	-	-
Roads	1,581	364	-	26	(586)	-	1,385	6,835	-	8,220	-
Parking	7	-	-	-	-	-	7	-	-	7	-
Community Facilities	191	22	-	4	(35)	-	182	24	(206)	-	-
SWR Plan	984	119	-	20	(146)	-	977	18,184	(19,161)	-	-
Public Domain	176	86	-	4	-	-	266	1,797	(2,063)	-	-
Administration	34	23	-	1	-	-	58	-	(57)	1	-
Total	2,996	614	-	55	(767)	-	2,898	26,840	(21,510)	8,228	-

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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Water	2,065	612	-	51	(163)	-	2,565	-	-	2,565	-
Sewerage	2,081	227	-	44	(232)	-	2,120	-	-	2,120	-
Total	4,146	839	-	95	(395)	-	4,685				-

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 18. Contingencies & 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 & 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 Councils 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 financial year ended 30 June 2015

Note 18. Contingencies & 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 Councils 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 & including 30/6/08.

(ii) Infringement Notices/Fines

Fines & Penalty Income, the result of Council issuing Infringement Notices is followed up and collected by the Infringement Processing Bureau.

Councils 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 financial year ended 30 June 2015

Note 19. Interests in Other Entities

\$ '000

Council's objectives can and in some cases are best met through the use of separate entities & 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 Councils (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 & 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 Notes 19(b)(i) & (ii) 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 financial year ended 30 June 2015

Note 19. Interests in Other Entities (continued)

\$ '000

(a) Controlled Entities (Subsidiaries) - being entities & 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

	2015	2014
Total of assets jointly owned with other partners		
Current Assets	98	128
Other Non Current Assets	1,872	1,768
Total Net Assets Employed - Council & Jointly Owned	1,970	1,896

(d) Unconsolidated Structured Entities

Council has no Unconsolidated Structured Entities

(e) Subsidiaries, Joint Arrangements & Associates not recognised

None.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2015	Actual 2014
(a) Retained Earnings			
Movements in Retained Earnings were as follows:			
Balance at beginning of Year (from previous years audited accounts)		360,517	381,370
a. Net Operating Result for the Year		13,331	(20,853)
Balance at End of the Reporting Period		373,848	360,517
(b) Reserves			
(i) Reserves are represented by:			
- Infrastructure, Property, Plant & Equipment Revaluation Reserve		630,090	774,082
Total		630,090	774,082
(ii) Reconciliation of movements in Reserves:			
Infrastructure, Property, Plant & Equipment Revaluation Reserve			
- Opening Balance		774,082	741,290
- Revaluations for the year	9(a)	(143,992)	32,792
- Balance at End of Year		630,090	774,082
TOTAL VALUE OF RESERVES		630,090	774,082

(iii) Nature & Purpose of Reserves**Infrastructure, Property, Plant & Equipment Revaluation Reserve**

- The Infrastructure, Property, Plant & 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 financial year ended 30 June 2015

Note 21. Financial Result & Financial Position by Fund

Income Statement by Fund \$ '000	Actual 2015	Actual 2015	Actual 2015
Continuing Operations	Water	Sewer	General¹
Income from Continuing Operations			
Rates & Annual Charges	3,485	7,730	19,029
User Charges & Fees	6,432	922	9,951
Interest & Investment Revenue	170	80	1,100
Other Revenues	2	60	59
Grants & Contributions provided for Operating Purposes	326	117	17,216
Grants & Contributions provided for Capital Purposes	2,321	474	22,204
Total Income from Continuing Operations	12,736	9,383	69,559
Expenses from Continuing Operations			
Employee Benefits & on-costs	1,684	1,781	16,828
Borrowing Costs	1,252	1,042	720
Materials & Contracts	1,930	2,315	9,886
Depreciation & Amortisation	4,177	3,204	23,866
Other Expenses	2,131	1,808	3,683
Net Losses from the Disposal of Assets	1,018	409	613
Total Expenses from Continuing Operations	12,192	10,559	55,596
Operating Result from Continuing Operations	544	(1,176)	13,963
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	(1,777)	(1,650)	(8,241)

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

NB. All amounts disclosed above are Gross - that is, they include internal charges & recoveries made between the Funds.

Kempsey Shire Council

Notes to the Financial Statements

as at 30 June 2015

Note 21. Financial Result & Financial Position by Fund (continued)

Statement of Financial Position by Fund \$ '000	Actual 2015	Actual 2015	Actual 2015
ASSETS	Water	Sewer	General¹
Current Assets			
Cash & Cash Equivalents	5,119	9,014	25,159
Receivables	2,223	818	4,026
Inventories	-	-	346
Total Current Assets	7,342	9,832	29,531
Non-Current Assets			
Receivables	-	-	718
Infrastructure, Property, Plant & Equipment	194,215	157,976	668,917
Total Non-Current Assets	194,215	157,976	669,635
TOTAL ASSETS	201,557	167,808	699,166
LIABILITIES			
Current Liabilities			
Payables	141	104	3,888
Borrowings	1,550	1,091	2,331
Provisions	-	-	8,137
Total Current Liabilities	1,691	1,195	14,356
Non-Current Liabilities			
Payables	-	-	581
Borrowings	19,199	17,807	9,371
Provisions	-	-	393
Total Non-Current Liabilities	19,199	17,807	10,345
TOTAL LIABILITIES	20,890	19,002	24,701
Net Assets	180,667	148,806	674,465
EQUITY			
Retained Earnings	62,257	49,559	262,032
Revaluation Reserves	118,410	99,247	412,433
Total Equity	180,667	148,806	674,465

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

NB. All amounts disclosed above are Gross - that is, they include internal receivables & payables between the Funds.

Note 22. "Held for Sale" Non Current Assets & 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 financial year ended 30 June 2015

Note 23. Events occurring after the Reporting Date

Events that occur between the end of the reporting period (ending 30 June 2015) 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 30/10/15.

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 2015.

(ii) Events that provide evidence of conditions that arose after the Reporting Period

These financial statements (& figures therein) do not incorporate any "non-adjusting events" that have occurred after 30 June 2015 and which are only indicative of conditions that arose after 30 June 2015.

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 asset 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 & 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 financial year ended 30 June 2015

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 & recognised at fair values:

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 & Equipment					
Plant & Equipment	30/06/15	-	-	9,632	9,632
Office Equipment	30/06/15	-	-	707	707
Furniture & Fittings	30/06/15	-	-	267	267
Operational Land	30/06/15	-	-	23,899	23,899
Community Land	30/06/15	-	-	27,921	27,921
Land Improvements - Non Depreciable	30/06/15	-	-	906	906
Land Improvements - Depreciable	30/06/15	-	-	7,595	7,595
Buildings - Non Specialised	30/06/15	-	-	15,746	15,746
Buildings - Specialised	30/06/15	-	-	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	30/06/15	-	-	189,491	189,491
Sewerage Network	30/06/15	-	-	155,138	155,138
Swimming Pools	30/06/15	-	-	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		-	-	1,021	1,021
Total Infrastructure, Property, Plant & Equipment		-	-	1,021,108	1,021,108

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 27. Fair Value Measurement (continued)

\$ '000

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

2014	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 & Equipment					
Plant & Equipment	30/06/14	-	-	9,444	9,444
Office Equipment	30/06/14	-	-	713	713
Furniture & Fittings	30/06/14	-	-	243	243
Operational Land	30/06/14	-	-	23,503	23,503
Community Land	30/06/14	-	-	27,992	27,992
Land Improvements - Non Depreciable	30/06/14	-	-	442	442
Land Improvements - Depreciable	30/06/14	-	-	7,797	7,797
Buildings - Non Specialised	30/06/14	-	-	16,733	16,733
Buildings - Specialised	30/06/14	-	-	8,330	8,330
Roads, Bridges, Footpaths	30/06/14	-	-	668,130	668,130
Stormwater Drainage	30/06/14	-	-	51,218	51,218
Water Supply Network	30/06/14	-	-	186,849	186,849
Sewerage Network	30/06/14	-	-	154,840	154,840
Swimming Pools	30/06/14	-	-	1,447	1,447
Other Open Space/Recreational Assets	30/06/14	-	-	712	712
Other	30/06/14	-	-	1,375	1,375
Work in Progress	30/06/14	-	-	222	222
Total Infrastructure, Property, Plant & Equipment		-	-	1,159,990	1,159,990

(2) Transfers between Level 1 & 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.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

Note 27. Fair Value Measurement (continued)

\$ '000

(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.

(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 - 1/7/13	9,616	718	184	23,789	34,307
Purchases (GBV)	2,134	218	91	-	2,443
Disposals (WDV)	(773)	-	-	(286)	(1,059)
Depreciation & Impairment	(1,533)	(223)	(32)	-	(1,788)
Closing Balance - 30/6/14	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 & Impairment	(1,384)	(196)	(39)	-	(1,619)
Closing Balance - 30/6/15	9,632	707	267	23,899	34,505

	Community Land	Land Improve- -nt Non-Depr	Land Improve- -ment Depr	Buildings Non- Specialised	Total
Opening Balance - 1/7/13	27,992	442	7,552	16,700	52,686
Purchases (GBV)	-	-	538	590	1,128
Depreciation & Impairment	-	-	(293)	(896)	(1,189)
Revaluations	-	-	-	339	339
Closing Balance - 30/6/14	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 & Impairment	-	-	(171)	(858)	(1,029)
Closing Balance - 30/6/15	27,921	906	7,595	15,746	52,168

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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 Footpaths	Storm Water Drainage	Water Supply Network	Total
Opening Balance - 1/7/13	8,431	661,740	50,613	181,498	902,282
Purchases (GBV)	240	6,711	183	4,479	11,613
Disposals (WDV)	-	(3,256)	-	(421)	(3,677)
Depreciation & Impairment	(510)	(18,722)	(1,040)	(3,677)	(23,949)
Revaluations	169	21,657	1,462	4,970	28,258
Closing Balance - 30/6/14	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 & 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

	Sewerage Network	Other	WIP	Total
Opening Balance - 1/7/13	153,197	1,173	-	154,370
Purchases (GBV)	1,423	283	222	1,928
Disposals (WDV)	(577)	-	-	(577)
Depreciation & Impairment	(3,369)	(81)	-	(3,450)
Revaluations	4,166	-	-	4,166
Closing Balance - 30/6/14	154,840	1,375	222	156,437
Purchases (GBV)	1,569	35	799	2,403
Disposals (WDV)	(409)	-	-	(409)
Depreciation & Impairment	(3,143)	(92)	-	(3,235)
Revaluations	2,281	-	-	2,281
Closing Balance - 30/6/15	155,138	1,318	1,021	157,477

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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 - 1/7/13	1,519	762	2,281
Purchases (GBV)	-	3	3
Depreciation & Impairment	(101)	(53)	(154)
Revaluations	29	-	29
Closing Balance - 30/6/14	<u>1,447</u>	<u>712</u>	<u>2,159</u>
Transfers from/(to) another asset class	-	2,100	2,100
Purchases (GBV)	-	246	246
Depreciation & Impairment	(101)	(180)	(281)
Closing Balance - 30/6/15	<u>1,346</u>	<u>2,878</u>	<u>4,224</u>

b. Information relating to the transfers into and out of the Level 3 Fair Valuation hierarchy (as disclosed in the Table above) includes:

None

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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 & Equipment, Furniture & Fittings incorporates:

Major Plant
Fleet Vehicles
Minor Plant
Furniture & Fittings
Office Equipment

All are disclosed at fair value in the notes. Council assumes that the carrying amount reflects the fair value of the asset due to the nature 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 financial year ended 30 June 2015

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 financial year ended 30 June 2015

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 & 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
- Residual value
- Remaining useful life

The cost approach is used to value the land improvements. There has been no change to the valuation process during the reporting period.

Kempsey Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2015

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 & 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, Foothpaths, 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 financial year ended 30 June 2015

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 componentised 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 financial year ended 30 June 2015

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 & 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 being 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 2015, 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), Note 16 budget variation explanations and Note 17 forecast information, 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 2015, 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 2015 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 30th day of October 2015

**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 2015



KEMPSEY
Shire Council

BRW.
CLIENT
CHOICE
AWARDS
2013
australia's best professional service firms
WINNER

BRW.
CLIENT
CHOICE
AWARDS
2014
australia's best professional service firms
WINNER



Thomas
Noble &
Russell

Accountants | Auditors | Business Advisers

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We are pleased to advise that we have completed the audit of Council's financial reports for the year ended 30 June 2015, 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.

1. AUDITOR'S ROLE & RESPONSIBILITIES

Council's annual financial audit engagement has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial reports comply with Australian Accounting Standards as well as other statutory requirements and are free of material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Council's preparation and fair presentation of the financial report 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 organisation's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

Our independent audit report is attached to each financial 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*.

Reporting on the Conduct of the Audit

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. These observations are set out below.

2. INCOME STATEMENT

2.1. Consolidated Operating Result

Council's consolidated surplus from all activities for 2015 was \$13.331 million. This compares to a deficit in 2014 of \$20.853 million. This result is summarised as follows:

Consolidated Operating Result	2015 \$'000	2014 \$'000	2013 \$'000
Revenues from continuing operations	64,364	53,466	53,390
Expenses from continuing operations	(42,745)	(44,285)	(42,403)
<i>Surplus from continuing operations before depreciation</i>	21,619	9,181	10,987
Less Depreciation expense	(31,247)	(30,530)	(29,508)
Operating deficit after depreciation and before capital revenue and other significant items	(9,628)	(21,349)	(18,521)
<i>Significant items impacting the operating result</i>			
Gain/(Loss) on disposal of assets	(2,040)	(4,721)	(425)
Capital grants and contributions	24,999	5,217	3,278
Surplus/(Deficit) from all activities	13,331	(20,853)	(15,668)

These results are more meaningfully analysed by operating fund as detailed further in this report.

2.2. Material Items Impacting the Result After Depreciation & Before Capital Revenue and Other Significant Items

Some of the material factors influencing the consolidated operating result are as follows:

Account	Increase / (Decrease) \$'000	Effect on Operating Result \$'000	Reason for Increase / Decrease
Revenue			
Ordinary rates	1,318	1,318	Majority of increase relates to 9.3% special rate variation approved by the Minister for Local Government.
Sewerage annual charges	589	589	Residential access charge increased by 7.47%.

Account	Increase / (Decrease) \$'000	Effect on Operating Result \$'000	Reason for Increase / Decrease
Water supply user charges	468	468	Base usage fee increased by 2.96% and consumption increase by 4.7%.
Interest revenue	166	166	Decline in interest rate returns were offset by increase in funds invested during the period.
Operating grants	3,369	3,369	Largely relates to increase in financial assistance grants. In 2014, only two quarters of payments were received, as the first two quarters were received in 2012/13. The full four quarters of grants totalling \$5.623 million have been received in 2014/15.
Operating contributions	4,425	4,425	Increase largely attributed to cash contributions totalling \$3.491 million received from the RMS relating to the transfer of the Macleay Valley Way following completion of the Kempsey Bypass Stage 1.
Expenses			
Employee costs	(411)	411	Increase in award 2.6%, offset by decrease in workers compensation insurance and increased capitalisation of employee costs.
Borrowing costs	(260)	260	Additional costs of \$227,000 were incurred in 2013/14 associated with the restructure of the loan portfolio.

Account	Increase / (Decrease) \$'000	Effect on Operating Result \$'000	Reason for Increase / Decrease
Materials & contracts	(586)	586	Previous year contained higher expense on road maintenance in response to flood damage.
Depreciation expense	717	(717)	Increase in line with indexation from 2013/14 and new asset additions.
Other expenses	(283)	283	Reduction in electricity and insurance costs.

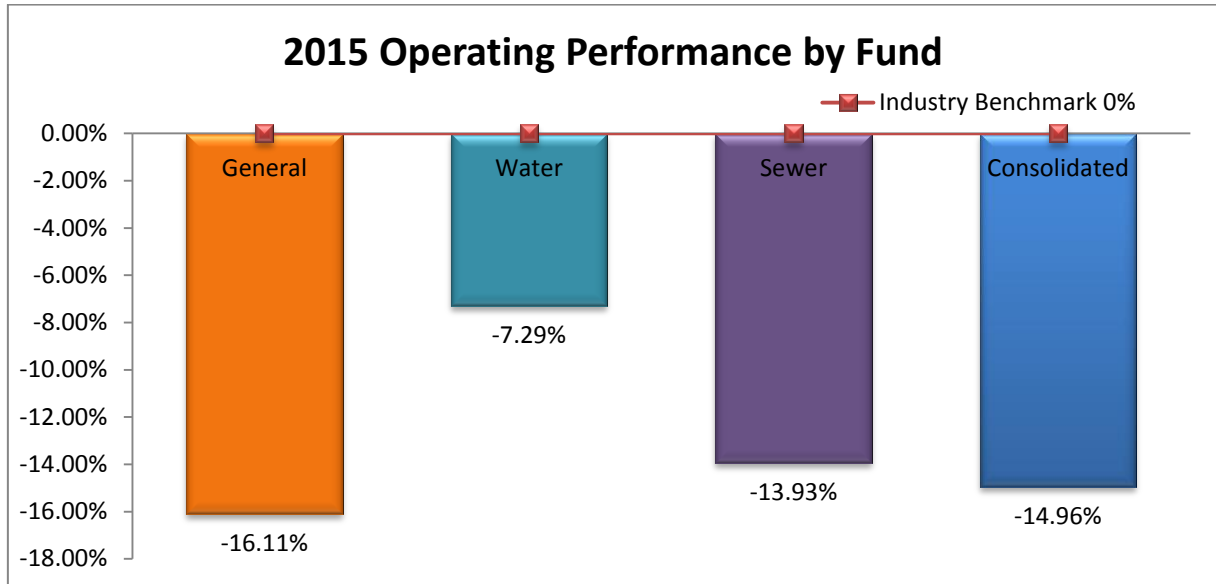
2.3. Operating Result by Fund

The consolidated operating result comprises the surpluses and deficits associated with Council's general, sewer and water funds. The results of each fund are provided below.

Operating Result by Fund	2015			2014		
	General \$'000	Water \$'000	Sewer \$'000	General \$'000	Water \$'000	Sewer \$'000
Revenues from continuing operations	47,355	10,415	8,909	37,718	9,930	8,147
Expenses from continuing operations	(31,117)	(6,997)	(6,946)	(32,252)	(7,612)	(6,750)
<i>Surplus from continuing operations before depreciation</i>	16,238	3,418	1,963	5,466	2,318	1,397
Less: depreciation expense	(23,866)	(4,177)	(3,204)	(23,042)	(4,032)	(3,456)
Operating deficit after depreciation and before capital revenue and other significant items	(7,628)	(759)	(1,241)	(17,576)	(1,714)	(2,059)
<i>Significant items impacting the operating result</i>						
Gain/(Loss) on disposal of assets	(613)	(1,018)	(409)	(3,674)	(470)	(577)
Capital grants and contributions	22,204	2,321	474	4,193	963	61
Surplus/(Deficit) from all activities	13,963	544	(1,176)	(17,057)	(1,221)	(2,575)

2.4. Operating Performance Ratio

The Office of Local Government has introduced a ratio that measures a Council's achievement of containing operating expenditure within operating revenue (achieving a surplus after depreciation but before capital revenue). The benchmark is greater than 0%.



As previously illustrated Council's general fund has an operating deficit after depreciation but before capital items of \$7.628 million. This result is an improvement on 2014 of \$9.948 million which can largely be attributed to an increase in operating grants and contributions of \$7.886 million and ordinary rates of \$1.318 million.

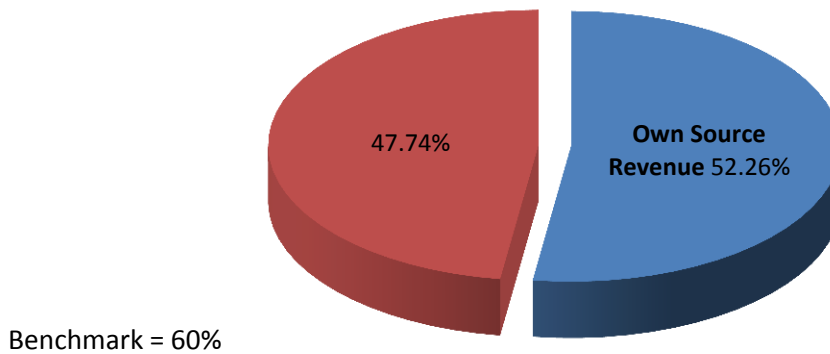
The benchmark for this ratio is greater than 0%, that is, Council should not be recording recurring operating deficits but should contain operating expenditure within operating revenue. In other words, the operating result after depreciation & before capital revenue and other significant items should be positive. Council should continue to improve the operating performance of all funds so as to achieve the greater than 0% benchmark.

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

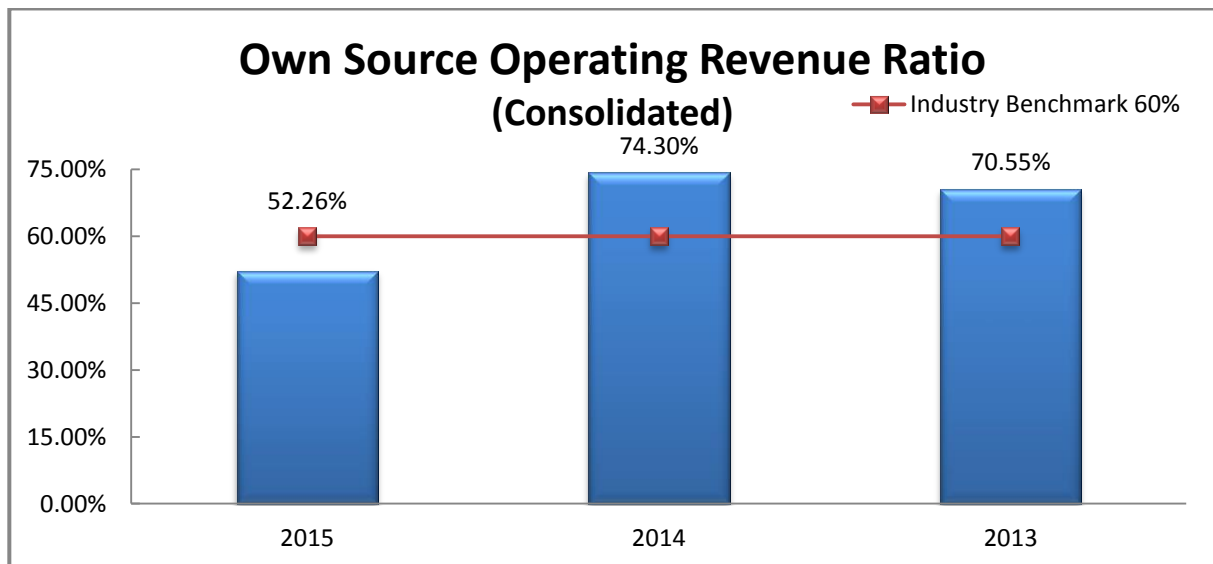
2.5. Own Source Operating Revenue Ratio

Local Government performance benchmarking now 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 below illustrates that Council sourced 52.26% of its consolidated revenue from rates, annual charges, user charges, interest etc. which is below the industry benchmark of 60%. This is down from 74.30% in 2014 due largely to the \$21.535 million in cash and non-cash contributions received from the RMS relating to the transfer of the Macleay Valley Way in the current year. The current year ratio would be 68.86% without the impact of the Macleay Valley Way.

2015 Revenue Sources (All Funds)



Council's consolidated ratio over the last three years is shown below.



2.6. Capital Grants and 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 \$2.656 million and included grants for aerodrome \$2.000 million, other road funding of \$323,000 and grants for Waste Levy of \$115,000.

Capital contributions received during the year amounted to \$22.343 million. The table below provides an understanding of the nature and quantum of contributions received during the financial year.

	2015 \$'000	2014 \$'000	2013 \$'000
Developer Infrastructure Dedications	1,758	-	-
Section 94 Contributions - cash	614	442	345
Section 64 Contributions - cash	839	224	453
RMS Contributions	18,790	1,263	488
Other Contributions	342	139	487
TOTAL	22,343	2,068	1,773

In the current year, RMS contributions include a \$18.044 million non-cash contribution relating to the transfer of the Macleay Valley Way.

The use of cash contributions received during each year is restricted and accordingly they are not available for use in Council's general operations.

3. STATEMENT OF FINANCIAL POSITION

Council's Statement of Financial Position (Balance Sheet) is summarised below.

	2015 \$'000	2014 \$'000	2013 \$'000
Assets			
Current Assets	46,705	39,240	36,655
Non-Current Assets	1,021,826	1,160,843	1,146,119
Total Assets	1,068,531	1,200,083	1,182,774
Liabilities			
Current Liabilities	17,242	17,209	16,382
Non-Current Liabilities	47,351	48,275	43,732
Total Liabilities	64,593	65,484	60,114
Equity	1,003,938	1,134,599	1,122,660

We provide commentary on some of the material assets and liabilities appearing on Council's statement of financial position as at 30 June 2015 together with related Office of Local Government benchmark data.

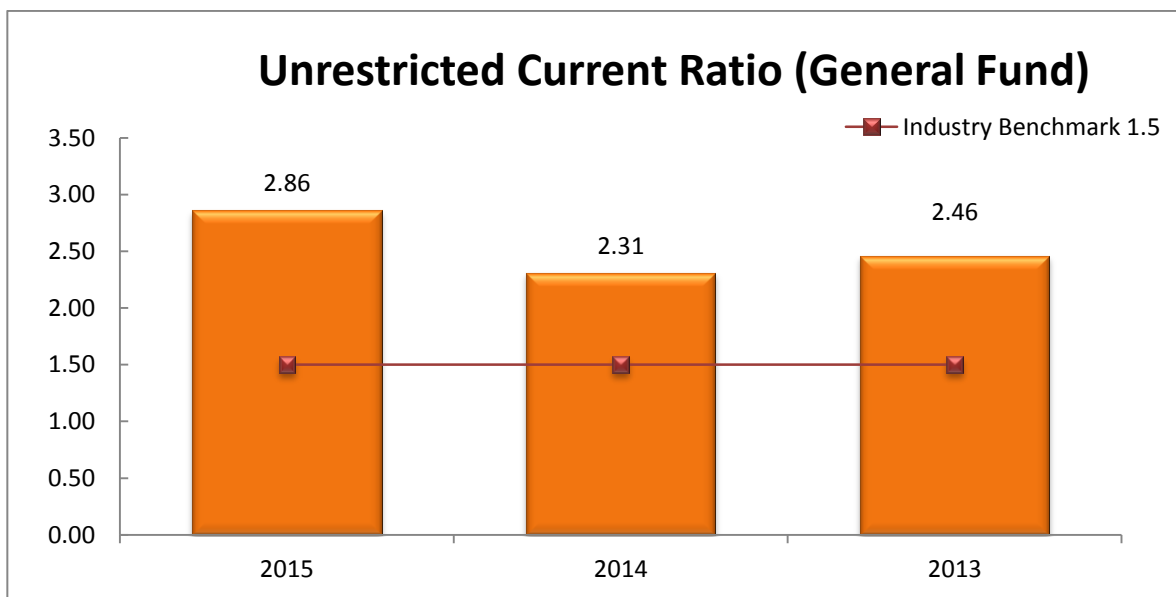
3.1. Current Assets

3.1.1. Unrestricted Net Current Assets

	2015 \$'000	2014 \$'000	2013 \$'000
Current Assets	46,705	39,240	36,655
Externally restricted cash & investments	(21,962)	(18,428)	(18,674)
Externally restricted receivables	(3,267)	(3,322)	(2,820)
Current Assets less all External Restrictions	21,476	17,490	15,161
Current Liabilities	17,242	17,209	16,382
Externally restricted liabilities	(3,556)	(3,740)	(4,151)
Liabilities classified as current in the financial report but not expected to be paid in the next 12 months	(6,175)	(5,896)	(6,068)
Current Liabilities less Special Purpose Liabilities	7,511	7,573	6,163
Unrestricted Current Net Assets before Internal Reserves	13,965	9,917	8,998

Council's unrestricted current asset position provides a measure of the Council's capacity / liquidity to meet its commitments from current assets net of externally restricted cash, investments and receivables.

The unrestricted current ratio measures Council's net unrestricted current ratio. The Office of Local Government considers that this ratio should be at least 1.5.



At 30 June 2015 Council's general fund has \$2.86 in liquid current assets for every \$1 of current liabilities. This is above the industry benchmark.

3.1.2. Cash & Investments

Included in Council's net current assets are cash and investments which are restricted in their use as follows:

Cash & Investments	2015 \$'000	2014 \$'000	2013 \$'000
Externally Restricted <i>Monies can only be spent in accordance with legislation, grant agreement or developer contribution plan specifications</i>	21,962	18,428	18,674
Internally Restricted <i>Money set aside for special projects via Council resolution</i>	16,550	11,404	8,654
Unrestricted <i>Funds forming part of working capital used for day-to-day Council operations</i>	780	-	1,120
Total Cash & Investments	39,292	29,832	28,448

Council is managing its investment portfolio in accordance with the Minister's Investment Order which is applicable to all local government authorities.

Total Internally Restricted Cash

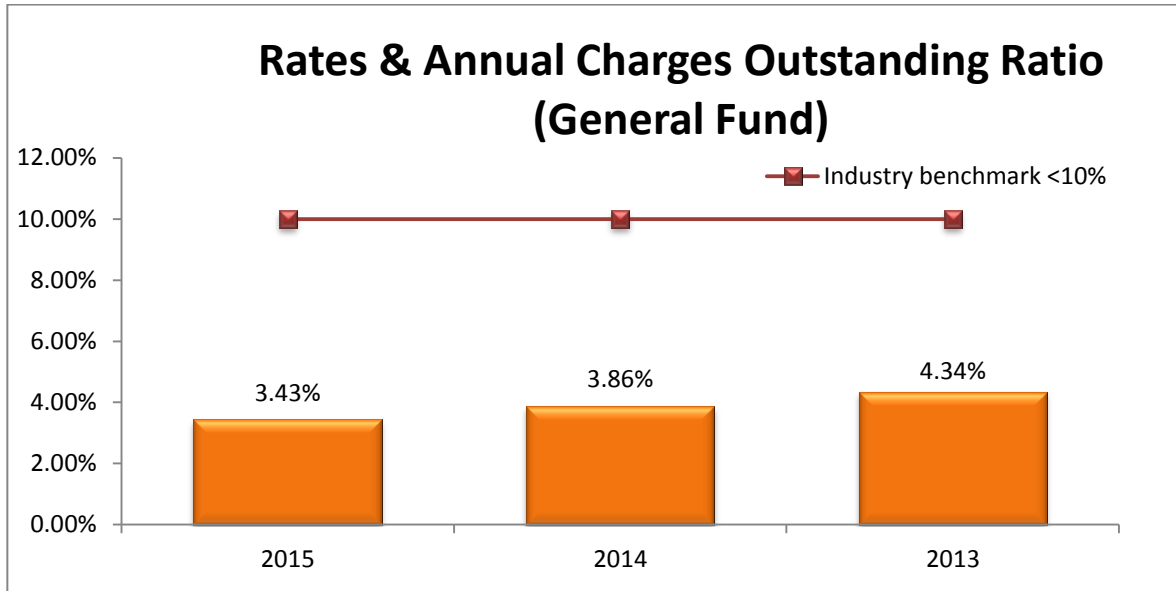
Council has resolved to set aside the following special purpose reserves.

	2015 \$'000	2014 \$'000	2013 \$'000
Community Projects Reserve	976	1,153	1,195
Employee Benefits	1,403	1,458	1,627
Environmental Levy works reserve	1,068	720	634
General Fleet Reserve	1,078	196	771
General Fund uncompleted works reserve	1,493	-	1,530
General Fund Unexpended Loans	4,880	5,805	1,005
Other	1,900	816	514
Property Sales Reserve	426	803	903
Quarry Restoration	440	453	475
Bypass Works	2,886	-	-
Total Internal Restrictions	16,550	11,404	8,654

Overall internal reserves have increased by \$5.146 million, driven by the increase in General Fleet Reserve \$882,000, General Fund Uncompleted Works Reserve of \$1.493 million and Bypass Works \$2.886 million.

3.1.3. Rates and Annual Charges Outstanding Percentage

This is a financial performance indicator that assesses the effectiveness of Council's revenue collection processes. The NSW Office of Local Government benchmark is less than 10% for rural Councils.



Council's general fund rates and annual charges outstanding ratio has improved from 3.86% in 2014 to 3.43% as at 30 June 2015. The Council has performed well to maintain and improve this ratio.

3.2. Infrastructure, Property, Plant and Equipment (I,P,P&E)

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 \$1.02 billion.

Annual movements in I, P, P & E values occur largely due to depreciation, asset revaluations and Council constructed / purchased additions.

	Cost to Replace \$'000	WDV \$'000	Depn Expense \$'000	WDV as a % of Cost %	Depn Expense as a % of Cost %
Plant & Equipment	18,519	9,632	1,384	52%	7%
Operational & Community Land	51,820	51,820	-	100%	0%
Land Improvements	10,411	8,501	171	82%	2%
Buildings	49,458	23,606	1,349	48%	3%
Other Assets	6,367	2,292	327	36%	5%
Infrastructure					
Roads, Bridges & Footpaths	427,730	276,174	19,712	65%	5%
Roads Bulk Earthworks	221,160	221,160	-	100%	0%
Stormwater Drainage	120,538	78,049	1,073	65%	1%
Water Supply Infrastructure	264,380	189,491	3,807	72%	1%
Sewer Supply Infrastructure	212,292	155,138	3,143	73%	1%
Swimming pools	3,654	1,346	101	37%	3%
Open Space / Recreational assets	6,112	2,878	180	47%	3%
Work in Progress	1,021	1,021	-	100%	0%
	<u>1,393,462</u>	<u>1,021,108</u>	<u>31,247</u>		

3.2.1. Asset Revaluations

During the 2014/15 financial year transport and stormwater drainage asset classes were subject to full revaluations. Other classes of buildings and infrastructure assets were indexed in accordance with relevant indices where applicable. As a result of the revaluation and indexation a decrement of \$143.992 million was recognised, these amounts were adjusted against the Asset Revaluation Reserve.

	WDV Prior to Revaluation \$'000	Revaluation Increase / (Decrease) \$'000	WDV Subsequent to Revaluation \$'000
Roads and transport infrastructure	673,965	(176,631)	497,334
Water Network	186,750	2,741	189,491
Sewerage Network	152,857	2,281	155,138
Stormwater Drainage	50,432	27,617	78,049
Buildings	23,606	-	23,606
Other Assets	77,490	-	77,490
Total	<u>1,165,100</u>	<u>(143,992)</u>	<u>1,021,108</u>

The major downward movement in the written down value of roads and transport infrastructure has arisen from a reduction in road widths and total road area recorded by Council. For the 30 June 2015 revaluation Council has obtained road widths and total road area from more accurate survey data which was not available for the 2011 valuation.

3.2.2. 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 three years is provided below.

	2015 \$'000	2014 \$'000	2013 \$'000
<i>Developer Infrastructure Dedications</i>			
Water Supply Network	1,510	-	-
Sewerage Network	248	-	-
<i>Non-cash Grants/contributions</i>			
RMS – Macleay Valley Way	18,044	-	-
<i>Council Constructed / Purchased Assets</i>			
Land and Buildings	3,180	1,368	1,599
Plant and Equipment	2,651	2,443	2,707
Roads and Drainage	8,074	6,894	7,765
Water Supply Network	3,166	4,479	3,771
Sewerage Network	1,321	1,423	1,730
Other	1,080	508	252
Total	39,274	17,115	17,824
Consisting of:			
Asset Renewals - Buildings & Infrastructure	11,702	10,546	12,569
Dedicated Assets	19,802	-	-
New Assets	7,770	6,569	5,255
	39,274	17,115	17,824

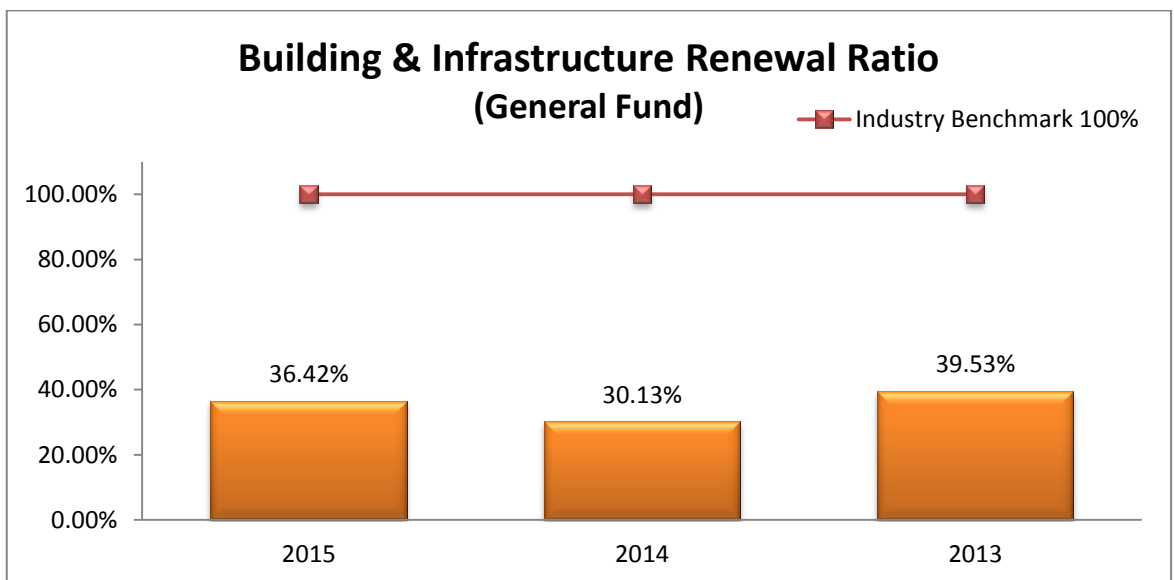
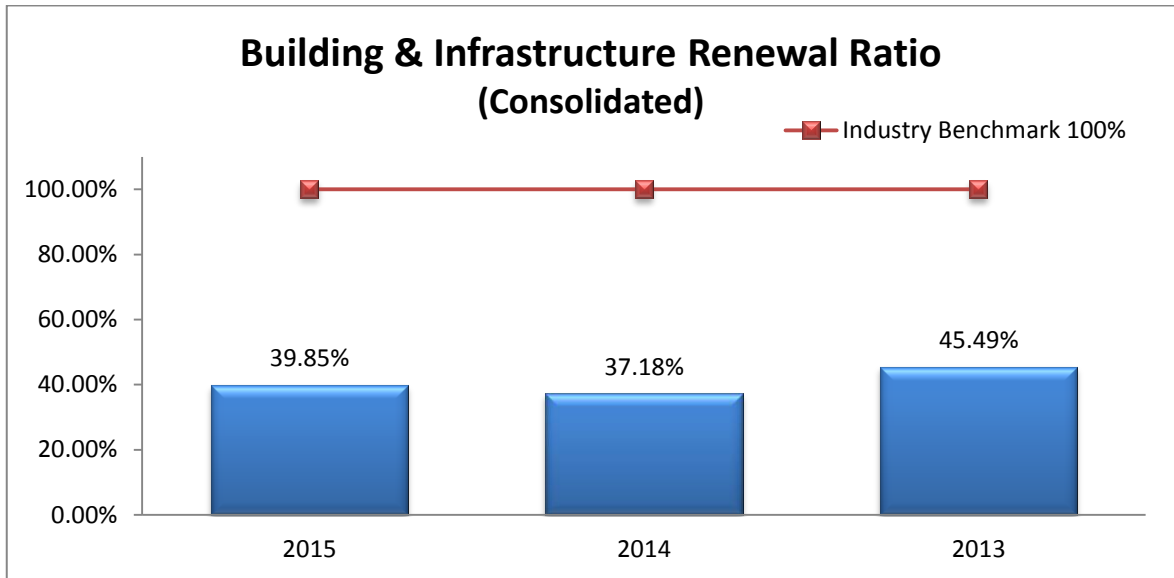
3.2.3. Asset Management Performance Indicators

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

Asset Management Performance Indicators disclosed in Special Schedule 7 provide information on council's assets in addition to that contained in Note 9 - Infrastructure, Property, Plant and Equipment. The nature of the information in the Report on Infrastructure Assets is related to the condition, maintenance and renewal of infrastructure assets. This information and the following asset management performance indicators are not subject to audit this financial year. However, commencing 2015/16 this information will be subject to audit.

Buildings & Infrastructure Renewals Ratio

Assessing the rate at which buildings and infrastructure assets are being renewed against the rate at which they are depreciating (being consumed) is measured using the buildings and infrastructure renewals ratio. 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.

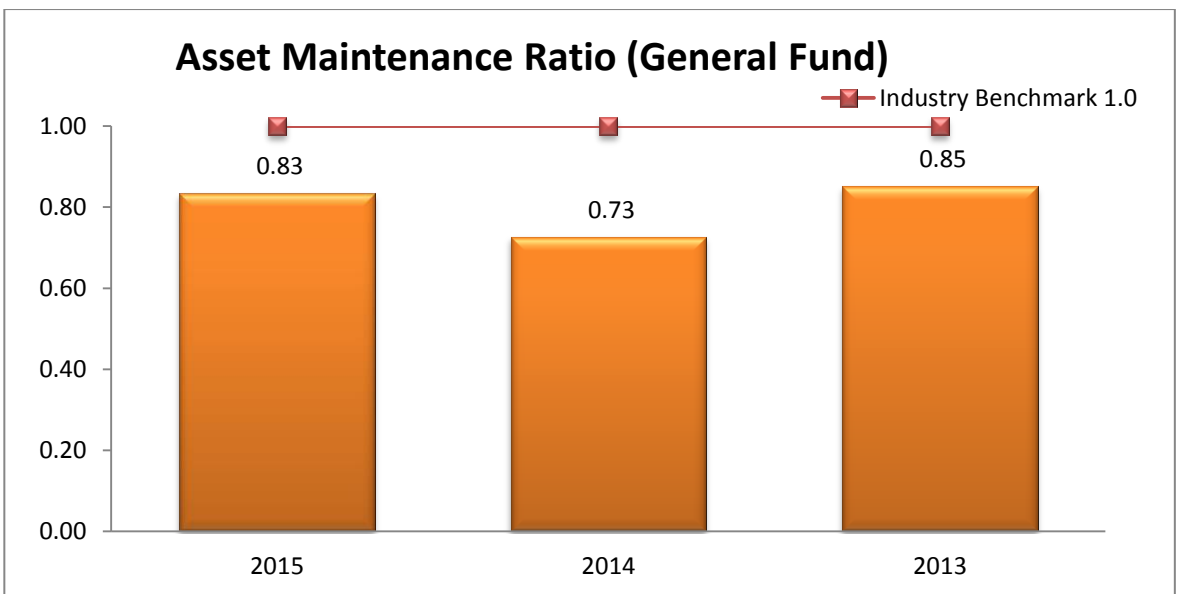
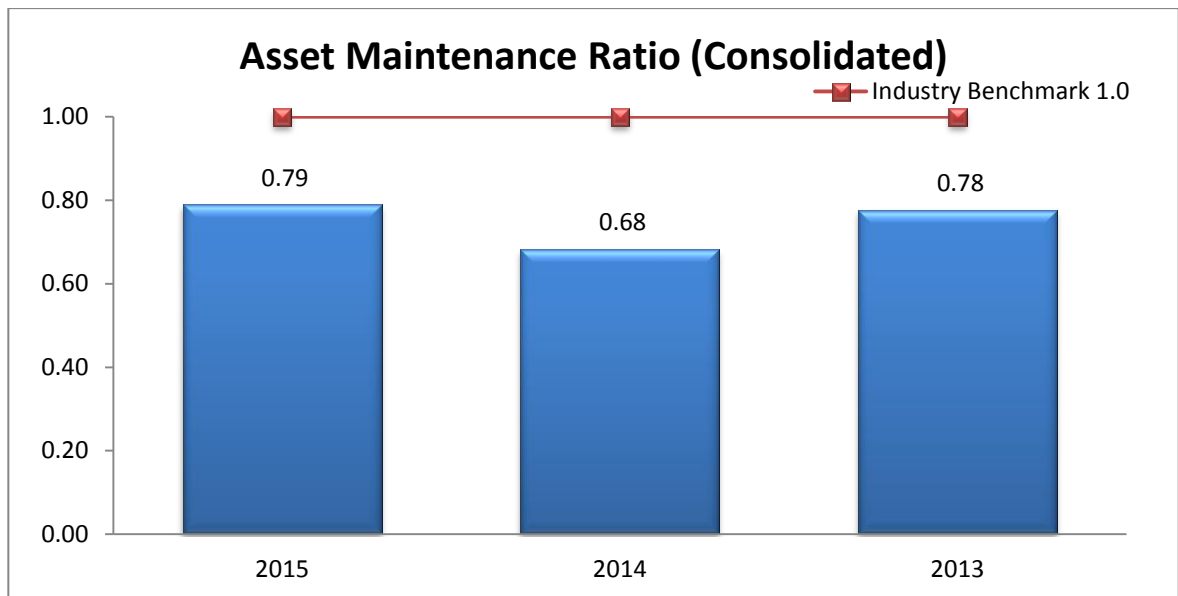
These graphs illustrate that Council is not renewing assets equivalent to the rate at which they are depreciating.

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.

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.

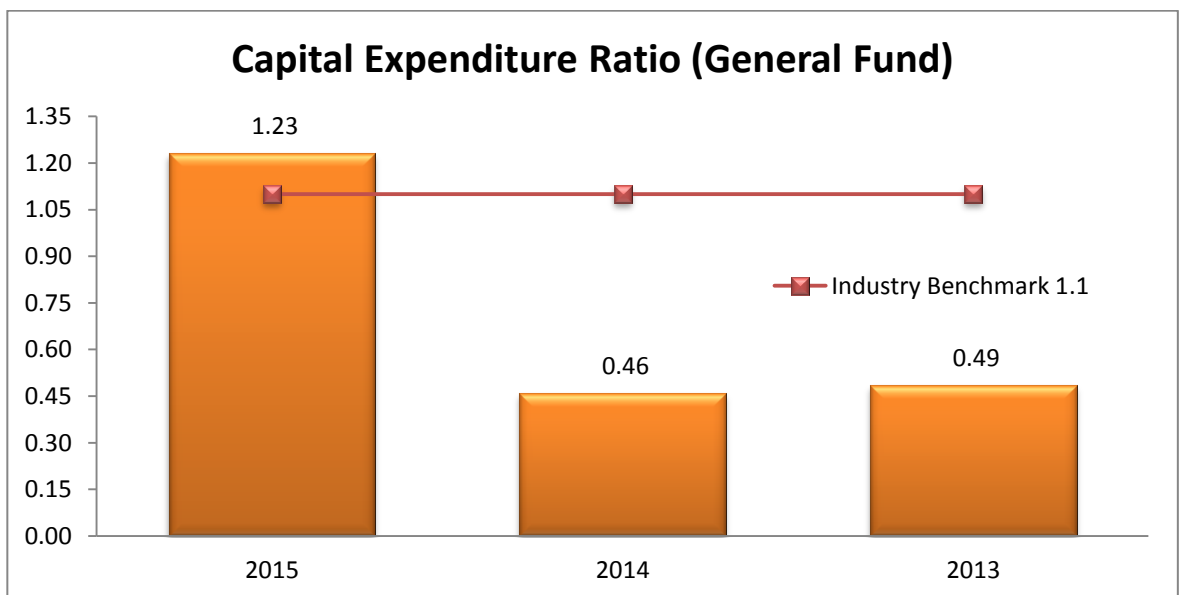
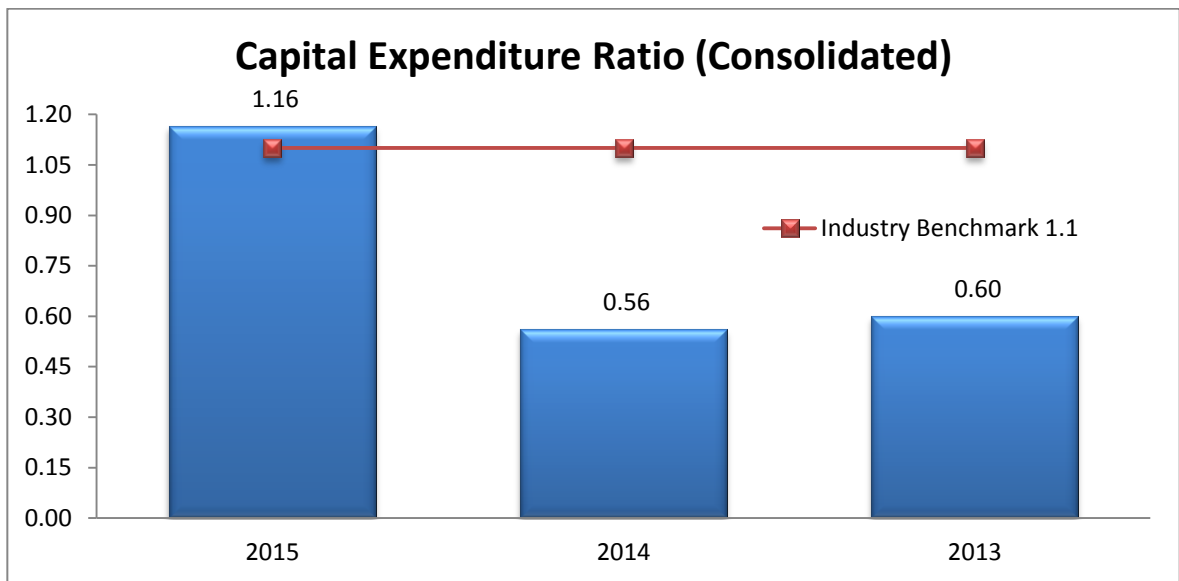


The ratios indicate that Council is not spending sufficient funds on asset maintenance to ensure their condition does not deteriorate below a satisfactory standard. Council should consider strategies for improving this ratio.

Capital Expenditure Ratio

This ratio indicates the extent to which Council is forecasting to expand its asset base with capital expenditure spent on new assets as well as replacement and renewal of existing assets.

The benchmark for this ratio is greater than 1.1.



The ratio's for 2015 have been significantly impacted by the transfer of the Macleay Valley Way.

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.

3.3. Loan Liability

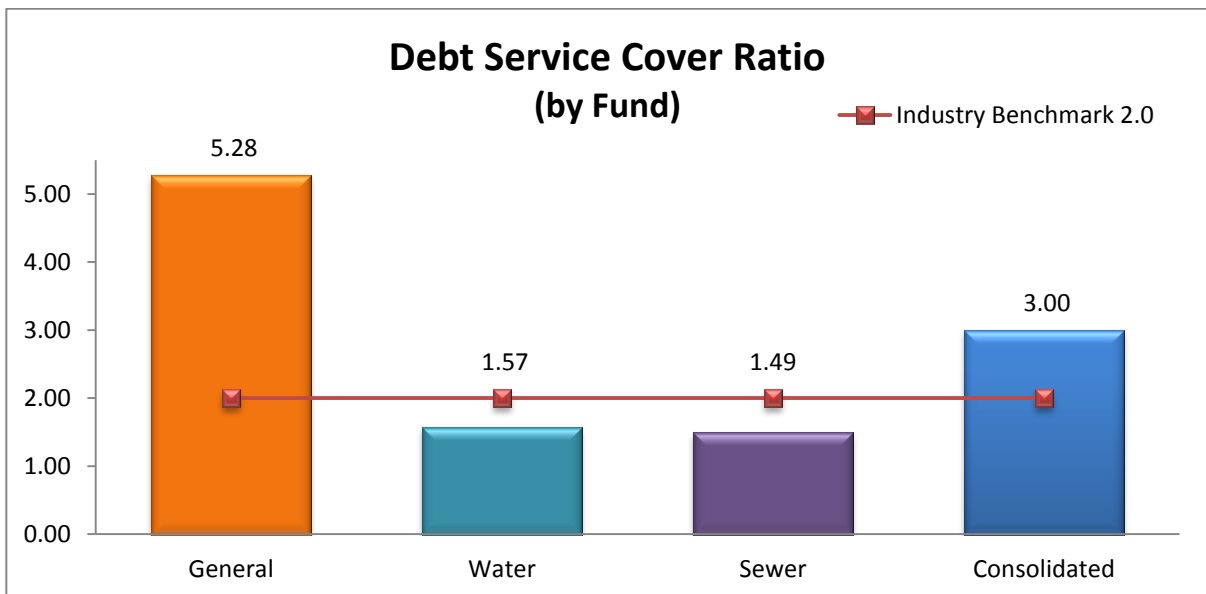
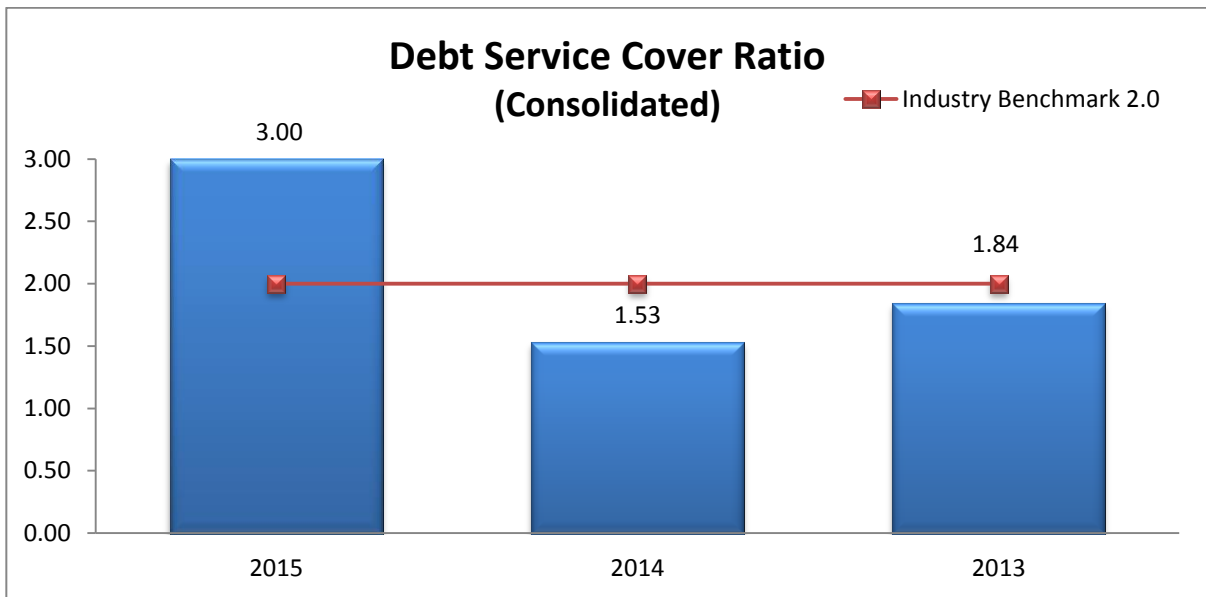
Council's loan liability represents 79% of total liabilities at 30 June 2015. We provide discussion on this balance below.

	2015 \$'000	2014 \$'000	2013 \$'000
Current Loan Liability	4,972	5,160	4,933
Non-Current Loan Liability	46,377	47,379	42,880
Total Loan Liability	51,349	52,539	47,813
By Fund			
General Fund	11,702	14,193	10,976
Sewer Fund	18,898	17,878	16,809
Water Fund	20,749	20,468	20,028
Total Loan Liability	51,349	52,539	47,813

The Council has obtained new borrowings during the current period of \$4 million. The funding includes \$2 million for both water and sewer funds.

Debt Service Cover Ratio

A new ratio has been introduced to measure the availability of operating cash to service debt including interest, principal and lease payments. This ratio replaces the Debt Service Ratio which measured the Council's debt and interest repayment as a percentage of revenue. The benchmark for the new ratio is greater than 2.



This graph indicates that Council is generating sufficient cash to satisfy its debt repayment obligations in general fund, however water and sewer fund require improvement. We suggest that the ratio for water and sewer be analysed to determine if cash flow over the short to medium term is sufficient to allow this benchmark to be achieved.

4. OTHER MATTERS

4.1. 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.

4.2. Financial Performance Measurements

In 2016 Council's special schedule 7 will be subject to independent audit. Special schedule 7 contains asset management ratios, costs to bring assets to a satisfactory standard and information relating to actual and required maintenance expenditure levels. As this information has not been subject to independent review in prior years, it is important that Council:

- Review the information contained in special schedule 7 to ensure it is accurate;
- Have policies and procedures supporting the compilation of information that is included in special schedule 7 so that asset management ratios are calculated accurately;
- Aligns asset data collection to allow efficient compilation of the information contained in special schedule 7.

4.3. Fit for the Future

On 20 October 2015 the New South Wales Government released the Independent Pricing and Regulatory Tribunal (IPART) assessment of local government Fit for the Future proposals. IPART has assessed that Kempsey Shire Council is not Fit for the Future.

The New South Wales Government has announced that Councils have 30 days from 20 October 2015 to respond to the IPART report.

At the date of this report it is unclear as to the outcome of the New South Wales Government's process. Accordingly, the financial statements have been prepared on a going concern basis.

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

Kempsey Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2015

"Focusing on our community"



Kempsey Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2015

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Background

(i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division 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 & 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 over \$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 & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).

Kempsey Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2015

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 & Costing for Council Businesses - A Guide to Competitive Neutrality".
- The Local Government Code of Accounting Practice and Financial Reporting.
- The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

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 15 September 2015.



Liz Campbell
MAYOR



Lou Kesby
DEPUTY MAYOR



David Rawlings
GENERAL MANAGER



Tony Curtin
RESPONSIBLE ACCOUNTING OFFICER

Kempsey Shire Council

Income Statement of Council's Water Supply Business Activity

for the financial year ended 30 June 2015

\$ '000	Actual 2015	Actual 2014
Income from continuing operations		
Access charges	3,485	3,373
User charges	6,296	5,829
Fees	136	92
Interest	170	187
Grants and contributions provided for non capital purposes	326	427
Profit from the sale of assets	-	-
Other income	2	22
Total income from continuing operations	10,415	9,930
Expenses from continuing operations		
Employee benefits and on-costs	1,684	1,773
Borrowing costs	1,252	1,532
Materials and contracts	1,930	2,208
Depreciation and impairment	4,177	4,032
Water purchase charges	-	-
Loss on sale of assets	1,018	470
Calculated taxation equivalents	36	35
Debt guarantee fee (if applicable)	104	100
Other expenses	2,095	2,099
Total expenses from continuing operations	12,296	12,249
Surplus (deficit) from Continuing Operations before capital amounts	(1,881)	(2,319)
Grants and contributions provided for capital purposes	2,321	963
Surplus (deficit) from Continuing Operations after capital amounts	440	(1,356)
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	440	(1,356)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	440	(1,356)
plus Opening Retained Profits	61,713	62,934
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	36	35
- Debt guarantee fees	104	100
- Corporate taxation equivalent	-	-
less:		
- Tax Equivalent Dividend paid	(36)	-
- Surplus dividend paid	-	-
Closing Retained Profits	62,257	61,713
Return on Capital %	-0.3%	-0.4%
Subsidy from Council	n/a	n/a
Calculation of dividend payable:		
Surplus (deficit) after tax	440	(1,356)
less: Capital grants and contributions (excluding developer contributions)	-	(800)
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 financial year ended 30 June 2015

\$ '000	Actual 2015	Actual 2014
Income from continuing operations		
Access charges	7,730	7,158
User charges	670	577
Liquid Trade Waste charges	178	169
Fees	74	45
Interest	80	43
Grants and contributions provided for non capital purposes	117	108
Profit from the sale of assets	-	-
Other income	60	47
Total income from continuing operations	8,909	8,147
Expenses from continuing operations		
Employee benefits and on-costs	1,781	1,625
Borrowing costs	1,042	1,099
Materials and contracts	2,315	2,326
Depreciation and impairment	3,204	3,456
Loss on sale of assets	409	577
Calculated taxation equivalents	26	25
Debt guarantee fee (if applicable)	94	84
Other expenses	1,782	1,700
Total expenses from continuing operations	10,653	10,892
Surplus (deficit) from Continuing Operations before capital amounts	(1,744)	(2,745)
Grants and contributions provided for capital purposes	474	61
Surplus (deficit) from Continuing Operations after capital amounts	(1,270)	(2,684)
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	(1,270)	(2,684)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	(1,270)	(2,684)
plus Opening Retained Profits	50,735	53,310
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	26	25
- Debt guarantee fees	94	84
- Corporate taxation equivalent	-	-
less:		
- Tax Equivalent Dividend paid	(26)	-
- Surplus dividend paid	-	-
Closing Retained Profits	49,559	50,735
Return on Capital %	-0.4%	-1.0%
Subsidy from Council	n/a	n/a
Calculation of dividend payable:		
Surplus (deficit) after tax	(1,270)	(2,684)
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 2015

\$ '000	Actual 2015	Actual 2014
ASSETS		
Current Assets		
Cash and cash equivalents	5,119	4,238
Investments	-	-
Receivables	2,223	2,391
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	7,342	6,629
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	194,215	191,371
Investments accounted for using equity method	-	-
Investment property	-	-
Intangible Assets	-	-
Other	-	-
Total non-Current Assets	194,215	191,371
TOTAL ASSETS	201,557	198,000
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	141	150
Interest bearing liabilities	1,550	1,719
Provisions	-	-
Total Current Liabilities	1,691	1,869
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	19,199	18,749
Provisions	-	-
Total Non-Current Liabilities	19,199	18,749
TOTAL LIABILITIES	20,890	20,618
NET ASSETS	180,667	177,382
EQUITY		
Retained earnings	62,257	61,713
Revaluation reserves	118,410	115,669
Council equity interest	180,667	177,382
Non-controlling equity interest	-	-
TOTAL EQUITY	180,667	177,382

Kempsey Shire Council

Statement of Financial Position - Council's Sewerage Business Activity

as at 30 June 2015

\$ '000	Actual 2015	Actual 2014
ASSETS		
Current Assets		
Cash and cash equivalents	9,014	7,286
Investments	-	-
Receivables	818	707
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	9,832	7,993
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	157,976	157,681
Investments accounted for using equity method	-	-
Investment property	-	-
Intangible Assets	-	-
Other	-	-
Total non-Current Assets	157,976	157,681
TOTAL ASSETS	167,808	165,674
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	104	95
Interest bearing liabilities	1,091	981
Provisions	-	-
Total Current Liabilities	1,195	1,076
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	17,807	16,897
Provisions	-	-
Total Non-Current Liabilities	17,807	16,897
TOTAL LIABILITIES	19,002	17,973
NET ASSETS	148,806	147,701
EQUITY		
Retained earnings	49,559	50,735
Revaluation reserves	99,247	96,966
Council equity interest	148,806	147,701
Non-controlling equity interest	-	-
TOTAL EQUITY	148,806	147,701

Kempsey Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2015

Contents of the Notes accompanying the Financial Statements

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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 financial year ended 30 June 2015

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 these special purpose financial statements, 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) &
- Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with:

- the Local Government Act and 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 on the "Application of National Competition Policy to Local Government".

The "Pricing & 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 & costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of disclosure requirements. 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 & 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 one 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 Notes 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 financial year ended 30 June 2015

Note 1. Significant Accounting Policies

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 **\$432,000** of combined land values attracts **0%**. From \$432,001 to \$2,641,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,641,000, 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 guidelines for Best Practice Management of Water Supply and Sewerage, 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 Guides 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 guidelines for Best Practice Management of Water Supply and Sewerage 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.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of 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/(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 the “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 rate applied of 30% 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 & 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 & 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 the council's borrowing rate for its business activities.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2015

Note 1. Significant Accounting Policies

(ii) Subsidies

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

Subsidies occur where 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 the 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 3.02% at 30/6/15.

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 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 2015 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, 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 financial year ended 30 June 2015

Note 2. Water Supply Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2015

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	140,000
(ii)	No of assessments multiplied by \$3/assessment	36,090
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	36,090
(iv)	Amounts actually paid for Tax Equivalents	36,090

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	220,000
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	324,810
(iii)	Cumulative surplus before Dividends for the 3 years to 30 June 2015, less the cumulative dividends paid for the 2 years to 30 June 2014 & 30 June 2013	(3,009,000)

2015 Surplus	440,000	2014 Surplus	(2,156,000)	2013 Surplus	(1,293,000)
		2014 Dividend	-	2013 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]	-

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 financial year ended 30 June 2015Note 2. Water Supply Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2015

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	12,544
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)]	%	59.06%
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) Written down current cost of system assets (w47)	\$'000	192,013
NWI F11	Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2)	\$'000	5,972
NWI F14	Capital Expenditure (Water) Acquisition of fixed assets (w16)	\$'000	5,356
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 & Equipment (w33b)]	%	1.30%
NWI F26	Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a)	\$'000	-

- Notes:
- References to w (eg. w12) refer to item numbers within Special Schedules No. 3 & 4 of Council's Annual Financial Statements.
 - The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2015

Note 3. Sewerage Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2015

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	120,000
(ii)	No of assessments multiplied by \$3/assessment	26,310
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	26,310
(iv)	Amounts actually paid for Tax Equivalents	26,310

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	-
(ii)	No. of assessments x (\$30 less tax equivalent charges per assessment)	236,790
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2015, less the cumulative dividends paid for the 2 years to 30 June 2014 & 30 June 2013	(6,481,000)

2015 Surplus	(1,270,000)	2014 Surplus	(2,684,000)	2013 Surplus	(2,527,000)
		2014 Dividend	-	2013 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]	-

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 & 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 financial year ended 30 June 2015Note 3. Sewerage Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2015

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	9,280
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48)	\$'000	157,887
NWI F12	Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	5,507
NWI F15	Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17)	\$'000	1,627
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 (ie. WDCC) of System Assets (s48) + Plant & Equipment (s34b)]	%	0.37%
NWI F27	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	-

**National Water Initiative (NWI) Financial Performance Indicators
Water & Sewer (combined)**

NWI F3	Total Income (Water & 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	20,557
NWI F8	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	1.26%
NWI F16	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	6,983
NWI F19	Economic Real Rate of Return (Water & 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 & equipment (w33b + s34b)]	%	0.89%
NWI F20	Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$'000	-
NWI F21	Dividend Payout Ratio (Water & 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 financial year ended 30 June 2015Note 3. Sewerage Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2015

National Water Initiative (NWI) Financial Performance Indicators
Water & Sewer (combined)

NWI F22	Net Debt to Equity (Water & Sewerage) Overdraft (w36 + s37) + Borrowings (w38 + s39) - Cash & Investments (w30 + s31) x 100 divided by [Total Assets (w35 + s36) - Total Liabilities (w40 + s41)]	%	7.74%
NWI F23	Interest Cover (Water & Sewerage) Earnings before Interest & Tax (EBIT) divided by Net Interest Earnings before Interest & Tax (EBIT): 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: Interest Expense (w4a + s4a) - Interest Income (w9 + s10)		1
NWI F24	Net Profit After Tax (Water & Sewerage) Surplus before dividends (w15a + s16a) - Tax equivalents paid (Note 2-1(iv) + Note 3-1(iv))	\$'000	(694)
NWI F25	Community Service Obligations (Water & Sewerage) Grants for Pensioner Rebates (w11b + s12b)	\$'000	258

- Notes:
1. References to w (eg. s12) refer to item numbers within Special Schedules No. 5 & 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 & Definitions.



**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 2015, 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 2015 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 2015 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 30th day of October 2015

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

G W DWYER (Partner)
Registered Company Auditor

Kempsey Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2015

"Focusing on our community"



Kempsey Shire Council

Special Schedules

for the financial year ended 30 June 2015

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¹ Special Schedules are not audited (with the exception of Special Schedule 9).

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 No. 1 - Net Cost of Services
for the financial year ended 30 June 2015

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Governance	203	-	-	(203)
Administration	8,824	552	-	(8,272)
Public Order and Safety				
Fire Service Levy, Fire Protection, Emergency Services	841	270	176	(395)
Beach Control	158	1	-	(157)
Enforcement of Local Govt. Regulations	17	2	-	(15)
Animal Control	14	27	-	13
Other	-	-	-	-
Total Public Order & Safety	1,030	300	176	(554)
Health	-	86	-	86
Environment				
Noxious Plants and Insect/Vermin Control	206	261	-	55
Other Environmental Protection	421	162	-	(259)
Solid Waste Management	6,378	8,146	115	1,883
Street Cleaning	204	-	-	(204)
Drainage	888	288	81	(519)
Stormwater Management	649	-	27	(622)
Total Environment	8,746	8,857	223	334
Community Services and Education				
Administration & Education	41	25	-	(16)
Social Protection (Welfare)	388	103	19	(266)
Aged Persons and Disabled	1,737	1,886	-	149
Children's Services	65	2	-	(63)
Total Community Services & Education	2,231	2,016	19	(196)
Housing and Community Amenities				
Public Cemeteries	368	329	-	(39)
Public Conveniences	480	-	-	(480)
Street Lighting	615	81	-	(534)
Town Planning	291	339	24	72
Other Community Amenities	-	-	-	-
Total Housing and Community Amenities	1,754	749	24	(981)
Water Supplies	12,066	10,000	2,320	254
Sewerage Services	10,350	8,675	474	(1,201)

Kempsey Shire Council

Special Schedule No. 1 - Net Cost of Services (continued)

for the financial year ended 30 June 2015

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Recreation and Culture				
Public Libraries	844	67	31	(746)
Museums	-	10	-	10
Art Galleries	1	8	-	7
Community Centres and Halls	297	5	-	(292)
Performing Arts Venues	-	-	-	-
Other Performing Arts	-	-	-	-
Other Cultural Services	148	27	-	(121)
Sporting Grounds and Venues	571	14	61	(496)
Swimming Pools	756	2	-	(754)
Parks & Gardens (Lakes)	1,365	(3)	74	(1,294)
Other Sport and Recreation	-	43	-	43
Total Recreation and Culture	3,982	173	166	(3,643)
Fuel & Energy	-	-	-	-
Agriculture	-	-	-	-
Mining, Manufacturing and Construction				
Building Control	1	236	-	235
Other Mining, Manufacturing & Construction	(8)	-	-	8
Total Mining, Manufacturing and Const.	(7)	236	-	243
Transport and Communication				
Urban Roads (UR) - Local	871	818	-	(53)
Urban Roads - Regional	13	-	-	(13)
Sealed Rural Roads (SRR) - Local	7,379	39	18,598	11,258
Sealed Rural Roads (SRR) - Regional	3,391	5,859	648	3,116
Unsealed Rural Roads (URR) - Local	11,421	547	179	(10,695)
Unsealed Rural Roads (URR) - Regional	-	-	-	-
Bridges on UR - Local	74	-	-	(74)
Bridges on SRR - Local	450	-	-	(450)
Bridges on URR - Local	309	-	-	(309)
Bridges on Regional Roads	139	-	-	(139)
Parking Areas	100	-	-	(100)
Footpaths	195	61	-	(134)
Aerodromes	181	65	2,000	1,884
Other Transport & Communication	77	-	172	95
Total Transport and Communication	24,600	7,389	21,597	4,386
Economic Affairs				
Camping Areas & Caravan Parks	1,567	3,211	-	1,644
Other Economic Affairs	686	531	-	(155)
Total Economic Affairs	2,253	3,742	-	1,489
Totals – Functions	76,032	42,775	24,999	(8,258)
General Purpose Revenues ⁽²⁾		21,589		21,589
Share of interests - joint ventures & associates using the equity method	-	-		-
NET OPERATING RESULT ⁽¹⁾	76,032	64,364	24,999	13,331

(1) As reported in the Income Statement

(2) Includes: Rates & Annual Charges (incl. Ex Gratia, excl. Water & Sewer), Non Capital General Purpose Grants, Interest on Investments (excl. Ext. Restricted Assets) & Interest on overdue Rates & Annual Charges

Kempsey Shire Council

Special Schedule No. 2(a) - Statement of Long Term Debt (all purpose)

for the financial year ended 30 June 2015

\$'000

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	Total		From Revenue	Sinking Funds			Current	Non Current	Total
Loans (by Source)											
Commonwealth Government	-	-	-	-	-	-	-	-	-	-	-
Treasury Corporation	-	-	-	-	-	-	-	-	-	-	-
Other State Government	367	700	1,067	-	367	-	-	30	233	467	700
Public Subscription	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	4,793	46,679	51,472	4,000	4,823	-	-	2,984	4,739	45,910	50,649
Other	-	-	-	-	-	-	-	-	-	-	-
Total Loans	5,160	47,379	52,539	4,000	5,190	-	-	3,014	4,972	46,377	51,349
Other Long Term Debt											
Ratepayers Advances	-	-	-	-	-	-	-	-	-	-	-
Government Advances	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-
Deferred Payments	-	-	-	-	-	-	-	-	-	-	-
Total Long Term Debt	-	-	-	-	-	-	-	-	-	-	-
Total Debt	5,160	47,379	52,539	4,000	5,190	-	-	3,014	4,972	46,377	51,349

Notes: Excludes (i) Internal Loans & (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 No. 3 - Water Supply Income Statement

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2015

\$'000	Actuals 2015	Actuals 2014
A Expenses and Income		
Expenses		
1. Management expenses		
a. Administration	1,301	1,190
b. Engineering and Supervision	972	1,156
2. Operation and Maintenance expenses		
- Dams & Weirs		
a. Operation expenses	201	130
b. Maintenance expenses	-	-
- Mains		
c. Operation expenses	50	19
d. Maintenance expenses	988	968
- Reservoirs		
e. Operation expenses	15	11
f. Maintenance expenses	9	51
- Pumping Stations		
g. Operation expenses (excluding energy costs)	-	1
h. Energy costs	565	610
i. Maintenance expenses	340	213
- Treatment		
j. Operation expenses (excluding chemical costs)	1,081	1,054
k. Chemical costs	134	146
l. Maintenance expenses	237	250
- Other		
m. Operation expenses	73	86
n. Maintenance expenses	6	47
o. Purchase of water	-	61
3. Depreciation expenses		
a. System assets	3,807	3,677
b. Plant and equipment	370	355
4. Miscellaneous expenses		
a. Interest expenses	1,252	1,532
b. Revaluation Decrements	-	-
c. Other expenses	(291)	49
d. Impairment - System assets	-	-
e. Impairment - Plant and equipment	-	-
f. Aboriginal Communities Water & Sewerage Program	63	38
g. Tax Equivalent Dividends (actually paid)	-	-
5. Total expenses	11,173	11,644

Kempsey Shire Council

Special Schedule No. 3 - Water Supply Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2015

\$'000	Actuals 2015	Actuals 2014
Income		
6. Residential charges		
a. Access (including rates)	2,591	2,455
b. Usage charges	3,738	3,478
7. Non-residential charges		
a. Access (including rates)	895	918
b. Usage charges	2,558	2,351
8. Extra charges	116	146
9. Interest income	54	41
10. Other income	136	114
10a. Aboriginal Communities Water and Sewerage Program	137	152
11. Grants		
a. Grants for acquisition of assets	-	800
b. Grants for pensioner rebates	148	145
c. Other grants	41	130
12. Contributions		
a. Developer charges	2,321	163
b. Developer provided assets	-	-
c. Other contributions	-	-
13. Total income	12,735	10,893
14. Gain (or loss) on disposal of assets	(1,018)	(470)
15. Operating Result	544	(1,221)
15a. Operating Result (less grants for acquisition of assets)	544	(2,021)

Kempsey Shire Council

Special Schedule No. 3 - Water Supply Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2015

\$'000	Actuals 2015	Actuals 2014
B Capital transactions		
Non-operating expenditures		
16. Acquisition of Fixed Assets		
a. New Assets for Improved Standards	-	-
b. New Assets for Growth	2,383	1,780
c. Renewals	2,293	2,699
d. Plant and equipment	680	565
17. Repayment of debt		
a. Loans	1,719	1,561
b. Advances	-	-
c. Finance leases	-	-
18. Transfer to sinking fund	-	-
19. Totals	7,075	6,605
Non-operating funds employed		
20. Proceeds from disposal of assets	66	182
21. Borrowing utilised		
a. Loans	1,956	3,103
b. Advances	-	-
c. Finance leases	-	-
22. Transfer from sinking fund	-	100
23. Totals	2,022	3,385
C Rates and charges		
24. Number of assessments		
a. Residential (occupied)	10,243	9,925
b. Residential (unoccupied, ie. vacant lot)	400	480
c. Non-residential (occupied)	1,343	1,524
d. Non-residential (unoccupied, ie. vacant lot)	44	65
25. Number of ETs for which developer charges were received	66 ET	18 ET
26. Total amount of pensioner rebates (actual dollars)	\$ 268,758	\$ 260,746

Kempsey Shire Council

Special Schedule No. 3 - Water Supply Cross Subsidies
for the financial year ended 30 June 2015

\$'000	Yes	No	Amount
D Best practice annual charges and developer charges*			
27. Annual charges			
a. Does Council have best-practice water supply annual charges and usage charges*?	<input type="checkbox"/> Yes	<input type="checkbox"/>	
If Yes, go to 28a.			
If No, please report if council has removed land value from access charges (ie rates)?	<input type="checkbox"/>	<input type="checkbox"/>	
NB. Such charges for both residential customers and non-residential customers comply with section 3.2 of Water Supply, Sewerage and Trade Waste Pricing Guidelines, NSW Office of Water, December, 2002. Such charges do not involve significant cross subsidies.			
b. Cross-subsidy from residential customers using less than allowance (page 25 of Guidelines)			<input type="text"/>
c. Cross-subsidy to non-residential customers (page 24 of Guidelines)			<input type="text"/>
d. Cross-subsidy to large connections in unmetered supplies (page 26 of Guidelines)			<input type="text"/>
28. Developer charges			
a. Has council completed a water supply Development Servicing** Plan?	<input type="checkbox"/> Yes	<input type="checkbox"/>	
b. Total cross-subsidy in water supply developer charges for 2014/15 (page 47 of Guidelines)			<input type="text"/>
** In accordance with page 9 of Developer Charges Guidelines for Water Supply, Sewerage and Stormwater, NSW Office of Water, December, 2002.			
29. Disclosure of cross-subsidies			
Total of cross-subsidies (27b +27c + 27d + 28b)			<input type="text" value="-"/>

* Councils which have not yet implemented best practice water supply pricing should disclose cross-subsidies in items 27b, 27c and 27d above.

However, disclosure of cross-subsidies is **not** required where a Council has implemented best practice pricing and is phasing in such pricing over a period of 3 years.

Kempsey Shire Council

Special Schedule No. 4 - Water Supply Statement of Financial Position

Includes INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
as at 30 June 2015

\$'000	Actuals Current	Actuals Non Current	Actuals Total
ASSETS			
30. Cash and investments			
a. Developer charges	1,089	-	1,089
b. Special purpose grants	50	-	50
c. Accrued leave	-	-	-
d. Unexpended loans	1,067	-	1,067
e. Sinking fund	-	-	-
f. Other	2,913	-	2,913
31. Receivables			
a. Specific purpose grants	-	-	-
b. Rates and Availability Charges	332	-	332
c. User Charges	-	-	-
d. Other	1,891	-	1,891
32. Inventories	-	-	-
33. Property, plant and equipment			
a. System assets	-	192,013	192,013
b. Plant and equipment	-	2,202	2,202
34. Other assets	-	-	-
35. Total assets	7,342	194,215	201,557
LIABILITIES			
36. Bank overdraft	-	-	-
37. Creditors	141	-	141
38. Borrowings			
a. Loans	1,550	19,199	20,749
b. Advances	-	-	-
c. Finance leases	-	-	-
39. Provisions			
a. Tax equivalents	-	-	-
b. Dividend	-	-	-
c. Other	-	-	-
40. Total liabilities	1,691	19,199	20,890
41. NET ASSETS COMMITTED	5,651	175,016	180,667
EQUITY			
42. Accumulated surplus			62,257
43. Asset revaluation reserve			118,410
44. TOTAL EQUITY			180,667
Note to system assets:			
45. Current replacement cost of system assets			266,901
46. Accumulated current cost depreciation of system assets			(74,888)
47. Written down current cost of system assets			192,013

Kempsey Shire Council

Special Schedule No. 5 - Sewerage Service Income Statement

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2015

\$'000	Actuals 2015	Actuals 2014
A Expenses and Income		
Expenses		
1. Management expenses		
a. Administration	798	719
b. Engineering and Supervision	1,006	1,043
2. Operation and Maintenance expenses		
- Mains		
a. Operation expenses	14	1
b. Maintenance expenses	659	646
- Pumping Stations		
c. Operation expenses (excluding energy costs)	287	233
d. Energy costs	240	253
e. Maintenance expenses	347	290
- Treatment		
f. Operation expenses (excl. chemical, energy, effluent & biosolids management costs)	1,087	1,080
g. Chemical costs	154	121
h. Energy costs	260	290
i. Effluent Management	-	-
j. Biosolids Management	225	242
k. Maintenance expenses	382	322
- Other		
l. Operation expenses	12	12
m. Maintenance expenses	36	39
3. Depreciation expenses		
a. System assets	3,144	3,369
b. Plant and equipment	60	87
4. Miscellaneous expenses		
a. Interest expenses	1,042	1,099
b. Revaluation Decrements	-	-
c. Other expenses	379	337
d. Impairment - System assets	-	-
e. Impairment - Plant and equipment	-	-
f. Aboriginal Communities Water & Sewerage Program	18	23
g. Tax Equivalents Dividends (actually paid)	-	-
5. Total expenses	10,150	10,206

Kempsey Shire Council

Special Schedule No. 5 - Sewerage Service Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2015

\$'000	Actuals 2015	Actuals 2014
Income		
6. Residential charges (including rates)	6,519	6,036
7. Non-residential charges		
a. Access (including rates)	1,211	1,122
b. Usage charges	670	577
8. Trade Waste Charges		
a. Annual Fees	26	25
b. Usage charges	178	169
c. Excess mass charges	-	-
d. Re-inspection fees	-	-
9. Extra charges	-	-
10. Interest income	80	43
11. Other income	84	67
11a. Aboriginal Communities Water & Sewerage Program	23	-
12. Grants		
a. Grants for acquisition of assets	-	-
b. Grants for pensioner rebates	110	108
c. Other grants	-	-
13. Contributions		
a. Developer charges	474	61
b. Developer provided assets	-	-
c. Other contributions	8	-
14. Total income	<u>9,383</u>	<u>8,208</u>
15. Gain (or loss) on disposal of assets	(409)	(577)
16. Operating Result	<u>(1,176)</u>	<u>(2,575)</u>
16a. Operating Result (less grants for acquisition of assets)	(1,176)	(2,575)

Kempsey Shire Council

Special Schedule No. 5 - Sewerage Service Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2015

\$'000	Actuals 2015	Actuals 2014
B Capital transactions		
Non-operating expenditures		
17. Acquisition of Fixed Assets		
a. New Assets for Improved Standards	-	-
b. New Assets for Growth	352	-
c. Renewals	1,245	1,423
d. Plant and equipment	30	40
18. Repayment of debt		
a. Loans	981	931
b. Advances	-	-
c. Finance leases	-	-
19. Transfer to sinking fund	-	-
20. Totals	2,608	2,394
Non-operating funds employed		
21. Proceeds from disposal of assets	-	-
22. Borrowing utilised		
a. Loans	1,087	1,369
b. Advances	-	-
c. Finance leases	-	-
23. Transfer from sinking fund	-	-
24. Totals	1,087	1,369
C Rates and charges		
25. Number of assessments		
a. Residential (occupied)	7,967	7,729
b. Residential (unoccupied, ie. vacant lot)	161	390
c. Non-residential (occupied)	601	600
d. Non-residential (unoccupied, ie. vacant lot)	41	43
26. Number of ETs for which developer charges were received	29 ET	8 ET
27. Total amount of pensioner rebates (actual dollars)	\$ 199,620	\$ 194,786

Kempsey Shire Council

Special Schedule No. 5 - Sewerage Service Cross Subsidies
for the financial year ended 30 June 2015

\$'000	Yes	No	Amount
D Best practice annual charges and developer charges*			
28. Annual charges			
a. Does Council have best-practice sewerage annual charges, usage charges and trade waste fees & charges*?	<input type="checkbox"/> Yes	<input type="checkbox"/>	
If Yes, go to 29a.			
If No, please report if council has removed land value from access charges (ie rates)?	<input type="checkbox"/>	<input type="checkbox"/>	
NB. Such charges for both residential customers and non-residential customers comply with section 4.2 & 4.3 of the Water Supply, Sewerage and Trade Waste Pricing Guidelines, NSW Office of Water, December, 2002. Such charges do not involve significant cross subsidies.			
b. Cross-subsidy to non-residential customers (page 45 of Guidelines)			<input type="text"/>
c. Cross-subsidy to trade waste discharges (page 46 of Guidelines)			<input type="text"/>
29. Developer charges			
a. Has council completed a sewerage Development Servicing** Plan?	<input type="checkbox"/> Yes	<input type="checkbox"/>	
b. Total cross-subsidy in sewerage developer charges for 2014/15 (page 47 of Guidelines)			<input type="text"/>
** In accordance with page 9 of Developer Charges Guidelines for Water Supply, Sewerage and Stormwater, NSW Office of Water, December, 2002.			
30. Disclosure of cross-subsidies			
Total of cross-subsidies (28b + 28c + 29b)			<input type="text" value="-"/>

* Councils which have not yet implemented best practice sewer pricing & liquid waste pricing should disclose cross-subsidies in items 28b and 28c above.

However, disclosure of cross-subsidies is **not** required where a Council has implemented best practice sewerage and liquid waste pricing and is phasing in such pricing over a period of 3 years.

Kempsey Shire Council

Special Schedule No. 6 - Sewerage Service Statement of Financial Position

Includes INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
as at 30 June 2015

\$'000	Actuals Current	Actuals Non Current	Actuals Total
ASSETS			
31. Cash and investments			
a. Developer charges	2,120	-	2,120
b. Special purpose grants	-	-	-
c. Accrued leave	-	-	-
d. Unexpended loans	3,491	-	3,491
e. Sinking fund	-	-	-
f. Other	3,403	-	3,403
32. Receivables			
a. Specific purpose grants	-	-	-
b. Rates and Availability Charges	376	-	376
c. User Charges	261	-	261
d. Other	181	-	181
33. Inventories	-	-	-
34. Property, plant and equipment			
a. System assets	-	157,887	157,887
b. Plant and equipment	-	89	89
35. Other assets	-	-	-
36. Total Assets	9,832	157,976	167,808
LIABILITIES			
37. Bank overdraft	-	-	-
38. Creditors	104	-	104
39. Borrowings			
a. Loans	1,091	17,807	18,898
b. Advances	-	-	-
c. Finance leases	-	-	-
40. Provisions			
a. Tax equivalents	-	-	-
b. Dividend	-	-	-
c. Other	-	-	-
41. Total Liabilities	1,195	17,807	19,002
42. NET ASSETS COMMITTED	8,637	140,169	148,806
EQUITY			
42. Accumulated surplus			49,559
44. Asset revaluation reserve			99,247
45. TOTAL EQUITY			148,806
Note to system assets:			
46. Current replacement cost of system assets			215,051
47. Accumulated current cost depreciation of system assets			(57,164)
48. Written down current cost of system assets			157,887

Kempsey Shire Council

Notes to Special Schedule No.'s 3 & 5 for the financial year ended 30 June 2015

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 & 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) incl. 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 No. 7 - Report on Infrastructure Assets

as at 30 June 2015

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard refer (1)	Required Annual Maintenance refer (2)	Actual Maintenance 2014/15 refer (3)	Written Down Value (WDV) refer (4)	Assets in Condition as a % of WDV				
						1	2	3	4	5
						refer (4) & (5)				
Buildings	Council Offices / Administration Centres	-	85	85	2,007	0%	38%	57%	5%	0%
	Council Works Depot	-	64	64	744	0%	3%	3%	94%	0%
	Council Public Halls	-	100	100	1,649	0%	2%	68%	19%	10%
	Libraries	-	28	28	811	0%	0%	6%	94%	0%
	Cultural Facilities	326	17	13	1,294	0%	37%	63%	0%	0%
	Other Buildings	-	69	69	9,239	10%	21%	61%	5%	3%
	Specialised Buildings	124	243	239	7,862	6%	17%	47%	29%	0%
	sub total	450	606	598	23,606	6.0%	19.6%	52.9%	19.5%	2.0%
Roads	Sealed Roads Surface	27,449	2,452	1,156	14,143	0%	11%	32%	45%	13%
	Sealed Roads Structure	15,409	1,249	1,110	160,148	9%	70%	14%	3%	3%
	Unsealed Roads	1,093	1,280	1,764	13,412	0%	2%	90%	6%	2%
	Bridges	-	177	139	35,737	22%	62%	13%	3%	0%
	Footpaths/Cycleways	5,667	139	33	9,872	0%	5%	17%	64%	14%
	Kerb and Gutter	143	40	39	23,810	1%	19%	72%	8%	0%
	Other Road Assets	-	286	286	19,052	59%	20%	20%	1%	0%
	sub total	49,761	5,623	4,527	276,174	12.2%	52.7%	24.1%	7.9%	3.0%

Kempsey Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued)

as at 30 June 2015

\$'000										
Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard refer (1)	Required Annual Maintenance refer (2)	Actual Maintenance 2014/15 refer (3)	Written Down Value (WDV) refer (4)	Assets in Condition as a % of WDV				
						1	2	3	4	5
						refer (4) & (5)				
Water Supply Network	Dams/Weirs	-	-	-	26,391	1%	98%	1%	0%	0%
	Mains	10,148	1,000	988	101,134	75%	13%	11%	0%	0%
	Reservoirs	4,784	10	9	16,192	6%	21%	26%	31%	17%
	Pumping Station/s	-	300	340	614	16%	19%	41%	0%	25%
	Treatment	1,054	260	237	17,307	69%	24%	5%	0%	3%
	Buildings	-	-	-	1,879	67%	30%	4%	0%	0%
	Other	-	10	6	25,974	71%	17%	5%	2%	5%
	sub total	15,986	1,580	1,580	189,491	57.5%	27.4%	9.7%	2.9%	2.5%
Sewerage Network	Mains	22,959	1,800	659	79,642	64%	11%	7%	17%	1%
	Pumping Station/s	5,165	355	347	15,746	34%	37%	17%	6%	6%
	Treatment	24,487	420	382	56,762	35%	6%	24%	6%	29%
	Buildings	-	-	-	2,565	39%	57%	3%	0%	1%
	Other	-	40	36	423	69%	18%	13%	0%	0%
	sub total	52,611	2,615	1,424	155,138	49.9%	12.7%	14.2%	11.5%	11.8%
Stormwater Drainage	Stormwater Conduits	8,308	203	166	20,161	7%	49%	32%	8%	5%
	Inlet and Junction Pits	2,169	13	10	4,723	0%	60%	27%	7%	6%
	Head Walls	711	7		1,544	0%	50%	34%	12%	4%
	Other - Flood Mitigation Scheme	126	281	280	51,621	33%	39%	22%	6%	1%
	sub total	11,314	504	456	78,049	23.6%	42.9%	25.0%	6.5%	2.0%
Open Space/ Recreational Assets	Swimming Pools	-	29	21	1,346	0%	17%	83%	0%	0%
	Other Open Space/Recreational Assets	-	176	180	2,878	31%	69%	0%	0%	0%
	sub total	-	205	201	4,224	21.1%	52.4%	26.4%	0.0%	0.0%
TOTAL - ALL ASSETS	130,122	11,133	8,786	726,682	33.1%	35.4%	19.3%	7.6%	4.6%	

Kempsey Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued)

as at 30 June 2015

Notes:

- (1). Satisfactory is defined as "satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate".
The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard.
This estimated cost should not include any planned enhancements (ie.to heighten, intensify or improve the facilities).
- (2). Required Annual Maintenance is "what should be spent to maintain assets in a satisfactory standard.
- (3). Actual Maintenance is what has been spent in the current year to maintain the assets.
Actual Maintenance may be higher or lower than the required annual maintenance due to the timing of when the maintenance actually occurs.
- (4). Written Down Value is in accordance with Note 9 of Council's General Purpose Financial Statements
- (5). **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 No. 7 - Report on Infrastructure Assets (continued)
for the financial year ended 30 June 2015

\$'000	Amounts	Indicator	Prior Periods	
	2015	2015	2014	2013
Infrastructure Asset Performance Indicators Consolidated				
1. Building, Infrastructure & Other Structures Renewals Ratio				
Asset Renewals				
<u>(Building, Infrastructure & Other Structures) ⁽¹⁾</u>	<u>11,702</u>	39.85%	37.18%	45.49%
Depreciation, Amortisation & Impairment	<u>29,365</u>			
2. Infrastructure Backlog Ratio				
Estimated Cost to bring Assets to a Satisfactory Condition	<u>130,122</u>			
Total value ⁽²⁾ of Infrastructure, Building, Other Structures & depreciable Land Improvement Assets	<u>726,682</u>	17.91%	14.24%	14.24%
3. Asset Maintenance Ratio				
Actual Asset Maintenance	<u>8,786</u>			
Required Asset Maintenance	<u>11,133</u>	0.79	0.68	0.78
4. Capital Expenditure Ratio				
Annual Capital Expenditure	<u>36,357</u>			
Annual Depreciation	<u>31,247</u>	1.16	0.56	0.60

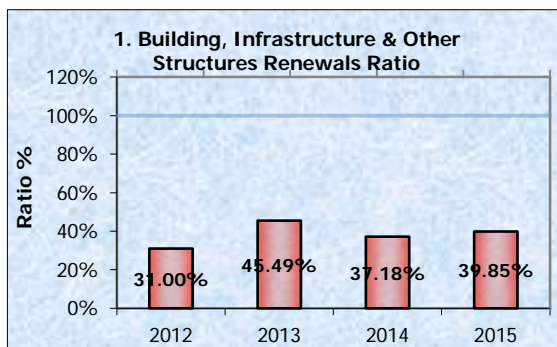
Notes

⁽¹⁾ Asset Renewals represent the replacement &/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. Asset Renewals include building, infrastructure & Other Structure assets only.

⁽²⁾ Written Down Value

Kempsey Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued) for the financial year ended 30 June 2015



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.

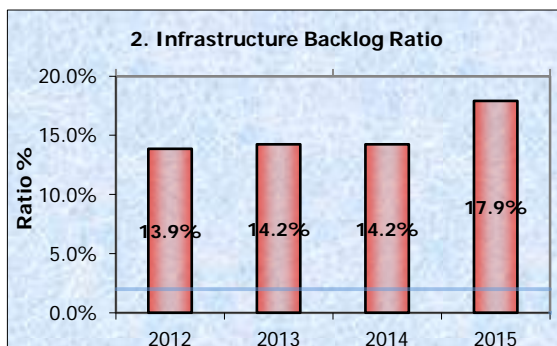
Commentary on 2014/15 Result

2014/15 Ratio 39.85%

Council's ratio is below the benchmark of 100% and indicates that Council is not renewing assets relative to their rate of deterioration.

Benchmark: ——— Minimum $\geq 100.00\%$
Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

■ Ratio is within Benchmark
■ Ratio is outside Benchmark



Purpose of Infrastructure Backlog Ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

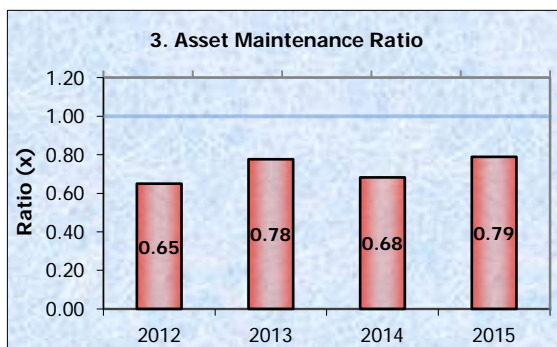
Commentary on 2014/15 Result

2014/15 Ratio 17.91%

Council's ratio is above the benchmark of 2%, the 2013 State average was 10% whilst the Mid North Coast Council's average was 15.28%.

Benchmark: ——— Maximum < 0.02
Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

■ Ratio is within Benchmark
■ Ratio is outside Benchmark



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.

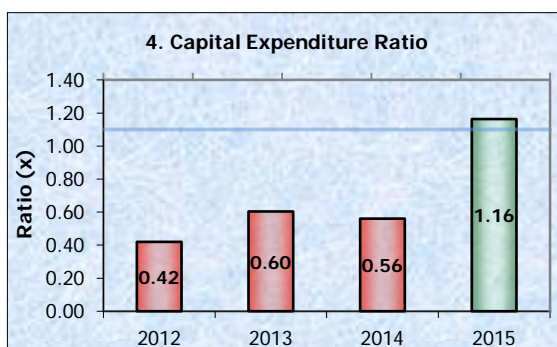
Commentary on 2014/15 Result

2014/15 Ratio 0.79 x

The TCorp report on the Financial Sustainability of NSW Council's noted the under spending on maintenance of assets as a major contributor to the infrastructure backlog.

Benchmark: ——— Minimum > 1.00
Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

■ Ratio is within Benchmark
■ Ratio is outside Benchmark



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 2014/15 Result

2014/15 Ratio 1.16 x

The ratio has been impacted by the transfer of the Macleay Valley Wat (\$18 million) in 2014/15.

Benchmark: ——— Minimum > 1.10
Source for Benchmark: Code of Accounting Practice and Financial Reporting #23

■ Ratio is within Benchmark
■ Ratio is outside Benchmark

Kempsey Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued)
for the financial year ended 30 June 2015

\$'000	Water 2015	Sewer 2015	General ⁽¹⁾ 2015
Infrastructure Asset Performance Indicators By Fund			
1. Building, Infrastructure & Other Structures Renewals Ratio			
Asset Renewals (Building, Infrastructure & Other Structures) ⁽²⁾	60.23%	39.61%	36.42%
Depreciation, Amortisation & Impairment	prior period: 73.40%	42.24%	30.13%
2. Infrastructure Backlog Ratio			
Estimated Cost to bring Assets to a Satisfactory Condition	8.44%	33.91%	16.10%
Total value ⁽³⁾ of Infrastructure, Building, Other Structures & Depreciable Land Improvement Assets	prior period: 13.10%	8.66%	16.37%
3. Asset Maintenance Ratio			
Actual Asset Maintenance	1.00	0.54	0.83
Required Asset Maintenance	prior period: 0.67	0.54	0.73
4. Capital Expenditure Ratio			
Annual Capital Expenditure	1.28	0.51	1.23
Annual Depreciation	prior period: 1.25	0.42	0.46

Notes

(1) General Fund refers to all of Council's activities except for its Water & Sewer activities which are listed separately.

(2) Asset Renewals represent the replacement &/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. Asset Renewals include building, infrastructure & Other Structure assets only.

(3) Written Down Value

Kempsey Shire Council

Special Schedule No. 9 - Permissible Income Calculation

for the financial year ended 30 June 2016

\$'000		Calculation 2014/15	Calculation 2015/16
Notional General Income Calculation ⁽¹⁾			
Last Year Notional General Income Yield	a	14,083	15,375
Plus or minus Adjustments ⁽²⁾	b	25	42
Notional General Income	c = (a + b)	14,108	15,417
Permissible Income Calculation			
Special variation percentage ⁽³⁾	d	9.30%	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)	1,312	1,542
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)	15,420	16,959
plus (or minus) last year's Carry Forward Total	l	(8)	3
less Valuation Objections claimed in the previous year	m	(34)	-
sub-total	n = (l + m)	(42)	3
Total Permissible income	o = k + n	15,378	16,962
less Notional General Income Yield	p	15,375	16,946
Catch-up or (excess) result	q = o - p	3	16
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	3	16

Notes

- 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.
- 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.
- The Special Variation Percentage is inclusive of the Rate Peg percentage and where applicable crown land adjustment.
- 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.
- 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.
- 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 councils' Special Schedule 9 in the Financial Data Return (FDR) to administer this process.



KEMPSEY SHIRE COUNCIL
SPECIAL SCHEDULE NO 9
INDEPENDENT AUDITORS' REPORT

REPORT ON SPECIAL SCHEDULE NO 9

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 9) of Kempsey Shire Council for the year ending 30 June 2016.

Responsibility of Council for Special Schedule No. 9

The Council is responsible for the preparation and fair presentation of Special Schedule No. 9 in accordance with the *Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 23*. 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. 9 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. 9 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. 9 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 9. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No. 9, 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. 9.

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. 9 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. 9 of Kempsey Shire Council for 2015/16 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.

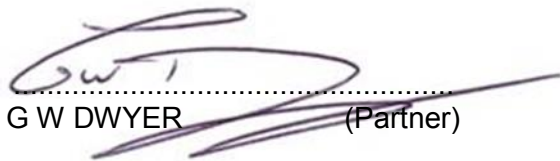
Basis of Accounting

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 30th day of October 2015

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

Per:

A handwritten signature in dark ink, appearing to read 'G W Dwyer', is written over a horizontal dotted line. Below the line, the name 'G W DWYER' is printed in a sans-serif font, followed by '(Partner)' in parentheses.

G W DWYER (Partner)