

2017-2018 Annual Report

Part C:
Audited Financial
Statements



Kempsey Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

"Focusing on our community"



Kempsey Shire Council

General Purpose Financial Statements

for the year ended 30 June 2018

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Overview

Kempsey Shire Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

22 Tozer Street
WEST KEMPSEY NSW 2440

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).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.kempsey.nsw.gov.au.

Kempsey Shire Council

General Purpose Financial Statements for the year ended 30 June 2018

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 2018.

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 2018

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 other pronouncements of the Australian Accounting Standards Board
- 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,
- 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 16 October 2018.



Elizabeth Campbell
Mayor
16 October 2018



Ashley Williams
Councillor
16 October 2018



Craig Milburn
General Manager
16 October 2018



Ron Wood
Responsible Accounting Officer
16 October 2018

Kempsey Shire Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Income from continuing operations				
<i>Revenue:</i>				
36,579	Rates and annual charges	3a	37,390	35,285
16,645	User charges and fees	3b	15,566	16,606
1,069	Interest and investment revenue	3c	1,237	1,218
66	Other revenues	3d	153	76
10,349	Grants and contributions provided for operating purposes	3e,f	18,625	15,863
3,889	Grants and contributions provided for capital purposes	3e,f	65,326	4,220
68,597	Total income from continuing operations		138,297	73,268
Expenses from continuing operations				
21,595	Employee benefits and on-costs	4a	20,642	20,518
3,897	Borrowing costs	4b	2,487	2,574
14,601	Materials and contracts	4c	18,924	16,647
22,246	Depreciation and amortisation	4d	24,818	24,001
4,543	Other expenses	4e	3,802	3,978
	Net losses from the disposal of assets	5	5,087	5,166
66,882	Total expenses from continuing operations		75,760	72,884
1,715	Operating result from continuing operations		62,537	384
1,715	Net operating result for the year		62,537	384
1,715	Net operating result attributable to Council		62,537	384
(2,174)	Net operating result for the year before grants and contributions provided for capital purposes		(2,789)	(3,836)

Kempsey Shire Council

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Net operating result for the year (as per Income Statement)		62,537	384
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	6,467	(31,664)
Total items which will not be reclassified subsequently to the operating result		6,467	(31,664)
Total other comprehensive income for the year		6,467	(31,664)
Total comprehensive income for the year		69,004	(31,280)
Total comprehensive income attributable to Council		69,004	(31,280)

Kempsey Shire Council

Statement of Financial Position
as at 30 June 2018

\$ '000	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	6a	18,647	41,931
Investments	6b	31,500	–
Receivables	7	8,083	7,605
Inventories	8	525	318
Other	8	101	136
Total current assets		58,856	49,990
Non-current assets			
Receivables	7	379	469
Infrastructure, property, plant and equipment	9	1,075,489	1,014,460
Total non-current assets		1,075,868	1,014,929
TOTAL ASSETS		1,134,724	1,064,919
LIABILITIES			
Current liabilities			
Payables	10	5,863	4,453
Borrowings	10	4,106	4,320
Provisions	11	6,801	7,719
Total current liabilities		16,770	16,492
Non-current liabilities			
Payables	10	670	567
Borrowings	10	42,010	41,615
Provisions	11	316	291
Total non-current liabilities		42,996	42,473
TOTAL LIABILITIES		59,766	58,965
Net assets		1,074,958	1,005,954
EQUITY			
Accumulated surplus	12	439,005	376,468
Revaluation reserves	12	635,953	629,486
Council equity interest		1,074,958	1,005,954
Total equity		1,074,958	1,005,954

Kempsey Shire Council

Statement of Changes in Equity

for the year ended 30 June 2018

\$ '000	Notes	2018			2017		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		376,468	629,486	1,005,954	376,084	661,150	1,037,234
Net operating result for the year		62,537	–	62,537	384	–	384
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9	–	6,467	6,467	–	(31,664)	(31,664)
Other comprehensive income		–	6,467	6,467	–	(31,664)	(31,664)
Total comprehensive income		62,537	6,467	69,004	384	(31,664)	(31,280)
Equity – balance at end of the reporting period		439,005	635,953	1,074,958	376,468	629,486	1,005,954

Kempsey Shire Council

Statement of Cash Flows
for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Cash flows from operating activities				
Receipts:				
36,523	Rates and annual charges		37,470	34,988
18,227	User charges and fees		16,118	17,961
1,080	Investment and interest revenue received		1,203	1,247
15,180	Grants and contributions		25,075	20,807
1,715	Other		3,353	2,498
Payments:				
(21,479)	Employee benefits and on-costs		(21,608)	(21,183)
(18,087)	Materials and contracts		(21,945)	(21,383)
(3,789)	Borrowing costs		(2,517)	(2,598)
(5,200)	Other		(4,147)	(4,344)
24,170	Net cash provided (or used in) operating activities	13b	33,002	27,993
Cash flows from investing activities				
Receipts:				
–	Sale of infrastructure, property, plant and equipment		1,598	857
17	Deferred debtors receipts		1	–
Payments:				
–	Purchase of investment securities		(31,500)	–
(29,060)	Purchase of infrastructure, property, plant and equipment		(26,566)	(22,228)
(29,043)	Net cash provided (or used in) investing activities		(56,467)	(21,371)
Cash flows from financing activities				
Receipts:				
6,633	Proceeds from borrowings and advances		4,500	4,500
Payments:				
(4,512)	Repayment of borrowings and advances		(4,319)	(4,741)
2,121	Net cash flow provided (used in) financing activities		181	(241)
(2,752)	Net increase/(decrease) in cash and cash equivalents		(23,284)	6,381
33,556	Plus: cash and cash equivalents – beginning of year	13a	41,931	35,550
30,804	Cash and cash equivalents – end of the year	13a	18,647	41,931
Additional Information:				
	plus: Investments on hand – end of year	6b	31,500	–
	Total cash, cash equivalents and investments		50,147	41,931

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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n/a – not applicable

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 31/10/2018.

Council has the power to amend and reissue these financial statements.

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.

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.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 17 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

Council adopted the following Australian accounting standard amendments for these financial statements:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This disclosure Initiative helps users of financial statements to better understand changes in an entity's debt.

Additional disclosures relating to changes in liabilities arising from financing activities (including both changes arising from cash flows and non-cash changes) have been incorporated in these financial statements at Note 10 (c).

- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

This Standard means that Not-for-profit entities (and therefore Council) no longer need to consider AASB 136 Impairment of Assets for non-cash-generating specialised assets at fair value.

Instead it is expected that for Not-for-profit entities holding non-cash-generating the recoverable amount of these assets is expected to be materially the same as fair value, determined under AASB 13 Fair Value Measurement.

(b) 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 infrastructure, property, plant and equipment and investment property.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

(c) 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 – refer Note 9,
- (ii) employee benefit provisions – refer Note 11.

Significant judgements in applying the Council's accounting policies

- (iii) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993 (NSW)*, all money and other assets 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 service
- Sewerage service
- Domestic waste management service

(b) 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 other assets 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 other assets subject to Council's control have been included in 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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 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.

Defined Benefit Superannuation 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 payment is available.

Council participates in a defined benefits superannuation scheme called the Local Government Superannuation Scheme – Pool B (Scheme). Pooled Employers from a sub-group of the Scheme with over 170 employers supporting over 8,700 employees and ex-employees.

The Scheme is considered to be a defined benefit multi-employer plan for the following reasons:

1. Assets are not aggregated within a sub-group according to the employees of each sponsoring employer.
2. The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each supporting employer according to the experience relating to the employees of that sponsoring employer.
3. Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
4. The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times employee contributions
Division C	2.5 salaries
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2017.

The adequacy of contributions is assessed at each triennial actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

However, there is no relief under the Funds' trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal from the entity.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

There is no provision for allocation of any surplus which may be present at the date of withdrawal of an employer.

The estimated employer reserves financial position for the Pooled Employers at 20 June 2018 is:

Employer reserves only	\$millions	Asset Coverage
Assets \$1,817.8 million	1,817.80	
Past Service Liabilities	1,787.50	101.70%
Vested Benefits	1,778.00	102.20%

The key economic long term assumptions used to calculate the present value of accrued benefits are:

- Investment return 6.0% per annum
- Salary inflation plus promotion increases 3.5% per annum
- Increase in CPI 2.5% per annum

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in degerming the funding program; however, any, adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the 2018 triennial review will be completed around December 2018.

The implications are that additional contributions are estimated to remain in place until 30 June 2021.

It is estimated that there are \$693,000 additional contributions still remaining.

It is estimated that Council's level of participation in the Scheme compared with other participating Pooled Employers is approximately 0.58%.

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.

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

Effective for annual reporting periods beginning on or after 1 July 2018

- AASB 9 *Financial Instruments*

This replaces AASB 139 *Financial Instruments: Recognition and Measurement*, and addresses the classification, measurement and disclosure of financial assets and liabilities.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses.

Based on assessments to date, Council expects a small increase to impairment losses however the standard is not expected to have a material impact overall.

Effective for annual reporting periods beginning on or after 1 July 2019

- AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 2016-8 *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

While Council is still reviewing the way that income is measured and recognised to identify whether there will be any material impact arising from these standards, these standards may affect the timing of the recognition of some grants and donations.

- AASB 16 *Leases*

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

It is likely that some of these leases will need to be included in the Statement of Financial Position when this standard comes into effect.

A lease liability will initially be measured at the present value of the lease payments to be made over the lease term.

A corresponding right-of-use asset will also be recognised over the lease term.

Council has not elected to apply any pronouncements before their operative date in these financial statements.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Governance	31,315	27,930	11,485	9,217	19,830	18,713	6,248	8,737	12,088	35,652
Healthy	34,255	33,432	37,897	39,188	(3,642)	(5,756)	1,631	2,205	424,195	407,551
Wealthy	70,688	10,342	19,762	18,453	50,926	(8,111)	4,855	2,399	599,867	532,475
Safe	1,411	1,204	2,633	2,807	(1,222)	(1,603)	1,347	1,177	27,984	60,008
Connected	628	360	3,983	3,219	(3,355)	(2,859)	570	227	64,304	29,233
Total functions and activities	138,297	73,268	75,760	72,884	62,537	384	14,651	14,745	1,134,724	1,064,919

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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, as well as financial and administrative services, human resources, public relations and information technology.

Healthy

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.

Wealthy

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.

Connected

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 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	13,505	13,039
Farmland	3,067	2,828
Business	1,976	1,845
Total ordinary rates	18,548	17,712
Special rates		
Nil		
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	4,476	4,383
Stormwater management services	201	–
Water supply services	3,802	3,663
Sewerage services	9,647	8,862
Waste management services (non-domestic)	344	294
On-site sewerage management charge	372	371
Total annual charges	18,842	17,573
TOTAL RATES AND ANNUAL CHARGES	37,390	35,285

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

Accounting policy for rates and annual charges

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees		
Specific user charges (per s.502 – specific 'actual use' charges)		
Water supply services	7,003	6,701
Sewerage services	1,096	1,032
Waste management services (non-domestic)	1,512	2,171
Total specific user charges	9,611	9,904
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Discretionary fees	882	838
Private works – section 67	92	402
Regulatory/ statutory fees	485	638
Section 149 certificates (EPA Act)	124	–
Section 603 certificates	70	–
Total fees and charges – statutory/regulatory	1,653	1,878
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	61	65
Aged housing rental	44	60
Caravan parks and camping grounds	3,234	3,636
Cemeteries	321	275
Property rentals	168	148
Saleyards	266	320
Sewerage services	103	138
Water supply	103	181
Other	2	1
Total fees and charges – other	4,302	4,824
TOTAL USER CHARGES AND FEES	15,566	16,606

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(c) Interest and investment revenue (including losses)		
Interest		
– Overdue rates and annual charges (incl. special purpose rates)	212	401
– Cash and investments	1,025	817
TOTAL INTEREST AND INVESTMENT REVENUE	1,237	1,218
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	212	401
General Council cash and investments	796	575
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	37	36
– Section 64	78	69
Water fund operations	100	111
Sewerage fund operations	14	26
Total interest and investment revenue recognised	1,237	1,218

Accounting policy for interest and investment revenue

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

(d) Other revenues

Fines	30	33
Insurance claim recoveries	5	–
Long service leave contributions	24	–
OH&S incentive rebate	94	43
TOTAL OTHER REVENUE	153	76

Accounting policy for other revenue

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.

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

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	5,862	8,327	–	–
Other				
Pensioners' rates subsidies – general component	382	386	–	–
Total general purpose	6,244	8,713	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	147	150	–	–
– Sewerage	114	112	–	–
– Domestic waste management	119	126	–	–
Water supplies	85	57	–	–
Sewerage services	20	–	81	38
Aerodrome	–	–	108	65
Bushfire and emergency services	264	271	191	349
Caravan parks and camping grounds	–	–	–	151
Community services	989	479	–	290
Emergency services	–	–	42	25
Environmental protection	31	102	–	–
Flood mitigation	167	124	31	11
Library	55	55	49	37
LIRS subsidy	22	28	–	–
Midwaste	–	758	–	–
Noxious weeds	421	342	–	–
Recreation and culture	–	(1)	621	50
Street lighting	83	81	–	–
Transport (roads to recovery)	2,446	1,888	–	–
Transport (other roads and bridges funding)	–	–	2,203	121
Waste levy	103	–	–	160
Other	15	79	–	84
Total specific purpose	5,081	4,651	3,326	1,381
Total grants	11,325	13,364	3,326	1,381
Grant revenue is attributable to:				
– Commonwealth funding	8,307	10,223	–	–
– State funding	3,018	3,141	3,326	1,381
	11,325	13,364	3,326	1,381

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 – EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		–	–	530	563
S 64 – water supply contributions		–	–	332	399
S 64 – sewerage service contributions		–	–	186	262
Total developer contributions – cash		–	–	1,048	1,224
Total developer contributions	20	–	–	1,048	1,224
Other contributions:					
Cash contributions					
Community services		15	30	–	–
Domestic waste		–	290	–	–
Kerb and gutter		–	4	8	50
Midwaste		–	39	–	–
Recreation and culture		–	–	58	–
Roads and bridges		–	–	132	4
RMS contributions (regional roads, block grant)		6,905	2,035	566	1,078
Sewerage (excl. section 64 contributions)		–	–	–	445
Tourist parks		–	–	350	–
Water supplies (excl. section 64 contributions)		202	–	300	–
Community halls and facilities		9	–	–	–
Other		169	101	39	38
Total other contributions – cash		7,300	2,499	1,453	1,615
Non-cash contributions					
Community Land		–	–	138	–
Drainage		–	–	656	–
Kerb and gutter		–	–	234	–
Roads and bridges		–	–	57,694	–
Sewerage (excl. section 64 contributions)		–	–	282	–
Water supplies (excl. section 64 contributions)		–	–	296	–
Footpath		–	–	199	–
Total other contributions – non-cash		–	–	59,499	–
Total other contributions		7,300	2,499	60,952	1,615
Total contributions		7,300	2,499	62,000	2,839
TOTAL GRANTS AND CONTRIBUTIONS		18,625	15,863	65,326	4,220

Accounting policy for contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset 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 above.

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.

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	1,292	1,358
Add: operating grants recognised in the current period but not yet spent	321	319
Less: operating grants recognised in a previous reporting period now spent	(707)	(385)
Unexpended and held as restricted assets (operating grants)	<u>906</u>	<u>1,292</u>
Capital grants		
Unexpended at the close of the previous reporting period	714	184
Add: capital grants recognised in the current period but not yet spent	358	603
Add: capital grants received for the provision of goods and services in a future period	564	–
Less: capital grants recognised in a previous reporting period now spent	(490)	(73)
Unexpended and held as restricted assets (capital grants)	<u>1,146</u>	<u>714</u>
Contributions		
Unexpended at the close of the previous reporting period	7,704	7,539
Add: contributions recognised in the current period but not yet spent	1,162	1,230
Less: contributions recognised in a previous reporting period now spent	(922)	(1,065)
Unexpended and held as restricted assets (contributions)	<u>7,944</u>	<u>7,704</u>

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	2017
(a) Employee benefits and on-costs		
Salaries and wages	15,591	16,361
Travel expenses	487	547
Employee leave entitlements (ELE)	4,678	3,492
Superannuation	2,124	2,090
Workers' compensation insurance	733	545
Fringe benefit tax (FBT)	22	23
Payroll tax	257	298
Training costs (other than salaries and wages)	184	200
Total employee costs	24,076	23,556
Less: capitalised costs	(3,434)	(3,038)
TOTAL EMPLOYEE COSTS EXPENSED	20,642	20,518

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation 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.

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore 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 – refer to Note 1 for more information.

(b) Borrowing costs			2018	2017
(i) Interest bearing liability costs				
Interest on loans			2,485	2,565
Interest on advances			2	9
Total interest bearing liability costs expensed			2,487	2,574
(ii) Other borrowing costs				
Nil				
TOTAL BORROWING COSTS EXPENSED			2,487	2,574

Accounting policy for 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	18,554	16,207
Auditors remuneration ⁽¹⁾	72	58
Legal expenses:		
– Legal expenses: planning and development	51	7
– Legal expenses: other	247	375
<u>TOTAL MATERIALS AND CONTRACTS</u>	<u>18,924</u>	<u>16,647</u>

1. Auditor remuneration

During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council – NSW Auditor-General:**(i) Audit and other assurance services**

Audit and review of financial statements	72	58
Remuneration for audit and other assurance services	<u>72</u>	<u>58</u>
Total Auditor-General remuneration	<u>72</u>	<u>58</u>
Total Auditor remuneration	<u>72</u>	<u>58</u>

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(d) Depreciation, amortisation and impairment		
Depreciation and amortisation		
Plant and equipment	1,524	1,463
Office equipment	177	143
Furniture and fittings	43	48
Land improvements (depreciable)	537	348
Infrastructure:		
– Buildings – non-specialised	887	912
– Buildings – specialised	350	354
– Roads	9,296	8,615
– Bridges	639	637
– Footpaths	490	471
– Stormwater drainage	948	1,185
– Water supply network	5,173	5,130
– Sewerage network	4,207	4,141
– Swimming pools	101	101
– Other open space/recreational assets	402	409
Other assets:		
– Other	44	44
Total depreciation and amortisation costs	<u>24,818</u>	<u>24,001</u>
Impairment / revaluation decrement of IPP&E		
Nil		
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED	<u>24,818</u>	<u>24,001</u>

Accounting policy for depreciation, amortisation and impairment expenses**Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

Impairment of non-financial assets

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.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(e) Other expenses			
Councillor expenses – mayoral fee		42	41
Councillor expenses – councillors' fees		177	172
Councillors' expenses (incl. mayor) – other (excluding fees above)		52	52
Donations, contributions and assistance to other organisations (Section 356)		84	142
Election expenses		–	210
Electricity and heating		1,549	1,561
Insurance		817	848
Street lighting		655	612
Telephone and communications		426	340
<u>TOTAL OTHER EXPENSES</u>		<u>3,802</u>	<u>3,978</u>

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Note 5. Gains or losses from the disposal of assets

Plant and equipment	9		
Proceeds from disposal – plant and equipment		593	856
Less: carrying amount of plant and equipment assets sold/written off		(732)	(1,051)
Net gain/(loss) on disposal		(139)	(195)
 Infrastructure	 9		
Proceeds from disposal – infrastructure		1,005	1
Less: carrying amount of infrastructure assets sold/written off		(5,953)	(4,972)
Net gain/(loss) on disposal		(4,948)	(4,971)
 <u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(5,087)</u>	<u>(5,166)</u>

Accounting policy for disposal of assets

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	4,511	4,828
Cash-equivalent assets		
– Deposits at call	14,136	37,103
Total cash and cash equivalents	18,647	41,931

Accounting policy for 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 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.

Note 6(b). Investments

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
'Held to maturity'	31,500	–	–	–
Total investments	31,500	–	–	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	50,147	–	41,931	–
Held to maturity investments				
Long term deposits	31,500	–	–	–
Total	31,500	–	–	–

Accounting policy for investments**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 as held-to-maturity, re-evaluates this designation at each reporting date.

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. Assets in this category are measured at amortised cost.

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. Investments 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	50,147	–	41,931	–
attributable to:				
External restrictions (refer below)	32,789	–	27,788	–
Internal restrictions (refer below)	13,792	–	12,710	–
Unrestricted	3,566	–	1,433	–
	50,147	–	41,931	–

\$ '000	2018	2017
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – water	707	420
Specific purpose unexpended loans – sewer	1,912	1,751
RMS advances	383	499
External restrictions – included in liabilities	3,002	2,670

External restrictions – other

Developer contributions – general	2,402	2,647
Developer contributions – water fund	1,523	1,209
Developer contributions – sewer fund	2,070	1,897
Specific purpose unexpended grants	2,044	1,969
Specific purpose unexpended grants-sewer fund	8	38
Water augmentation reserve	4,412	1,971
Water fleet reserve	1,946	1,381
Water tariff equalisation reserve	602	602
Water uncompleted works reserve	310	477
Sewerage augmentation reserve	5,100	5,242
Sewerage uncompleted works reserve	100	236
Domestic waste management	2,468	1,712
Contributions – ancillary works	37	36
On-site sewerage management reserve	224	236
SWR reserve	1,079	998
4 shore caravan parks reserve	3,647	2,467
Midwaste	–	428
Environmental Levy	1,815	1,572
External restrictions – other	29,787	25,118
Total external restrictions	32,789	27,788

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	2018	2017
Internal restrictions		
Employees leave entitlement	651	1,223
Aerodrome	–	3
Cemetery headstone restoration reserve	88	75
Cinema	1,931	1,931
Community projects reserve	1,062	–
Community service equipment	–	1
Computer	241	187
Co-operative library computer	84	79
Corporate	3,181	3,706
General fleet	1,187	1,190
General fund uncompleted works reserve	2,683	2,957
General fund unexpended loans	487	364
Building Infrastructure	77	77
Insurance	397	333
Landfill reserve	–	135
Mayoral fund	–	14
Organisational development	18	18
Quarry restoration	252	259
Road infrastructure	1,295	158
Natural Resources Reserve	158	–
Total internal restrictions	13,792	12,710
TOTAL RESTRICTIONS	46,581	40,498

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	2,446	–	2,526	–
User charges and fees	2,671	–	2,743	–
Accrued revenues				
– Interest on investments	101	–	67	–
Deferred debtors	69	127	71	126
Government grants and subsidies	973	252	545	343
Net GST receivable	459	–	343	–
Private works (miscellaneous debtors)	967	–	1,161	–
Pwd subsidised scheme debtors	99	–	99	–
RTA debtors	307	–	59	–
Total	8,092	379	7,614	469
Less: provision for impairment				
Other debtors	(9)	–	(9)	–
Total provision for impairment – receivables	(9)	–	(9)	–
TOTAL NET RECEIVABLES	8,083	379	7,605	469
Externally restricted receivables				
Water supply				
– Rates and availability charges	435	–	487	–
– Other *	2,010	–	2,115	–
Sewerage services				
– Rates and availability charges	666	–	622	–
– Other	377	–	416	–
Domestic waste management	377	–	355	–
Total external restrictions	3,865	–	3,995	–
Internally restricted receivables				
Nil				
Unrestricted receivables	4,218	379	3,610	469
TOTAL NET RECEIVABLES	8,083	379	7,605	469
Movement in provision for impairment of receivables			2018	2017
Balance at the beginning of the year			9	9
Balance at the end of the year			9	9

* \$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 2018

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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 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.

Impairment

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.

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. When a receivable for which an impairment allowance had been recognised becomes uncollectable 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	525	–	318	–
Total inventories at cost	525	–	318	–
(ii) Inventories at net realisable value (NRV)				
Nil				
TOTAL INVENTORIES	525	–	318	–
(b) Other assets				
Prepayments	101	–	136	–
TOTAL OTHER ASSETS	101	–	136	–

Externally restricted assets

There are no restrictions applicable to the above assets.

Accounting policy**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. 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.

Inventory held for distribution

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

Land held for resale/capitalisation of borrowing costs

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

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

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 9. Infrastructure, property, plant and equipment

Asset class \$ '000	as at 30/6/2017			Asset movements during the reporting period							as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	16,161	–	16,161	1,217	8,279	–	–	(12,078)	–	–	13,579	–	13,579
Plant and equipment	19,610	9,218	10,392	1,127	412	(451)	(1,524)	6	–	–	19,847	9,883	9,964
Office equipment	2,798	1,916	882	169	10	–	(177)	–	–	–	2,976	2,092	884
Furniture and fittings	1,152	920	232	19	2	(93)	(43)	–	–	–	282	165	117
Land:													
– Operational land	23,899	–	23,899	32	–	(161)	–	–	(2,267)	–	21,503	–	21,503
– Community land	29,879	–	29,879	–	138	–	–	–	–	–	30,017	–	30,017
Land improvements – non-depreciable	20,650	–	20,650	–	–	–	–	–	–	–	20,650	–	20,650
Land improvements – depreciable	14,543	4,973	9,570	916	277	(4)	(537)	1,870	–	249	17,948	5,607	12,341
Infrastructure:													
– Buildings – non-specialised	41,361	24,108	17,253	249	–	(503)	(887)	899	(198)	–	42,207	25,394	16,813
– Buildings – specialised	13,972	7,470	6,502	427	8	(31)	(350)	284	–	1,728	20,151	11,583	8,568
– Roads	353,907	128,883	225,024	6,967	40,557	(3,054)	(9,296)	2,534	–	–	402,333	139,601	262,732
– Bridges	60,174	25,152	35,022	1,614	1,826	(275)	(639)	415	–	–	64,124	26,161	37,963
– Footpaths	23,244	13,240	10,004	247	199	(291)	(490)	1,247	–	–	24,384	13,468	10,916
– Bulk earthworks (non-depreciable)	221,882	–	221,882	–	15,425	–	–	–	–	–	237,307	–	237,307
– Stormwater drainage	121,408	45,135	76,273	33	701	(45)	(948)	701	–	–	122,748	46,033	76,715
– Water supply network	270,054	79,131	190,923	1,913	748	(823)	(5,173)	1,182	–	4,529	278,579	85,280	193,299
– Sewerage network	212,359	99,624	112,735	1,219	599	(909)	(4,207)	2,940	–	2,349	220,354	105,628	114,726
– Swimming pools	4,066	2,793	1,273	–	–	–	(101)	–	–	77	3,383	2,134	1,249
– Other open space/recreational assets	11,526	6,146	5,380	621	–	(45)	(402)	–	–	–	12,001	6,447	5,554
Other assets:													
– Other	1,191	667	524	115	–	–	(44)	–	–	–	1,304	712	592
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	1,463,836	449,376	1,014,460	16,885	69,181	(6,685)	(24,818)	–	(2,465)	8,932	1,555,677	480,188	1,075,489

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

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9. Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every 5 years, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW).

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.

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	Years		
Office equipment	5 to 10		
Office furniture	4 to 10		
Computer equipment	3 to 10		
Vehicles	5 to 13	Buildings	
Heavy plant/road making equipment	5 to 13	Buildings	5 to 80
Other plant and equipment	3 to 10		
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Water Mains	40 to 70	Flood mitigation systems	10 to 80
Sewer mains	40 to 70		
Treatment works	15 to 100		
Pumps and telemetry	10 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	15 to 25	Bulk earthworks	Infinite
Sealed roads: structure	30 to 80	Swimming pools	30 to 50
Unsealed roads	7 to 10	Land improvements	10 to 100
Bridge	50 to 100	Other open space/recreational assets	25 to 100
Footpaths	25 to 50		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9. Infrastructure, property, plant and equipment (continued)

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.

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.

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 not recognise rural fire service assets including plant and vehicles.

Note 10. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services – operating expenditure	5,252	670	3,696	567
Accrued expenses:				
– Borrowings	228	–	258	–
Advances	383	–	499	–
Total payables	5,863	670	4,453	567
Borrowings				
Loans – secured ¹	4,080	41,984	4,275	41,564
Government advances	26	26	45	51
Total borrowings	4,106	42,010	4,320	41,615
TOTAL PAYABLES AND BORROWINGS	9,969	42,680	8,773	42,182

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 10. Payables and borrowings (continued)

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	1,669	19,709	1,581	18,762
Sewer	1,196	17,527	1,137	17,634
Other	383	–	545	–
Tourist parks	2	–	19	–
Payables and borrowings relating to externally restricted assets	3,250	37,236	3,282	36,396
Total payables and borrowings relating to restricted assets	3,250	37,236	3,282	36,396
Total payables and borrowings relating to unrestricted assets	6,719	5,444	5,491	5,786
TOTAL PAYABLES AND BORROWINGS	9,969	42,680	8,773	42,182

(b) Changes in liabilities arising from financing activities

Class of borrowings	2017		Non-cash changes			2018
	Opening balance as at 1/7/17	Cash flows	Acquisition	Fair value changes	Other non-cash movements	Closing balance as at 30/6/18
Loans – secured	45,839	225	–	–	–	46,064
Government advances	96	(44)	–	–	–	52
TOTAL	45,935	181	–	–	–	46,116

\$ '000	2018	2017
---------	------	------

(c) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

Credit cards/purchase cards	130	163
Total financing arrangements	130	163
Undrawn facilities as at balance date:		
– Credit cards/purchase cards	130	163
Total undrawn financing arrangements	130	163

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 16.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Payables and borrowings (continued)

Accounting policy for payables and borrowings

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.

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 draw down occurs. To the extent there is no 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.

Finance 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	1,730	–	1,716	–
Sick leave	1,233	–	1,668	–
Long service leave	3,838	316	4,335	291
<u>TOTAL PROVISIONS</u>	<u>6,801</u>	<u>316</u>	<u>7,719</u>	<u>291</u>

(a) Provisions relating to restricted assets

There are no restricted assets (external or internal) applicable to the above provisions

\$ '000	2018	2017
---------	------	------

(b) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	4,660	5,745
	<u>4,660</u>	<u>5,745</u>

Accounting policy for 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Provisions (continued)

Employee benefits

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.

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.

Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	18,647	41,931
Balance as per the Statement of Cash Flows		18,647	41,931
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		62,537	384
Adjust for non-cash items:			
Depreciation and amortisation		24,818	24,001
Net losses/(gains) on disposal of assets		5,087	5,166
Non-cash capital grants and contributions		(59,499)	(445)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(389)	755
Decrease/(increase) in inventories		(207)	32
Decrease/(increase) in other assets		35	25
Increase/(decrease) in payables		1,659	(1,281)
Increase/(decrease) in accrued interest payable		(30)	(24)
Increase/(decrease) in other liabilities		(116)	(10)
Increase/(decrease) in employee leave entitlements		(893)	(610)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		33,002	27,993
(c) Non-cash investing and financing activities			
RMS dedications		58,783	–
Developer dedicated assets		578	445
Community Land		138	–
Total non-cash investing and financing activities		59,499	445

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Commitments for expenditure

\$ '000	2018	2017
(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		
Crescent Head Wastewater Treatment Plant	–	14
Gladstone Wastewater Treatment Plant	–	28
Riverside Park – Fixed Wharf & Floating Pontoon	8	212
Jerseyville – Modular Floating Pontoon	5	114
Crescent Head Amenities Building	–	208
Kempsey Airport fuel system	10	242
McIntyres & Schmidts Bridges	34	860
South Street Extension	18	1,637
Macleay Valley closed circuit television system	–	173
Aldavilla RFS extension	–	134
Total commitments	75	3,622
These expenditures are payable as follows:		
Within the next year	75	3,622
Total payable	75	3,622
Sources for funding of capital commitments:		
Unrestricted general funds	65	861
Unexpended grants	–	2,455
Externally restricted reserves	–	149
Internally restricted reserves	10	114
Unexpended loans	–	43
Total sources of funding	75	3,622

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 15. Contingencies and other liabilities/assets not recognised

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) 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.

(ii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Contingencies and other liabilities/assets not recognised (continued)

(iii) Other guarantees

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

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.

ASSETS NOT RECOGNISED:

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

(iii) 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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Financial risk management

\$ '000

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	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	18,647	41,931	18,647	41,931
Investments				
– 'Held to maturity'	31,500	–	31,500	–
Receivables	8,462	8,074	8,462	8,074
Total financial assets	58,609	50,005	58,609	50,005
Financial liabilities				
Payables	6,533	5,020	6,533	5,020
Loans/advances	46,116	45,935	53,767	54,903
Total financial liabilities	52,649	50,955	60,300	59,923

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.

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. 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 Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

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
2018				
Possible impact of a 1% movement in interest rates	501	501	(501)	(501)
2017				
Possible impact of a 1% movement in interest rates	419	419	(419)	(419)

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 16. 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:

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	68%	0%	72%
Overdue	100%	32%	100%	28%
	100%	100%	100%	100%

(ii) Ageing of receivables – value

	2018	2017
Rates and annual charges		
< 1 year overdue	2,446	2,526
	2,446	2,526
Other receivables		
Current	4,647	3,999
31 – 60 days overdue	408	124
61 – 90 days overdue	181	368
> 91 days overdue	789	1,066
	6,025	5,557

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. 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.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 – 5 Years	> 5 Years		
2018							
Trade/other payables		–	5,863	670	–	6,533	6,533
Loans and advances	5.50%	–	6,676	21,808	35,332	63,816	46,116
Total financial liabilities		–	12,539	22,478	35,332	70,349	52,649
2017							
Trade/other payables		–	4,453	567	–	5,020	5,020
Loans and advances	5.67%	–	6,845	22,077	35,372	64,294	45,935
Total financial liabilities		–	11,298	22,644	35,372	69,314	50,955

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 27 June 2017 and is not required to be audited.

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	2018 Budget	2018 Actual	2018 ----- Variance* -----		
REVENUES					
Rates and annual charges	36,579	37,390	811	2%	F
User charges and fees	16,645	15,566	(1,079)	(6%)	U
Interest and investment revenue	1,069	1,237	168	16%	F
Above budget due to greater than anticipated return on investments. Portfolio now includes longer term investments which attract higher interest rates.					
Other revenues	66	153	87	132%	F
Variance due to \$70,000 OHS incentive payment received from Statecover and \$24,000 of long service leave payments for new employees moving from other local government councils					
Operating grants and contributions	10,349	18,625	8,276	80%	F
18/19 Financial Assistance Grant received in advance \$2,970,634, R2R grant funds bought forward \$662,000 \$500k for West Kempsey Community Hub, \$64k for Community Projects & Infrastructure, \$4,558,923 received as RMS handover funds for old Frederickton to Eungai Highway					
Capital grants and contributions	3,889	65,326	61,437	1580%	F
Transport NSW - Fixing Country Roads for South Street extension \$2,129,275, NSW Boating Now funding of \$251,000 for boating upgrades, \$308,000 of Stronger Country Community funding for toilet facilities and coastal walkway and \$59,499,000 of dedicated assets the largest component relating to the handover of the old Frederickton to Eungai Highway					

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 Variance*		
EXPENSES					
Employee benefits and on-costs	21,595	20,642	953	4%	F
Borrowing costs	3,897	2,487	1,410	36%	F
Reduction in borrowings costs in Water Fund due to deferment of loan borrowings in line with cash flow requirements together with a reduction in interest expenses due to lower than anticipated interest rates in respect of prior year borrowing					
Materials and contracts	14,601	18,924	(4,323)	(30%)	U
Above budget expenditure relates to costs associated with engagement of LKS Quaero \$639k, purchase of fuel (\$100k) for Airport refuelling system, completion of R2R funded projects \$662k and works completed on the northern section of Macleay Valley Way which was funded from RMS handover funds \$1.2m. All of which were not included in the original budget.					
Depreciation and amortisation	22,246	24,818	(2,572)	(12%)	U
Increased depreciation associated with water, sewer and road infrastructure assets which were not factored into 2017/18 budget					
Other expenses	4,543	3,802	741	16%	F
Lower than budgeted electricity and insurance expenses					
Net losses from disposal of assets	–	5,087	(5,087)	0%	U
Principally relating to the write off of Infrastructure as a result of asset renewal works for building and roading network assets \$3,324,000, water assets \$843,000 and sewer assets \$921,000					
Budget variations relating to Council's Cash Flow Statement include:					
Cash flows from operating activities	24,170	33,002	8,832	36.5%	F
FAG grant of \$2,970,634 received in advance, \$662,000 R2R funds bought forward, \$500,000 for West Kempsey Community HUB and \$4,558,923 received as RMS handover funds for the old Frederickton to Eungai Highway					
Cash flows from investing activities	(29,043)	(56,467)	(27,424)	94.4%	U
Due to \$31,500,000 of term deposits held at year end.					
Cash flows from financing activities	2,121	181	(1,940)	(91.5%)	U
Loan borrowings of \$1,000,000 for General Fund, \$2,500,000 for Water Fund and \$1,000,000 for Sewer Fund drawdown during 2017/18. Full loan borrowings program of \$4,600,000 for Water Fund and \$2,033,000 for General 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 2018

Note 18. 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:

2018	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	30/06/18	–	–	9,964	9,964
Office equipment	30/06/18	–	–	884	884
Furniture and fittings	30/06/18	–	–	117	117
Operational land	30/06/18	–	–	21,503	21,503
Community land	30/06/16	–	–	30,017	30,017
Land Improvements – non depreciable	30/06/16	–	–	20,650	20,650
Land Improvements – depreciable	30/06/16	–	–	12,341	12,341
Buildings – non specialised	30/06/18	–	–	16,813	16,813
Buildings – specialised	30/06/18	–	–	8,568	8,568
Roads, bridges, footpaths	30/06/15	–	–	548,918	548,918
Stormwater drainage	30/06/15	–	–	76,715	76,715
Water supply network	1/07/16	–	–	193,299	193,299
Sewerage network	1/07/16	–	–	114,726	114,726
Swimming pools	30/06/18	–	–	1,249	1,249
Other open space/recreational assets	30/06/16	–	–	5,554	5,554
Other	30/06/16	–	–	592	592
Work in progress	30/06/18	–	–	13,579	13,579
Total infrastructure, property, plant and equipment		–	–	1,075,489	1,075,489

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Fair value measurement (continued)

\$ '000

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

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

(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 2018

Note 18. 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 – 1/7/16	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
Purchases (GBV)	1,544	179	21	33	1,777
Disposals (WDV)	(451)	–	(93)	(162)	(706)
Depreciation and impairment	(1,523)	(177)	(43)	–	(1,743)
FV gains – other comprehensive income	–	–	–	(2,267)	(2,267)
Closing balance – 30/6/18	9,963	884	117	21,503	32,467

	Community land	Land improvement -nt non-depr	Land improvement -ment depr	Buildings non- specialised	Total
Opening balance – 1/7/16	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
Purchases (GBV)	138	–	3,063	1,148	4,349
Disposals (WDV)	–	–	(4)	(503)	(507)
Depreciation and impairment	–	–	(537)	(887)	(1,424)
FV gains – other comprehensive income	–	–	249	(198)	51
Closing balance – 30/6/18	30,017	20,650	12,341	16,813	79,821

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. 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 – 1/7/16	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
Purchases (GBV)	719	71,031	1,435	3,843	77,028
Disposals (WDV)	(31)	(3,620)	(45)	(823)	(4,519)
Depreciation and impairment	(350)	(10,425)	(948)	(5,173)	(16,896)
FV gains – other comprehensive income	1,728	–	–	4,529	6,257
Closing balance – 30/6/18	8,568	548,918	76,715	193,299	827,500

	Sewerage network	Other	WIP	Total
Opening balance – 1/7/16	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
Purchases (GBV)	4,758	115	9,497	14,370
Disposals (WDV)	(909)	–	–	(909)
Depreciation and impairment	(4,207)	(44)	–	(4,251)
FV gains – other comprehensive income	2,349	–	–	2,349
Transfer from/(to) another asset class	–	–	(12,078)	(12,078)
Closing balance – 30/6/18	114,726	595	13,579	128,900

Kempsey Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 18. 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 – 1/7/16	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
Purchases (GBV)	–	621	621
Disposals (WDV)	–	(45)	(45)
Depreciation and impairment	(101)	(402)	(503)
FV gains – other comprehensive income	77	–	77
Closing balance – 30/6/18	1,249	5,554	6,803

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 2018

Note 18. Fair value measurement (continued)

(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.

Operational Land was revalued by an external valuer at 30 June 2018 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 2018

Note 18. Fair value measurement (continued)

(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 2018

Note 18. Fair value measurement (continued)

(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 revalued by an external valuer on 30 June 2018.

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 2018

Note 18. Fair value measurement (continued)

(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 2018

Note 18. Fair value measurement (continued)

(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 2018

Note 19. Related party transactions

\$ '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:

Compensation:	2018	2017
Short-term benefits	890	1,285
Post-employment benefits	90	108
Other long-term benefits	26	33
Total	1,006	1,426

b. Other transactions with KMP and their related parties (continued)

- 1 Payments were made to a company associated with Council's KMP. The payments related to services provided at Crescent Head Holiday Park and the Tourist Information Centre

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Statement of developer contributions

\$ '000

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

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	27	1	–	1	–	–	29	–
Roads	1,238	253	–	14	(582)	–	923	–
Parking	7	29	–	1	–	–	37	–
Community facilities	199	41	–	4	–	–	244	–
SWR plan	1,035	136	–	15	(159)	–	1,027	–
Public domain	37	45	–	1	–	–	83	–
Administration	104	25	–	1	(71)	–	59	–
S7.11 contributions – under a plan	2,647	530	–	37	(812)	–	2,402	–
Total S7.11 and S7.12 revenue under plans	2,647	530	–	37	(812)	–	2,402	–
S64 contributions	5,057	518	–	78	(110)	–	5,543	–
Total contributions	7,704	1,048	–	115	(922)	–	7,945	–

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Statement of developer contributions (continued)

\$ '000

S7.11 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	27	1	–	1	–	–	29	–
Roads	1,238	252	–	14	(582)	–	922	–
Parking	7	29	–	1	–	–	37	–
Community facilities	199	41	–	4	–	–	244	–
SWR plan	1,035	136	–	15	(159)	–	1,027	–
Public domain	37	45	–	1	–	–	83	–
Administration	104	25	–	1	(71)	–	59	–
Total	2,647	529	–	37	(812)	–	2,401	–

S64 contributions

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	3,160	332	–	49	(67)	–	3,474	–
Sewerage	1,897	186	–	29	(43)	–	2,069	–
Total	5,057	518	–	78	(110)	–	5,543	–

Kempsey Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Financial result and financial position by fund

Income Statement by fund			
\$ '000	2018	2018	2018
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	4,148	9,838	24,212
User charges and fees	7,269	1,292	9,175
Interest and investment revenue	149	43	1,045
Other revenues	–	–	153
Grants and contributions provided for operating purposes	435	134	18,056
Grants and contributions provided for capital purposes	928	550	63,848
Total income from continuing operations	12,929	11,857	116,489
Expenses from continuing operations			
Employee benefits and on-costs	1,681	1,938	17,023
Borrowing costs	1,158	1,031	298
Materials and contracts	2,149	2,763	16,990
Depreciation and amortisation	5,596	4,265	14,957
Other expenses	1,997	1,762	43
Net losses from the disposal of assets	843	921	3,323
Total expenses from continuing operations	13,424	12,680	52,634
Operating result from continuing operations	(495)	(823)	63,855
Net operating result for the year	(495)	(823)	63,855
Net operating result attributable to each council fund	(495)	(823)	63,855
Net operating result for the year before grants and contributions provided for capital purposes	(1,423)	(1,373)	7

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 2018

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

Statement of Financial Position by fund			
\$ '000	2018	2018	2018
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	1,001	1,190	16,456
Investments	8,500	8,000	15,000
Receivables	2,445	1,043	4,595
Inventories	–	–	525
Other	–	–	101
Total current assets	11,946	10,233	36,677
Non-current assets			
Receivables	–	–	379
Infrastructure, property, plant and equipment	198,029	119,284	758,176
Total non-current assets	198,029	119,284	758,555
TOTAL ASSETS	209,975	129,517	795,232
LIABILITIES			
Current liabilities			
Payables	116	88	5,659
Borrowings	1,553	1,108	1,445
Provisions	–	–	6,801
Total current liabilities	1,669	1,196	13,905
Non-current liabilities			
Payables	–	–	670
Borrowings	19,709	17,527	4,774
Provisions	–	–	316
Total non-current liabilities	19,709	17,527	5,760
TOTAL LIABILITIES	21,378	18,723	19,665
Net assets	188,597	110,794	775,567
EQUITY			
Accumulated surplus	58,269	47,257	333,479
Revaluation reserves	130,328	63,537	442,088
Total equity	188,597	110,794	775,567

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 2018

Note 22(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>2,298</u>	3.15%	1.93%	-0.41%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	72,971				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>54,346</u>	39.30%	72.59%	72.67%	> 60.00%
Total continuing operating revenue ⁽¹⁾	138,297				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>22,202</u>	2.51x	2.44x	2.06x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	8,860				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>29,603</u>	4.35x	3.81x	3.04x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	6,806				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>2,446</u>	6.10%	6.66%	6.52%	< 5% Metro
Rates, annual and extra charges collectible	40,128				< 10% Regional & Rural
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>50,147</u>	11.03 mths	9.3 mths	8.4 mths	> 3 mths
Monthly payments from cash flow of operating and financing activities	4,545				

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 Notes 10 and 11.

⁽⁴⁾ Refer to Note 11(b) – excludes all 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 2018

Note 22(b). Statement of performance measures – by fund

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	5.91%	2.65%	-2.58%	-2.24%	-4.25%	2.47%	> 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	29.44%	64.92%	91.69%	94.82%	94.23%	92.34%	> 60.00%
Total continuing operating revenue ⁽¹⁾							
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾	2.51x	2.44x	4.65x	3.21x	5.22x	5.73x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)							

Notes

(1) - (4) Refer to Notes at Note 22a 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 2018

Note 22(b). Statement of performance measures – by fund (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	8.66x	6.32x	2.46x	2.44x	2.32x	2.54x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.39%	5.95%	9.21%	10.86%	6.37%	6.46%	< 5% Metro < 10% Regional & Rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	10.07	8.37	13.45	8.76	12.88	14.31	> 3 months
Monthly payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

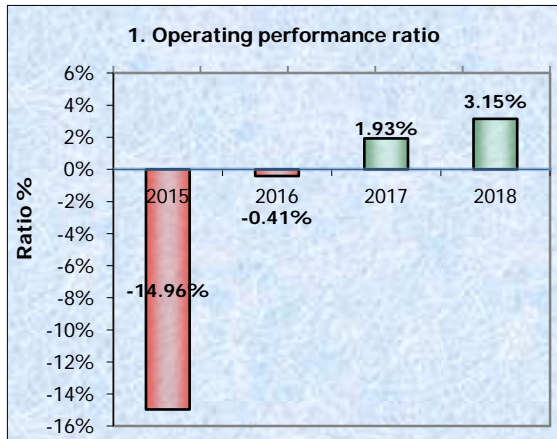
(1) Refer to Notes at Note 22a above.

(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 2018

Note 22(c). Statement of performance measures – consolidated results (graphs)



Purpose of operating performance ratio

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

Commentary on 2017/18 result

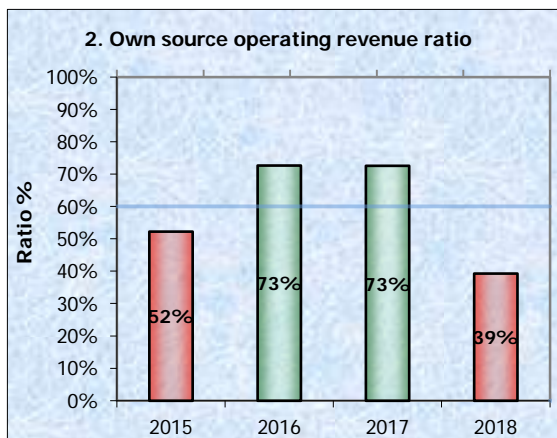
2017/18 ratio 3.15%

Council's ratio is marginally above the benchmark. Increase is due to an increase in grant and contribution revenue. The respective fund ratios are detailed in Note 22b and reveal that the General Fund is above the ratio (+5.91%) whilst the Water and Sewer Funds are in a negative position.

Benchmark: Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

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 2017/18 result

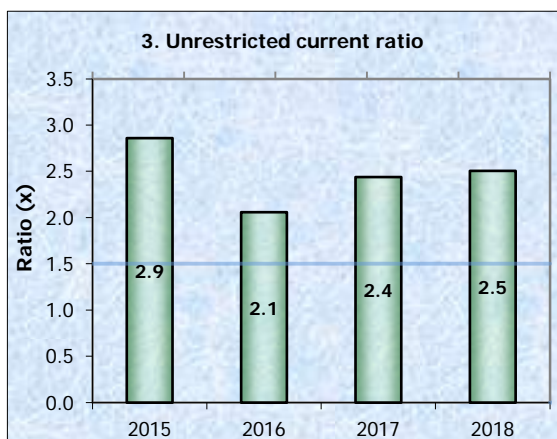
2017/18 ratio 39.30%

Council's ratio is below the benchmark. Fluctuations in the ratio from year to year are reflective of the variations in the value of grants and contributions received by Council. In 17/18 the transfer of the northern section of Macleay Valley Way of \$59 million has distorted the ratio.

Benchmark: Minimum $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

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 2017/18 result

2017/18 ratio 2.51x

The ratio of 2.51 means that Council has \$2.51 in liquidity for every \$1.00 in current liabilities. The ratio reflects Council's strong short term financial position.

Benchmark: Minimum ≥ 1.50

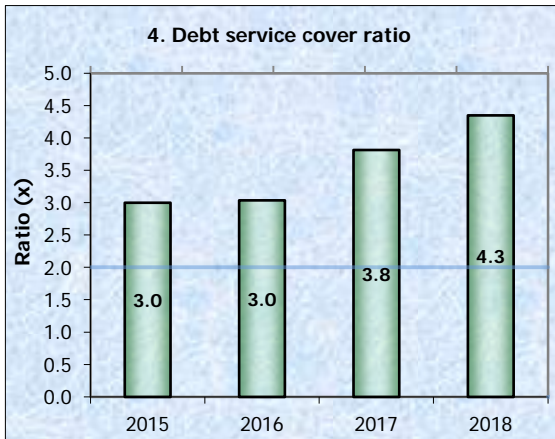
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 22(c). Statement of performance measures – consolidated results (graphs)



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 2017/18 result

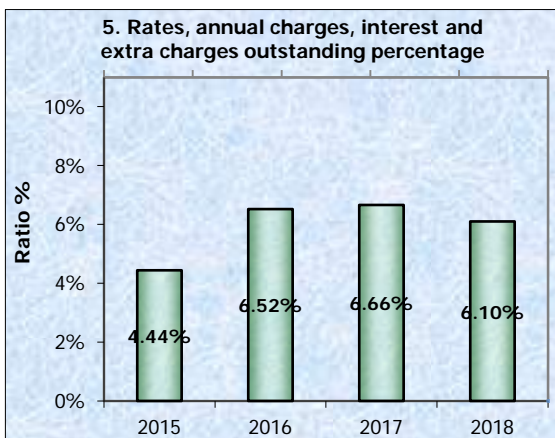
2017/18 ratio 4.35x

An above benchmark result for 17/18 indicates less reliance on borrowings to fund infrastructure renewal programs.

Benchmark: ——— Minimum >=2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark



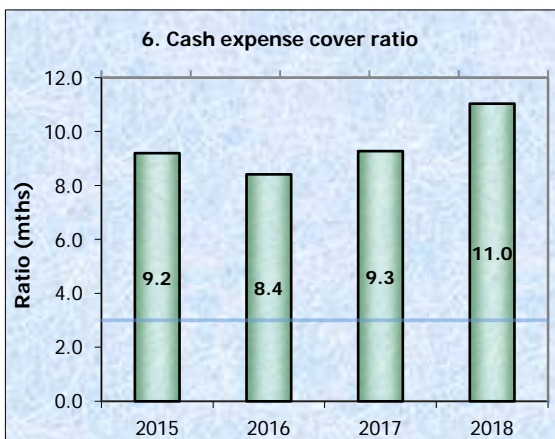
Purpose of rates and annual charges outstanding ratio

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

Commentary on 2017/18 result

2017/18 ratio 6.10%

Council's ratio is within the benchmark and is an improvement on the 16/17 result. This is due to an increased focus on debt recovery.



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 2017/18 result

2017/18 ratio 11.03 mths

Council's 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 #26

Ratio achieves benchmark
 Ratio is outside benchmark

Kempsey Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 23. 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

Craig Milburn

Elected members

MAYOR

Elizabeth Campbell

RESPONSIBLE ACCOUNTING OFFICER

Ron Wood

Other information

ABN: 70 705 618 663



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

To the Councillors of the Kempsey Shire Council

Opinion

I have audited the accompanying financial report of the Kempsey Shire Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the 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 report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, 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 report 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 Report' 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.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- 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 report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: 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 Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 17 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink, appearing to read 'Yu Jiang'.

Reiky Jiang
Director, Financial Audit Services

30 October 2018
SYDNEY

Cr Elizabeth Campbell
Mayor
Kempsey Shire Council
PO Box 78
WEST KEMPSEY NSW 2440

Contact: Reiky Jiang
Phone no: 02 9275 7100
Our ref: D1826907/ 1746

30 October 2018

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
Kempsey Shire Council**

I have audited the general purpose financial statements of the Kempsey Shire Council (the Council) for the year ended 30 June 2018 as required by section 415 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 2018 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 or observations during my audit of the Council's financial statements.

INCOME STATEMENT

Operating result

	2018 \$m	2017 \$m	Variance %
Rates and annual charges revenue	37.4	35.3	↑ 6.0
Grants and contributions revenue	84.0	20.1	↑ 318
Operating result for the year	62.5	0.4	↑ 16,186
Net operating result before capital amounts	(2.8)	(3.8)	↑ 27

Council's operating result (\$62.5 million including the effect of depreciation and amortisation expense of \$24.8 million) was \$62.1 million higher than the 2016–17 result. This increase is largely attributable to the following:

- ordinary rates income increased by \$0.8 million. Council had an approved special general rate increase of 4.0 per cent for the 2017–18 year
- annual charges for sewerage services increased by \$0.8 million
- grants and contributions provided for operating purposes increased by \$2.8 million. This was predominantly due additional RMS contributions of \$4.6 million received for ongoing maintenance of sections of the old Pacific Highway (Macleay Valley Way – Frederickton to Eungai) dedicated to Council in 2017–18. This was partly offset by declines in the financial assistance grant (an advance payment was received for the first time in 2016–17) of \$2.5 million
- grants and contributions provided for capital purposes increased by \$61.1 million. This was predominantly due to non-cash dedications from the RMS of various assets associated with the old Pacific Highway (Macleay Valley Way – Frederickton to Eungai) totalling \$58.8 million. Council also received \$2.1 million for the South Kempsey Village Bypass
- materials and contracts expenses increased by \$2.3 million, mainly due to increased road maintenance works.

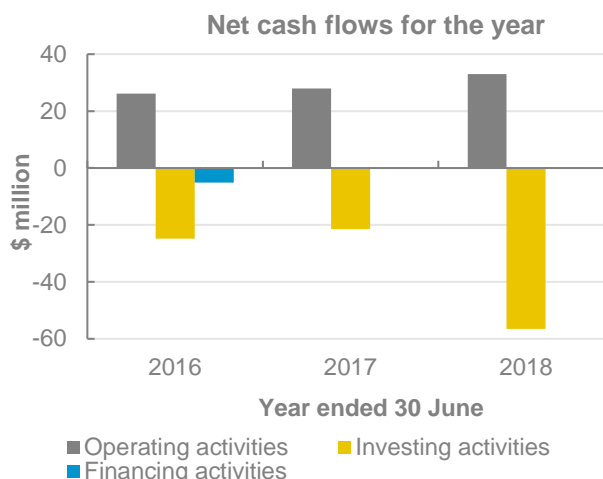
STATEMENT OF CASH FLOWS

The adjacent graph shows the movement in cash flows from operating, investing and financing activities.

Council's cash and cash equivalents decreased by \$23.3 million during the financial year, however this represents a shift in its portfolio as investments increased by \$31.5 million (see table below).

Cash provided from operating activities increased by \$5.0 million due to higher rates and annual charges and grants and contributions received as outlined above.

Cash used in investing activities increased by \$35.1 million due to \$31.5 million transferred to term deposits and higher capital expenditure.



FINANCIAL POSITION

Cash and Investments

	2018 \$m	2017 \$m	
Cash and cash equivalents	18.6	41.9	Cash on hand and at bank as well as term deposits with an original maturity period of less than 3 months.
Investments	31.5	--	Term deposits with an original maturity period of more than 3 months.
Cash and investments	50.1	41.9	

Restrictions on Funds	\$m	\$m	
External restrictions	32.8	27.8	Externally restricted balances include unexpended specific grants, developer contributions and other reserves. The increase in externally restricted cash and investments is predominantly due to a \$2.5 million increase in the water augmentation reserve, and a \$1.2 million increase in the 4 shore caravan parks reserve.
Internal restrictions	13.8	12.7	Balances are internally restricted due to Council policy or decisions for forward plans including works programs. Internally restricted cash and investments have increased by \$1.1 million, with increases of \$1.1 million for road infrastructure and \$1.1 million for community projects reserve being most significant. These increases are partially offset by decreases in employee leave entitlements (\$0.6 million) and corporate (\$0.5 million).
Unrestricted	3.5	1.4	Unrestricted balances provide liquidity for day-to-day operations.
Cash and investments	50.1	41.9	

Debt

Council has total borrowings of \$46.1 million at 30 June 2018 (\$45.9 million at 30 June 2017).

PERFORMANCE RATIOS

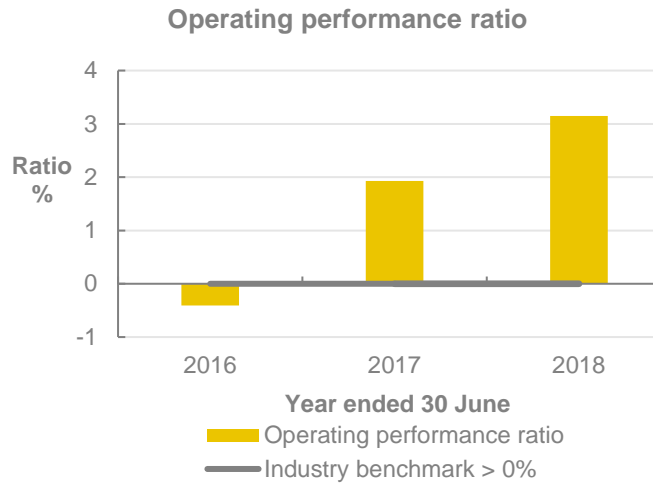
The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 22 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

Operating performance ratio

Council's operating performance ratio has improved over the prior year and exceeds the industry benchmark.

Water and sewer funds did not achieve a positive operating performance ratio. Council should continue to monitor the performance of these funds.

The 'operating performance 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.

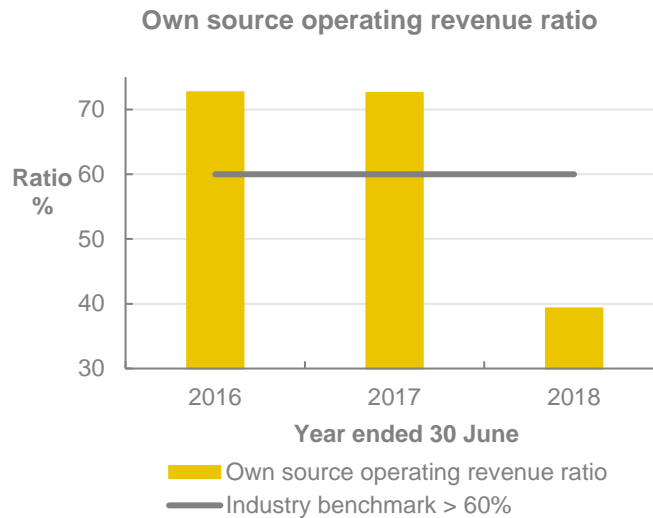


Own source operating revenue ratio

Council's own source operating revenue ratio has declined significantly in the current year and does not meet the industry benchmark.

The ratio has been negatively impacted by the non-cash dedications from the RMS in 2017–18 totalling \$58.8 million. The ratio would have been consistent with prior years without these dedications.

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.



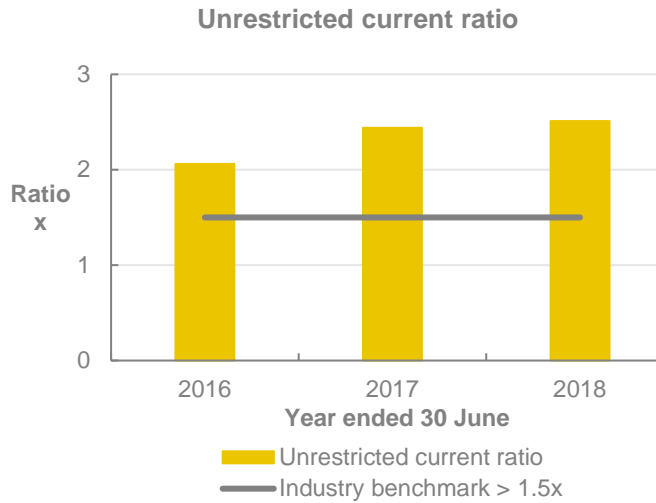
Unrestricted current ratio

Council's unrestricted current ratio continues to exceed the industry benchmark and has increased from prior year.

Council has \$2.51 in liquid current assets for every \$1 of current liabilities.

All funds had an unrestricted current ratio above the industry benchmark.

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.

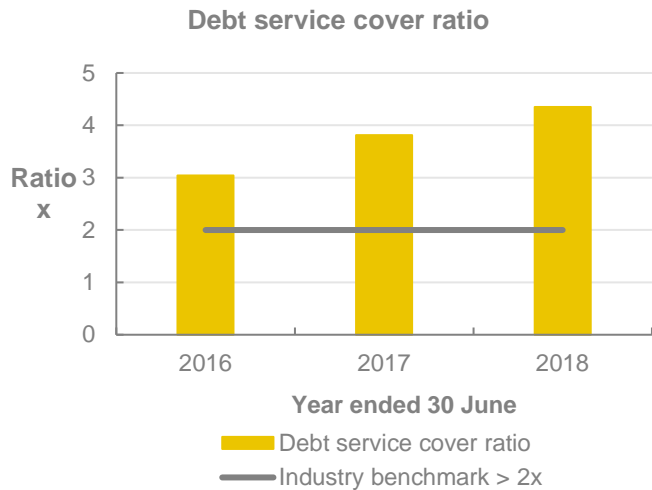


Debt service cover ratio

Council's debt service cover ratio continues to exceed the industry benchmark in the current year.

The increase from 2016–17 is due to improved operating results and lower debt servicing costs.

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.

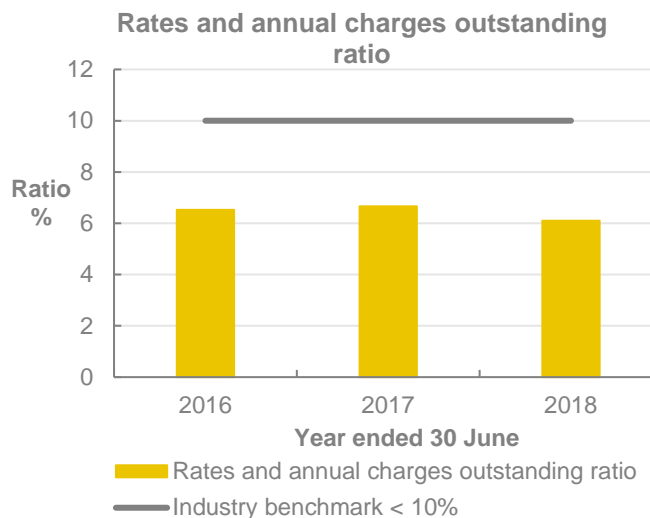


Rates and annual charges outstanding ratio

Council has consistently achieved the industry benchmark for the rates and annual charges outstanding ratio.

Council's water fund achieved a ratio of 9.21 per cent which is slightly below the industry benchmark.

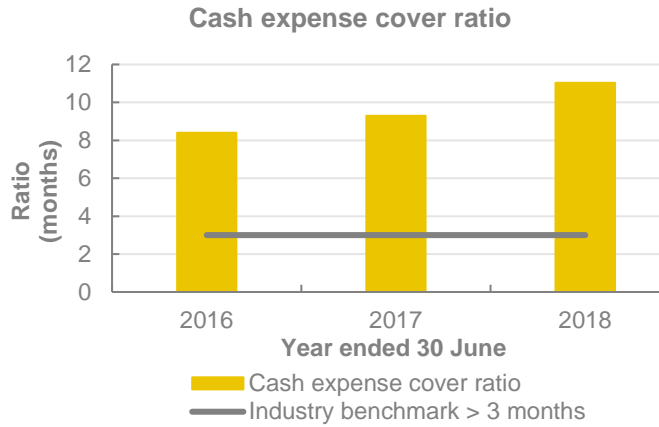
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.



Cash expense cover ratio

Council continues to improve its cash expense cover ratio and is well above the industry benchmark. Council has increased its cash reserves whilst maintaining expenditure levels.

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.

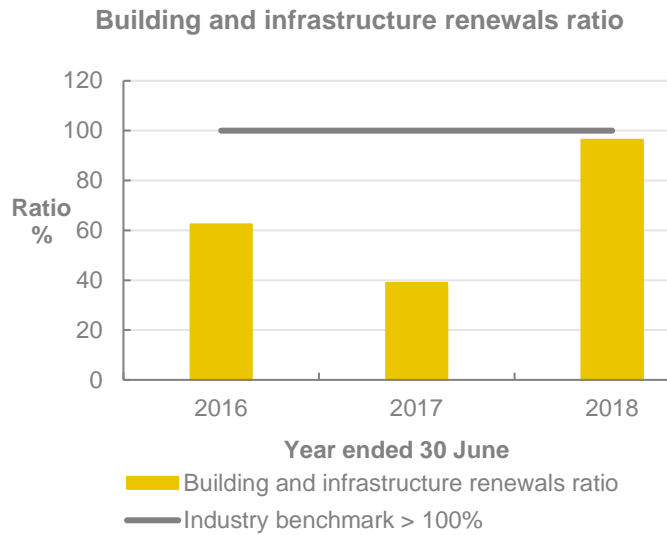


Building and infrastructure renewals ratio (unaudited)

There has been an increase in the level of Council spending on building and infrastructure renewals in 2017–18, however the buildings and infrastructure renewals ratio is still slightly below 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 2016-2 'Disclosure Initiative – Amendments to AASB 107'

Effective for annual reporting periods beginning on or after 1 January 2017


This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 10.

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.



Reiky Jiang
Director, Financial Audit Services

Kempsey Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

"Focusing on our community"



Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
1. Statement by Councillors and Management	2
2. Special Purpose Financial Statements:	
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Income Statement – Sewerage Business Activity	4
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	6
3. Notes to the Special Purpose Financial Statements	7
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Background

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

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

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

Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

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 16 October 2018.



Elizabeth Campbell
Mayor
16 October 2018



Ashley Williams
Councillor
16 October 2018



Craig Milburn
General manager
16 October 2018



Ron Wood
Responsible accounting officer
16 October 2018

Kempsey Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	4,148	3,902
User charges	7,166	6,855
Fees	103	181
Interest	149	154
Grants and contributions provided for non-capital purposes	435	207
Total income from continuing operations	12,001	11,299
Expenses from continuing operations		
Employee benefits and on-costs	1,681	1,762
Borrowing costs	1,158	1,153
Materials and contracts	2,149	1,961
Depreciation, amortisation and impairment	5,596	5,516
Loss on sale of assets	843	2,267
Calculated taxation equivalents	37	36
Debt guarantee fee (if applicable)	91	101
Other expenses	1,997	1,938
Total expenses from continuing operations	13,552	14,734
Surplus (deficit) from continuing operations before capital amounts	(1,551)	(3,435)
Grants and contributions provided for capital purposes	928	399
Surplus (deficit) from continuing operations after capital amounts	(623)	(3,036)
Surplus (deficit) from all operations before tax	(623)	(3,036)
SURPLUS (DEFICIT) AFTER TAX	(623)	(3,036)
Plus opening retained profits	58,801	61,736
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	37	36
– Debt guarantee fees	91	101
Less:		
– Tax equivalent dividend paid	(37)	(36)
Closing retained profits	58,269	58,801
Return on capital %	-0.2%	-1.2%
Calculation of dividend payable:		
Surplus (deficit) after tax	(623)	(3,036)
Less: capital grants and contributions (excluding developer contributions)	(300)	–

Kempsey Shire Council

Income Statement of Council's Sewerage Business Activity
for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	9,838	9,039
User charges	926	843
Liquid trade waste charges	263	257
Fees	103	138
Interest	43	52
Grants and contributions provided for non-capital purposes	134	112
Total income from continuing operations	11,307	10,441
Expenses from continuing operations		
Employee benefits and on-costs	1,938	1,961
Borrowing costs	1,031	1,012
Materials and contracts	2,763	1,941
Depreciation, amortisation and impairment	4,265	4,181
Loss on sale of assets	921	1,450
Calculated taxation equivalents	28	26
Debt guarantee fee (if applicable)	88	93
Other expenses	1,762	1,641
Total expenses from continuing operations	12,796	12,305
Surplus (deficit) from continuing operations before capital amounts	(1,489)	(1,864)
Grants and contributions provided for capital purposes	550	746
Surplus (deficit) from continuing operations after capital amounts	(939)	(1,118)
Surplus (deficit) from all operations before tax	(939)	(1,118)
SURPLUS (DEFICIT) AFTER TAX	(939)	(1,118)
Plus opening retained profits	48,108	49,133
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	28	26
– Debt guarantee fees	88	93
Less:		
– Tax equivalent dividend paid	(28)	(26)
Closing retained profits	47,257	48,108
Return on capital %	-0.4%	-0.7%
Calculation of dividend payable:		
Surplus (deficit) after tax	(939)	(1,118)
Less: capital grants and contributions (excluding developer contributions)	(81)	(180)

Kempsey Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	1,001	6,060
Investments	8,500	–
Receivables	2,445	2,602
Total current assets	11,946	8,662
Non-current assets		
Infrastructure, property, plant and equipment	198,029	197,114
Total non-current assets	198,029	197,114
TOTAL ASSETS	209,975	205,776
LIABILITIES		
Current liabilities		
Payables	116	125
Borrowings	1,553	1,456
Total current liabilities	1,669	1,581
Non-current liabilities		
Borrowings	19,709	18,762
Total non-current liabilities	19,709	18,762
TOTAL LIABILITIES	21,378	20,343
NET ASSETS	188,597	185,433
EQUITY		
Accumulated surplus	58,269	58,801
Revaluation reserves	130,328	126,632
Council equity interest	188,597	185,433
TOTAL EQUITY	188,597	185,433

Kempsey Shire Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	1,190	9,165
Investments	8,000	–
Receivables	1,043	1,037
Total current Assets	10,233	10,202
Non-current assets		
Infrastructure, property, plant and equipment	119,284	118,562
Total non-current assets	119,284	118,562
TOTAL ASSETS	129,517	128,764
LIABILITIES		
Current liabilities		
Payables	88	96
Borrowings	1,108	1,041
Total current liabilities	1,196	1,137
Non-current liabilities		
Borrowings	17,527	17,634
Total non-current liabilities	17,527	17,634
TOTAL LIABILITIES	18,723	18,771
NET ASSETS	110,794	109,993
EQUITY		
Accumulated surplus	47,257	48,108
Revaluation reserves	63,537	61,885
Council equity interest	110,794	109,993
TOTAL EQUITY	110,794	109,993

Kempsey Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	8
2	Water Supply Business Best-Practice Management disclosure requirements	12
3	Sewerage Business Best-Practice Management disclosure requirements	14

Kempsey Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

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.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

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

Kempsey Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 Crown Lands and Water (CLAW), 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.

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 \$629,000 of combined land values attracts **0%**. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,846,000 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 Crown Lands and Water (CLAW), 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.

Kempsey Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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/is not 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.

(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’.

Such 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:

Kempsey Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 2.63% at 30/6/18.

(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 2018 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.

END OF AUDITED SPECIAL PURPOSE FINANCIAL STATEMENTS

Kempsey Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 2. Water supply business
best-practice management disclosure requirements

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

2018

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	128,000
(ii)	Number of assessments multiplied by \$3/assessment	37,374
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	37,374
(iv)	Amounts actually paid for tax equivalents	37,374

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	336,366
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	(4,658,000)

2018 Surplus	(923,000)	2017 Surplus	(3,036,000)	2016 Surplus	(699,000)
		2017 Dividend	–	2016 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 2018Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	12,785
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)]	%	56.02%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	195,778
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	5,761
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	3,808
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)]	%	0.76%
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 2018Note 3. Sewerage business
best-practice management disclosure requirements

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

2018

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	116,000
(ii)	Number of assessments multiplied by \$3/assessment	28,326
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	28,326
(iv)	Amounts actually paid for tax equivalents	28,326

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)	254,934
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	(2,833,000)

2018 Surplus	(1,020,000)	2017 Surplus	(1,298,000)	2016 Surplus	(515,000)
		2017 Dividend	–	2016 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 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

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	11,705
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	119,158
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	5,488
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	4,357
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)]	%	1.66%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	81

**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	22,839
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.14%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	8,165
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)]	%	1.10%
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 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	7.08%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		2
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	(1,530)
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	261

- 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 report
Kempsey Shire Council

To the Councillors of the Kempsey Shire Council

Opinion

I have audited the accompanying special purpose financial report (the financial report) of the Kempsey Shire Council's (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, 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
- sewerage.

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2018, and its 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.

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 Report' 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 the 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 report which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial report may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- 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 report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: 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 report
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink, appearing to read 'Yu Jiang'. The signature is written in a cursive, flowing style.

Reiky Jiang
Director, Financial Audit Services

30 October 2018
SYDNEY

Kempsey Shire Council

SPECIAL SCHEDULES

for the year ended 30 June 2018

"Focusing on our community"



Kempsey Shire Council

Special Schedules

for the year ended 30 June 2018

Contents

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¹ Special Schedules are not audited (with the exception of Special Schedule 2).

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 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	233	–	–	(233)
Administration	13,257	574	–	(12,683)
Public order and safety				
Fire service levy, fire protection, emergency services	951	270	233	(448)
Beach control	180	4	–	(176)
Enforcement of local government regulations	18	4	–	(14)
Animal control	32	31	–	(1)
Other	–	–	–	–
Total public order and safety	1,181	309	233	(639)
Health	–	89	–	89
Environment				
Noxious plants and insect/vermin control	570	472	–	(98)
Other environmental protection	599	132	–	(467)
Solid waste management	6,329	7,134	–	805
Street cleaning	125	–	–	(125)
Drainage	1,250	168	31	(1,051)
Stormwater management	220	201	32	13
Total environment	9,093	8,107	63	(923)
Community services and education				
Administration and education	6	–	–	(6)
Social protection (welfare)	308	988	31	711
Aged persons and disabled	267	46	–	(221)
Children's services	7	8	–	1
Total community services and education	588	1,042	31	485
Housing and community amenities				
Public cemeteries	331	321	–	(10)
Public conveniences	479	–	58	(421)
Street lighting	655	83	–	(572)
Town planning	214	413	27	226
Other community amenities	–	–	–	–
Total housing and community amenities	1,679	817	85	(777)
Water supplies	13,319	11,506	928	(885)
Sewerage services	12,467	11,037	550	(880)

Kempsey Shire Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	908	72	49	(787)
Museums	–	8	–	8
Art galleries	–	–	–	–
Community centres and halls	254	43	–	(211)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	267	47	–	(220)
Sporting grounds and venues	626	8	139	(479)
Swimming pools	848	1	–	(847)
Parks and gardens (lakes)	1,663	18	96	(1,549)
Other sport and recreation	–	12	–	12
Total recreation and culture	4,566	209	284	(4,073)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	1	297	–	296
Other mining, manufacturing and construction	36	–	–	(36)
Total mining, manufacturing and const.	37	297	–	260
Transport and communication				
Urban roads (UR) – local	963	2,446	2,610	4,093
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	5,636	4,582	59,258	58,204
Sealed rural roads (SRR) – regional	4,896	2,334	38	(2,524)
Unsealed rural roads (URR) – local	3,593	–	133	(3,460)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	229	–	–	(229)
Bridges on URR – local	–	–	–	–
Bridges on regional roads	–	–	–	–
Parking areas	85	27	103	45
Footpaths	548	8	140	(400)
Aerodromes	581	61	108	(412)
Other transport and communication	252	–	412	160
Total transport and communication	16,783	9,458	62,802	55,477
Economic affairs				
Camping areas and caravan parks	1,730	3,286	350	1,906
Other economic affairs	827	440	–	(387)
Total economic affairs	2,557	3,726	350	1,519
Totals – functions	75,760	47,171	65,326	36,737
General purpose revenues ⁽¹⁾		25,800		25,800
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	75,760	72,971	65,326	62,537

(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 – Permissible income for general rates
for the year ended 30 June 2019

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	19,489	18,685
Plus or minus adjustments ⁽²⁾	b	75	90
Notional general income	c = (a + b)	19,564	18,775
Permissible income calculation			
Special variation percentage ⁽³⁾	d	6.50%	4.00%
Or rate peg percentage	e	0.00%	
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	
Less expiring special variation amount	g	(765)	–
Plus special variation amount	h = d x (c – g)	1,222	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)	20,021	19,526
Plus (or minus) last year's carry forward total	l	37	5
Less valuation objections claimed in the previous year	m	–	–
Sub-total	n = (l + m)	37	5
Total permissible income	o = k + n	20,058	19,531
Less notional general income yield	p	20,052	19,489
Catch-up or (excess) result	q = o – p	6	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	6	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 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Kempsey Shire Council

To the Councillors of Kempsey Shire Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of the Kempsey Shire Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 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.

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 Schedule' 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 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 special purpose framework used to prepare the Schedule. The Schedule had been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule 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 the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule 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 the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: 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 Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

A handwritten signature in black ink, appearing to read 'Yu Jiang'.

Reiky Jiang
Director, Financial Audit Services

30 October 2018
SYDNEY

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 2018

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	1,045	1,037
b. Engineering and supervision	954	988
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	131	183
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	333	215
d. Maintenance expenses	827	821
– Reservoirs		
e. Operation expenses	–	–
f. Maintenance expenses	–	–
– Pumping stations		
g. Operation expenses (excluding energy costs)	98	72
h. Energy costs	495	436
i. Maintenance expenses	188	211
– Treatment		
j. Operation expenses (excluding chemical costs)	1,111	1,012
k. Chemical costs	179	169
l. Maintenance expenses	324	290
– Other		
m. Operation expenses	38	13
n. Maintenance expenses	38	28
o. Purchase of water	–	–
3. Depreciation expenses		
a. System assets	5,260	5,131
b. Plant and equipment	336	385
4. Miscellaneous expenses		
a. Interest expenses	1,158	1,153
b. Revaluation decrements	–	–
c. Other expenses	26	154
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	40	33
g. Tax equivalents dividends (actually paid)	37	36
5. Total expenses	12,618	12,367

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 2018

\$'000	2018	2017
Income		
6. Residential charges		
a. Access (including rates)	3,319	3,011
b. Usage charges	4,228	4,218
7. Non-residential charges		
a. Access (including rates)	829	892
b. Usage charges	2,938	2,637
8. Extra charges	90	104
9. Interest income	59	50
10. Other income	306	181
10a. Aboriginal Communities Water and Sewerage Program	85	57
11. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	147	150
c. Other grants	–	–
12. Contributions		
a. Developer charges	628	399
b. Developer provided assets	–	–
c. Other contributions	300	–
13. Total income	12,929	11,699
14. Gain (or loss) on disposal of assets	(843)	(2,267)
15. Operating result	(532)	(2,935)
15a. Operating result (less grants for acquisition of assets)	(532)	(2,935)

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 2018

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	1,130	527
c. Renewals	2,326	2,637
d. Plant and equipment	352	766
17. Repayment of debt	1,456	1,481
18. Totals	5,264	5,411
Non-operating funds employed		
19. Proceeds from disposal of assets	149	211
20. Borrowing utilised	2,212	2,161
21. Totals	2,361	2,372
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	10,981	10,363
b. Residential (unoccupied, ie. vacant lot)	387	367
c. Non-residential (occupied)	1,047	1,258
d. Non-residential (unoccupied, ie. vacant lot)	43	55
23. Number of ETs for which developer charges were received	34 ET	42 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 268,061	\$ 273,187

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 2018

\$'000	Current	Non-current	Total
ASSETS			
25. Cash and investments			
a. Developer charges	1,523	–	1,523
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	707	–	707
e. Sinking fund	–	–	–
f. Other	7,271	–	7,271
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	435	–	435
c. User charges	2,002	–	2,002
d. Other	8	–	8
27. Inventories	–	–	–
28. Property, plant and equipment			
a. System assets	–	195,778	195,778
b. Plant and equipment	–	2,251	2,251
29. Other assets	–	–	–
30. Total assets	11,946	198,029	209,975
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	116	–	116
33. Borrowings	1,553	19,709	21,262
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	1,669	19,709	21,378
36. NET ASSETS COMMITTED	10,277	178,320	188,597
EQUITY			
37. Accumulated surplus			58,269
38. Asset revaluation reserve			130,328
39. Other reserves			–
40. TOTAL EQUITY			188,597
Note to system assets:			
41. Current replacement cost of system assets			281,058
42. Accumulated current cost depreciation of system assets			(85,280)
43. Written down current cost of system assets			195,778

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 2018

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	659	579
b. Engineering and supervision	1,056	1,057
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	4	4
b. Maintenance expenses	545	574
– Pumping stations		
c. Operation expenses (excluding energy costs)	216	165
d. Energy costs	263	243
e. Maintenance expenses	386	419
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	1,155	1,050
g. Chemical costs	220	314
h. Energy costs	232	227
i. Effluent management	–	–
j. Biosolids management	343	202
k. Maintenance expenses	354	345
– Other		
l. Operation expenses	15	16
m. Maintenance expenses	40	18
3. Depreciation expenses		
a. System assets	4,265	4,142
b. Plant and equipment	–	39
4. Miscellaneous expenses		
a. Interest expenses	1,031	1,012
b. Revaluation decrements	–	–
c. Other expenses	955	322
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	20	7
g. Tax equivalents dividends (actually paid)	28	26
5. Total expenses	11,787	10,761

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 2018

\$'000	2018	2017
Income		
6. Residential charges (including rates)	8,517	7,619
7. Non-residential charges		
a. Access (including rates)	1,321	1,420
b. Usage charges	926	843
8. Trade waste charges		
a. Annual fees	34	36
b. Usage charges	263	257
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	–	–
10. Interest income	43	52
11. Other income	41	45
11a. Aboriginal Communities Water and Sewerage Program	28	57
12. Grants		
a. Grants for acquisition of assets	81	38
b. Grants for pensioner rebates	114	112
c. Other grants	20	–
13. Contributions		
a. Developer charges	469	707
b. Developer provided assets	–	–
c. Other contributions	–	–
14. Total income	<u>11,857</u>	<u>11,186</u>
15. Gain (or loss) on disposal of assets	(921)	(1,450)
16. Operating result	<u>(851)</u>	<u>(1,025)</u>
16a. Operating result (less grants for acquisition of assets)	(932)	(1,063)

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 2018

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	1,556	520
c. Renewals	2,754	4,190
d. Plant and equipment	47	61
18. Repayment of debt	1,041	1,131
19. Totals	5,398	5,902
Non-operating funds employed		
20. Proceeds from disposal of assets	73	857
21. Borrowing utilised	1,839	2,258
22. Totals	1,912	3,115
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	7,933	7,861
b. Residential (unoccupied, ie. vacant lot)	861	315
c. Non-residential (occupied)	611	610
d. Non-residential (unoccupied, ie. vacant lot)	37	43
24. Number of ETs for which developer charges were received	23 ET	33 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 207,459	\$ 202,857

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 2018

\$'000	Current	Non-current	Total
ASSETS			
26. Cash and investments			
a. Developer charges	2,070	–	2,070
b. Special purpose grants	8	–	8
c. Accrued leave	–	–	–
d. Unexpended loans	1,912	–	1,912
e. Sinking fund	–	–	–
f. Other	5,200	–	5,200
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	666	–	666
c. User charges	272	–	272
d. Other	105	–	105
28. Inventories	–	–	–
29. Property, plant and equipment			
a. System assets	–	119,158	119,158
b. Plant and equipment	–	126	126
30. Other assets	–	–	–
31. Total assets	10,233	119,284	129,517
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	88	–	88
34. Borrowings	1,108	17,527	18,635
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	1,196	17,527	18,723
37. NET ASSETS COMMITTED	9,037	101,757	110,794
EQUITY			
38. Accumulated surplus			47,257
39. Asset revaluation reserve			63,537
40. Other reserves			–
41. TOTAL EQUITY			110,794
Note to system assets:			
42. Current replacement cost of system assets			224,785
43. Accumulated current cost depreciation of system assets			(105,627)
44. Written down current cost of system assets			119,158

Kempsey Shire Council

Notes to Special Schedules 3 and 5 for the year ended 30 June 2018

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 2018

\$'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	2017/18 Required maintenance ^a	2017/18 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	1,332	1,175	16,813	42,207	1%	4%	54%	39%	2%
	Buildings – specialised	4	4	103	94	8,568	20,151	5%	9%	49%	36%	1%
	Sub-total	659	659	1,435	1,269	25,381	62,358	2.3%	5.6%	52.4%	38.0%	1.7%
Roads	Sealed roads	13,492	13,492	889	1,733	212,077	324,703	18%	19%	22%	19%	22%
	Unsealed roads	1,942	1,942	1,292	1,445	50,655	77,630	12%	1%	76%	8%	3%
	Bridges	–	–	2	–	37,963	64,124	42%	45%	10%	3%	0%
	Footpaths	420	420	144	55	10,916	24,384	1%	21%	57%	20%	1%
	Bulk earthworks	–	–	–	–	237,307	237,307					100%
	Sub-total	15,854	15,854	2,327	3,233	548,918	728,148	13.0%	13.2%	20.7%	10.3%	42.8%
Water supply network	Water supply network	12,744	18,633	4,863	4,021	193,299	278,579	28%	31%	34%	4%	3%
	Sub-total	12,744	18,633	4,863	4,021	193,299	278,579	28.5%	30.6%	34.0%	3.8%	3.2%
Sewerage network	Sewerage network	33,301	22,576	4,295	4,502	114,726	220,354	22%	42%	15%	1%	20%
	Sub-total	33,301	22,576	4,295	4,502	114,726	220,354	21.7%	42.2%	15.3%	1.2%	19.6%
Stormwater drainage	Stormwater drainage	281	281	148	111	76,715	122,715	45%	41%	12%	1%	1%
	Sub-total	281	281	148	111	76,715	122,715	45.0%	41.0%	12.0%	1.0%	1.0%
Open space/recreational assets	Swimming pools	1,015	1,015	2,204	–	1,249	3,383	19%	44%	27%	5%	5%
	Other	1,200	1,200	–	–	5,554	12,001	19%	44%	27%	5%	5%
	Sub-total	2,215	2,215	2,204	–	6,803	15,384	19.0%	44.0%	27.0%	5.0%	5.0%

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (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	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
	TOTAL – ALL ASSETS	65,054	60,218	15,272	13,136	965,842	1,427,538	19.7%	23.5%	23.2%	7.9%	25.7%

Notes:

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

Infrastructure asset condition assessment 'key'

1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	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 2018

	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Infrastructure asset performance indicators * consolidated					
1. Buildings and infrastructure renewals ratio ⁽¹⁾					
Asset renewals ⁽²⁾	<u>21,680</u>	96.39%	38.87%	62.36%	>= 100%
Depreciation, amortisation and impairment	<u>22,493</u>				
2. Infrastructure backlog ratio ⁽¹⁾					
Estimated cost to bring assets to a satisfactory standard	<u>65,054</u>	6.65%	10.61%	11.67%	< 2.00%
Net carrying amount of infrastructure assets	<u>978,183</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>13,136</u>	86.01%	107.31%	96.69%	> 100%
Required asset maintenance	<u>15,272</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>60,218</u>	4.22%	5.41%	0.00%	
Gross replacement cost	<u>1,427,538</u>				

Notes

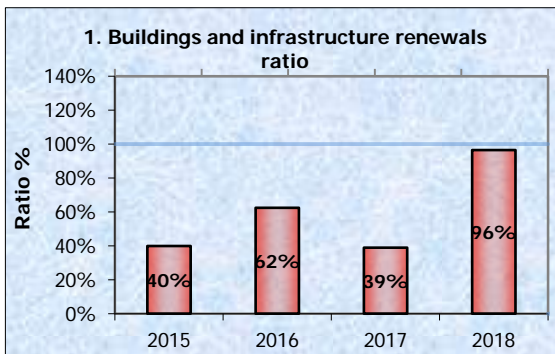
* All asset performance indicators are calculated using the asset classes identified in the previous table.

(1) Excludes Work In Progress (WIP)

(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 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2018



Benchmark: ——— Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset renewals ratio

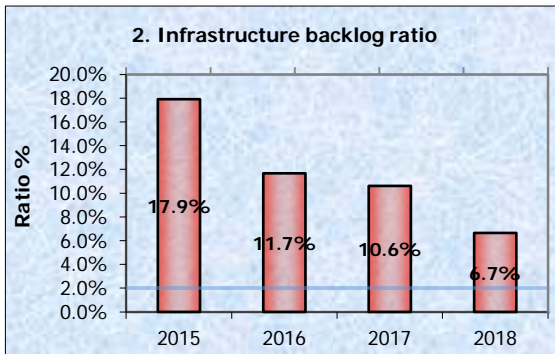
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2017/18 result

2017/18 Ratio 96.39%

Council is in the process of developing plans to achieve benchmark results. General fund achieved benchmark result (118.46%). Water and Sewer funds did not achieve benchmark and bring overall results down.

Ratio achieves benchmark
 Ratio is outside benchmark



Benchmark: ——— Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of infrastructure backlog ratio

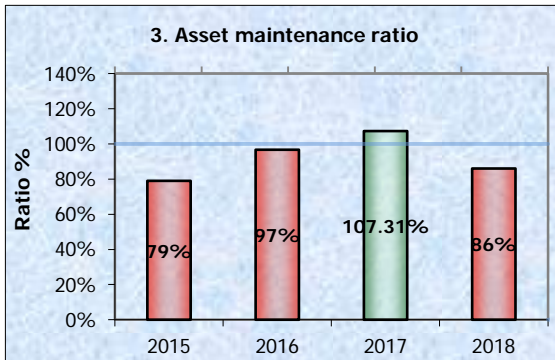
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2017/18 result

2017/18 Ratio 6.65%

Council is in the process of developing plans to achieve benchmark results

Ratio achieves benchmark
 Ratio is outside benchmark



Benchmark: ——— Minimum $> 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset maintenance ratio

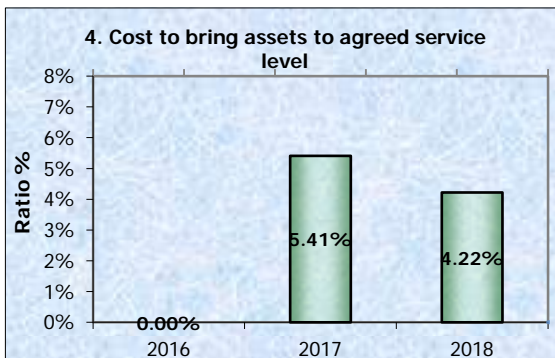
Compares actual vs. required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2017/18 result

2017/18 Ratio 86.01%

Sewer fund achieved benchmark result (104.82%). General and Water funds did not achieve benchmark and bring overall results down.

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of agreed service level ratio

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

2017/18 Ratio 4.22%

Kempsey Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	General indicators ⁽¹⁾		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Infrastructure asset performance indicators by fund							
1. Buildings and infrastructure renewals ratio ⁽²⁾							
Asset renewals ⁽³⁾	118.17%	45.95%	52.17%	28.36%	82.84%	30.19%	>= 100%
Depreciation, amortisation and impairment							
2. Infrastructure backlog ratio ⁽²⁾							
Estimated cost to bring assets to a satisfactory standard	2.84%	4.45%	6.59%	10.80%	29.03%	30.50%	< 2.00%
Net carrying amount of infrastructure assets							
3. Asset maintenance ratio							
Actual asset maintenance	75.45%	93.19%	82.69%	167.52%	104.82%	106.42%	> 100%
Required asset maintenance							
4. Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	2.05%	2.02%	6.69%	7.63%	10.25%	16.19%	
Gross replacement cost							

Notes

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Excludes Work In Progress (WIP)
- (3) 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

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