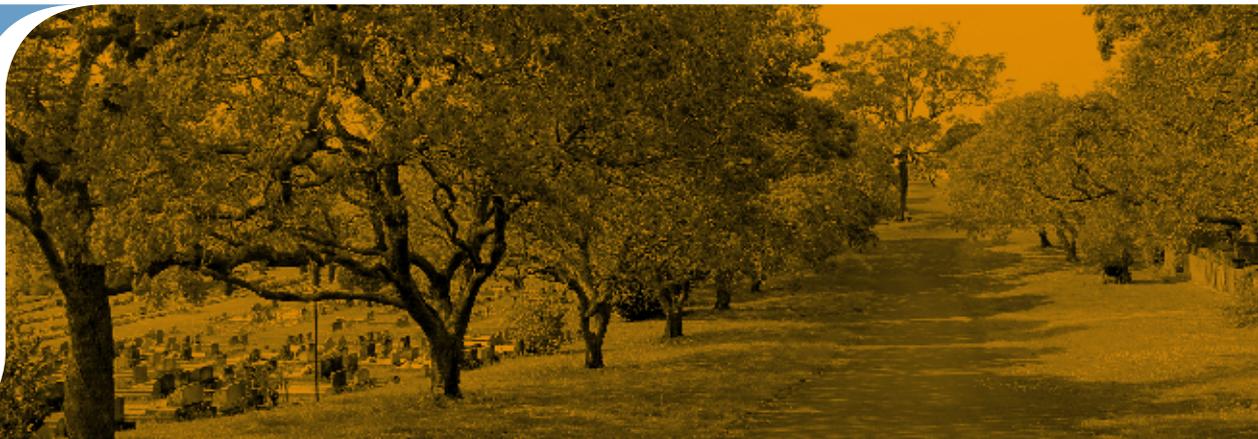




Annual Report **2016-2017**



PART C
Financial Statements

Kempsey Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

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Overview

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

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

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 09 November 2017. Council has the power to amend and reissue these financial statements.
-

Kempsey Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

Understanding Council's financial statements

Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2017.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, Property, Plant and Equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's annual financial statements are required to be audited by the NSW Audit Office. In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the financial statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the Audit Report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

Kempsey Shire Council

General Purpose Financial Statements

for the year ended 30 June 2017

Statement by Councillors and Management

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 19 September 2017.



Elizabeth Campbell
Mayor



Ashley Williams
Councillor



Daryl Hagger
General Manager



DeAnna O'Neill
Responsible Accounting Officer

Kempsey Shire Council

Income Statement

for the year ended 30 June 2017

Budget ¹ 2017	\$ '000	Notes	Actual 2017	Actual 2016
Income from continuing operations				
<i>Revenue:</i>				
34,419	Rates and annual charges	3a	35,285	32,457
16,510	User charges and fees	3b	16,606	16,332
1,351	Interest and investment revenue	3c	1,218	1,361
58	Other revenues	3d	76	94
13,937	Grants and contributions provided for operating purposes	3e,f	15,863	14,371
2,179	Grants and contributions provided for capital purposes	3e,f	4,220	4,521
<i>Other income:</i>				
	Net share of interests in joint ventures and associates using the equity method	19	–	–
<u>68,454</u>	Total income from continuing operations		<u>73,268</u>	<u>69,136</u>
Expenses from continuing operations				
20,895	Employee benefits and on-costs	4a	20,518	20,624
2,945	Borrowing costs	4b	2,574	2,846
16,617	Materials and contracts	4c	16,647	16,153
21,704	Depreciation and amortisation	4d	24,001	21,774
–	Impairment	4d	–	–
4,955	Other expenses	4e	3,978	3,485
–	Net losses from the disposal of assets	5	5,166	2,018
<u>67,116</u>	Total expenses from continuing operations		<u>72,884</u>	<u>66,900</u>
<u>1,338</u>	Operating result from continuing operations		<u>384</u>	<u>2,236</u>
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
<u>1,338</u>	Net operating result for the year		<u>384</u>	<u>2,236</u>
1,338	Net operating result attributable to Council		384	2,236
–	Net operating result attributable to non-controlling interests		–	–
<u>(841)</u>	Net operating result for the year before grants and contributions provided for capital purposes		<u>(3,836)</u>	<u>(2,285)</u>

¹ Original budget as approved by Council – refer Note 16

Kempsey Shire Council

Statement of Comprehensive Income

for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
Net operating result for the year (as per Income Statement)		384	2,236
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	(31,664)	31,060
Total items which will not be reclassified subsequently to the operating result		(31,664)	31,060
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		(31,664)	31,060
Total comprehensive income for the year		(31,280)	33,296
Total comprehensive income attributable to Council		(31,280)	33,296
Total comprehensive income attributable to non-controlling interests		–	–

Kempsey Shire Council

Statement of Financial Position

as at 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
ASSETS			
Current assets			
Cash and cash equivalents	6a	41,931	35,550
Investments	6b	–	–
Receivables	7	7,605	8,241
Inventories	8	318	350
Other	8	136	161
Non-current assets classified as 'held for sale'	22	–	–
Total current assets		49,990	44,302
Non-current assets			
Investments	6b	–	–
Receivables	7	469	588
Inventories	8	–	–
Infrastructure, property, plant and equipment	9	1,014,460	1,053,475
Investments accounted for using the equity method	19	–	–
Investment property	14	–	–
Intangible assets	25	–	–
Total non-current assets		1,014,929	1,054,063
TOTAL ASSETS		1,064,919	1,098,365
LIABILITIES			
Current liabilities			
Payables	10	4,453	5,717
Income received in advance	10	–	–
Borrowings	10	4,320	4,760
Provisions	10	7,719	8,233
Total current liabilities		16,492	18,710
Non-current liabilities			
Payables	10	567	618
Borrowings	10	41,615	41,416
Provisions	10	291	387
Total non-current liabilities		42,473	42,421
TOTAL LIABILITIES		58,965	61,131
Net assets		1,005,954	1,037,234
EQUITY			
Retained earnings	20	376,468	376,084
Revaluation reserves	20	629,486	661,150
Other reserves	20	–	–
Council equity interest		1,005,954	1,037,234
Non-controlling equity interests		–	–
Total equity		1,005,954	1,037,234

This statement should be read in conjunction with the accompanying notes.

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Kempsey Shire Council

Statement of Changes in Equity
for the year ended 30 June 2017

\$ '000	Notes	2017					2016						
		Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity	Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity
Opening balance (as per last year's audited accounts)		376,084	661,150	–	1,037,234	–	1,037,234	373,848	630,090	–	1,003,938	–	1,003,938
a. Correction of prior period errors	20 (c)	–	–	–	–	–	–	–	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–	–	–	–	–	–	–	–
Revised opening balance		376,084	661,150	–	1,037,234	–	1,037,234	373,848	630,090	–	1,003,938	–	1,003,938
c. Net operating result for the year		384	–	–	384	–	384	2,236	–	–	2,236	–	2,236
d. Other comprehensive income													
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	(31,664)	–	(31,664)	–	(31,664)	–	31,060	–	31,060	–	31,060
– Revaluations: other reserves	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
– Transfers to Income Statement	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
– Joint ventures and associates	19b	–	–	–	–	–	–	–	–	–	–	–	–
– Other reserves movements	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
Other comprehensive income		–	(31,664)	–	(31,664)	–	(31,664)	–	31,060	–	31,060	–	31,060
Total comprehensive income (c&d)		384	(31,664)	–	(31,280)	–	(31,280)	2,236	31,060	–	33,296	–	33,296
e. Distributions to/(contributions from) non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–
f. Transfers between equity		–	–	–	–	–	–	–	–	–	–	–	–
Equity – balance at end of the reporting period		376,468	629,486	–	1,005,954	–	1,005,954	376,084	661,150	–	1,037,234	–	1,037,234

Kempsey Shire Council

Statement of Cash Flows

for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
Cash flows from operating activities				
Receipts:				
34,449	Rates and annual charges		34,988	31,618
18,499	User charges and fees		17,961	16,576
1,350	Investment and interest revenue received		1,247	1,347
17,171	Grants and contributions		20,807	19,291
1,963	Other		2,498	2,896
Payments:				
(20,629)	Employee benefits and on-costs		(21,183)	(20,577)
(21,561)	Materials and contracts		(21,383)	(18,124)
(2,992)	Borrowing costs		(2,598)	(2,885)
(5,654)	Other		(4,344)	(3,946)
<u>22,596</u>	Net cash provided (or used in) operating activities	11b	<u>27,993</u>	<u>26,196</u>
Cash flows from investing activities				
Receipts:				
–	Sale of infrastructure, property, plant and equipment		857	1,000
16	Deferred debtors receipts		–	4
Payments:				
(30,919)	Purchase of infrastructure, property, plant and equipment		(22,228)	(25,769)
<u>(30,903)</u>	Net cash provided (or used in) investing activities		<u>(21,371)</u>	<u>(24,765)</u>
Cash flows from financing activities				
Receipts:				
11,950	Proceeds from borrowings and advances		4,500	–
Payments:				
(5,046)	Repayment of borrowings and advances		(4,741)	(5,173)
<u>6,904</u>	Net cash flow provided (used in) financing activities		<u>(241)</u>	<u>(5,173)</u>
<u>(1,403)</u>	Net increase/(decrease) in cash and cash equivalents		<u>6,381</u>	<u>(3,742)</u>
17,634	Plus: cash and cash equivalents – beginning of year	11a	35,550	39,292
<u>16,231</u>	Cash and cash equivalents – end of the year	11a	<u>41,931</u>	<u>35,550</u>
Additional Information:				
	plus: Investments on hand – end of year	6b	–	–
	Total cash, cash equivalents and investments		<u>41,931</u>	<u>35,550</u>

Please refer to Note 11 for information on the following:

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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n/a – not applicable

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the Local Government Act 1993 (NSW) and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

(i) New and amended standards adopted by Council

AASB 124 Related Party Disclosures was adopted during the year, the impact of this standard had no impact on reporting financial position or performance, however note 28 has been added.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11] was also adopted during the year. This standard has had no impact on reporting financial position or performance.

(ii) Early adoption of standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of property, plant and equipment and investment property.

(iv) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also 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 the 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 include:

(i) Estimated fair values of infrastructure, property, plant and equipment,

Significant judgements in applying the 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.

(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 the Council and specific criteria have been met for each of the Council's activities as described below.

Council bases its 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:

(i) Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

revenue when the Council obtains control over the assets comprising these receipts. 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.

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.

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

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 un-discharged at reporting date, the unused grant or contribution is disclosed in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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

(ii) User charges and fees

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

(iii) 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.

(iv) Interest

Interest income is recognised using the effective interest rate at the date that interest is earned.

(v) Rent

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

(vi) Dividend income

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

(vii) 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

(i) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), 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.

Cash and other assets of 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 (NSW) (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 reports.

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

Council is not a member of any county councils.

(iv) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

Joint operations (controlled assets and operations)

Council has no interest in any joint operations.

Joint ventures

Council has no interest in any joint ventures.

Associates

Council has no interest in any associates.

Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

(d) Leases

Leases of property, plant and equipment where Council, as lessee, 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 fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged 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.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee 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 where Council is a lessor is recognised as income on a straight-line basis over the lease term.

(e) Impairment of assets

Intangible assets that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Cash and cash equivalents

For Statement of Cash Flow 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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 Statement of Financial Position.

(g) Inventories

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

Raw materials and stores, work in progress and finished goods are 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 basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

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.

(ii) Inventory held for distribution

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

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

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

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

is interrupted for extended periods are recognised as expenses.

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

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment properties that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

(i) Investments and other financial assets

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

as held-to-maturity, 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 are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

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

Loans and receivables are included in other receivables (note 8) and receivables (note 7) in the Statement of Financial Position.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, that 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. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Investments are 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.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Income Statement.

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

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Subsequent measurement

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

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at the end of each reporting period 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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For 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 Council may measure impairment on the basis of an instrument's fair value using an observable market price.

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is 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.

Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and Clause 212 of the Local Government (General) Regulation 2005 (NSW).

Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it, or its representatives, exercise the 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 (the Order) arising from the Cole Inquiry recommendations.

(j) Fair value estimation – financial instruments

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting 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 reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

available to the Council for similar financial instruments.

(k) Infrastructure, property, plant and equipment (IPPE)

Council's assets have been progressively revalued to fair value in accordance with a staged implementation advised by the Office of Local Government. At reporting date, the following classes of IPPE were stated at their fair value:

- Plant and equipment (as approximated by depreciated historical cost)
- Operational land (External Valuation)
- Community land (External Valuation)
- Land improvements (Internal Valuation)
- Buildings – specialised/non-specialised (External Valuation)
- Other structures (Internal Valuation)
- Roads assets including roads, bridges and footpaths (Internal Valuation)
- Bulk earthworks (Internal Valuation)
- Stormwater drainage (Internal Valuation)
- Water and sewerage networks (Internal Valuation using consultants where required)
- Swimming pools (External Valuation)
- Other open space/recreational assets (Internal Valuation)
- Other assets (as approximated by depreciated historical cost)

Non-specialised assets with short useful lives are measured at depreciated historical cost as an approximation of fair value. Council has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

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 asset classes, 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 revalue the asset to that amount. Full revaluations are undertaken for all assets on a five-year cycle.

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss.

Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

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.

Depreciation

Land is not depreciated.

Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and Equipment

- Office Equipment	5 to 10 years
- Office furniture	4 years
- Computer Equipment	3 to 10 years
- Vehicles and 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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Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Water and Sewer Assets

- Water Mains	40 to 70 years
- Dams and reservoirs	80 to 100 years
- Pumps	10 to 20 years
- Sewer Mains	40 to 70 years
- Treatment Works	15 to 100 years
- Pumps and telemetry	15 to 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
- Footpaths:	25 to 50 years

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Water supply network and sewerage network assets were revalued as at 1 July 2016. These assets were broken into short and long life components. The depreciation of these assets has changed from a consumption based model to a straight line basis from 1 July 2016. This has resulted in a significant change in depreciation expense. For the year ended 30 June 2017 the effect on depreciation was estimated to be as follows:

Water supply network assets – increase from \$4,056,403 to \$5,130,299

Sewerage network assets – increase from \$3,179,531 to \$4,141,485

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

(l) Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council.

Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, Council uses alternative valuation methods such as recent prices in less active markets, or discounted cash flow projections. Changes in fair values are recorded in the Income Statement as part of other income.

Properties that are under construction for future use as investment properties are regarded as investment properties. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Council does not currently hold any investment properties.

(m) Payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

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

(o) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(p) Provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

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.

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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 discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 Statement of Financial Position, 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 that 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 accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable.

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.

(r) Land under roads

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

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

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

(s) Self-insurance

Council does not self-insure.

(t) Intangible assets

Council has not classified any assets as intangible.

(u) Crown reserves

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

(v) Rural fire service assets

Under section 119 of the Rural Fire Services Act 1997 (NSW), "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".

Until such time as discussions on this matter have concluded and the legislation changed, Council will only recognise rural fire service assets for land and buildings.

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which that are recoverable from, or payable to the taxation authority are presented as operating cash flows.

(x) New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

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

Council's assessment of the impact of upcoming new standards and interpretations that are likely to have an effect are set out below.

AASB 9 Financial Instruments (December 2009)

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 and financial liabilities.

These requirements are designed to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

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 when very specific conditions are met)

Council is yet to undertake a detailed assessment of the impact of AASB 9.

AASB 15 Revenue from Contracts with Customers

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

AASB 15 will introduce a 5-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 effective date of this standard is for annual reporting periods beginning on or after 1 January 2019.

Council is yet to undertake a detailed assessment of the impact of AASB 15.

AASB 16 Leases

AASB 16 Leases replaces AASB 117 Leases and some associated lease-related Interpretations.

AASB 16 introduces a single lease accounting model (for lessees) that will require all leases to be accounted for on the balance sheet (ie recognition of both a right-of-use asset and a corresponding lease) for all leases with a term of more than 12 months unless the underlying assets are determined to be of 'low value'. There will also be detailed disclosure requirements for all lessees.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2019.

Council is yet to undertake a detailed assessment of the accounting impacts from AASB 16. However, based on preliminary assessments, potential impacts from the first time adoption of the standard include:

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

- A significant increase in lease assets and financial liabilities recognised on the balance sheet,
- A reduction in reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities,
- Lower operating cash outflows and higher financing cash flows in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

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 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 2018.

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 1058 Income of Not-for-Profit Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contribution. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

AASB 1058 applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives. In cases where the council enters into other transactions, the council recognises and measures the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 Property, Plant and Equipment).

Upon initial recognition of the asset, this Standard requires Council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable Accounting Standard, such as:

- contributions by owners
- revenue, or a contract liability arising from a contract with a customer
- a lease liability
- a financial instrument
- a provision.

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised.

Council will recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2019.

Council is yet to undertake a detailed assessment of the impact of AASB 1058.

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(y) Rounding of amounts

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

(z) 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.

(aa) Disclaimer

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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 and non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2017	2017	2016	2017	2017	2016	2017	2017	2016	2017	2016	2017	2016
Governance	–	–	–	427	447	224	(427)	(447)	(224)	–	–	–	–
Administration	258	529	537	8,300	8,770	8,734	(8,042)	(8,241)	(8,197)	24	28	35,652	30,353
Health	32,288	33,432	32,994	35,770	39,188	35,292	(3,482)	(5,756)	(2,298)	2,205	3,526	407,551	442,863
Wealth	9,597	10,342	11,224	17,709	18,453	17,340	(8,112)	(8,111)	(6,116)	2,399	2,476	532,475	532,162
Safe	1,276	1,204	1,097	2,489	2,807	2,790	(1,213)	(1,603)	(1,693)	1,177	1,087	60,008	60,351
Social	133	360	196	2,421	3,219	2,520	(2,288)	(2,859)	(2,324)	227	122	29,233	32,636
Total functions and activities	43,552	45,867	46,048	67,116	72,884	66,900	(23,564)	(27,017)	(20,852)	6,032	7,239	1,064,919	1,098,365
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income ¹	24,902	27,401	23,088	–	–	–	24,902	27,401	23,088	8,713	5,934	–	–
Operating result from continuing operations	68,454	73,268	69,136	67,116	72,884	66,900	1,338	384	2,236	14,745	13,173	1,064,919	1,098,365

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

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

GOVERNANCE

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

ADMINISTRATION

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

HEALTH

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

WEALTH

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

SAFE

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

SOCIAL

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Rates and annual charges			
Ordinary rates			
Residential		13,039	11,621
Farmland		2,828	2,671
Business		1,845	1,729
Total ordinary rates		17,712	16,021
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		4,383	4,240
Water supply services		3,663	3,398
Sewerage services		8,862	8,188
Waste management services (non-domestic)		294	286
On-site sewerage management charge		371	324
Total annual charges		17,573	16,436
TOTAL RATES AND ANNUAL CHARGES		35,285	32,457

Council has used 2015 year valuations provided by the NSW Valuer General in calculating its rates.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(b) User charges and fees			
Specific user charges (per s.502 – specific 'actual use' charges)			
Water supply services		6,701	6,060
Sewerage services		1,032	826
Waste management services (non-domestic)		2,171	2,561
Total user charges		9,904	9,447
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Discretionary fees		838	714
Private works – section 67		402	119
Regulatory/ statutory fees		638	560
Total fees and charges – statutory/regulatory		1,878	1,393
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome		65	35
Aged housing rental		60	67
Caravan parks and camping grounds		3,636	4,278
Cemeteries		275	277
Property rentals		148	168
Saleyards		320	274
Sewerage services		138	106
Water supply		181	287
Other		1	–
Total fees and charges – other		4,824	5,492
TOTAL USER CHARGES AND FEES		16,606	16,332

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		401	320
– Interest earned on investments (interest and coupon payment income)		817	1,041
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>1,218</u>	<u>1,361</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		401	226
General Council cash and investments		575	907
Restricted investments/funds – external:			
Development contributions			
– Section 94		36	47
– Section 64		69	87
Water fund operations		111	94
Sewerage fund operations		26	–
<u>Total interest and investment revenue recognised</u>		<u>1,218</u>	<u>1,361</u>
(d) Other revenues			
Fines		33	35
Long service leave contributions		–	19
OH&S incentive rebate		43	40
<u>TOTAL OTHER REVENUE</u>		<u>76</u>	<u>94</u>

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(e) Grants				
General purpose (untied)				
Financial assistance ^{Note 1}	8,327	5,558	–	–
Pensioners' rates subsidies – general component	386	376	–	–
Total general purpose	8,713	5,934	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	150	150	–	–
– Sewerage	112	112	–	–
– Domestic waste management	126	134	–	–
Water supplies	57	73	–	–
Sewerage services	–	–	38	–
Aerodrome	–	–	65	–
Caravan parks and camping grounds	–	–	151	–
Bushfire and emergency services	271	294	349	617
Community centres	–	–	–	5
Community services	479	1,807	290	–
Economic development	–	20	–	–
Emergency services	–	–	25	–
Environmental protection	102	140	–	–
Flood damage – department of commerce	–	(79)	–	–
Flood mitigation	124	94	11	48
Library	55	55	37	31
LIRS subsidy	28	34	–	–
Midwaste	758	536	–	–
Noxious weeds	342	222	–	–
Recreation and culture	(1)	1	50	–
Street lighting	81	81	–	–
Transport (roads to recovery)	1,888	2,336	–	–
Transport (other roads and bridges funding)	–	48	121	73
Waste levy	–	–	160	339
Other	79	30	84	38
Total specific purpose	4,651	6,088	1,381	1,151
Total grants	13,364	12,022	1,381	1,151
Grant revenue is attributable to:				
– Commonwealth funding	10,223	9,007	–	–
– State funding	3,141	3,015	1,381	1,151
	13,364	12,022	1,381	1,151

Note 1: Council received 50% of its Financial Assistance Grant for YE 17/18 in advance totalling \$2,833,318

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94 – contributions towards amenities/services	–	–	563	454
S 64 – water supply contributions	–	–	399	468
S 64 – sewerage service contributions	–	–	262	352
Total developer contributions	–	–	1,224	1,274
Other contributions:				
Community services	30	251	–	–
Domestic waste	290	112	–	–
Kerb and gutter	4	–	50	10
Midwaste	39	33	–	–
Roads and bridges	–	–	4	–
RMS contributions (regional roads, block grant)	2,035	1,837	1,078	1,632
Sewerage (excl. section 64 contributions)	–	–	445	168
Water supplies (excl. section 64 contributions)	–	–	–	162
Tourist parks	–	–	–	42
Other	101	116	38	82
Total other contributions	2,499	2,349	1,615	2,096
Total contributions	2,499	2,349	2,839	3,370
TOTAL GRANTS AND CONTRIBUTIONS	15,863	14,371	4,220	4,521

\$ '000	Actual 2017	Actual 2016
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(g) Unspent grants and contributions**Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:**

Unexpended at the close of the previous reporting period	9,081	9,125
Add: grants and contributions recognised in the current period but not yet spent:	2,152	2,026
Less: grants and contributions recognised in a previous reporting period now spent:	(1,522)	(2,070)
Net increase (decrease) in restricted assets during the period	630	(44)
Unexpended and held as restricted assets	9,711	9,081
Comprising:		
– Specific purpose unexpended grants	2,007	1,542
– Developer contributions	7,704	7,539
	9,711	9,081

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Employee benefits and on-costs			
Salaries and wages		16,361	17,028
Travel expenses		547	614
Employee leave entitlements (ELE)		3,492	3,127
Superannuation		2,090	2,129
Workers' compensation insurance		545	277
Fringe benefit tax (FBT)		23	14
Payroll tax		298	278
Training costs (other than salaries and wages)		200	154
Total employee costs		23,556	23,621
Less: capitalised costs		(3,038)	(2,997)
TOTAL EMPLOYEE COSTS EXPENSED		20,518	20,624
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		2,565	2,829
Interest on advances		9	17
Total interest bearing liability costs expensed		2,574	2,846
(ii) Other borrowing costs			
Nil			
TOTAL BORROWING COSTS EXPENSED		2,574	2,846
(c) Materials and contracts			
Raw materials and consumables		16,207	15,768
Auditors remuneration ⁽¹⁾		58	66
Legal expenses:			
– Legal expenses: planning and development		7	34
– Legal expenses: other		375	285
TOTAL MATERIALS AND CONTRACTS		16,647	16,153

(continued on the next page...)

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Materials and contracts			
1. Auditor remuneration			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Auditor-General		58	–
Remuneration for audit and other assurance services		58	–
Total Auditor-General remuneration		58	–
b. During the year, the following fees were incurred for services provided by the other Council's Auditors:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		–	55
– Other audit and assurance services		–	11
Remuneration for audit and other assurance services		–	66
Total remuneration of other Council's Auditors		–	66
Total Auditor remuneration		58	66
(d) Depreciation, amortisation and impairment			
Plant and equipment		1,463	1,344
Office equipment		143	186
Furniture and fittings		48	46
Land improvements (depreciable)		348	261
Infrastructure:			
– Buildings – non-specialised		912	914
– Buildings – specialised		354	356
– Roads		8,615	8,711
– Bridges		637	636
– Footpaths		471	471
– Stormwater drainage		1,185	1,185
– Water supply network		5,130	4,058
– Sewerage network		4,141	3,248
– Swimming pools		101	101
– Other open space/recreational assets		409	161
Other assets			
– Other		44	96
Total depreciation and amortisation costs		24,001	21,774
Impairment			
Nil			
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		24,001	21,774

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(e) Other expenses			
Bad and doubtful debts		–	100
Councillor expenses – mayoral fee		41	40
Councillor expenses – councillors' fees		172	165
Councillors' expenses (incl. mayor) – other (excluding fees above)		52	31
Donations, contributions and assistance to other organisations (Section 356)		142	92
Election expenses		210	–
Electricity and heating		1,561	1,353
Insurance		848	827
Street lighting		612	570
Telephone and communications		340	307
<u>TOTAL OTHER EXPENSES</u>		<u>3,978</u>	<u>3,485</u>

Note 5. Gains or losses from the disposal of assets

Plant and equipment			
Proceeds from disposal – plant and equipment		856	1,000
Less: carrying amount of plant and equipment assets sold/written off		(1,051)	(945)
Net gain/(loss) on disposal		(195)	55
Infrastructure			
Proceeds from disposal – infrastructure		1	–
Less: carrying amount of infrastructure assets sold/written off		(4,972)	(2,073)
Net gain/(loss) on disposal		(4,971)	(2,073)
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(5,166)</u>	<u>(2,018)</u>

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	2017	2017	2016	2016
		Actual Current	Actual Non-current	Actual Current	Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		4,828	–	2,506	–
Cash-equivalent assets ¹					
– Deposits at call		37,103	–	33,044	–
Total cash and cash equivalents		41,931	–	35,550	–
Investments (Note 6b)					
Nil					
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		41,931	–	35,550	–

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	2017	2017	2016	2016
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	41,931	–	35,550	–
attributable to:				
External restrictions (refer below)	26,216	–	21,983	–
Internal restrictions (refer below)	14,282	–	10,893	–
Unrestricted	1,433	–	2,674	–
	41,931	–	35,550	–

2017 \$ '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)	81	2,500	(2,161)	420
Specific purpose unexpended loans – sewer (A)	2,009	2,000	(2,258)	1,751
RMS (formerly RTA) advances (B)	513	287	(301)	499
External restrictions – included in liabilities	2,603	4,787	(4,720)	2,670

External restrictions – other

Developer contributions – general (D)	2,576	599	(528)	2,647
Developer contributions – water fund (D)	952	443	(186)	1,209
Developer contributions – sewer fund (D)	2,147	288	(538)	1,897
Specific purpose unexpended grants (F)	1,532	1,489	(1,052)	1,969
Specific purpose unexpended grants-water fund (F)	10	–	(10)	–
Specific purpose unexpended grants-sewer fund (F)	–	38	–	38
Water augmentation reserve (G)	527	1,692	(248)	1,971
Water tariff equalisation reserve (G)	602	–	–	602
Water fleet reserve (G)	1,252	553	(424)	1,381
Water uncompleted works reserve (G)	577	477	(577)	477
Sewerage augmentation reserve (G)	4,007	1,651	(416)	5,242
Sewerage uncompleted works reserve (G)	464	236	(464)	236
Domestic waste management (G)	1,413	299	–	1,712
Contributions – ancillary works	36	–	–	36
On-site sewerage management reserve	161	371	(296)	236
Swr reserve reserve	808	680	(490)	998
4 shore caravan parks reserve	1,961	1,866	(1,360)	2,467
Midwaste	355	73	–	428
External restrictions – other	19,380	10,755	(6,589)	23,546
Total external restrictions	21,983	15,542	(11,309)	26,216

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Employees leave entitlement	1,193	300	(270)	1,223
Aerodrome	3	–	–	3
Akubra place	315	–	(315)	–
Bridge construction	39	–	–	39
By-pass reserve	1,046	205	(1,234)	17
Cemetery headstone restoration reserve	70	16	(11)	75
Community projects reserve	976	–	(976)	–
Community service equipment	113	–	(112)	1
Computer	133	54	–	187
Co-operative library computer	74	5	–	79
Environmental levy works reserve	1,337	736	(501)	1,572
General fleet	1,428	2,003	(2,241)	1,190
General fund uncompleted works reserve	1,085	2,957	(1,085)	2,957
General fund unexpended loans	1,345	–	(981)	364
HUB building	5	32	–	37
Industrial subdivision	6	–	(6)	–
Insurance	348	85	(100)	333
Landfill reserve	320	–	(185)	135
Mayoral fund	42	15	(43)	14
Organisational development	18	–	–	18
Property sales	402	–	(402)	–
Quarry restoration	401	66	(208)	259
Residential subdivision	33	–	(33)	–
Road reserves	102	–	–	102
Saleyards	19	–	(19)	–
SES building	40	–	–	40
Corporate	–	3,706	–	3,706
Cinema	–	1,931	–	1,931
Total internal restrictions	10,893	12,111	(8,722)	14,282
TOTAL RESTRICTIONS	32,876	27,653	(20,031)	40,498

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 7. Receivables

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		2,526	–	2,229	–
User charges and fees		2,743	–	2,988	–
Accrued revenues					
– Interest on investments		67	–	96	–
Deferred debtors		71	126	54	143
Government grants and subsidies		545	343	1,071	445
Net GST receivable		343	–	389	–
Private works (miscellaneous debtors)		1,161	–	1,304	–
Pwd subsidised scheme debtors		99	–	99	–
RTA debtors		59	–	20	–
Total		7,614	469	8,250	588
Less: provision for impairment					
Other debtors		(9)	–	(9)	–
Total provision for impairment – receivables		(9)	–	(9)	–
TOTAL NET RECEIVABLES		7,605	469	8,241	588
Externally restricted receivables					
Water supply					
– Rates and availability charges		487	–	477	–
– Other		2,115	–	2,041	–
Sewerage services					
– Rates and availability charges		622	–	585	–
– Other		416	–	428	–
Domestic waste management		355	–	329	–
Total external restrictions		3,995	–	3,860	–
Internally restricted receivables					
Nil					
Unrestricted receivables		3,610	469	4,381	588
TOTAL NET RECEIVABLES		7,605	469	8,241	588

Notes on debtors above:

- (i) Rates and annual charges outstanding are secured against the property.
- (ii) Doubtful rates debtors are provided for where the value of the property is less than the debt outstanding.
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates and charges at 8.50% (2016 8.50%).
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.
- (v) \$1,951,000 of the Water Receivables represents the deficit in Section 64 Contribution restrictions.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 8. Inventories and other assets

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Stores and materials		318	–	339	–
Work in progress		–	–	11	–
Total inventories at cost		318	–	350	–
(ii) Inventories at net realisable value (NRV)					
Nil					
<u>TOTAL INVENTORIES</u>		<u>318</u>	<u>–</u>	<u>350</u>	<u>–</u>
(b) Other assets					
Prepayments		136	–	161	–
<u>TOTAL OTHER ASSETS</u>		<u>136</u>	<u>–</u>	<u>161</u>	<u>–</u>

Externally restricted assets

There are no restrictions applicable to the above assets.

Other disclosures**Inventory write downs**

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

Refer to Note 27. Fair value measurement for information regarding the fair value of other assets held.

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 9a. Infrastructure, property, plant and equipment

Asset class	as at 30/6/2016			Asset movements during the reporting period							as at 30/6/2017		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000													
Capital work in progress	8,018	–	8,018	6,793	1,350	–	–	–	–	–	16,161	–	16,161
Plant and equipment	19,006	8,869	10,137	2,724	45	(1,051)	(1,463)	–	–	–	19,610	9,218	10,392
Office equipment	3,185	2,407	778	167	80	–	(143)	–	–	–	2,798	1,916	882
Furniture and fittings	1,148	889	259	22	–	(1)	(48)	–	–	–	1,152	920	232
Land:													
– Operational land	23,899	–	23,899	–	–	–	–	–	–	–	23,899	–	23,899
– Community land	29,879	–	29,879	–	–	–	–	–	–	–	29,879	–	29,879
Land improvements – non-depreciable	20,631	–	20,631	19	–	–	–	–	–	–	20,650	–	20,650
Land improvements – depreciable	14,940	4,872	10,068	16	40	–	(348)	(206)	–	–	14,543	4,973	9,570
Infrastructure:													
– Buildings – non-specialised	37,138	20,749	16,389	–	26	–	(912)	–	–	1,750	41,361	24,108	17,253
– Buildings – specialised	12,531	6,373	6,158	56	–	(12)	(354)	–	–	654	13,972	7,470	6,502
– Roads	352,102	122,185	229,917	4,416	1,122	(1,095)	(8,615)	(721)	–	–	353,907	128,883	225,024
– Bridges	60,012	24,720	35,292	34	363	(30)	(637)	–	–	–	60,174	25,152	35,022
– Footpaths	23,068	13,074	9,994	506	91	(116)	(471)	–	–	–	23,244	13,240	10,004
– Bulk earthworks (non-depreciable)	221,160	–	221,160	–	–	–	–	722	–	–	221,882	–	221,882
– Stormwater drainage	120,655	43,674	76,981	123	94	(18)	(1,185)	278	–	–	121,408	45,135	76,273
– Water supply network	270,198	79,344	190,854	1,455	527	(2,242)	(5,130)	–	–	5,459	270,054	79,131	190,923
– Sewerage network	216,836	60,765	156,071	1,250	661	(1,450)	(4,141)	–	(39,656)	–	212,359	99,624	112,735
– Swimming pools	3,654	2,409	1,245	–	–	–	(101)	–	–	129	4,066	2,793	1,273
– Other open space/recreational assets	11,147	5,970	5,177	693	–	(8)	(409)	(73)	–	–	11,526	6,146	5,380
Other assets:													
– Other	1,191	623	568	–	–	–	(44)	–	–	–	1,191	667	524
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	1,450,398	396,923	1,053,475	18,274	4,399	(6,023)	(24,001)	–	(39,656)	7,992	1,463,836	449,376	1,014,460

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Actual			Actual		
	2017			2016		
Class of asset	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	1,182	–	1,182	–	–	–
Plant and equipment	4,244	1,768	2,476	3,958	1,632	2,326
Office equipment	260	245	15	259	237	22
Furniture and fittings	2	2	–	2	2	–
Land						
– Operational land	2,112	–	2,112	2,112	–	2,112
– Community land	405	–	405	405	–	405
Infrastructure	270,055	79,131	190,924	270,200	79,345	190,855
Total water supply	278,260	81,146	197,114	276,936	81,216	195,720
Sewerage services						
WIP	2,940	–	2,940	2	–	2
Plant and equipment	851	739	112	791	709	82
Office equipment	471	448	23	471	439	32
Furniture and fittings	3	2	1	3	3	–
Land						
– Operational land	2,560	–	2,560	2,560	–	2,560
– Community land	166	–	166	166	–	166
Buildings	36	11	25	36	11	25
Infrastructure	212,359	99,624	112,735	216,836	60,765	156,071
Total sewerage services	219,386	100,824	118,562	220,865	61,927	158,938
Domestic waste management						
Plant and equipment	594	259	335	594	214	380
Other assets	275	274	1	275	274	1
Total DWM	869	533	336	869	488	381
TOTAL RESTRICTED I,PP&E	498,515	182,503	316,012	498,670	143,631	355,039

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		3,696	567	4,926	618
Accrued expenses:					
– Borrowings		258	–	282	–
Advances		499	–	509	–
Total payables		4,453	567	5,717	618
Income received in advance					
Nil					
Borrowings					
Loans – secured ¹		4,275	41,564	4,572	41,339
Government advances		45	51	188	77
Total borrowings		4,320	41,615	4,760	41,416
Provisions					
Employee benefits:					
Annual leave		1,716	–	1,857	–
Sick leave		1,668	–	1,750	–
Long service leave		4,335	291	4,626	387
Total provisions		7,719	291	8,233	387
<u>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</u>		<u>16,492</u>	<u>42,473</u>	<u>18,710</u>	<u>42,421</u>
(i) Liabilities relating to restricted assets					
		2017		2016	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		1,581	18,762	1,613	17,718
Sewer		1,137	17,634	1,229	16,675
Other		545	–	513	–
Tourist parks		19	–	163	–
Liabilities relating to externally restricted assets		<u>3,282</u>	<u>36,396</u>	<u>3,518</u>	<u>34,393</u>
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		<u>3,282</u>	<u>36,396</u>	<u>3,518</u>	<u>34,393</u>
Total liabilities relating to unrestricted assets		<u>13,210</u>	<u>6,077</u>	<u>15,192</u>	<u>8,028</u>
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		<u>16,492</u>	<u>42,473</u>	<u>18,710</u>	<u>42,421</u>

¹: Loans are secured over the general rating income of Council

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

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

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

\$ '000	Actual 2017	Actual 2016
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(ii) Current liabilities not anticipated to be settled within the next twelve months

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	5,745	6,227
	<u>5,745</u>	<u>6,227</u>

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	41,931	35,550
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		41,931	35,550
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		384	2,236
Adjust for non-cash items:			
Depreciation and amortisation		24,001	21,774
Net losses/(gains) on disposal of assets		5,166	2,018
Non-cash capital grants and contributions		(445)	(330)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		755	(1,048)
Decrease/(increase) in inventories		32	(4)
Decrease/(increase) in other assets		25	(161)
Increase/(decrease) in payables		(1,281)	1,614
Increase/(decrease) in accrued interest payable		(24)	(39)
Increase/(decrease) in other liabilities		(10)	46
Increase/(decrease) in employee leave entitlements		(610)	90
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		27,993	26,196
(c) Non-cash investing and financing activities			
Developer dedicated assets		445	330
Total non-cash investing and financing activities		445	330
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Credit cards/purchase cards		163	130
Total financing arrangements		163	130
(ii) Secured loan liabilities			

Loans are secured by a mortgage over future years rate revenue only.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2017	Actual 2016
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, plant and equipment			
John Lane Reservoir Roof Refurbishment		–	72
NSW Rural Fire Service Control Centre		–	221
Crescent Head Wastewater Treatment Plant		14	301
Gladstone Wastewater Treatment Plant		28	316
Riverside Park – Fixed Wharf & Floating Pontoon		212	212
Jerseyville – Modular Floating Pontoon		114	114
Crescent Head Amenities Building		208	–
Kempsey Airport fuel system		242	–
McIntyres & Schmidts Bridges		860	–
South Street Extension		1,637	–
Macleay Valley closed circuit television system		173	–
Aldavilla RFS extension		134	–
Total commitments		3,622	1,236
These expenditures are payable as follows:			
Within the next year		3,622	1,236
Total payable		3,622	1,236
Sources for funding of capital commitments:			
Unrestricted general funds		861	–
Unexpended grants		2,455	547
Externally restricted reserves		149	–
Internally restricted reserves		114	–
Unexpended loans		43	689
Total sources of funding		3,622	1,236

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

Nil

(d) Investment property commitments

Nil

(e) Investment in joint operations – commitments

For capital commitments and other commitments relating to investments in joint operations, refer to Note 19

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Amounts	Indicator	Prior periods		Benchmark
	2017	2017	2016	2015	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>1,330</u>	1.93%	-0.41%	-14.96%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>69,048</u>				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>53,185</u>	72.59%	72.67%	52.26%	>60.00%
Total continuing operating revenue ⁽¹⁾	<u>73,268</u>				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>19,779</u>	2.65x	2.06x	2.86x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>7,465</u>				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>27,905</u>	3.81x	3.04x	3.00x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>7,315</u>				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>2,526</u>	6.66%	6.52%	4.44%	< 5% Metro
Rates, annual and extra charges collectible	<u>37,915</u>				<10% Rural
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>41,931</u>	9.28 mths	8.4 mths	9.2 mths	> 3 mths
Payments from cash flow of operating and financing activities	<u>4,521</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 and associates.

(2) Refer Notes 6-8 inclusive.

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

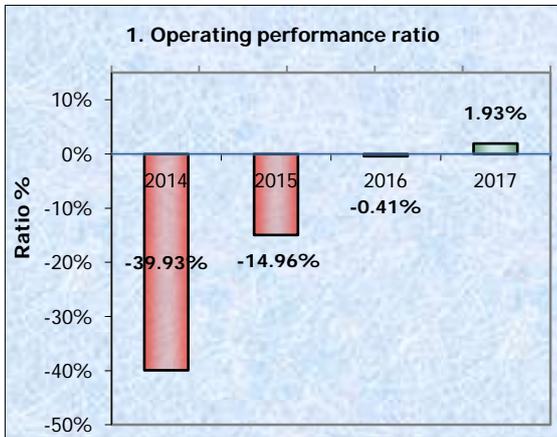
(3) Refer to Note 10(a).

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

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

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 2016/17 result

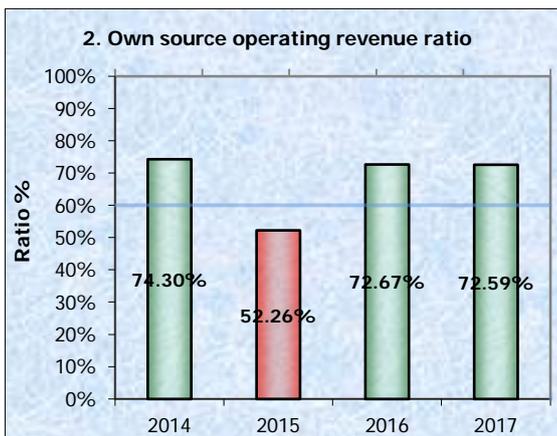
2016/17 ratio 1.93%

Council's performance is above benchmark. The increase from 15/16 is largely due to the receipt of 50% of the 17/18 allocation of the Financial Assistance Grant in 16/17 and higher than anticipated revenue from water and sewer usage charges.

Benchmark: ——— Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

 Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of own source operating revenue ratio

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

Commentary on 2016/17 result

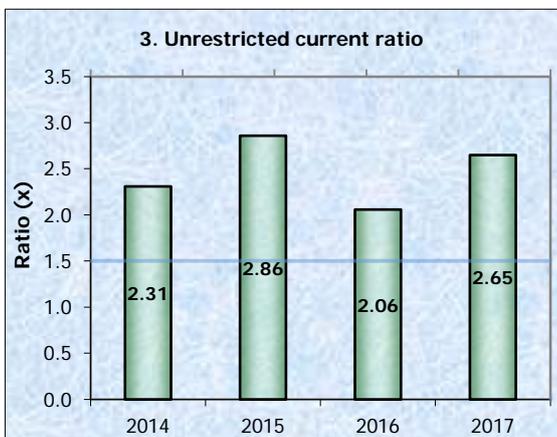
2016/17 ratio 72.59%

Council is above the 60% benchmark and reflects Council's financial flexibility

Benchmark: ——— Minimum $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

 Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of unrestricted current ratio

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

Commentary on 2016/17 result

2016/17 ratio 2.65x

The ratio of 2.65 means that Council has \$2.65 in liquidity for every \$1.00 in current liabilities. The ratio reflects Council's strong short term financial position.

Benchmark: ——— Minimum ≥ 1.50

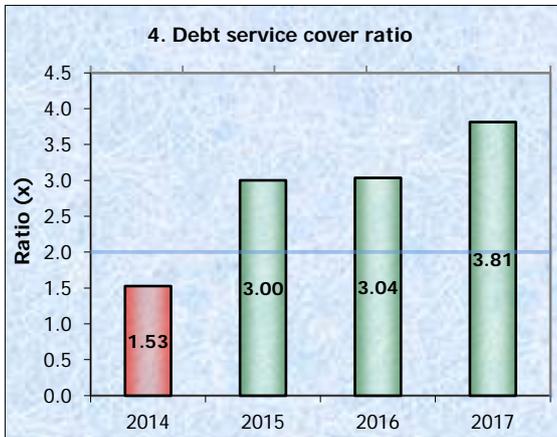
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

 Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

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 2016/17 result

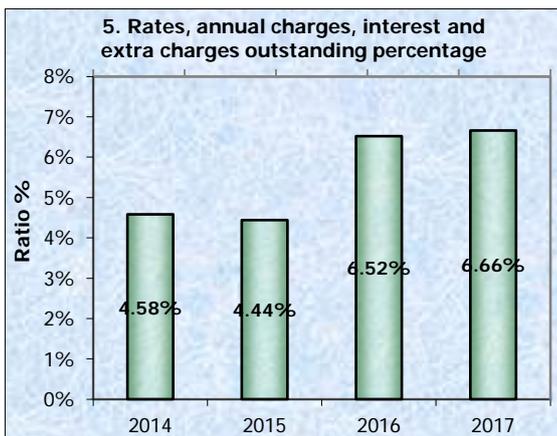
2016/17 ratio 3.81x

A breakdown of the ratio by Fund is disclosed in Note 13b. All 3 funds above benchmark for 16/17 which indicates less reliance on borrowings to fund infrastructure renewal programs.

Benchmark: Minimum ≥ 2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of rates and annual charges outstanding ratio

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

Commentary on 2016/17 result

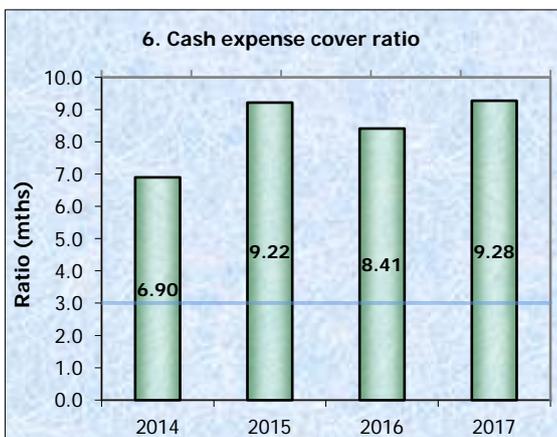
2016/17 ratio 6.66%

Council's ratio is within the benchmark. An increased focus on debt recovery in 17/18 should see an improvement in this ratio.

Benchmark: Maximum $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #25

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 2016/17 result

2016/17 ratio 9.28 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 #25

Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	2.65%	2.05%	-2.24%	-6.74%	2.47%	-5.57%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	64.92%	66.19%	94.82%	90.88%	92.34%	93.72%	>60.00%
Total continuing operating revenue ⁽¹⁾							
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾	2.65x	2.06x	4.45x	3.40x	5.73x	4.46x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)							

Notes

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation							
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	6.32x	5.11x	2.44x	1.76x	2.54x	1.76x	>2x
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.95%	5.48%	10.86%	11.61%	6.46%	6.69%	< 5% Metro <10% Rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits							
Payments from cash flow of operating and financing activities	8.37 months	7.96 months	8.76 months	5.80 months	14.31 months	13.17 months	> 3 months

Notes

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 14. Investment properties

\$ '000

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

Note 15. Financial risk management

Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	41,931	35,550	41,931	35,550
Receivables	8,074	8,829	8,074	8,829
Total financial assets	50,005	44,379	50,005	44,379
Financial liabilities				
Payables	5,020	6,335	5,020	6,335
Loans/advances	45,935	46,176	54,903	57,190
Total financial liabilities	50,955	52,511	59,923	63,525

Fair value is determined as follows:

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

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

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

The risks associated with the investments held are:

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2017				
Possible impact of a 1% movement in interest rates	419	419	(419)	(419)
2016				
Possible impact of a 1% movement in interest rates	356	356	(356)	(356)

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

	2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	72%	0%	71%
Overdue	100%	28%	100%	29%
	100%	100%	100%	100%

		2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables				
Current	Current	–	3,999	–	4,702
< 1 year overdue	0 – 30 days overdue	2,526	–	2,229	–
1 – 2 years overdue	31 – 60 days overdue	–	124	–	200
2 – 5 years overdue	61 – 90 days overdue	–	368	–	328
> 5 years overdue	> 91 days overdue	–	1,066	–	1,379
		2,526	5,557	2,229	6,609

(iii) Movement in provision for impairment of receivables

	2017	2016
Balance at the beginning of the year	9	9
Balance at the end of the year	9	9

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2017									
Trade/other payables	–	4,453	567	–	–	–	–	5,020	5,020
Loans and advances	–	6,845	6,297	5,846	4,965	4,969	35,372	64,294	45,935
Total financial liabilities	–	11,298	6,864	5,846	4,965	4,969	35,372	69,314	50,955
2016									
Trade/other payables	–	5,717	618	–	–	–	–	6,335	6,335
Loans and advances	–	7,360	6,492	5,963	5,513	4,632	35,005	64,965	46,176
Total financial liabilities	–	13,077	7,110	5,963	5,513	4,632	35,005	71,300	52,511

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

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

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	5,020	0.00%	6,335	0.00%
Loans and advances – fixed interest rate	45,935	5.67%	46,176	5.84%
	<u>50,955</u>		<u>52,511</u>	

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 21 June 2016.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----		
REVENUES					
Rates and annual charges	34,419	35,285	866	3%	F
User charges and fees	16,510	16,606	96	1%	F
Interest and investment revenue	1,351	1,218	(133)	(10%)	U
Other revenues	58	76	18	31%	F
Higher than anticipated Incentive Bonus received from Statewide Mutual for council's risk management program					
Operating grants and contributions	13,937	15,863	1,926	14%	F
17/18 Financial Assistance Grant received in advance \$2,833,318, and additional grants received for Regional Roads Block grant \$380,000, CCTV project \$189,000, noxious weeds programs \$80,000, Future towns program \$55,000, Kempsey Place Plan \$30,000, and Midwaste \$797,000. An additional contribution of \$200,000 was received for marketing of the new waste contract. This has been offset by the removal of \$1,750,000 for grants and contributions for Macleay Community Care as now transferred to Community Gateway and lower than budgeted funding received for Roads to Recovery program of \$800,000.					
Capital grants and contributions	2,179	4,220	2,041	94%	F
Revised Bushfire Infrastructure program as per 16-17 RFS allocation \$196,000 has been offset by additional grants from Fixing Country Roads funding for the South Street extension \$120,000, RMS Blackspot grant \$535,000. Contributions totalling \$50,000 were received for kerb & gutter work in Frederickton and additional Section 64/94 income of \$810,000. Council also received \$444,957 of sewer contributed assets in 16/17					

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 Variance*		
EXPENSES					
Employee benefits and on-costs	20,895	20,518	377	2%	F
Borrowing costs	2,945	2,574	371	13%	F
Reduction in borrowings costs due to deferment of loan borrowing in Water Fund in line with cash flow requirements together with a reduction in interest expenses due to lower than anticipated interest rates in respect of the prior year borrowings					
Materials and contracts	16,617	16,647	(30)	(0%)	U
Depreciation and amortisation	21,704	24,001	(2,297)	(11%)	U
Increased depreciation associated with the revaluation of Council's water and sewer assets were not factored in the 2016/17 Budget					
Other expenses	4,955	3,978	977	20%	F
Lower than budgeted electricity, insurance, election costs and streetlighting expenses					
Net losses from disposal of assets	–	5,166	(5,166)	0%	U
Principally relating to the write off of Infrastructure as a result of asset renewal works for road network assets \$1,280,000, water assets \$2,267,000 and sewer assets \$1,450,000					

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

Cash flows from operating activities	22,596	27,993	5,397	23.9%	F
Increase in result attributed to additional income from rates and annual charges \$539,000, and grants and contributions of \$3,636,000, which largely relates to the \$2,833,518 received in advance for the Financial Assistance grant. This has combined with lower than budgeted borrowing costs and insurance, electricity, streetlighting and election expenses.					
Cash flows from investing activities	(30,903)	(21,371)	9,532	(30.8%)	F
Lower than budgeted expenditure on capital works due to deferral of works for Crescent Head WTP \$1,370,000, West Kempsey Sewer Treatment Scheme \$5,465,000, Kempsey Mall Toilets \$290,000, 4 Shore Caravan Parks \$1,300,000, R2R grant funded road works \$800,000					
Cash flows from financing activities	6,904	(241)	(7,145)	(103.5%)	U
Loan borrowings of \$2,500,000 for Water Fund and \$2,000,000 for Sewer Funds drawdown during 16/17. Full loan borrowing program of \$11,950,000 for 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 year ended 30 June 2017

Note 17. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	26	23	–	–	(22)	–	27	–
Roads	1,226	350	–	16	(354)	–	1,238	–
Parking	7	–	–	–	–	–	7	–
Community facilities	231	20	–	3	(55)	–	199	–
SWR plan	1,000	94	–	16	(75)	–	1,035	–
Public domain	–	57	–	–	(20)	–	37	–
Administration	86	18	–	1	(1)	–	104	–
S94 contributions – under a plan	2,576	562	–	36	(527)	–	2,647	–
Total S94 revenue under plans	2,576	562	–	36	(527)	–	2,647	–
S64 contributions	4,963	662	–	69	(637)	–	5,057	–
Total contributions	7,539	1,224	–	105	(1,164)	–	7,704	–

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN NUMBER 1

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	26	23	–	–	(22)	–	27	–
Roads	1,226	350	–	16	(354)	–	1,238	–
Parking	7	–	–	–	–	–	7	–
Community facilities	231	20	–	3	(55)	–	199	–
SWR plan	1,000	94	–	16	(75)	–	1,035	–
Public domain	–	57	–	–	(20)	–	37	–
Administration	86	18	–	1	(1)	–	104	–
Total	2,576	562	–	36	(527)	–	2,647	–

S64 contributions

CONTRIBUTION PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Water	2,816	399	–	44	(99)	–	3,160	–
Sewerage	2,147	262	445	26	(538)	–	1,897	–
Total	4,963	661	445	70	(637)	–	5,057	–

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme - Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a "multi-employer fund" for purposes of AASB119 *Employee Benefits*. Sufficient information is not available to account for the Scheme as a defined benefit plan in accordance with AASB119 because the assets to the Scheme are pooled together for all councils.

The amount of employer contributions to the defined benefit section of the Scheme and recognised as an expense for the year ending 30 June 2017 was \$547,939.37. The last valuation of the Scheme was performed by Richard Boyfield FIAA on 2 December 2016 and covers the year ended 30 June 2016.

However, the position is monitored annually and the actuary has estimated that, as at 30 June 2017 a deficit exists. Effective from 1 July 2009, employers are required to make additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$244,000. Council's expected contribution to the plan for the next annual reporting period is \$249,000.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$747,000 as at 30 June 2017.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

(ii) Statewide Limited

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

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

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

(iii) Other guarantees

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other liabilities

(i) Third party claims

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

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

(ii) S94 plans

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

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

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

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

ASSETS NOT RECOGNISED:

(i) Infringement notices/fines

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

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

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

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

(ii) Mid North Coast Co-Op Library

Council together with other local government authorities have entered into an agreement to operate a regional library known as the Mid North Coast Co-Op Library. Annually, the Council contributes to the library to fund its activities based upon a prescribed formula. In the event that Council wishes to withdraw from the agreement, the assets and liabilities of the Regional Library attributable to Council will be determined by the Library Board of New South Wales.

Note 19. Interests in other entities

Council has no interest in any controlled entities, joint arrangements or associates.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		376,084	373,848
a. Net operating result for the year		384	2,236
Balance at end of the reporting period		376,468	376,084
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		629,486	661,150
Total		629,486	661,150
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		661,150	630,090
– Revaluations for the year	9(a)	(31,664)	31,060
– Balance at end of year		629,486	661,150
TOTAL VALUE OF RESERVES		629,486	661,150

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

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

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

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

(d) Voluntary changes in accounting policies

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2017	Actual 2017	Actual 2017
	Water	Sewer	General¹
Continuing operations			
Income from continuing operations			
Rates and annual charges	3,902	9,039	23,047
User charges and fees	7,036	1,238	10,386
Interest and investment revenue	154	52	1,012
Other revenues	–	–	76
Grants and contributions provided for operating purposes	207	112	15,544
Grants and contributions provided for capital purposes	399	746	3,075
Total income from continuing operations	11,698	11,187	53,140
Expenses from continuing operations			
Employee benefits and on-costs	1,762	1,961	16,795
Borrowing costs	1,153	1,012	409
Materials and contracts	1,997	1,968	15,439
Depreciation and amortisation	5,516	4,181	14,304
Impairment	–	–	–
Other expenses	1,938	1,641	399
Net losses from the disposal of assets	2,267	1,450	1,449
Share of interests in joint ventures and associates using the equity method	–	–	–
Total expenses from continuing operations	14,633	12,213	48,795
Operating result from continuing operations	(2,935)	(1,026)	4,345
Discontinued operations			
Net profit/(loss) from discontinued operations	–	–	–
Net operating result for the year	(2,935)	(1,026)	4,345
Net operating result attributable to each council fund	(2,935)	(1,026)	4,345
Net operating result attributable to non-controlling interests	–	–	–
Net operating result for the year before grants and contributions provided for capital purposes	(3,334)	(1,772)	1,270

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

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

Kempsey Shire Council

Notes to the Financial Statements

as at 30 June 2017

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

Statement of Financial Position by fund \$ '000	Actual 2017	Actual 2017	Actual 2017
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	6,060	9,165	26,706
Investments	–	–	–
Receivables	2,602	1,037	3,966
Inventories	–	–	318
Other	–	–	136
Total current assets	8,662	10,202	31,126
Non-current assets			
Investments	–	–	–
Receivables	–	–	469
Inventories	–	–	–
Infrastructure, property, plant and equipment	197,114	118,562	698,784
Investments accounted for using the equity method	–	–	–
Investment property	–	–	–
Intangible assets	–	–	–
Total non-current assets	197,114	118,562	699,253
TOTAL ASSETS	205,776	128,764	730,379
LIABILITIES			
Current liabilities			
Payables	125	96	4,232
Income received in advance	–	–	–
Borrowings	1,456	1,041	1,823
Provisions	–	–	7,719
Total current liabilities	1,581	1,137	13,774
Non-current liabilities			
Payables	–	–	567
Borrowings	18,762	17,634	5,219
Provisions	–	–	291
Total non-current liabilities	18,762	17,634	6,077
TOTAL LIABILITIES	20,343	18,771	19,851
Net assets	185,433	109,993	710,528
EQUITY			
Retained earnings	58,801	48,108	269,559
Revaluation reserves	126,632	61,885	440,969
Other reserves	–	–	–
Total equity	185,433	109,993	710,528

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000

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

Note 23. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2017) 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 09/11/17.

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 2017.

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

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

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2017 and which are only indicative of conditions that arose after 30 June 2017.

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

Note 24. Discontinued operations

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

Note 25. Intangible assets

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

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

Note 26. Reinstatement, rehabilitation and restoration liabilities

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

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

Previous waste depots operated at Stuarts Point, Kempsey and South West Rocks have been reinstated.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement

\$ '000

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

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

2017	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/17	–	–	10,393	10,393
Office equipment	30/06/17	–	–	882	882
Furniture and fittings	30/06/17	–	–	232	232
Operational land	30/06/13	–	–	23,899	23,899
Community land	30/06/16	–	–	29,879	29,879
Land Improvements – non depreciable	30/06/16	–	–	20,650	20,650
Land Improvements – depreciable	30/06/16	–	–	9,570	9,570
Buildings – non specialised	30/06/13	–	–	17,253	17,253
Buildings – specialised	30/06/13	–	–	6,502	6,502
Roads, bridges, footpaths	30/06/15	–	–	491,932	491,932
Stormwater drainage	30/06/15	–	–	76,273	76,273
Water supply network	1/07/16	–	–	190,923	190,923
Sewerage network	1/07/16	–	–	112,735	112,735
Swimming pools	30/06/16	–	–	1,273	1,273
Other open space/recreational assets	30/06/16	–	–	5,380	5,380
Other	30/06/16	–	–	524	524
Work in progress	30/06/17	–	–	16,160	16,160
Total infrastructure, property, plant and equipment		–	–	1,014,460	1,014,460

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

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

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

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

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Plant and equipment	Office equipment	Furniture and fittings	Operational land	Total
Opening balance – 1/7/15	9,632	707	267	23,899	34,505
Transfers from/(to) another asset class	14	–	–	–	14
Purchases (GBV)	2,780	257	38	–	3,075
Disposals (WDV)	(945)	–	–	–	(945)
Depreciation and impairment	(1,344)	(186)	(46)	–	(1,576)
Closing balance – 30/6/16	10,137	778	259	23,899	35,073
Purchases (GBV)	2,769	247	22	–	3,038
Disposals (WDV)	(1,050)	–	(1)	–	(1,051)
Depreciation and impairment	(1,463)	(143)	(48)	–	(1,654)
Closing balance – 30/6/17	10,393	882	232	23,899	35,406

	Community land	Land improvement -nt non-depr	Land improvement -ment depr	Buildings non- specialised	Total
Opening balance – 1/7/15	27,921	906	7,595	15,746	52,168
Purchases (GBV)	23	–	1,149	1,349	2,521
Disposals (WDV)	–	1	54	208	263
FV gains – other comprehensive income	–	–	(261)	(914)	(1,175)
Revaluation	1,935	–	–	–	1,935
Other movement	–	19,724	1,531	–	21,255
Closing balance – 30/6/16	29,879	20,631	10,068	16,389	76,967
Transfers from/(to) another asset class	–	–	(206)	–	(206)
Purchases (GBV)	–	19	56	26	101
Depreciation and impairment	–	–	(348)	(912)	(1,260)
Revaluations	–	–	–	1,750	1,750
Closing balance – 30/6/17	29,879	20,650	9,570	17,253	77,352

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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 – 1/7/15	7,860	497,334	78,049	189,491	772,734
Transfers from/(to) another asset class	(1,346)	–	–	–	(1,346)
Purchases (GBV)	–	9,937	117	3,222	13,276
Disposals (WDV)	–	(1,090)	–	(568)	(1,658)
Depreciation and impairment	(356)	(9,818)	(1,185)	(4,058)	(15,417)
FV gains – other comprehensive income	–	–	–	2,767	2,767
Closing balance – 30/6/16	6,158	496,363	76,981	190,854	770,356
Transfers from/(to) another asset class	–	–	278	–	278
Purchases (GBV)	56	6,533	217	1,982	8,788
Disposals (WDV)	(12)	(1,241)	(18)	(2,242)	(3,513)
Depreciation and impairment	(354)	(9,723)	(1,185)	(5,130)	(16,392)
Revaluation	654	–	–	5,459	6,113
Closing balance – 30/6/17	6,502	491,932	76,273	190,923	765,630

	Sewerage network	Other	WIP	Total
Opening balance – 1/7/15	155,138	1,318	1,021	157,477
Transfers from/(to) another asset class	–	(731)	–	(731)
Purchases (GBV)	2,302	77	6,997	9,376
Disposals (WDV)	(415)	–	–	(415)
Depreciation and impairment	(3,248)	(96)	–	(3,344)
Other movement (details here)	2,294	–	–	2,294
Closing balance – 30/6/16	156,071	568	8,018	164,657
Purchases (GBV)	1,911	–	8,142	10,053
Disposals (WDV)	(1,450)	–	–	(1,450)
Depreciation and impairment	(4,141)	(44)	–	(4,185)
Revaluation	(39,656)	–	–	(39,656)
Closing balance – 30/6/17	112,735	524	16,160	129,419

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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 – 1/7/15	1,346	2,878	4,224
Transfers from/(to) another asset class	–	(419)	(419)
Purchases (GBV)	–	70	70
Depreciation and impairment	(101)	(161)	(262)
Other movement	–	2,809	2,809
Closing balance – 30/6/16	1,245	5,177	6,422
Transfers from/(to) another asset class	–	(72)	(72)
Purchases (GBV)	–	693	693
Disposals (WDV)	–	(9)	(9)
Depreciation and impairment	(101)	(409)	(510)
Revaluation	129	–	129
Closing balance – 30/6/17	1,273	5,380	6,653

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

Nil

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

c. The valuation process for level 3 fair value measurements

Property, plant and equipment, furniture and fittings incorporates:

Major plant
Fleet vehicles
Minor plant
Furniture and fittings
Office equipment

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

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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

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.

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

The NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land under clause 31 of AASB 116.

Council fair values community land using unobservable Level 3 inputs based on inputs on either the UCV (Unimproved Capital Value) provided by the Valuer General or an average unit rate based on the UCV and allocated by Council against those properties where the Valuer General did not provide a UCV.

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

Land improvements – non depreciable and depreciable

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

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

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

Land improvements were valued at Fair value. There has been no change to the valuation process during the reporting period.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

Buildings – non-specialised and specialised

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

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

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

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

Council's buildings were subject to revaluation by an external valuer on 30 July 2013, and were subsequently indexed by 2.07% at 30/06/2014. The carrying value of buildings were assessed as at 30 June 2017 with reference to ABS indexation reference, Producer Price Index 6427 Table 17 Non Residential Building Construction NSW. Council's buildings have been indexed by 11.3% for 2016/17.

Roads, water and sewer networks.

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

The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. Valuations for the road, comprising surface, pavement, and formation were based on calculations carried out in 2015 utilising an internal engineering expertise utilising asset data sourced from pavement management survey and staff assessments. Water and Sewerage infrastructure was revalued at 1 July 2016 utilising a mix of internal engineering expertise and the use of external specialist valuers.

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

Stormwater Drainage

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

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

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

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

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

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

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

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

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

(5). Highest and best use

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

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 28. Related party disclosures

\$ '000

a. Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

	Actual
	2017
Compensation:	
Short-term benefits	3,077
Post-employment benefits	271
Other long-term benefits	85
Total	<u><u>3,433</u></u>

b. Other transactions with KMP and their related parties

Note 1 - Fees and Charges were received in relation to planning applications from two companies associated with Council's KMP. The applications relate to blocks of land in Gregory St, South West Rocks and Crescent Head Road, South Kempsey

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 29. Council information and contact details

Principal place of business:

22 Tozer Street
WEST KEMPSEY NSW 2440

Contact details**Mailing address:**

PO Box 3078
WEST KEMPSEY NSW 2440

Opening hours:

8:30 am to 4:30 pm
Monday to Friday

Telephone: 02 6566 3200

Facsimile: 02 6566 3205

Internet: www.kempsey.nsw.gov.au

Email: ksc@council.nsw.gov.au

Officers**GENERAL MANAGER**

Daryl Hagger

RESPONSIBLE ACCOUNTING OFFICER

DeAnna O'Neill

AUDITORS

NSW Audit Office
GPO Box 12
SYDNEY NSW 2001

Elected members**MAYOR**

Elizabeth Campbell

COUNCILLORS

Mark Baxter
Leo Hauville
Sue McGinn
Bruce Morris
Anthony Patterson
Dean Saul
Anna Shields
Ashley Williams

Other information

ABN: 70 705 618 663



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial statements
Kempsey Shire Council

To the Councillors of the Kempsey Shire Council

Opinion

I have audited the accompanying financial statements of Kempsey Shire Council (the Council), which comprise the statement of financial position as at 30 June 2017, the income statement, the 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.

In my opinion,

- 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 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

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

The Councillors' Responsibility for the Financial Statements

The Councillors are 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 Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, Note 2(a) and Note 16 budget variation explanations
- on the attached Special Schedules
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Reiky Jiang
Director, Financial Audit Services

9 November 2017
SYDNEY

Ms Liz Campbell
Mayor
Kempsey Shire Council
PO Box 78
WEST KEMPSEY NSW 2440

Contact: Reiky Jiang
Phone no: 02 9275 7100
Our ref: D1729605/1746

9 November 2017

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2017
Kempsey Shire Council**

I have audited the general purpose financial statements of the Kempsey Shire Council (the Council) for the year ended 30 June 2017 as required by s415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

SIGNIFICANT AUDIT ISSUES AND OBSERVATIONS

I did not identify any significant audit issues and observations during my audit of the Council's financial statements.

INCOME STATEMENT

Operating result

	2017	2016	Variance
	\$m	\$m	%
Rates and annual charges revenue	35.3	32.5	8.7 
Grants and contributions revenue	20.1	18.9	6.3 
Operating result for the year	0.4	2.2	81.8 
Net operating result before capital amounts	(3.8)	(2.3)	65.2 

The reduction in operating surplus was due to the following significant movements:

Total income from continuing operations increased by \$4.1 million due to:

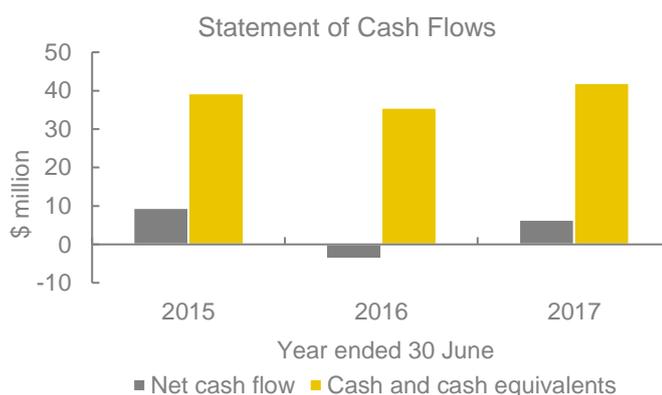
- ordinary rates increased by \$1.7 million. Council had an approved special general rate increase 10.0 per cent for the 2016/17 year
- annual charges increased by \$1.1 million
- grants and contributions provided for operating purposes increased by \$1.5 million due to:
 - the financial assistance grant increased by \$2.8 million as the Federal Government brought forward 50 per cent of the 2017/2018 financial assistance grant which was paid in June 2017
 - specific purpose grants declined by \$1.5 million mainly due to decreases in roads to recovery and community services grants.

Expenses from continuing operations increased by \$6.0 million due to:

- depreciation and amortisation increased by \$2.2 million. The increase was largely attributable to changes in depreciation methodology, useful lives and condition scores as a result of the comprehensive revaluation performed for Council's water supply and sewerage network as at 1 July 2016
- an increase in the net loss on disposal of Council's infrastructure assets of \$3.1 million.

STATEMENT OF CASH FLOWS

- Council's cash and cash equivalents increased by \$6.4 million during the current financial year.
- Cash used in investing activities decreased by \$3.4 million due to less expenditure on capital works.
- Cash used in financing activities decreased by \$4.9 million mainly due to the proceeds from new borrowings of \$4.5 million in the current year.



FINANCIAL POSITION

Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	26.2	22.0	Externally restricted balances include unexpended specific purpose loans and grants, developer contributions and other reserves. A number of externally restricted balances increased in the current year, most notably water fund reserves increased by \$2.1 million.
Internal restrictions	14.3	10.9	Balances are Internally restricted due to Council policy or decisions for forward plans including works program. New Corporate and Cinema reserves totalling \$5.6 million have been created in the current year.
Unrestricted	1.4	2.7	Unrestricted balances provide liquidity for day-to-day operations.
Cash and investments	41.9	35.6	

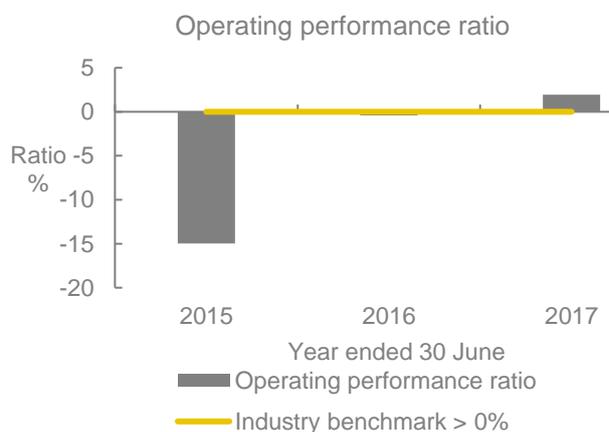
PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's unaudited Special Schedule 7.

Operating performance ratio

- Council has improved its operating performance ratio and now meets the industry benchmark.
- The increase in the ratio for the 2016/17 financial year is largely attributable to the receipt of 50 per cent of the 2017/18 financial assistance grant in June 2017.
- Council's water fund achieved a ratio of -2.24 percent for the year, which is below the industry benchmark.

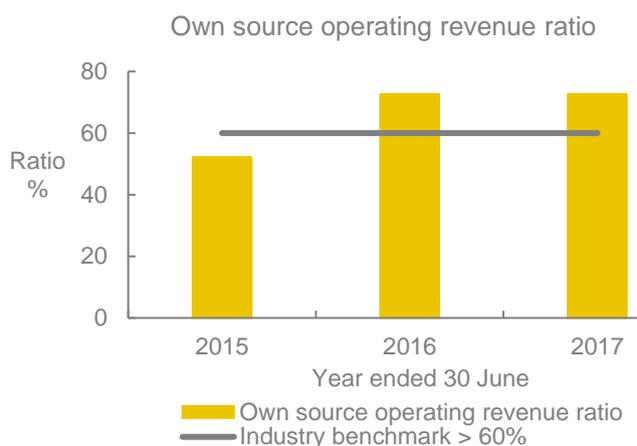
The 'operating performances ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.



Own source operating revenue ratio

- Council has met the industry benchmark for the own source operating revenue ratio over the past two years.
- Whilst the reduction from last year was only minor, this ratio was also impacted in 2016/17 by financial assistance grant funds received in advance.
- All funds achieved a ratio above the industry benchmark for the year.

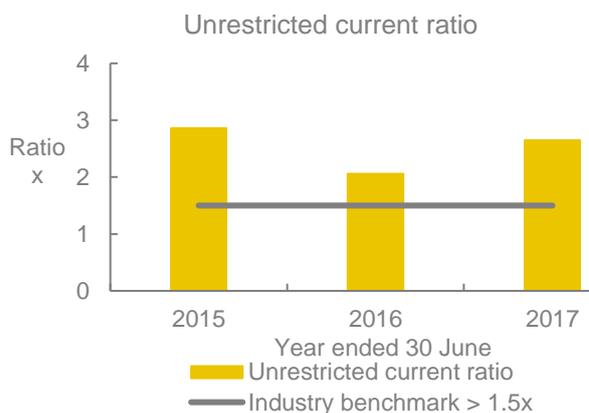
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

- Council's unrestricted current ratio continues to be well above the industry benchmark.
- The increase in the ratio as at 30 June 2017 is a reflection of an improvement in Council's unrestricted net current asset position.
- All funds achieved a ratio above the industry benchmark for the year.

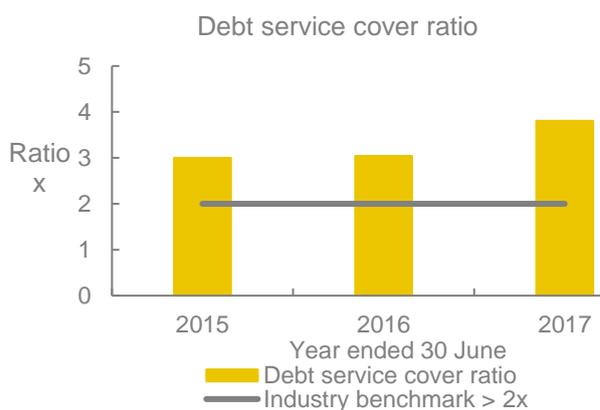
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

- Council's debt service cover ratio continues to be above the industry benchmark.
- Council's debt servicing obligations (principle plus interest) reduced in 2016/17 from the prior year leading to an improvement in this ratio.
- Water and sewer fund debt service cover ratios have improved in 2016/17 and all funds achieved a ratio above the industry benchmark for the year.

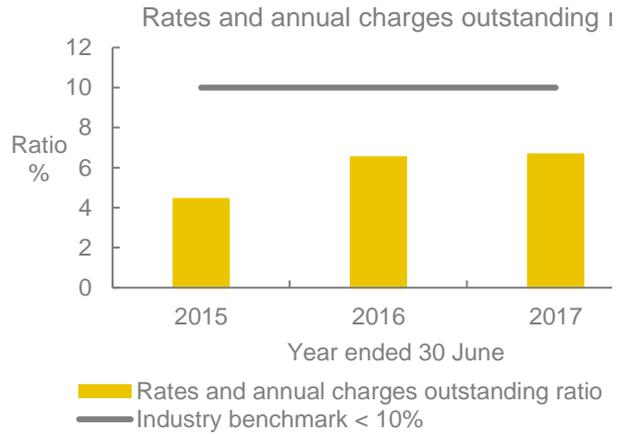
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

- Council's rates and annual charges outstanding ratio continues to meet the industry benchmark.
- Council's water fund achieved a ratio of 10.86 percent as at 30 June 2017, which is slightly above the industry benchmark.

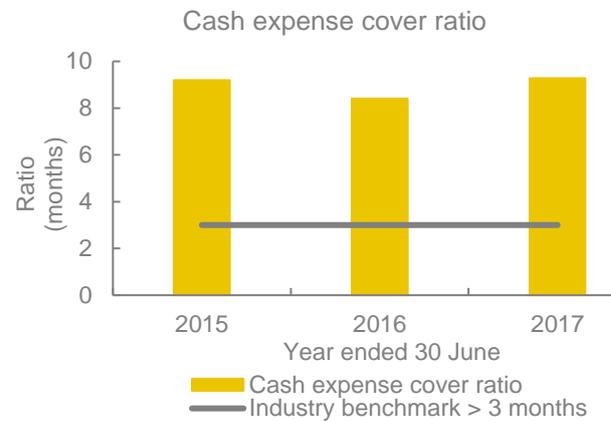
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.



Cash expense cover ratio

- Council's cash expense cover ratio continues to be well above the industry benchmark.
- All funds achieved cash expense cover ratios above the industry benchmark.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

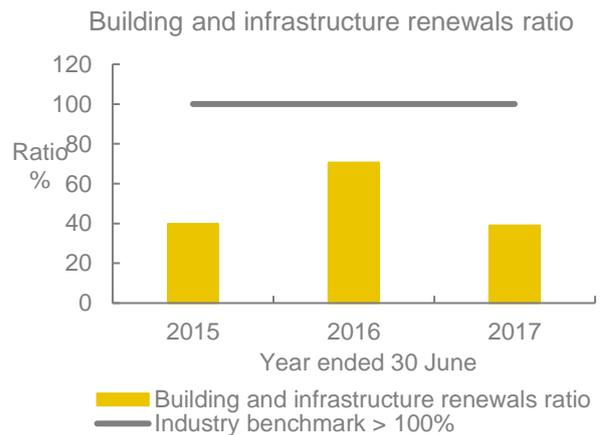


Building and infrastructure renewals ratio

- Council's building and infrastructure renewals ratio continues to fail to meet the industry benchmark by some margin.
- Council's asset renewal expenditure in the current year had not kept pace with the rate at which these assets were depreciating.
- No fund has achieved an asset renewal ratio above the industry benchmark.

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from council's Special Schedule 7 which has not been audited.



OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to not-for-profit public sector entities. Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of related party relationships
- amount and nature of related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

Yours sincerely



Reiky Jiang
Director, Financial Audit Services

9 November 2017
SYDNEY

cc: Mr Daryl Hagger, Acting General Manager
Mr Tim Hurst, Acting Chief Executive of the Office of Local Government

Kempsey Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

"Focusing on our community"



Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Contents	Page
1. Statement by Councillors and Management	2
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Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	n/a
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	6
Statement of Financial Position – Other Business Activities	n/a
3. Notes to the Special Purpose Financial Statements	7
4. Auditor’s Report	16

Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

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

Kempsey Shire Council

Special Purpose Financial Statements for the year ended 30 June 2017

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 19 September 2017.



Elizabeth Campbell
Mayor



Ashley Williams
Councillor



Daryl Hagger
General Manager



DeAnna O'Neill
Responsible Accounting Officer

Kempsey Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	3,902	3,682
User charges	6,855	6,206
Fees	181	294
Interest	154	144
Grants and contributions provided for non-capital purposes	207	223
Total income from continuing operations	11,299	10,549
Expenses from continuing operations		
Employee benefits and on-costs	1,762	1,754
Borrowing costs	1,153	1,249
Materials and contracts	1,961	1,597
Depreciation, amortisation and impairment	5,516	4,398
Water purchase charges	–	–
Loss on sale of assets	2,267	522
Calculated taxation equivalents	36	36
Debt guarantee fee (if applicable)	101	96
Other expenses	1,938	2,226
Total expenses from continuing operations	14,734	11,878
Surplus (deficit) from continuing operations before capital amounts	(3,435)	(1,329)
Grants and contributions provided for capital purposes	399	712
Surplus (deficit) from continuing operations after capital amounts	(3,036)	(617)
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	(3,036)	(617)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–
SURPLUS (DEFICIT) AFTER TAX	(3,036)	(617)
Plus opening retained profits	61,736	62,257
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	36	36
– Debt guarantee fees	101	96
– Corporate taxation equivalent	–	–
Less:		
– Tax equivalent dividend paid	(36)	(36)
– Surplus dividend paid	–	–
Closing retained profits	58,801	61,736
Return on capital %	-1.2%	0.0%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	(3,036)	(617)
Less: capital grants and contributions (excluding developer contributions)	–	(82)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Kempsey Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	9,039	8,368
User charges	843	715
Liquid trade waste charges	257	200
Fees	138	104
Interest	52	37
Grants and contributions provided for non-capital purposes	112	112
Total income from continuing operations	10,441	9,536
Expenses from continuing operations		
Employee benefits and on-costs	1,961	1,822
Borrowing costs	1,012	1,077
Materials and contracts	1,941	1,973
Depreciation, amortisation and impairment	4,181	3,273
Loss on sale of assets	1,450	415
Calculated taxation equivalents	26	26
Debt guarantee fee (if applicable)	93	89
Other expenses	1,641	1,896
Total expenses from continuing operations	12,305	10,571
Surplus (deficit) from continuing operations before capital amounts	(1,864)	(1,035)
Grants and contributions provided for capital purposes	746	520
Surplus (deficit) from continuing operations after capital amounts	(1,118)	(515)
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	(1,118)	(515)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–
SURPLUS (DEFICIT) AFTER TAX	(1,118)	(515)
Plus opening retained profits	49,133	49,559
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	26	26
– Debt guarantee fees	93	89
– Corporate taxation equivalent	–	–
Less:		
– Tax equivalent dividend paid	(26)	(26)
– Surplus dividend paid	–	–
Closing retained profits	48,108	49,133
Return on capital %	-0.7%	0.0%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	(1,118)	(515)
Less: capital grants and contributions (excluding developer contributions)	(180)	–
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 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	6,060	4,002
Investments	–	–
Receivables	2,602	2,518
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	8,662	6,520
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	197,114	195,720
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	197,114	195,720
TOTAL ASSETS	205,776	202,240
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	125	132
Income received in advance	–	–
Borrowings	1,456	1,481
Provisions	–	–
Total current liabilities	1,581	1,613
Non-current liabilities		
Payables	–	–
Borrowings	18,762	17,718
Provisions	–	–
Total non-current liabilities	18,762	17,718
TOTAL LIABILITIES	20,343	19,331
NET ASSETS	185,433	182,909
EQUITY		
Retained earnings	58,801	61,736
Revaluation reserves	126,632	121,173
Other reserves	–	–
Council equity interest	185,433	182,909
Non-controlling equity interest	–	–
TOTAL EQUITY	185,433	182,909

Kempsey Shire Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	9,165	8,627
Investments	–	–
Receivables	1,037	1,013
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current Assets	10,202	9,640
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	118,562	158,938
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	118,562	158,938
TOTAL ASSETS	128,764	168,578
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	96	98
Income received in advance	–	–
Borrowings	1,041	1,131
Provisions	–	–
Total current liabilities	1,137	1,229
Non-current liabilities		
Payables	–	–
Borrowings	17,634	16,675
Provisions	–	–
Total non-current liabilities	17,634	16,675
TOTAL LIABILITIES	18,771	17,904
NET ASSETS	109,993	150,674
EQUITY		
Retained earnings	48,108	49,134
Revaluation reserves	61,885	101,540
Other reserves	–	–
Council equity interest	109,993	150,674
Non-controlling equity interest	–	–
TOTAL EQUITY	109,993	150,674

Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Contents of the notes accompanying the financial statements

Note	Details	Page
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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 year ended 30 June 2017

Note 1. Significant accounting policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the Local Government (General) Regulation, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. 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' in 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 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

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

The pricing and costing guidelines outline the process for identifying and allocating costs to

activities and provide a standard for 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 and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

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

a. Water Supply

Water supply services within the Kempsey Shire Council Area

b. Sewerage Service

Sewerage services within the Kempsey Shire Council area

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

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

(i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

Note 1. Significant accounting policies (continued)

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 \$549,000 of combined land values attracts 0%. For the combined land values in excess of \$549,001 up to \$3,357,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,357,000 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 Department of Primary Industries Water (DPIW) 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 to in the NSW Office of Water Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the NSW Office of Water Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

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

Accordingly, the return on capital invested is set at a pre-tax level - gain/(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 gain/ (loss) from ordinary activities before capital amounts has been achieved.

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

Kempsey Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

Note 1. Significant accounting policies (continued)

(iii) Return on investments (rate of return)

The NCP 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'.

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

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

The rate of return 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 2.38% at 30/6/17.

(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.

Each dividend must be calculated and approved in accordance with the DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2017 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the DPIW guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the DPIW.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements

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

2017

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	137,000
(ii)	Number of assessments multiplied by \$3/assessment	36,129
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	36,129
(iv)	Amounts actually paid for tax equivalents	36,129

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	–
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	325,161
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	(3,295,000)

2017 Surplus	(3,036,000)	2016 Surplus	(699,000)	2015 Surplus	440,000
		2016 Dividend	–	2015 Dividend	–

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

3. Required outcomes for 6 criteria

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

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

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2017

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	11,592
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)]	%	58.35%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	194,623
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	5,475
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	3,930
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	0.33%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

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

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements

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

2017

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	119,000
(ii)	Number of assessments multiplied by \$3/assessment	26,487
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	26,487
(iv)	Amounts actually paid for tax equivalents	26,487

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	–
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	238,383
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	(3,083,000)

2017 Surplus	(1,298,000)	2016 Surplus	(515,000)	2015 Surplus	(1,270,000)
		2016 Dividend	–	2015 Dividend	–

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

3. Required outcomes for 4 criteria

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

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

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2017

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	11,039
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	118,426
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	5,213
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	4,771
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	1.44%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	38

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

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	19,028
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.38%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	8,701
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	0.75%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2017

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	8.01%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): 2,320 Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: 2,063 Interest expense (w4a + s4a) – interest income (w9 + s10)		1
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	(4,061)
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	262

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



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statement
Kempsey Shire Council

To the Councillors of the Kempsey Shire Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Kempsey Shire Council's (the Council) Declared Business Activities, which comprise the statement of financial position of each Declared Business Activity as at 30 June 2017, the income statement of each Declared Business Activity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Water Supply business activity
- Sewerage business activity.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2017, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

My opinion should be read in conjunction with the rest of this report and in particular, the Emphasis of Matter referring to the basis of accounting.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I 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 Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

The Councillors' Responsibility for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting, as it affects the Council's Declared Business Activities.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

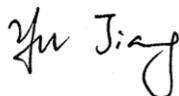
A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the best practice management disclosures in Notes 2 and 3 of the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Reiky Jiang
Director, Financial Audit Services

9 November 2017
SYDNEY

Kempsey Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2017

"Focusing on our community"



Kempsey Shire Council

Special Schedules

for the year ended 30 June 2017

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¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Kempsey Shire Council

Special Schedule 1 – Net Cost of Services
for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	447	–	–	(447)
Administration	9,183	486	–	(8,697)
Public order and safety				
Fire service levy, fire protection, emergency services	854	271	374	(209)
Beach control	174	3	–	(171)
Enforcement of local government regulations	8	2	–	(6)
Animal control	23	23	–	–
Other	–	–	–	–
Total public order and safety	1,059	299	374	(386)
Health	–	89	–	89
Environment				
Noxious plants and insect/vermin control	517	360	–	(157)
Other environmental protection	576	156	–	(420)
Solid waste management	7,791	8,507	160	876
Street cleaning	286	–	–	(286)
Drainage	1,218	125	11	(1,082)
Stormwater management	445	–	45	(400)
Total environment	10,833	9,148	216	(1,469)
Community services and education				
Administration and education	12	3	–	(9)
Social protection (welfare)	265	489	304	528
Aged persons and disabled	600	74	–	(526)
Children's services	7	14	–	7
Total community services and education	884	580	304	–
Housing and community amenities				
Public cemeteries	322	275	–	(47)
Public conveniences	469	–	–	(469)
Street lighting	612	81	–	(531)
Town planning	159	573	19	433
Other community amenities	–	–	–	–
Total housing and community amenities	1,562	929	19	(614)
Water supplies	14,493	10,906	399	(3,188)
Sewerage services	12,019	10,195	745	(1,079)

Kempsey Shire Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	897	69	37	(791)
Museums	–	13	–	13
Art galleries	–	–	–	–
Community centres and halls	290	22	–	(268)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	108	27	–	(81)
Sporting grounds and venues	710	9	52	(649)
Swimming pools	781	1	–	(780)
Parks and gardens (lakes)	1,797	8	88	(1,701)
Other sport and recreation	–	7	–	7
Total recreation and culture	4,583	156	177	(4,250)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	4	286	–	282
Other mining, manufacturing and construction	59	–	–	(59)
Total mining, manufacturing and const.	63	286	–	223
Transport and communication				
Urban roads (UR) – local	2,389	1,888	327	(174)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	3,529	25	615	(2,889)
Sealed rural roads (SRR) – regional	3,311	2,010	536	(765)
Unsealed rural roads (URR) – local	3,560	–	22	(3,538)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	36	–	–	(36)
Bridges on SRR – local	345	–	–	(345)
Bridges on URR – local	213	–	–	(213)
Bridges on regional roads	208	–	–	(208)
Parking areas	97	29	–	(68)
Footpaths	560	36	–	(524)
Aerodromes	407	65	65	(277)
Other transport and communication	470	–	270	(200)
Total transport and communication	15,125	4,053	1,835	(9,237)
Economic affairs				
Camping areas and caravan parks	1,609	3,667	151	2,209
Other economic affairs	1,024	853	–	(171)
Total economic affairs	2,633	4,520	151	2,038
Totals – functions	72,884	41,647	4,220	(27,017)
General purpose revenues ⁽¹⁾		27,401		27,401
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	72,884	69,048	4,220	384

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

(2) As reported in the Income Statement

Kempsey Shire Council

Special Schedule 2(a) – Statement of Long Term Debt (all purpose)

for the year ended 30 June 2017

\$'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	–	–	–							–	–
NSW Treasury Corporation	–	–	–							–	–
Other State Government	188	77	265	–	169	–	–	9	45	51	96
Public subscription	–	–	–							–	–
Financial institutions	4,572	41,339	45,911	4,500	4,572	–	–	2,565	4,275	41,564	45,839
Other	–	–	–							–	–
Total loans	4,760	41,416	46,176	4,500	4,741	–	–	2,574	4,320	41,615	45,935
Other long term debt											
Ratepayers advances	–	–	–							–	–
Government advances	–	–	–							–	–
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
Total long term debt	–	–	–	–	–	–	–	–	–	–	–
Total debt	4,760	41,416	46,176	4,500	4,741	–	–	2,574	4,320	41,615	45,935

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

Kempsey Shire Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	1,037	1,131
b. Engineering and supervision	988	1,097
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	183	161
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	215	24
d. Maintenance expenses	821	986
– Reservoirs		
e. Operation expenses	–	4
f. Maintenance expenses	–	1
– Pumping stations		
g. Operation expenses (excluding energy costs)	72	–
h. Energy costs	436	399
i. Maintenance expenses	211	238
– Treatment		
j. Operation expenses (excluding chemical costs)	1,012	883
k. Chemical costs	169	194
l. Maintenance expenses	290	303
– Other		
m. Operation expenses	13	62
n. Maintenance expenses	28	49
o. Purchase of water	–	–
3. Depreciation expenses		
a. System assets	5,131	4,058
b. Plant and equipment	385	340
4. Miscellaneous expenses		
a. Interest expenses	1,153	1,249
b. Revaluation decrements	–	–
c. Other expenses	154	17
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	33	63
g. Tax equivalents dividends (actually paid)	36	–
5. Total expenses	12,367	11,259

Kempsey Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges		
a. Access (including rates)	3,011	2,873
b. Usage charges	4,218	3,649
7. Non-residential charges		
a. Access (including rates)	892	809
b. Usage charges	2,637	2,557
8. Extra charges	104	94
9. Interest income	50	50
10. Other income	181	294
10a. Aboriginal Communities Water and Sewerage Program	57	73
11. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	150	150
c. Other grants	–	–
12. Contributions		
a. Developer charges	399	630
b. Developer provided assets	–	–
c. Other contributions	–	82
13. Total income	11,699	11,261
14. Gain (or loss) on disposal of assets	(2,267)	(522)
15. Operating result	(2,935)	(520)
15a. Operating result (less grants for acquisition of assets)	(2,935)	(520)

Kempsey Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	527	625
c. Renewals	2,637	2,597
d. Plant and equipment	766	787
17. Repayment of debt	1,481	1,550
18. Totals	5,411	5,559
Non-operating funds employed		
19. Proceeds from disposal of assets	211	363
20. Borrowing utilised	2,161	986
21. Totals	2,372	1,349
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	10,363	10,302
b. Residential (unoccupied, ie. vacant lot)	367	359
c. Non-residential (occupied)	1,258	1,286
d. Non-residential (unoccupied, ie. vacant lot)	55	43
23. Number of ETs for which developer charges were received	42 ET	50 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 273,187	\$ 273,240

Kempsey Shire Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	1,209	–	1,209
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	420	–	420
e. Sinking fund	–	–	–
f. Other	4,431	–	4,431
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	487	–	487
c. User charges	2,112	–	2,112
d. Other	3	–	3
27. Inventories	–	–	–
28. Property, plant and equipment			
a. System assets	–	194,623	194,623
b. Plant and equipment	–	2,491	2,491
29. Other assets	–	–	–
30. Total assets	8,662	197,114	205,776
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	125	–	125
33. Borrowings	1,456	18,762	20,218
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	1,581	18,762	20,343
36. NET ASSETS COMMITTED	7,081	178,352	185,433
EQUITY			
37. Accumulated surplus			58,801
38. Asset revaluation reserve			126,632
39. Other reserves			–
40. TOTAL EQUITY			185,433
Note to system assets:			
41. Current replacement cost of system assets			273,754
42. Accumulated current cost depreciation of system assets			(79,131)
43. Written down current cost of system assets			194,623

Kempsey Shire Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	579	845
b. Engineering and supervision	1,057	1,035
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	4	10
b. Maintenance expenses	574	548
– Pumping stations		
c. Operation expenses (excluding energy costs)	165	236
d. Energy costs	243	201
e. Maintenance expenses	419	341
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	1,050	996
g. Chemical costs	314	150
h. Energy costs	227	200
i. Effluent management	–	–
j. Biosolids management	202	336
k. Maintenance expenses	345	295
– Other		
l. Operation expenses	16	34
m. Maintenance expenses	18	23
3. Depreciation expenses		
a. System assets	4,142	3,248
b. Plant and equipment	39	25
4. Miscellaneous expenses		
a. Interest expenses	1,012	1,077
b. Revaluation decrements	–	–
c. Other expenses	322	433
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	7	36
g. Tax equivalents dividends (actually paid)	26	–
5. Total expenses	10,761	10,069

Kempsey Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges (including rates)	7,619	7,045
7. Non-residential charges		
a. Access (including rates)	1,420	1,323
b. Usage charges	843	715
8. Trade waste charges		
a. Annual fees	36	31
b. Usage charges	257	200
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	–	–
10. Interest income	52	37
11. Other income	45	34
11a. Aboriginal Communities Water and Sewerage Program	57	41
12. Grants		
a. Grants for acquisition of assets	38	–
b. Grants for pensioner rebates	112	112
c. Other grants	–	–
13. Contributions		
a. Developer charges	707	520
b. Developer provided assets	–	–
c. Other contributions	–	–
14. Total income	<u>11,186</u>	<u>10,058</u>
15. Gain (or loss) on disposal of assets	(1,450)	(415)
16. Operating result	<u>(1,025)</u>	<u>(426)</u>
16a. Operating result (less grants for acquisition of assets)	(1,063)	(426)

Kempsey Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	520	344
c. Renewals	4,190	1,958
d. Plant and equipment	61	53
18. Repayment of debt	1,131	1,091
19. Totals	5,902	3,446
Non-operating funds employed		
20. Proceeds from disposal of assets	857	–
21. Borrowing utilised	2,258	1,482
22. Totals	3,115	1,482
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	7,861	7,775
b. Residential (unoccupied, ie. vacant lot)	315	354
c. Non-residential (occupied)	610	606
d. Non-residential (unoccupied, ie. vacant lot)	43	44
24. Number of ETs for which developer charges were received	33 ET	44 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 202,857	\$ 203,857

Kempsey Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	1,897	–	1,897
b. Special purpose grants	38	–	38
c. Accrued leave	–	–	–
d. Unexpended loans	1,751	–	1,751
e. Sinking fund	–	–	–
f. Other	5,478	–	5,478
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	622	–	622
c. User charges	316	–	316
d. Other	100	–	100
28. Inventories	–	–	–
29. Property, plant and equipment			
a. System assets	–	118,426	118,426
b. Plant and equipment	–	136	136
30. Other assets	–	–	–
31. Total assets	10,202	118,562	128,764
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	96	–	96
34. Borrowings	1,041	17,634	18,675
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	1,137	17,634	18,771
37. NET ASSETS COMMITTED	9,065	100,928	109,993
EQUITY			
38. Accumulated surplus			48,108
39. Asset revaluation reserve			61,885
40. Other reserves			–
41. TOTAL EQUITY			109,993
Note to system assets:			
42. Current replacement cost of system assets			218,062
43. Accumulated current cost depreciation of system assets			(99,636)
44. Written down current cost of system assets			118,426

Kempsey Shire Council

Notes to Special Schedules 3 and 5 for the year ended 30 June 2017

Administration ⁽¹⁾

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Other technical and supervision staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.

Operational expenses (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

Maintenance expenses (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

Other expenses (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

Impairment losses (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

Aboriginal Communities Water and Sewerage Program (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

Residential charges ⁽²⁾ (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

Non-residential charges ⁽²⁾ (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

Other income (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

Other contributions (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*.

Notes:

⁽¹⁾ Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

⁽²⁾ To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – non-specialised	655	655	489	481	17,253	41,360	13%	39%	26%	6%	16%
	Buildings – specialised	4	4	219	219	6,502	13,972	13%	44%	15%	13%	15%
	Sub-total	659	659	708	700	23,755	55,332	13.2%	40.4%	22.9%	7.6%	15.8%
Roads	Sealed Roads	13,492	13,492	3,489	3,050	172,915	249,553	68%	14%	7%	2%	8%
	Unsealed Roads	1,942	1,942	1,518	1,373	11,241	23,523	12%	1%	76%	7%	3%
	Bridges	–	–	164	164	35,022	60,174	42%	42%	12%	3%	1%
	Footpaths	420	420	88	85	10,004	23,244	8%	12%	59%	20%	1%
	Other road assets	384	384	266	266	40,868	80,831	20%	17%	54%	9%	0%
	Bulk earthworks	–	–	–	–	221,882	221,882	100%	0%	0%	0%	0%
Sub-total	16,238	16,238	5,525	4,938	491,932	659,207	66.6%	11.8%	15.3%	3.1%	3.2%	
Water supply network	Water supply network	20,611	20,611	2,121	3,553	190,923	270,055	30%	50%	12%	8%	0%
	Sub-total	20,611	20,611	2,121	3,553	190,923	270,055	30.0%	50.0%	12.0%	8.0%	0.0%
Sewerage network	Sewerage network	34,387	34,387	4,380	4,661	112,735	212,359	19%	43%	17%	16%	5%
	Sub-total	34,387	34,387	4,380	4,661	112,735	212,359	19.0%	43.0%	17.0%	16.0%	5.0%

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	292	292	324	322	76,273	121,408	36%	40%	19%	3%	2%
	Sub-total	292	292	324	322	76,273	121,408	36.2%	39.6%	19.0%	2.9%	2.2%
Open space/recreational assets	Swimming pools/Other Recreation	–	–	2,204	2,204	6,653	15,592	19%	44%	27%	5%	4%
	Sub-total	–	–	2,204	2,204	6,653	15,592	19.3%	43.8%	27.5%	5.0%	4.4%
	TOTAL – ALL ASSETS	72,187	72,187	15,262	16,378	902,271	1,333,953	46.1%	28.6%	15.7%	6.4%	3.3%

Notes:

a Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

1	Excellent	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Average	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2017

\$ '000	Amounts	Indicator	Benchmark	Prior periods	
	2017	2017		2016	2015
Infrastructure asset performance indicators * consolidated					
1. Infrastructure renewals ratio					
Asset renewals ⁽¹⁾	<u>8,533</u>	38.87%	>= 100%	62.36%	39.85%
Depreciation, amortisation and impairment	<u>21,955</u>				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	<u>72,187</u>	10.61%	< 2.00%	11.67%	17.91%
Net carrying amount of infrastructure assets	<u>680,389</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>16,378</u>	1.07	> 1.00	0.97	0.79
Required asset maintenance	<u>15,262</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>72,187</u>	5.41%		0.00%	
Gross replacement cost	<u>1,333,953</u>				

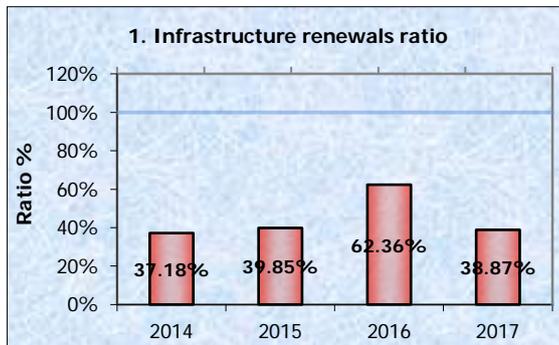
Notes

* All asset performance indicators are calculated using the asset classes identified in the previous table.

(1) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2017



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.

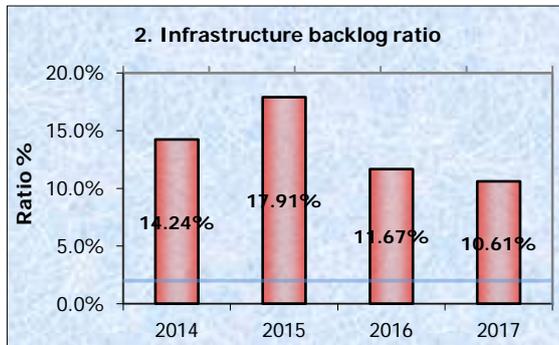
Commentary on 2016/17 result

2016/17 Ratio 38.87%

Council's ratio is under benchmark. Strategies within the Council ten year financial plan focus on improving this ratio.

Benchmark: 100.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves 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.

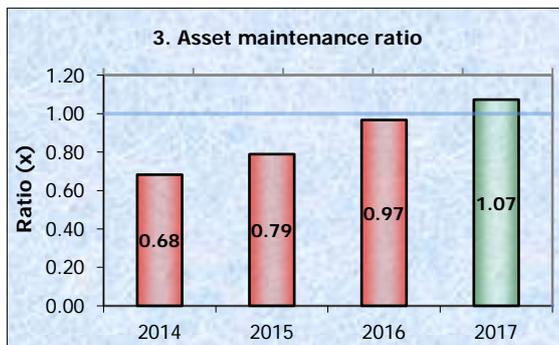
Commentary on 2016/17 result

2016/17 Ratio 10.61%

Council's ratio of 10.61% is above benchmark with individual funds being General 4.45%, Water 10.8% and Sewer 30.5%.

Benchmark: 2.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves 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 2016/17 result

2016/17 Ratio 1.07 x

Council's ratio is marginally above benchmark and reflects an increased focus on asset maintenance

Benchmark: 1.00
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves benchmark
Ratio is outside benchmark

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2017

\$ '000	Benchmark	Water 2017	Sewer 2017	General ⁽¹⁾ 2017
Infrastructure asset performance indicators by fund				
1. Infrastructure renewals ratio				
<u>Asset renewals ⁽²⁾</u>	>= 100%	28.36%	30.19%	45.95%
Depreciation, amortisation and impairment	prior period:	79.40%	70.87%	54.63%
2. Infrastructure backlog ratio				
<u>Estimated cost to bring assets to a satisfactory standard</u>	< 2.00	10.80%	30.50%	4.45%
Net carrying amount of infrastructure assets	prior period:	14.09%	36.52%	0.27%
3. Asset maintenance ratio				
<u>Actual asset maintenance</u>	> 1.00	1.68	1.06	0.93
Required asset maintenance	prior period:	0.92	0.97	0.99
4. Cost to bring assets to agreed service level				
<u>Estimated cost to bring assets to an agreed service level set by Council</u>		7.63%	16.19%	2.02%
Gross replacement cost	prior period:	0.00%	0.00%	0.00%

Notes

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Kempsey Shire Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2018

\$'000		Calculation 2016/17	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	16,946	18,685
Plus or minus adjustments ⁽²⁾	b	30	90
Notional general income	c = (a + b)	16,976	18,775
Permissible income calculation			
Special variation percentage ⁽³⁾	d	10.00%	4.00%
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)	1,698	751
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)	18,674	19,526
Plus (or minus) last year's carry forward total	l	16	5
Less valuation objections claimed in the previous year	m	–	–
Sub-total	n = (l + m)	16	5
Total permissible income	o = k + n	18,690	19,531
Less notional general income yield	p	18,685	19,489
Catch-up or (excess) result	q = o – p	5	42
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	–	–
Less unused catch-up ⁽⁵⁾	s	–	(5)
Carry forward to next year	t = q + r – s	5	37

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule No. 8

Kempsey Shire Council

To the Councillors of Kempsey Shire Council

Opinion

I have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Kempsey Shire Council (the Council) for the year ending 30 June 2018.

In my opinion, Special Schedule No. 8 of Kempsey Shire Council for 2017-18 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report, and in particular the Emphasis of Matter paragraph, which describes the basis of accounting.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of Special Schedule No.8' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the notes and explanations in Special Schedule No. 8 that instruct councils in its preparation so it complies with OLG's requirements as described in the LG Code. As a result, Special Schedule No. 8 may not be suitable for another purpose.

Councillors' Responsibility for Special Schedule No. 8

The Councillors of the Council are responsible for the preparation of Special Schedule No. 8 in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error.

In preparing Special Schedule No.8, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of Special Schedule No. 8

My objectives are to:

- obtain reasonable assurance whether Special Schedule No. 8 as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on Special Schedule No.8.

A description of my responsibilities for the audit of Special Schedule No.8 is located at the Auditing and Assurance Standards Board website at http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Special Schedule No.8 on any website where they may be presented
- about any other information which may have been hyperlinked to/from Special Schedule No 8.



Reiky Jiang
Director, Financial Audit Services

9 November 2017
SYDNEY



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