

Financial Statements 2015 -16

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Shoalhaven City Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2016

*We will work together in the Shoalhaven to foster
a safe and attractive community for people to live, work, stay and play;
where sustainable growth, development and environmental protection
are managed to provide a unique and relaxed lifestyle.*

Shoalhaven
City Council

Shoalhaven City Council

General Purpose Financial Statements

for the year ended 30 June 2016

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Overview

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

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

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

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

- (iii) All figures presented in these financial statements are presented in Australian currency.
- (iv) These financial statements were authorised for issue by the Council on 31 October 2016. Council has the power to amend and reissue these financial statements.
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Shoalhaven City Council

General Purpose Financial Statements for the year ended 30 June 2016

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 2016.

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

This 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

This statement primarily records changes in the fair values of Council's infrastructure, property, plant and equipment.

3. The Statement of Financial Position

An end of year snapshot of Council's financial position indicating its assets, liabilities and equity ('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

This statement 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 financial statements are required to be audited by external accountants (that generally specialise in local government). 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.

Shoalhaven City Council

General Purpose Financial Statements for the year ended 30 June 2016

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

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

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

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

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

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

Signed in accordance with a resolution of Council made on 25 October 2016.



Mark Kitchener
Deputy Mayor



Patricia White
Assistant Deputy Mayor



Russ Pigg
General Manager



Pamela Gokgur
Responsible Accounting Officer

Shoalhaven City Council

Income Statement

for the year ended 30 June 2016

Budget ¹ 2016	\$ '000	Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
116,592	Rates and annual charges	3a	116,238	111,460
60,024	User charges and fees	3b	63,003	58,676
3,430	Interest and investment revenue	3c	6,388	5,765
1,069	Other revenues	3d	4,163	3,799
19,952	Grants and contributions provided for operating purposes	3e,f	22,063	20,178
28,312	Grants and contributions provided for capital purposes	3e,f	29,424	31,246
Other income:				
–	Net gains from the disposal of assets	5	2,219	–
–	Net share of interests in joint ventures and associates using the equity method	19	–	–
229,379	Total income from continuing operations		243,498	231,124
Expenses from continuing operations				
69,225	Employee benefits and on-costs	4a	68,226	61,715
4,018	Borrowing costs	4b	3,960	4,292
48,076	Materials and contracts	4c	46,091	43,221
55,099	Depreciation and amortisation	4d	55,138	54,062
–	Impairment	4d	–	–
28,104	Other expenses	4e	30,412	26,103
–	Net losses from the disposal of assets	5	–	3,478
204,522	Total expenses from continuing operations		203,827	192,871
24,857	Operating result from continuing operations		39,671	38,253
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
24,857	Net operating result for the year		39,671	38,253
24,857	Net operating result attributable to Council		39,671	38,253
–	Net operating result attributable to non-controlling interests		–	–
(3,455)	Net operating result for the year before grants and contributions provided for capital purposes		10,247	7,007

¹ Original budget as approved by Council – refer Note 16

Shoalhaven City Council

Statement of Comprehensive Income
for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
Net operating result for the year (as per Income Statement)		39,671	38,253
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	14,992	149,241
Total items which will not be reclassified subsequently to the operating result		14,992	149,241
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements in reserves – inclusion of management committees retained earnings	20b (ii)	(44)	115
Total items which will be reclassified subsequently to the operating result when specific conditions are met		(44)	115
Total other comprehensive income for the year		14,948	149,356
Total comprehensive income for the year		54,619	187,609
Total comprehensive income attributable to Council		54,619	187,609
Total comprehensive income attributable to non-controlling interests		–	–

Shoalhaven City Council

Statement of Financial Position
as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
ASSETS			
Current assets			
Cash and cash equivalents	6a	25,960	22,943
Investments	6b	101,763	60,714
Receivables	7	17,578	24,382
Inventories	8	4,509	2,285
Other	8	357	370
Non-current assets classified as 'held for sale'	22	4,277	1,314
Total current assets		154,444	112,008
Non-current assets			
Investments	6b	38,000	50,920
Receivables	7	6,576	6,310
Inventories	8	5,183	8,165
Infrastructure, property, plant and equipment	9	2,535,556	2,512,119
Investments accounted for using the equity method	19	–	–
Investment property	14	1,535	1,435
Intangible assets	25	–	–
Total non-current assets		2,586,850	2,578,949
TOTAL ASSETS		2,741,294	2,690,957
LIABILITIES			
Current liabilities			
Payables	10	16,413	21,324
Borrowings	10	9,624	9,483
Provisions	10	28,705	28,316
Total current liabilities		54,742	59,123
Non-current liabilities			
Payables	10	–	–
Borrowings	10	58,282	58,407
Provisions	10	3,329	3,105
Total non-current liabilities		61,611	61,512
TOTAL LIABILITIES		116,353	120,635
Net assets		2,624,941	2,570,322
EQUITY			
Retained earnings	20	1,400,413	1,359,921
Revaluation reserves	20	1,224,528	1,210,401
Council equity interest		2,624,941	2,570,322
Non-controlling equity interests		–	–
Total equity		2,624,941	2,570,322

Shoalhaven City Council

Statement of Changes in Equity

for the year ended 30 June 2016

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total equity
2016						
Opening balance (as per last year's audited accounts)		1,359,446	1,210,401	2,569,847	–	2,569,847
a. Correction of prior period errors	20 (c)	475	–	475	–	475
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
Revised opening balance (as at 1/7/15)		1,359,921	1,210,401	2,570,322	–	2,570,322
c. Net operating result for the year		39,671	–	39,671	–	39,671
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	14,992	14,992	–	14,992
– Other movements – inclusion of management committees retained earnings	20a	(44)	–	(44)	–	(44)
Other comprehensive income		(44)	14,992	14,948	–	14,948
Total comprehensive income (c&d)		39,627	14,992	54,619	–	54,619
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		865	(865)	–	–	–
Equity – balance at end of the reporting period		1,400,413	1,224,528	2,624,941	–	2,624,941
2015						
Opening balance (as per last year's audited accounts)		1,318,517	1,061,857	2,380,374	–	2,380,374
a. Correction of prior period errors	20 (c)	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
Revised opening balance (as at 1/7/14)		1,318,517	1,061,857	2,380,374	–	2,380,374
c. Net operating result for the year		40,117	–	40,117	–	40,117
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	149,241	149,241	–	149,241
– Other movements – inclusion of management committees retained earnings	20a	115	–	115	–	115
Other comprehensive income		115	149,241	149,356	–	149,356
Total comprehensive income (c&d)		40,232	149,241	189,473	–	189,473
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		697	(697)	–	–	–
Equity – balance at end of the reporting period		1,359,446	1,210,401	2,569,847	–	2,569,847

Shoalhaven City Council

Statement of Cash Flows
for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
Cash flows from operating activities				
Receipts:				
116,456	Rates and annual charges		115,648	110,882
60,024	User charges and fees		66,116	58,427
4,113	Investment and interest revenue received		6,101	5,080
48,264	Grants and contributions		55,057	39,790
–	Bonds, deposits and retention amounts received		1,225	194
1,069	Other		10,629	2,648
Payments:				
(69,225)	Employee benefits and on-costs		(67,667)	(63,294)
(48,036)	Materials and contracts		(58,868)	(45,178)
(4,701)	Borrowing costs		(3,865)	(4,181)
(28,104)	Other		(37,386)	(26,103)
79,860	Net cash provided (or used in) operating activities	11b	86,990	78,265
Cash flows from investing activities				
Receipts:				
14,500	Sale of investment securities		89,983	113,653
2,250	Sale of real estate assets		1,527	420
2,246	Sale of infrastructure, property, plant and equipment		2,706	4,007
1,371	Deferred debtors receipts		–	5,124
Payments:				
–	Purchase of investment securities		(114,002)	(120,749)
(99,530)	Purchase of infrastructure, property, plant and equipment		(64,111)	(68,913)
(2,545)	Purchase of real estate assets		–	(1,186)
–	Deferred debtors and advances made		(316)	–
(81,708)	Net cash provided (or used in) investing activities		(84,213)	(67,644)
Cash flows from financing activities				
Receipts:				
9,397	Proceeds from borrowings and advances		9,724	7,873
Payments:				
(9,355)	Repayment of borrowings and advances		(9,484)	(9,788)
42	Net cash flow provided (used in) financing activities		240	(1,915)
(1,806)	Net increase/(decrease) in cash and cash equivalents		3,017	8,706
6,653	Plus: cash and cash equivalents – beginning of year	11a	22,943	14,237
4,847	Cash and cash equivalents – end of the year	11a	25,960	22,943
Additional Information:				
	plus: Investments on hand – end of year	6b	139,763	111,634
	Total cash, cash equivalents and investments		165,723	134,577

Please refer to Note 11 for additional cash flow information

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

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Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies

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

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

(a) Basis of preparation

(i) Background

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

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

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

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

Because AASBs are sector neutral, some standards either:

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

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

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

(iii) New and amended standards adopted by Council

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

(iv) Early adoption of accounting standards

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

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

(v) Basis of accounting

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

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

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

(vi) Changes in accounting policies

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

(vii) Critical accounting estimates

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

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

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

(b) Revenue recognition

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

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

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

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

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

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

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

User charges, fees and other Income

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

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

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

Sale of infrastructure, property, plant and equipment

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

Interest and rents

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

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

Dividend income

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

Other Income

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

(c) Principles of consolidation

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

(i) The Consolidated Fund

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

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

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

- *General Purpose Operations*
- *Water Supply*
- *Sewer Service*
- *Domestic Waste Services*
- *Southern Water Services*
- *Council's S355 Management Committees*

(ii) The trust fund

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

(iii) Interests in other entities

Subsidiaries represent all entities (including structured entities) over which the Council has control.

Control is established when the Council is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

Intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity.

All controlled entities have a June financial year end.

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

Joint arrangements

Council has no interest in any joint arrangements.

County councils

Council is not a member of any county councils.

Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

(d) Leases

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

Finance leases

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

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

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

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

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

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

Operating Leases

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

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

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

(e) Cash and Cash Equivalents

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

(f) Investments and other financial assets

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

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

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

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

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

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

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

Derivatives are classified as held for trading unless they are designated as hedges.

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

(ii) Loans and receivables

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

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

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

(iii) Held-to-maturity investments

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

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

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

(iv) Available-for-sale financial assets

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

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

Financial assets – reclassification

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

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

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

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

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

General accounting and measurement of financial instruments:

(i) Initial recognition

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

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

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

(ii) Subsequent measurement

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

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

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

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

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

Impairment

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

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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

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

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

(iii) Types of investments

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

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

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

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments that Council holds are no longer

prescribed (eg. managed funds, CDOs, and equity linked notes), however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(g) Fair value estimation – financial instruments

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

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

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

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

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

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

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

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(h) Receivables

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

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

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

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

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

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

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

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

(i) Inventories

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

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

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

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

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

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

(ii) Inventory held for distribution

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

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

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

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

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

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

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

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

Acquisition of assets

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

- **Investment Properties** – refer Note 1(p),
- **Water and Sewerage Networks** (Internal Valuation)
- **Operational Land** (External Valuation)
- **Buildings – Specialised/Non Specialised** (External Valuation)
- **Plant and Equipment** (as approximated by depreciated historical cost)
- **Roads Assets incl. roads, bridges & footpaths** (Internal Valuation)
- **Drainage Assets** (Internal Valuation)
- **Bulk Earthworks** (Internal Valuation)
- **Community Land** (Internal Valuation)
- **Land Improvements** (Internal Valuation)
- **Other Structures** (Internal Valuation)
- **Swimming Pools** (Internal Valuation)
- **Other Assets** (Internal Valuation)

Initial recognition

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

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

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

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

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably.

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

Asset revaluations (including indexation)

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

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

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

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

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

Full revaluations are undertaken for all assets on a 5-year cycle unless there is evidence that the fair value of an asset differs materially from its carrying amount.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Capitalisation thresholds

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

Land

- Operational land	100% Capitalised
- Community land	100% Capitalised
- Land under roads (purchases after 30/6/08)	100% Capitalised

Plant and Equipment

Office Furniture	> \$1,000
Office Equipment	> \$1,000
Other Plant and Equipment	> \$2,000

Buildings and Land Improvements

Park Furniture and Equipment	> \$2,000
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Building

- construction/extensions	100% Capitalised
- renovations	> \$2,000

Other Structures	> \$2,000
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Land Improvements	> \$2,000
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Water and Sewer Assets

All Infrastructure	> \$2,000
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Stormwater Assets

Stormwater Drainage	> \$5,000
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Transport Assets

Road construction and reconstruction	100% Capitalised
Reseal/Re-sheet and major repairs:	> \$2,000

Bridge construction and reconstruction	100% Capitalised
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Other Infrastructure Assets

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

Other Infrastructure	> \$2,000
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Depreciation

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight-line method in order to allocate an asset's

cost (net of residual values) over its estimated useful life.

Land is not depreciated.

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

Plant and Equipment

- Office Equipment	10 years
- Office furniture	10 years
- Computer Equipment	4 years
- Vehicles	3 to 5 years
- Heavy Plant/Road Making equip.	6 years
- Other plant and equipment	10 to 30 years

Other Equipment

- Playground equipment	4 to 20 years
- Benches, seats etc	10 to 20 years

Buildings

- Small Buildings (eg. toilet block)	40 years
- Large Buildings: Other	60 years

Stormwater Drainage

- Various	60 to 80 years
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Transportation Assets

- Roads and Carpark Pavement	20 to 80 years
- Roads and Carpark Surface	12 to 40 years
- Traffic Facilities	40 years
- Kerb and Gutter	70 years
- Bus shelters	20 years
- Crash barriers and Fencing	20 to 40 years
- Bridges	40 to 80 years
- Footpaths	35 to 50 years

Water and Sewer Assets

- Various	40 to 100 years
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Other Infrastructure Assets

- Other Structures	5 to 50 years
- Depreciable Land Improvements	10 to 50 years
- Swimming Pools	50 years
- Other Open Space/ Recreational Assets	10 to 20 years
- Other Infrastructure	10 to 50 years

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

Disposal and derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

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

(k) Land

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

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

(l) Land under roads

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

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

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

(m) Intangible assets

Council has not classified any assets as intangible.

(n) Crown reserves

Crown reserves under Council's care and control are not recognised as assets of the Council.

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

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

(o) Rural fire service assets

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

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

Until such time as discussions on this matter have concluded and the legislation changed, Council will continue to account for these assets as it has been doing in previous years, which is to include the land and buildings but exclude the other assets.

(p) Investment property

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

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

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

Shoalhaven City Council

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

Note 1. Summary of significant accounting policies (continued)

Full revaluations are carried out every three years with an appropriate index utilised or a desktop valuation each year in between the full revaluations.

The last full revaluation for Council's Investment Properties was dated 30/6/2016.

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

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

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

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

Costs are estimated on the basis of a closure plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The exception to this is plant and motor vehicles, which are turned over on a regular basis. Plant and

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

motor vehicles are retained in non-current assets under the classification of infrastructure, property, plant and equipment – unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

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

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

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

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

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

(s) Impairment of assets

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

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

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

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

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

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

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

(t) Payables

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

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

(u) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

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

(v) Borrowing costs

Borrowing costs are expensed / except to the extent that they are incurred during the construction of qualifying assets.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

time that is required to complete and prepare the asset for its intended use or sale.

(w) Provisions

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

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

Provisions are not recognised for future operating losses.

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

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

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

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

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

(x) Employee benefits

(i) Short-term obligations

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

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

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

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

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

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

(ii) Other long-term obligations

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

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

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

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(iii) Retirement benefit obligations

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

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

Defined benefit plans

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

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

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

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

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

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

The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 24th February 2016, relating to the period ending 30 June 2015.

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

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

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$2,108,489.11.

The amount of additional contributions included in the total employer contribution advised above is \$1,117,166.04.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$1,365,956.17 as at 30 June 2016.

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

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

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

Defined contribution plans

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

(iv) Employee benefit on-costs

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

These amounts include superannuation and workers compensation expenses which will be payable upon

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

the future payment of certain leave liabilities accrued as at 30/06/16.

(y) Self-insurance

Council has determined to self-insure for various risks, including public liability and professional indemnity.

A provision for self-insurance has been made to recognise outstanding claims the amount of which is detailed in Note 10.

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

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

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

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

Exceptions

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

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

(aa) Taxes

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

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

Goods and Services Tax (GST)

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

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

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

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

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

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

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

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

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

Council has not adopted any of these standards early.

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

AASB 9 – Financial Instruments

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

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

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

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

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

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

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

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

AASB 15 will introduce a 5-step process for revenue recognition with the core principle of the new standard being that entities recognise revenue so as to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

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

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2018.

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

AASB ED 260 Income of Not-for-Profit Entities

The AASB previously issued exposure draft AASB ED 260 on Income of Not-for-Profit Entities in April 2015.

The exposure draft proposed specific not-for-profit entity requirements and guidance when applying the principles of AASB 15 to income from certain transactions.

Much of the material in AASB 1004 is expected to be replaced by material included in AASB ED 260.

Specific revenue items that may considerably change are Grants and Contributions.

The most likely financial statement impact is the deferred recognition of Grants and Contributions (i.e. recognition as unearned revenue [liability]) until Council has met the associated performance obligation/s relating to the Grants or Contribution.

At this stage there is no specific date of release for a standard or a date of applicability.

AASB16 – Leases

AASB 116 Leases replaces AASB 117 Leases and some associated lease-related Interpretations.

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

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

Council is yet to undertake a detailed assessment of the accounting impacts from AASB 16. However, based on preliminary assessments, impacts from the

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

first time adoption of the standard are likely to include:

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

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

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

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

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

(ac) Rounding of amounts

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

(ad) Comparative figures

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

(ae) Disclaimer

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current & non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2016	2016	2015	2016	2016	2015	2016	2016	2015	2016	2015	2016	2015
Governance	6	5	6	1,472	1,465	1,670	(1,466)	(1,460)	(1,664)	–	–	18,878	13,986
Administration	1,541	7,645	9,152	36,257	32,276	33,305	(34,716)	(24,631)	(24,153)	281	208	439,969	376,265
Public order and safety	6,255	5,285	2,755	4,051	4,827	4,487	2,204	458	(1,732)	3,956	690	62,207	35,628
Health	300	264	153	1,447	1,553	1,481	(1,147)	(1,289)	(1,328)	–	–	20,014	11,385
Environment	29,232	29,675	28,089	31,167	34,923	30,838	(1,935)	(5,248)	(2,749)	1,589	2,123	407,940	245,411
Community services and education	1,512	1,825	1,859	2,420	2,695	2,548	(908)	(870)	(689)	1,451	1,563	34,744	21,105
Housing and community amenities	2,165	3,821	2,634	6,571	5,750	5,731	(4,406)	(1,929)	(3,097)	514	306	63,429	61,463
Water supplies	21,181	25,300	23,260	22,898	20,297	18,590	(1,717)	5,003	4,670	527	532	424,333	575,265
Sewerage services	43,989	47,221	49,866	21,734	21,337	18,997	22,255	25,884	30,869	2,813	9,023	506,939	675,793
Recreation and culture	7,579	9,169	9,036	17,960	22,842	20,981	(10,381)	(13,673)	(11,945)	421	1,288	214,559	257,189
Mining, manufacturing and construction	2,494	3,217	2,783	5,618	5,703	4,403	(3,124)	(2,486)	(1,620)	–	–	73,496	39,227
Transport and communication	20,648	16,733	10,344	35,308	30,911	30,571	(14,660)	(14,178)	(20,227)	12,245	6,122	410,703	270,511
Economic affairs	21,814	22,413	21,878	17,619	19,248	19,269	4,195	3,165	2,609	–	1,323	64,083	107,729
Total functions and activities	158,716	172,573	161,815	204,522	203,827	192,871	(45,806)	(31,254)	(31,056)	23,797	23,178	2,741,294	2,690,957
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income ¹	70,663	70,925	69,309	–	–	–	70,663	70,925	69,309	12,546	12,580	–	–
Operating result from continuing operations	229,379	243,498	231,124	204,522	203,827	192,871	24,857	39,671	38,253	36,343	35,758	2,741,294	2,690,957

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

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

GOVERNANCE

Includes costs relating to 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, public disclosure (e.g. GIPA), and legislative compliance.

ADMINISTRATION

Includes corporate support and other support services, engineering works, and any Council policy compliance.

PUBLIC ORDER AND SAFETY

Fire protection, animal control, beach control, enforcement of local government regulations, emergency services, other.

HEALTH

Includes immunisation, food control, health centres etc.

ENVIRONMENT

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

COMMUNITY SERVICES AND EDUCATION

Includes administration and education; social protection (welfare); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's services, including family day care; child care; and other family and children services.

HOUSING AND COMMUNITY AMENITIES

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons.

WATER SUPPLIES

SEWERAGE SERVICES

RECREATION AND CULTURE

Includes public libraries; museums; art galleries; community centres and halls, including public halls and performing arts venues; sporting grounds and venues; swimming pools; parks; gardens; lakes; and other sporting, recreational and cultural services.

MINING, MANUFACTURING AND CONSTRUCTION

Includes building control, quarries and pits, mineral resources, and abattoirs.

TRANSPORT AND COMMUNICATION

Urban local, urban regional, includes sealed and unsealed roads, bridges, footpaths, parking areas, and aerodromes.

ECONOMIC AFFAIRS

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; sale yards and markets; real estate development; commercial nurseries; and other business undertakings.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Rates and annual charges			
Ordinary rates			
Residential		48,733	47,448
Farmland		1,891	1,847
Business		4,874	4,768
Total ordinary rates		55,498	54,063
Special rates			
Town improvement		12	12
Town planning		933	150
Total special rates		945	162
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		16,690	15,704
Stormwater management services		1,080	1,068
Water supply services		3,945	3,941
Sewerage services		37,355	35,988
Waste management services (non-domestic)		725	534
Total annual charges		59,795	57,235
TOTAL RATES AND ANNUAL CHARGES		116,238	111,460

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(b) User charges and fees			
Specific user charges (per s.502 – specific 'actual use' charges)			
Water supply services		15,328	14,654
Sewerage services		2,907	2,556
Waste management services (non-domestic)		8,260	7,611
Total user charges		26,495	24,821
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Planning and building regulation		3,320	2,907
Private works – section 67		1,340	1,153
Section 149 certificates (EPA Act)		418	401
Section 603 certificates		309	298
Total fees and charges – statutory/regulatory		5,387	4,759
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Animal charges		202	212
Cemeteries		1,794	1,507
Communication charges		1,130	1,146
Entertainment centre		1,192	1,081
Family day care		232	208
Food inspection fees		113	112
Health licence fees		81	102
Hire of Council property		534	465
Leaseback fees – Council vehicles		893	838
Library		104	86
Swimming / leisure centres		3,961	3,581
Tourism		130	176
Tourist parks		20,659	19,489
Other		96	93
Total fees and charges – other		31,121	29,096
TOTAL USER CHARGES AND FEES		63,003	58,676

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		556	526
– Interest earned on investments (interest and coupon payment income)		5,216	4,653
– Interest on deferred debtors		–	77
Dividend income		466	463
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		(100)	30
Amortisation of premiums and discounts			
– Interest free (and interest reduced) loans provided		–	16
Fair valuation of financial liabilities on recognition			
– Interest free (or favourable) loans and advances received		250	–
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>6,388</u>	<u>5,765</u>

Interest revenue is attributable to:**Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	330	526
General Council cash and investments	2,551	2,140

Restricted investments/funds – external:

Development contributions		
– Section 94	812	728
– Section 64	434	402
Water fund operations	906	1,134
Sewerage fund operations	990	577
Domestic waste management operations	365	258

Total interest and investment revenue recognised	<u>6,388</u>	<u>5,765</u>
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(d) Other revenues

Biobank management fee		19	17
Commissions and agency fees		85	65
Credit card service fees		112	106
Discounts received		15	15
Employment subsidies		–	28
E-waste sales		1	1
Fair value increments – investment properties	14	100	–
Fines – parking		534	628
Fines – other		552	384
Fuel tax credit		276	566
In-house canteen charges		–	84
Insurance claim recoveries		195	181
Legal fees recovery – rates and charges (extra charges)		208	199
Legal fees recovery – other		192	34
Library – other councils		55	101
Miscellaneous sales		50	9

(continued on the next page...)

Shoalhaven City Council

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

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(d) Other revenues (continued)			
Rental income – investment properties	14	128	131
Rental income – other council properties		820	805
Waste levy refunds		231	231
Insurance Rebates		107	–
Other		483	214
TOTAL OTHER REVENUE		4,163	3,799

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(e) Grants				
General purpose (untied)				
Financial assistance – general component	8,248	8,248	–	–
Financial assistance – local roads component	3,093	3,131	–	–
Pensioners' rates subsidies – general component	1,205	1,201	–	–
Total general purpose	12,546	12,580	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	527	532	–	–
– Sewerage	524	521	–	–
– Domestic waste management	434	427	–	–
Sewerage services	–	–	2,288	8,502
Bushfire and emergency services	1,189	–	2,608	–
Community care	1,376	1,298	80	280
Economic development	–	20	–	1,306
Environmental protection	848	829	16	716
Heritage and cultural	19	35	5	5
Library	268	262	30	–
NSW rural fire services	–	608	–	82
Public halls	3	–	–	–
Recreation and culture	–	–	364	854
Street lighting	244	239	–	–
Transport (roads to recovery)	–	–	4,924	–
Transport (other roads and bridges funding)	270	30	7,070	6,180
Other	439	326	271	126
Total specific purpose	6,141	5,127	17,656	18,051
Total grants	18,687	17,707	17,656	18,051
Grant revenue is attributable to:				
– Commonwealth funding	12,664	12,608	6,102	1,261
– State funding	5,948	5,027	11,534	16,790
– Other funding	75	72	20	–
	18,687	17,707	17,656	18,051

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94 – contributions towards amenities/services	–	–	3,237	2,740
S 64 – water supply contributions	–	–	1,458	1,183
S 64 – sewerage service contributions	–	–	1,737	1,425
Total developer contributions	–	–	6,432	5,348
Other contributions:				
Community services	24	–	20	–
Dedications (other than by S94)	–	–	–	287
Drainage	–	–	27	–
Kerb and gutter	–	–	14	23
Other emergency event	–	102	–	–
Recreation and culture	36	28	3,273	552
Roads and bridges	904	158	42	23
RMS contributions (regional roads, block grant)	2,172	2,133	290	269
Sewerage (excl. section 64 contributions)	–	–	1,468	2,583
Water supplies (excl. section 64 contributions)	–	–	2	3,991
Other	240	50	200	119
Total other contributions	3,376	2,471	5,336	7,847
Total contributions	3,376	2,471	11,768	13,195
TOTAL GRANTS AND CONTRIBUTIONS	22,063	20,178	29,424	31,246

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

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

Unexpended at the close of the previous reporting period	35,155	29,637
Add: grants and contributions recognised in the current period but not yet spent:	13,576	8,083
Less: grants and contributions recognised in a previous reporting period now spent:	(4,274)	(2,565)
Net increase (decrease) in restricted assets during the period	9,302	5,518
Unexpended and held as restricted assets	44,457	35,155
Comprising:		
– Specific purpose unexpended grants	4,737	1,804
– Developer contributions	39,720	33,351
	44,457	35,155

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Employee benefits and on-costs			
Salaries and wages		50,291	47,354
Employee termination costs		162	463
Travel expenses		27	28
Employee leave entitlements (ELE)		11,513	8,903
Superannuation		7,094	6,852
Workers' compensation insurance		407	(401)
Fringe benefit tax (FBT)		182	262
Payroll tax		917	961
Training costs (other than salaries and wages)		1,130	734
Other		269	64
Total employee costs		71,992	65,220
Less: capitalised costs		(3,766)	(3,505)
TOTAL EMPLOYEE COSTS EXPENSED		68,226	61,715
Number of 'full-time equivalent' employees (FTE) at year end		775	756
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		3,763	4,073
Interest on advances		50	75
Total interest bearing liability costs expensed		3,813	4,148
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Interest free (or favourable) loans and advances made by Council		17	–
Fair value adjustment on loans (to Council)		26	45
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	104	99
Total other borrowing costs		147	144
TOTAL BORROWING COSTS EXPENSED		3,960	4,292

Shoalhaven City Council

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

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Materials and contracts			
Raw materials and consumables		8,681	7,046
Contractor and consultancy costs		34,446	33,450
Auditors remuneration ⁽¹⁾		147	88
Legal expenses:			
– Legal expenses: planning and development		361	186
– Legal expenses: debt recovery		251	231
– Legal expenses: other		379	144
Operating leases:			
– Operating lease rentals: buildings ⁽²⁾		35	42
– Operating lease rentals: other ⁽²⁾		22	4
Fuel		1,769	2,030
TOTAL MATERIALS AND CONTRACTS		46,091	43,221
1. Auditor remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor (and the Auditors of other consolidated entities):			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		110	74
– Other audit and assurance services		9	–
Remuneration for audit and other assurance services		119	74
(ii) Other non-assurance services			
– Other services		28	–
– Other services (audit committee)		–	14
Remuneration for other services		28	14
Total Auditor remuneration		147	88
2. Operating lease payments are attributable to:			
Buildings		35	42
Other		22	4
		57	46

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
Plant and equipment		–	–	4,573	4,695
Office equipment		–	–	873	792
Furniture and fittings		–	–	103	51
Land improvements (depreciable)		–	–	89	722
Infrastructure:					
– Buildings – non-specialised		–	–	57	91
– Buildings – specialised		–	–	6,854	6,581
– Other structures		–	–	1,332	1,259
– Roads		–	–	16,745	17,972
– Bridges		–	–	1,783	1,116
– Footpaths		–	–	1,127	870
– Stormwater drainage		–	–	2,710	1,567
– Water supply network		–	–	6,782	7,209
– Sewerage network		–	–	8,918	7,103
– Swimming pools		–	–	150	151
– Other open space/recreational assets		–	–	1,290	978
– Other infrastructure		–	–	1,390	2,545
Other assets					
– Library books		–	–	334	332
Asset reinstatement costs	9 & 26	–	–	28	28
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		–	–	55,138	54,062

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(e) Other expenses			
Other expenses for the year include the following:			
Advertising		1,025	535
Bad and doubtful debts		57	162
Bank charges		537	559
Computer software, equipment and maintenance		1,647	1,216
Contributions/levies to other levels of government			
– NSW Fire Brigade levy		406	225
– NSW Rural Fire Service levy		1,329	1,308
– State Emergency Services levy		166	142
– Waste levy		10,022	7,837
– Other contributions/levies		1,241	1,017
Councillor expenses – mayoral fee		54	39
Councillor expenses – councillors' fees		239	233
Councillors' expenses (incl. mayor) – other (excluding fees above)		214	256
Donations, contributions and assistance to other organisations (Section 356)		886	644
Insurance		3,164	2,913
Light, power and heating		3,995	4,266
Motor vehicle registrations		341	285
Postage		381	427
Printing and stationery		455	273
Street lighting		1,749	1,749
Subscriptions and publications		793	477
Telephone and communications		825	802
Valuation fees		378	403
Other		508	335
<u>TOTAL OTHER EXPENSES</u>		<u>30,412</u>	<u>26,103</u>

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2016	Actual 2015
Property (excl. investment property)			
Proceeds from disposal – property		548	1,931
Less: carrying amount of property assets sold/written off		(2,956)	(4,993)
Net gain/(loss) on disposal		(2,408)	(3,062)
Plant and equipment			
Proceeds from disposal – plant and equipment		1,544	2,076
Less: carrying amount of plant and equipment assets sold/written off		(1,976)	(2,737)
Net gain/(loss) on disposal		(432)	(661)
Real estate assets held for sale			
Proceeds from disposal – real estate assets		1,527	420
Less: carrying amount of real estate assets sold/written off		(807)	(251)
Net gain/(loss) on disposal		720	169
Financial assets *			
Proceeds from disposal/redemptions/maturities – financial assets		89,983	113,653
Less: carrying amount of financial assets sold/redeemed/matured		(85,773)	(113,577)
Net gain/(loss) on disposal		4,210	76
Non-current assets classified as 'held for sale'			
Proceeds from disposal – non-current assets 'held for sale'		614	–
Less: carrying amount of 'held for sale' assets sold/written off		(485)	–
Net gain/(loss) on disposal		129	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		2,219	(3,478)
* Financial assets disposals/redemptions include:			
– Net gain/(loss) from financial instruments 'at fair value through profit and loss'		4,210	76
Net gain/(loss) on disposal of financial instruments		4,210	76

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	2016	2016	2015	2015
		Actual Current	Actual Non-current	Actual Current	Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		4,731	–	7,064	–
Cash-equivalent assets ¹					
– Deposits at call		4,745	–	4,620	–
– Short-term deposits		16,484	–	11,259	–
Total cash and cash equivalents		25,960	–	22,943	–
Investments (Note 6b)					
– Managed funds		1,728	–	1,712	–
– Long term deposits		67,256	38,000	40,050	50,920
– Government and semi-government bonds		–	–	1,073	–
– NCD's, FRN's (with maturities > 3 months)		32,779	–	17,879	–
Total investments		101,763	38,000	60,714	50,920
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		127,723	38,000	83,657	50,920

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

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

Cash and cash equivalents

a. 'At fair value through the profit and loss'		25,960	–	22,943	–
--	--	---------------	----------	---------------	----------

Investments

a. 'At fair value through the profit and loss'					
– 'Held for trading'	6(b-i)	34,507	–	20,664	–
b. 'Held to maturity'	6(b-ii)	67,256	38,000	40,050	50,920
Investments		101,763	38,000	60,714	50,920

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 6b. investments (continued)

\$ '000	2016	2016	2015	2015
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Note 6(b-i)				
Reconciliation of investments classified as 'at fair value through the profit and loss'				
Balance at the beginning of the year	20,664	–	6,482	–
Revaluations (through the Income Statement)	(100)	–	30	–
Additions	15,016	–	14,829	–
Disposals (sales and redemptions)	(1,073)	–	(677)	–
Balance at end of year	34,507	–	20,664	–
Comprising:				
– Managed funds	1,728	–	1,712	–
– Government and semi-government bonds	–	–	1,073	–
– NCD's, FRN's (with maturities > 3 months)	32,779	–	17,879	–
Total	34,507	–	20,664	–
Note 6(b-ii)				
Reconciliation of investments classified as 'held to maturity'				
Balance at the beginning of the year	40,050	50,920	53,950	44,000
Additions	94,986	4,000	85,000	20,920
Disposals (sales and redemptions)	(84,700)	–	(112,900)	–
Transfers between current/non-current	16,920	(16,920)	14,000	(14,000)
Balance at end of year	67,256	38,000	40,050	50,920
Comprising:				
– Long term deposits	67,256	38,000	40,050	50,920
Total	67,256	38,000	40,050	50,920

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	2016	2016	2015	2015
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	127,723	38,000	83,657	50,920
attributable to:				
External restrictions (refer below)	86,855	28,991	42,596	44,187
Internal restrictions (refer below)	30,281	9,009	28,083	6,733
Unrestricted	10,587	–	12,978	–
	127,723	38,000	83,657	50,920

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

External restrictions – included in liabilities

Specific purpose unexpended loans – general (A)	3,762	9,658	(5,282)	8,138
Self insurance claims (C)	1,031	–	(15)	1,016
External restrictions – included in liabilities	4,793	9,658	(5,297)	9,154

External restrictions – other

Developer contributions – general (D)	21,350	5,810	(1,309)	25,851
Developer contributions – water fund (D)	12,001	1,892	(24)	13,869
Developer contributions – sewer fund (D)	–	1,737	(1,737)	–
Specific purpose unexpended grants (F)	1,804	20,373	(17,440)	4,737
Water supplies (G)	27,159	–	(1,215)	25,944
Sewerage services (G)	8,218	18,406	–	26,624
Domestic waste management (G)	10,473	42,590	(44,602)	8,461
Stormwater management (G)	260	1,080	(864)	476
Other special levies (G)	725	2,423	(2,418)	730
External restrictions – other	81,990	94,311	(69,609)	106,692
Total external restrictions	86,783	103,969	(74,906)	115,846

A Loan moneys which must be applied for the purposes for which the loans were raised.

C Self insurance liability resulting from reported claims or incurred claims not yet reported.

D Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).

F Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))

G Water, sewerage, domestic waste management (DWM) and other special rates/levies/charges are externally restricted assets and must be applied for the purposes for which they were raised.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Plant and vehicle replacement	3,370	9,204	(8,237)	4,337
Employees leave entitlement	8,606	15	–	8,621
Arts collection	24	–	–	24
Committed capital works	6,934	1,074	(845)	7,163
Critical asset compliance	2,000	500	(15)	2,485
Economic development projects	740	466	(54)	1,152
Events	148	–	(108)	40
General insurance	799	1,871	(1,858)	812
Land decontamination	1,806	–	(163)	1,643
Land development reserve	864	2,060	(197)	2,727
North Nowra link road	693	–	(31)	662
Plant replacement cemeteries	392	24	(62)	354
S94 matching funds	550	–	(5)	545
Sporting facilities	199	41	(10)	230
Strategic projects	5,637	3,961	(3,309)	6,289
Strategic property acquisition	2,054	693	(541)	2,206
Total internal restrictions	34,816	19,909	(15,435)	39,290
TOTAL RESTRICTIONS	121,599	123,878	(90,341)	155,136

Shoalhaven City Council

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

Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		4,319	3,668	3,748	3,596
Interest and extra charges		632	1,035	561	1,060
User charges and fees		3,255	1,778	3,014	1,557
Accrued revenues					
– Interest on investments		1,429	–	1,338	–
– Other income accruals		1,073	–	2,166	–
Deferred debtors		331	95	30	97
Government grants and subsidies		5,132	–	11,294	–
Net GST receivable		882	–	1,751	–
Other debtors		783	–	692	–
Total		17,836	6,576	24,594	6,310
Less: provision for impairment					
Rates and annual charges		(206)	–	(153)	–
User charges and fees		(52)	–	(59)	–
Total provision for impairment – receivables		(258)	–	(212)	–
<u>TOTAL NET RECEIVABLES</u>		<u>17,578</u>	<u>6,576</u>	<u>24,382</u>	<u>6,310</u>
Externally restricted receivables					
Water supply					
– Specific purpose grants		–	–	527	–
– Rates and availability charges		370	195	341	157
– Other		2,745	611	2,063	700
Sewerage services					
– Specific purpose grants		–	–	521	–
– Rates and availability charges		2,850	1,699	2,420	1,374
– Other		1,755	51	9,452	291
Domestic waste management		619	596	537	584
Total external restrictions		8,339	3,152	15,861	3,106
Internally restricted receivables					
Nil					
Unrestricted receivables		9,239	3,424	8,521	3,204
<u>TOTAL NET RECEIVABLES</u>		<u>17,578</u>	<u>6,576</u>	<u>24,382</u>	<u>6,310</u>

Notes on debtors above:

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

Shoalhaven City Council

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

Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Real estate for resale (refer below)		3,049	5,183	874	8,165
Stores and materials		1,460	–	1,411	–
Total inventories at cost		4,509	5,183	2,285	8,165
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		4,509	5,183	2,285	8,165
(b) Other assets					
Prepayments		357	–	370	–
TOTAL OTHER ASSETS		357	–	370	–
Externally restricted assets					
Water					
Stores and materials		743	–	865	–
Prepayments		8	–	10	–
Total water		751	–	875	–
Sewerage					
Nil					
Domestic waste management					
Nil					
Other					
Nil					
Total externally restricted assets		751	–	875	–
Total internally restricted assets		–	–	–	–
Total unrestricted assets		4,115	5,183	1,780	8,165
TOTAL INVENTORIES AND OTHER ASSETS		4,866	5,183	2,655	8,165

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 8. Inventories and other assets (continued)

\$ '000	2016		2015	
	Current	Non-current	Current	Non-current
(i) Other disclosures				
(a) Details for real estate development				
Residential	3,049	5,183	874	8,165
Total real estate for resale	3,049	5,183	874	8,165
(Valued at the lower of cost and net realisable value)				
Represented by:				
Acquisition costs	3,049	5,183	31	288
Development costs	–	–	843	7,877
Total costs	3,049	5,183	874	8,165
Total real estate for resale	3,049	5,183	874	8,165
Movements:				
Real estate assets at beginning of the year	874	8,165	–	8,104
– Purchases and other costs	–	–	–	1,186
– WDV of sales (expense)	(807)	–	(251)	–
– Transfer between current/non-current	2,982	(2,982)	1,125	(1,125)
Total real estate for resale	3,049	5,183	874	8,165

(b) Inventory write downs

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 9a. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2015					Asset movements during the reporting period								as at 30/6/2016				
	At cost	At fair value	Accumulated		Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated		Carrying value
			depreciation	impairment												depreciation	impairment	
Capital work in progress	29,632	–	–	–	29,632	118	6,841	–	–	–	–	–	–	36,591	–	–	–	36,591
Plant and equipment	–	60,568	28,856	–	31,712	9,562	–	(1,961)	(4,573)	(1,137)	–	–	–	–	64,122	30,519	–	33,603
Office equipment	–	20,313	16,739	–	3,574	1,077	–	(15)	(873)	81	–	–	–	–	21,426	17,582	–	3,844
Furniture and fittings	–	2,256	1,757	–	499	1,392	–	–	(103)	–	–	–	–	–	3,648	1,860	–	1,788
Land:																		
– Operational land	–	128,469	–	–	128,469	–	946	–	–	(43)	(2,554)	–	–	–	126,818	–	–	126,818
– Community land	–	100,876	–	–	100,876	–	3,215	–	–	(99)	70	(1,103)	–	–	102,959	–	–	102,959
– Land under roads (post 30/6/08)	–	3,913	–	–	3,913	–	–	–	–	–	–	–	–	–	3,913	–	–	3,913
Land improvements – non-depreciable	–	78,352	–	–	78,352	–	–	–	–	37,612	–	–	11,219	–	127,183	–	–	127,183
Land improvements – depreciable	–	19,659	2,476	–	17,183	–	9	–	(89)	(16,380)	–	(61)	–	–	1,829	1,167	–	662
Infrastructure:																		
– Buildings – non-specialised	–	4,300	1,835	–	2,465	–	–	–	(57)	–	–	–	–	–	4,300	1,892	–	2,408
– Buildings – specialised	–	396,758	197,613	–	199,145	4,414	2,007	(801)	(6,854)	(154)	(964)	–	–	–	400,274	203,481	–	196,793
– Other structures	–	42,308	20,930	–	21,378	851	838	–	(1,332)	(2,934)	–	(193)	–	–	35,301	16,693	–	18,608
– Roads	–	1,007,776	310,007	–	697,769	8,739	4,306	(7)	(16,745)	–	–	(2)	–	–	1,020,807	326,747	–	694,060
– Bridges	–	96,851	31,375	–	65,476	8	1	–	(1,783)	–	–	–	–	–	96,860	33,158	–	63,702
– Footpaths	–	64,379	18,092	–	46,287	74	529	–	(1,127)	–	–	–	–	–	64,981	19,218	–	45,763
– Bulk earthworks (non-depreciable)	–	102,167	–	–	102,167	–	–	–	–	–	–	–	–	–	102,167	–	–	102,167
– Stormwater drainage	–	182,898	74,940	–	107,958	463	617	–	(2,710)	–	–	–	–	–	183,978	77,650	–	106,328
– Water supply network	–	608,634	263,516	–	345,118	7,003	5,343	(2,139)	(6,782)	(6)	–	–	4,149	–	625,727	273,041	–	352,686
– Sewerage network	–	677,092	233,473	–	443,619	1,614	3,329	(9)	(8,918)	6	–	–	5,109	–	690,638	245,888	–	444,750
– Swimming pools	–	7,249	5,154	–	2,095	2,231	304	–	(150)	1	–	–	5,832	–	22,519	12,206	–	10,313
– Other open space/recreational assets	–	24,718	13,563	–	11,155	1,028	552	–	(1,290)	6,560	–	–	286	–	34,642	16,351	–	18,291
– Other infrastructure	–	132,001	59,798	–	72,203	2,626	1,570	–	(1,390)	(23,507)	–	(10,244)	–	–	84,266	43,008	–	41,258
Other assets:																		
– Library books	–	7,293	6,449	–	844	–	356	–	(334)	–	–	–	–	–	7,649	6,783	–	866
Reinstatement, rehabilitation and restoration assets (refer Note 26):																		
– Tip assets	–	2,176	1,946	–	230	–	–	–	(28)	–	–	–	–	–	2,176	1,974	–	202
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	29,632	3,771,006	1,288,519	–	2,512,119	41,200	30,763	(4,932)	(55,138)	–	(3,448)	(11,603)	26,595	36,591	3,828,183	1,329,218	–	2,535,556

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Actual				Actual			
	2016				2015			
Class of asset	At cost	At fair value	A/Dep & impairm't	Carrying value	At cost	At fair value	A/Dep & impairm't	Carrying value
Water supply								
WIP	–	3,368	–	3,368	–	–	–	–
Plant and equipment	–	6,255	3,099	3,156	–	6,350	2,877	3,473
Office equipment	–	3,331	1,750	1,581	–	3,008	1,540	1,468
Furniture and fittings	–	1,164	126	1,038	–	338	125	213
Land								
– Operational land	–	5,318	–	5,318	–	5,881	–	5,881
Buildings	–	2,681	183	2,498	–	1,512	251	1,261
Other structures	–	435	157	278	–	355	118	237
Infrastructure	–	625,721	273,041	352,680	–	613,149	263,516	349,633
Total water supply	–	648,273	278,356	369,917	–	630,593	268,427	362,166
Sewerage services								
WIP	–	11,907	–	11,907	–	–	–	–
Plant and equipment	–	8,326	3,719	4,607	–	7,188	3,420	3,768
Office equipment	–	1,194	978	216	–	1,082	1,047	35
Furniture and fittings	–	109	64	45	–	64	20	44
Land								
– Operational land	–	11,620	–	11,620	–	11,004	–	11,004
– Community land	–	778	–	778	–	433	–	433
Buildings	–	1,165	833	332	–	2,426	723	1,703
Other structures	–	–	–	–	–	320	211	109
Infrastructure	–	690,348	245,893	444,455	–	685,593	233,488	452,105
Total sewerage services	–	725,447	251,487	473,960	–	708,110	238,909	469,201
TOTAL RESTRICTED I,PP&E	–	1,373,720	529,843	843,877	–	1,338,703	507,336	831,367

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Payables					
Goods and services		7,364	–	12,303	–
Payments received In advance		1,885	–	1,549	–
Accrued expenses:					
– Borrowings		410	–	462	–
– Salaries and wages		9	–	24	–
– Other expenditure accruals		3,861	–	5,327	–
Security bonds, deposits and retentions		2,884	–	1,659	–
Total payables		16,413	–	21,324	–
Borrowings					
Loans – secured ¹		8,545	50,531	9,085	56,843
Government advances		1,042	7,557	362	1,399
Ratepayers' advances		37	194	36	165
Total borrowings		9,624	58,282	9,483	58,407
Provisions					
Employee benefits:					
Annual leave		5,320	–	5,237	–
Sick leave		11,654	–	11,600	–
Long service leave		11,437	410	11,134	276
Sub-total – aggregate employee benefits		28,411	410	27,971	276
Self insurance – workers compensation		292	724	293	738
Asset remediation/restoration (future works)	26	–	2,195	–	2,091
Other		2	–	52	–
Total provisions		28,705	3,329	28,316	3,105
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		54,742	61,611	59,123	61,512
(i) Liabilities relating to restricted assets					
		2016		2015	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		1,188	–	2,760	6
Sewer		5,042	21,941	5,868	25,899
Domestic waste management		924	–	958	–
Self insurance		292	724	293	738
Liabilities relating to externally restricted assets		7,446	22,665	9,879	26,643
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		7,446	22,665	9,879	26,643
Total liabilities relating to unrestricted assets		47,296	38,946	49,244	34,869
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		54,742	61,611	59,123	61,512

¹ Loans are secured over the general rating income of Council

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Actual 2016	Actual 2015
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(ii) Current liabilities not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	20,002	18,167
	20,002	18,167

Note 10b. Description of and movements in provisions

Class of provision	2015		2016			Closing balance as at 30/6/16
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Annual leave	5,237	4,998	(4,915)	–	–	5,320
Sick leave	11,600	1,118	(1,913)	849	–	11,654
Long service leave	11,410	1,704	(1,474)	207	–	11,847
Self insurance	1,031	–	–	–	(15)	1,016
Asset remediation	2,091	104	–	–	–	2,195
Other	52	–	(50)	–	–	2
TOTAL	31,421	7,924	(8,352)	1,056	(15)	32,034

- a. Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- b. Self insurance provisions represent both (i) claims incurred but not reported and (ii) claims reported and estimated as a result of Council's being a self insurer up to certain levels of excess.
- c. Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2016	Actual 2015
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	25,960	22,943
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		25,960	22,943
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		39,671	38,253
Adjust for non-cash items:			
Depreciation and amortisation		55,138	54,062
Net losses/(gains) on disposal of assets		(2,219)	3,478
Non-cash capital grants and contributions		(4,672)	(6,164)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		100	(30)
– Investment properties		(100)	–
– Favourable financial liabilities (i.e. initial recognition at fair value)		(250)	–
– Fair valuation adjustment (re-measurement) of existing loans to Council		26	45
– Interest-free advances made by Council (deferred debtors)		17	–
– Other (Management Committees)		(44)	115
Amortisation of premiums, discounts and prior period fair valuations			
– Interest on all fair value adjusted interest free advances made by Council		–	(16)
Unwinding of discount rates on reinstatement provisions		104	99
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		6,791	(8,394)
Increase/(decrease) in provision for doubtful debts		46	73
Decrease/(increase) in inventories		(49)	(732)
Decrease/(increase) in other assets		13	23
Increase/(decrease) in payables		(8,119)	(1,225)
Increase/(decrease) in accrued interest payable		(52)	(33)
Increase/(decrease) in other accrued expenses payable		(1,481)	1,452
Increase/(decrease) in other liabilities		1,561	313
Increase/(decrease) in employee leave entitlements		574	(1,603)
Increase/(decrease) in other provisions		(65)	(1,451)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		86,990	78,265

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Non-cash investing and financing activities			
Other dedications		4,672	6,164
Total non-cash investing and financing activities		4,672	6,164
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		400	400
Credit cards/purchase cards		500	250
Total financing arrangements		900	650

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

(ii) Secured loan liabilities

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

(e) Bank guarantees

\$75,000 bank guarantee in favour of the NSW National Parks & Wildlife Service in relation to Porters Creek Dam remediation works

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, plant and equipment			
Buildings		2,916	620
Plant and equipment		1,229	946
Swimming pools		100	2,544
Roads		7,719	4,486
Water assets		6,955	3,642
Sewer assets		4,532	3,500
Other		2,918	–
Total commitments		26,369	15,738
These expenditures are payable as follows:			
Within the next year		26,369	15,738
Total payable		26,369	15,738
Sources for funding of capital commitments:			
Unrestricted general funds		11,685	4,261
Externally restricted reserves		14,684	11,477
Total sources of funding		26,369	15,738

Details of capital commitments

Below is a list of projects with large capital commitments

Porters Creek Dam Remediation - \$4.95m

Jerberra Estate Road Construction - \$3.2 m

Milton/Ulladulla Common Main Construction - \$2m

Water Mains Replacement - \$1.65m

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 12. Commitments for expenditure (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(b) Finance lease commitments			
Nil			
(c) Operating lease commitments (non-cancellable)			
a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:			
Within the next year		47	43
Later than one year and not later than 5 years		8	15
Later than 5 years		1	–
Total non-cancellable operating lease commitments		56	58

b. Non-cancellable operating leases include the following assets:

Contingent rentals may be payable depending on the condition of items or usage during the lease term.

Conditions relating to operating leases:

- All operating lease agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

(d) Investment property commitments

Nil

(e) Investment in joint operations – commitments

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>8,028</u>	3.79%	5.23%	-0.72%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>211,855</u>			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>189,792</u>	78.66%	77.75%	84.72%
Total continuing operating revenue ⁽¹⁾	<u>241,279</u>			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	<u>58,499</u>	2.14x	1.70x	1.39x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>27,294</u>			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>67,126</u>	4.99x	4.89x	4.12x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>13,444</u>			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	<u>9,448</u>	7.51%	7.32%	7.08%
Rates, annual and extra charges collectible	<u>125,814</u>			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	<u>131,216</u>	8.88 mths	9.2 mths	9.3 mths
Payments from cash flow of operating and financing activities	<u>14,773</u>			

Notes

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

⁽²⁾ Refer Notes 6-8 inclusive.

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

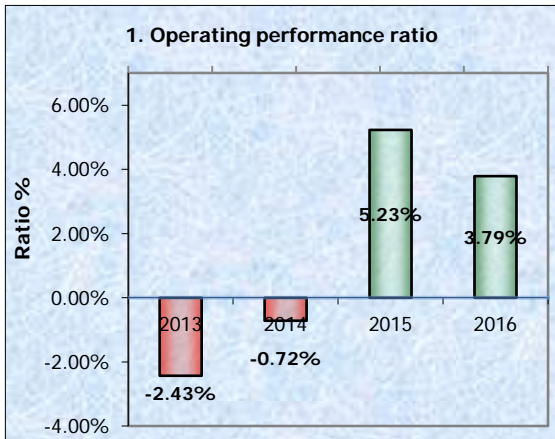
⁽³⁾ Refer to Note 10(a).

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

Shoalhaven City Council

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

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



Purpose of operating performance ratio

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

Commentary on 2015/16 result

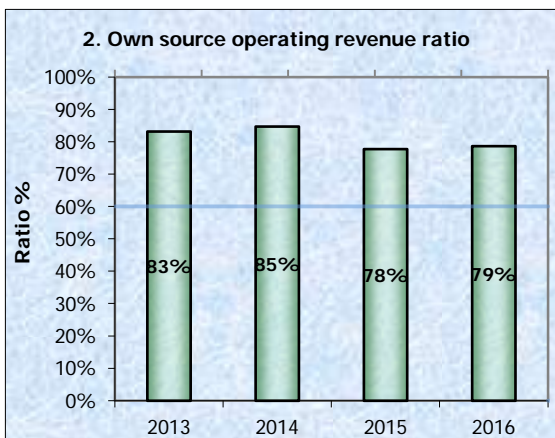
2015/16 ratio 3.79%

Council's operating performance ratio is above the benchmark of 0% but is less than the previous year due to additional employee costs, arising from a reduction in the discounting rate for leave entitlements.

Benchmark: ——— Minimum $\geq 0.00\%$

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of own source operating revenue ratio

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

Commentary on 2015/16 result

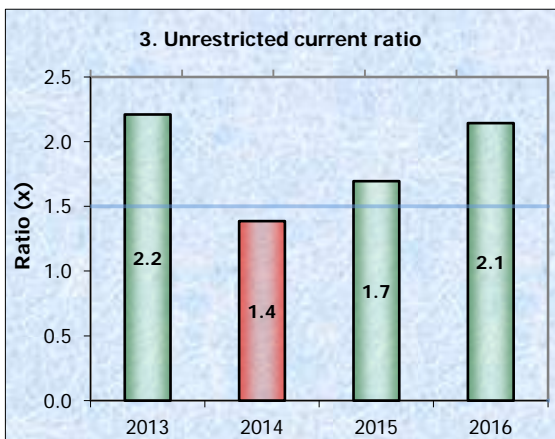
2015/16 ratio 78.66%

Council's Own Source Operating Revenue ratio has remained above the benchmark of (>60%) in the last four years. Council has sufficient level of fiscal flexibility, in the event of being faced with unforeseen events. It has increased due to an increase in rates and annual charges and user charges and fees.

Benchmark: ——— Minimum $\geq 60.00\%$

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of unrestricted current ratio

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

Commentary on 2015/16 result

2015/16 ratio 2.14x

This ratio indicates that Council currently projects to have \$2.14 (excluding restricted funds such as S94, Water, Sewer and grant monies) available to service every \$1 of debt as it falls due at the end of the year. This ratio has increased due to investing in current investments that provide a good return.

Benchmark: ——— Minimum ≥ 1.50

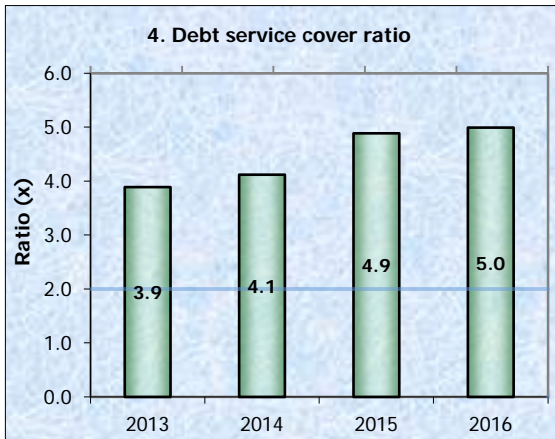
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark
 Ratio is outside benchmark

Shoalhaven City Council

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

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



Purpose of debt service cover ratio

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

Commentary on 2015/16 result

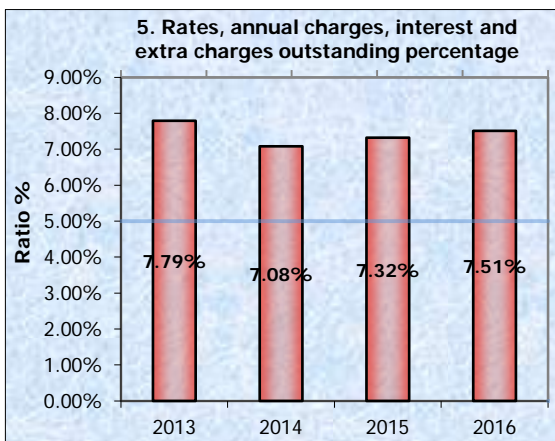
2015/16 ratio 4.99x

With a ratio of 4.99x, Council's ability to generate sufficient cash to cover its debt is sound and in excess of the benchmark of 2%.

Benchmark: ——— Minimum ≥ 2.00

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

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 2015/16 result

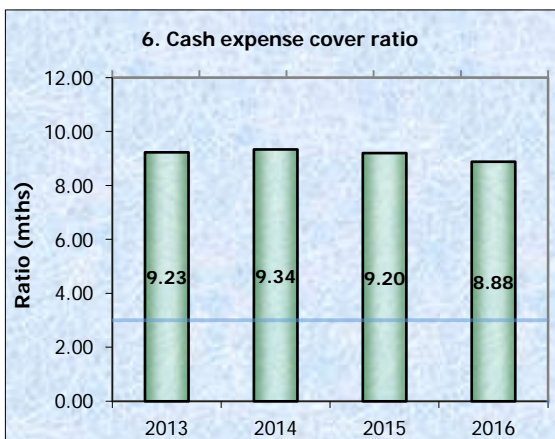
2015/16 ratio 7.51%

The percentage of outstanding rates and annual charges has slightly increased to 7.51%. A contributing factor is that there are \$3.3m of Water and Sewer accounts that were levied in June and are not due until after June 2016. If the ratio was only on overdue rates and annual charges the figure would be 4.89%.

Benchmark: ——— Maximum $< 5.00\%$

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

Ratio is within Benchmark
 Ratio is outside Benchmark



Purpose of cash expense cover ratio

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

Commentary on 2015/16 result

2015/16 ratio 8.88 mths

Council's Cash Expense Ratio has been above the benchmark for the past four years, indicating Council's ability to pay for its immediate expenses without additional cashflow. Council has enough cash to fund 8.88 months of operating expenditure.

Benchmark: ——— Minimum ≥ 3.00

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

Ratio achieves benchmark
 Ratio is outside benchmark

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Water 2016	Sewer 2016	General ⁵ 2016
Local government industry indicators – by fund			
1. Operating performance ratio			
<u>Total continuing operating revenue⁽¹⁾ excluding capital grants and contributions less operating expenses</u>	18.69%	25.80%	-5.09%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	prior period: 18.52%	25.09%	-1.80%
2. Own source operating revenue ratio			
<u>Total continuing operating revenue⁽¹⁾ excluding all grants and contributions</u>	92.64%	87.58%	76.12%
Total continuing operating revenue ⁽¹⁾	prior period: 84.21%	73.36%	80.19%
3. Unrestricted current ratio			
<u>Current assets less all external restrictions⁽²⁾</u>	21.31x	4.36x	1.92x
Current liabilities less specific purpose liabilities ^(3, 4)	prior period: 10.29x	2.64x	1.66x
4. Debt service cover ratio			
<u>Operating result⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation</u>	69.22x	3.32x	3.88x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	prior period: 41.52x	2.71x	4.47x
5. Rates, annual charges, interest and extra charges outstanding percentage			
<u>Rates, annual and extra charges outstanding</u>	14.60%	11.44%	4.99%
Rates, annual and extra charges collectible	prior period: 13.11%	9.88%	5.58%
6. Cash expense cover ratio			
<u>Current year's cash and cash equivalents plus all term deposits</u> x12	28.45 mths	9.35 mths	6.78 mths
Payments from cash flow of operating and financing activities	prior period: 34.21 mths	3.02 mths	8.09 mths

Notes

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 14. Investment properties

\$ '000	Notes	Actual 2016	Actual 2015
(a) Investment properties at fair value			
<u>Investment properties on hand</u>		<u>1,535</u>	<u>1,435</u>
Reconciliation of annual movement:			
Opening balance		1,435	1,435
– Net gain/(loss) from fair value adjustments		100	–
CLOSING BALANCE – INVESTMENT PROPERTIES		<u>1,535</u>	<u>1,435</u>

(b) Valuation basis

The basis of valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2016 revaluations were based on independent assessments made by:
Peter Adlington AAPI, of Walsh & Monaghan Pty Ltd

(c) Contractual obligations at reporting date

Refer to Note 12 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements

Details of leased investment properties are as follows;

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	248	388
Later than 1 year but less than 5 years	150	242
Later than 5 years	4	28
Total minimum lease payments receivable	<u>402</u>	<u>658</u>

(e) Investment property income and expenditure – summary

Rental income from investment properties:

– Minimum lease payments

	128	131
--	-----	-----

Direct operating expenses on investment properties:

– that generated rental income

	(23)	(17)
--	------	------

Net revenue contribution from investment properties

	<u>105</u>	<u>114</u>
--	-------------------	-------------------

plus:

Fair value movement for year

	100	–
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Total income attributable to investment properties

	<u>205</u>	<u>114</u>
--	-------------------	-------------------

Refer to Note 27. Fair value measurement for information regarding the fair value of investment properties held.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. 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	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	25,960	22,943	25,960	22,943
Investments				
– 'Held for trading'	34,507	20,664	34,507	20,664
– 'Held to maturity'	105,256	90,970	105,256	90,970
Receivables	24,154	30,692	24,154	30,692
Total financial assets	189,877	165,269	189,877	165,269
Financial liabilities				
Payables	14,528	19,775	14,528	19,775
Loans/advances	67,906	67,890	67,906	67,890
Total financial liabilities	82,434	87,665	82,434	87,665

Fair value is determined as follows:

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

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

Council's finance area manages the cash and Investments portfolio with the assistance of independent advisors.

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

The risks associated with the investments held are:

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

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

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2016				
Possible impact of a 10% movement in market values	3,451	3,451	(3,451)	(3,451)
Possible impact of a 1% movement in interest rates	1,657	1,657	(1,657)	(1,657)
2015				
Possible impact of a 10% movement in market values	2,066	2,066	(2,066)	(2,066)
Possible impact of a 1% movement in interest rates	1,346	1,346	(1,346)	(1,346)

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures.

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:

		2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		45%	93%	30%	96%
Overdue		55%	7%	70%	4%
		100%	100%	100%	100%
(ii) Ageing of receivables – value					
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	3,302	15,309	2,193	22,678
< 1 year overdue	0 – 30 days overdue	1,892	–	1,835	–
1 – 2 years overdue	30 – 60 days overdue	726	397	851	252
2 – 5 years overdue	60 – 90 days overdue	1,483	181	1,217	161
> 5 years overdue	> 90 days overdue	584	538	1,248	469
		7,987	16,425	7,344	23,560
(iii) Movement in provision for impairment of receivables					
				2016	2015
Balance at the beginning of the year				212	139
– amounts already provided for and written off this year				(8)	(45)
– amounts provided for during the year				54	118
Balance at the end of the year				258	212

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2016									
Trade/other payables	2,884	11,644	–	–	–	–	–	14,528	14,528
Loans and advances	–	14,352	7,517	7,718	8,271	7,830	22,510	68,198	67,906
Total financial liabilities	2,884	25,996	7,517	7,718	8,271	7,830	22,510	82,726	82,434
2015									
Trade/other payables	1,659	18,116	–	–	–	–	–	19,775	19,775
Loans and advances	–	9,483	13,505	6,646	6,822	6,790	24,709	67,955	67,890
Total financial liabilities	1,659	27,599	13,505	6,646	6,822	6,790	24,709	87,730	87,665

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

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

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	14,528	0.00%	19,775	0.00%
Loans and advances – fixed interest rate	67,906	5.40%	67,890	5.90%
	<u>82,434</u>		<u>87,665</u>	

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 23 June 2015.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----		
REVENUES					
Rates and annual charges	116,592	116,238	(354)	(0%)	U
User charges and fees	60,024	63,003	2,979	5%	F
Interest and investment revenue	3,430	6,388	2,958	86%	F
Higher investment base and rate of return when compared to original budget. Discount on TCorp loan not in original Budget.					
Other revenues	1,069	4,163	3,094	289%	F
Recovery of various legal costs not in original budget. Special waste reduction program and fuel tax credit not originally budgeted.					
Operating grants and contributions	19,952	22,063	2,111	11%	F
Various operating grants and contributions not included in original budget.					
Capital grants and contributions	28,312	29,424	1,112	4%	F
Net gains from disposal of assets	–	2,219	2,219	0%	F
Asset disposals not included in the original budget.					

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----		
EXPENSES					
Employee benefits and on-costs	69,225	68,226	999	1%	F
Borrowing costs	4,018	3,960	58	1%	F
Materials and contracts	48,076	46,091	1,985	4%	F
Depreciation and amortisation	55,099	55,138	(39)	(0%)	U
Other expenses	28,104	30,412	(2,308)	(8%)	U

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

Cash flows from operating activities Additional interest, grants and other revenues received	79,860	86,990	7,130	8.9%	F
Cash flows from investing activities	(81,708)	(84,213)	(2,505)	3.1%	U
Cash flows from financing activities Additional loans borrowed	42	240	198	471.4%	F

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 17. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	327	–	–	61	(16)	–	373	–
Roads	3,222	665	–	597	(302)	–	4,182	–
Parking	1,066	–	–	99	(38)	–	1,127	–
Open space	662	248	–	97	–	–	1,006	–
Community facilities	6,493	791	–	725	(350)	–	7,659	–
Active recreation	9,214	1,244	–	958	(429)	–	10,988	–
Other	366	289	–	36	(175)	–	516	–
S94 contributions – under a plan	21,350	3,237	–	2,573	(1,309)	–	25,851	–
Total S94 revenue under plans	21,350	3,237	–	2,573	(1,309)	–	25,851	–
S64 contributions	12,001	3,195	–	434	(1,761)	–	13,869	–
Total contributions	33,351	6,432	–	3,007	(3,070)	–	39,720	–

Please note: the interest shown above includes the profit from the sale of the investments that were previously reduced due to impairment in 2010/11.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN NUMBER 1

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	327	–	–	61	(16)	–	373	–
Roads	3,222	665	–	597	(302)	–	4,182	–
Parking	1,066	–	–	99	(38)	–	1,127	–
Open space	662	248	–	97	–	–	1,006	–
Community facilities	6,493	791	–	725	(350)	–	7,659	–
Active recreation	9,214	1,244	–	958	(429)	–	10,988	–
Other	366	289	–	36	(175)	–	516	–
Total	21,350	3,237	–	2,573	(1,309)	–	25,851	–

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council contributes to the Local Government Superannuation Scheme which has a closed section where a portion of member entitlements are defined as a multiple of salary. Member councils bear the responsibility of ensuring there are sufficient monies available to pay out benefits as these members cease employment.

The Scheme has a deficit of assets over liabilities and its administrators have advised all Councils that they will need to make significantly higher contributions to help reverse this deficit. However, the Trustees may also call upon Councils to make an immediate payment sufficient to offset all or part of this deficit at any time. There is no current indication that such action will be necessary.

The Scheme has estimated that as at 30 June 2016 a deficit exists. Effective from July 2009, employers are required to contribute additional contributions in order to rectify this deficit.

The share of this current deficit that can be broadly attributed to Council was estimated to be in the order of \$1,365,956.17 as at 30 June 2016, this is estimated to be extinguished by 30 June 2020. However, the Trustee has notified Council that our additional contributions will be \$2,912,000.00 in order to build up a satisfactory surplus to allow the fund to transition to a less risky investment portfolio.

(ii) Potential Insurance Losses

Council is a multi-purpose organisation providing a large range of building, parks, infrastructure, playgrounds and other facilities accessible to the public. At any time, it is likely that claims will have been made against Council that remain unsettled. Council insures against all known insurable risks using a range of insurance policies, each of which is subject to a deductible insurance excess, the amount of which varies according to the class of insurance.

(iii) Statewide Mutual

Council is a member of Statewide Mutual, a NSW Local Government Self-Insurance Mutual Scheme backed by reinsurance placed through the local and London markets. The scheme provides cover to Council for Public Liability, Professional Indemnity, Property and Fidelity. Council has a Contingent Liability in that it may be called on as a Member of the Mutual Scheme to make additional Contribution to the normal annual Contribution if determined by the Scheme Manager necessary in accordance with the Scheme Deed.

Council is a licenced self-insurer for Workers Compensation insurance, however, it has in place re-insurance arrangements for potential claims above a pre-determined retention level.

(iv) Other guarantees

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other liabilities

(i) Legal Expenses

Council is the planning consent authority for its area under the Environmental Planning & Assessment Act (as amended). Pursuant to that Act, certain persons aggrieved by a planning decision of the Council may appeal to the Land & Environment Court. It is the Court's normal practice that parties bear their own legal costs. At the date of these reports, Council had notice of 1 appeal against planning decisions made prior to reporting date. All known costs have been recognised, but the amount of further costs cannot be known until the appeals are determined.

ASSETS NOT RECOGNISED:

(i) Rural Fire Fighting Assets

Council has title to, and is the registered owner of rural fire appliances and associated rural fire fighting equipment. These assets are under the control of the Rural Fire Services to enable that Department to provide the bushfire protection defences set out in their Service Level Agreement with Council, and accordingly have not been recognised in these reports.

(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.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities

\$ '000

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

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

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

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities (continued)

\$ '000

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

Council's consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with AASB 10 and the accounting policy described in Note 1(c).

Name of operation/entity	Principal activity	Ownership		Voting rights	
		2016	2015	2016	2015
1. Southern Water Services Pty Ltd	Provision of water, sewerage and related services Bridge Road Nowra NSW 2541				
Interests in Subsidiary					
Council's interest in Subsidiary		100%	100%	100%	100%

The nature and extent of significant restrictions relating to the Subsidiary

Southern Water Services is limited by shares under the Corporations Act (2001)

As sole shareholder Council controls full voting rights over Southern Water Services.

Dividends paid by Southern Water Services to Council are restricted by S254T of Corporations Act (2001)

The nature of risks associated with Council's interests in the Subsidiary

Council's liability is limited to the value of its fully paid shares.

Summarised financial information for the Subsidiary

	2016	2015
Summarised statement of comprehensive income		
Revenue	7	65
Expenses	(21)	(72)
Profit for the period	(14)	(7)
Total comprehensive income ⁽¹⁾	(14)	(7)
Summarised statement of financial position		
Current assets	447	465
Total assets	447	465
Current liabilities	5	9
Total liabilities	5	9
Net assets ⁽²⁾	442	456
Summarised statement of cash flows		
Cash flows from operating activities	(25)	27
Net increase (decrease) in cash and cash equivalents	(25)	27

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities (continued)

\$ '000

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

Name of operation/entity	Principal activity	Ownership		Voting rights	
		2016	2015	2016	2015
2. Shoalhaven City Council Management Committees	Use and Management of community land and assets Bridge Road Nowra NSW 2541				
Interests in Subsidiary					
Council's interest in Subsidiary		100%	100%	100%	100%

The nature and extent of significant restrictions relating to the Subsidiary

Established under S355 of the Local Government Act (1993). Management Committees have delegated authority to use and manage community land under S377 of the Local Government Act (1993).

Council retains full access to management committee cash, investments and other assets.

The nature of risks associated with Council's interests in the Subsidiary

Council is exposed to the risks and rewards of management committee activities.

Council provides low interest loans to management committees in order to fund capital projects.

Council provides subsidies in order to maintain committee operations.

Summarised financial information for the Subsidiary

Summarised statement of comprehensive income	2016	2015
Revenue	236	163
Expenses	(188)	(150)
Profit for the period	48	13
Total comprehensive income ⁽¹⁾	48	13
Summarised statement of financial position	2016	2015
Current assets	172	139
Non-current assets	30	20
Total assets	202	159
Current liabilities	11	7
Total liabilities	11	7
Net assets ⁽²⁾	191	152
Summarised statement of cash flows	2016	2015
Cash flows from operating activities	33	23
Cash flows from investing activities	–	(4)
Net increase (decrease) in cash and cash equivalents	33	19

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates

Council has no interest in any joint ventures or associates.

(c) Joint operations

Council has no interest in any joint operations.

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

All subsidiaries, joint arrangements and associates have been recognised in this financial report.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		1,359,446	1,318,517
a. Other comprehensive income (excl. direct to reserves transactions)		(44)	115
b. Net operating result for the year		39,671	40,117
c. Transfers between equity		865	697
Balance at end of the reporting period		<u>1,400,413</u>	<u>1,359,446</u>
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		1,224,528	1,210,401
Total		<u>1,224,528</u>	<u>1,210,401</u>
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		1,210,401	1,061,857
– Revaluations for the year	9(a)	14,992	149,241
– Transfer to retained earnings for asset disposals		(865)	(697)
– Balance at end of year		<u>1,224,528</u>	<u>1,210,401</u>
TOTAL VALUE OF RESERVES		<u>1,224,528</u>	<u>1,210,401</u>
(iii) Nature and purpose of reserves			
Infrastructure, property, plant and equipment revaluation reserve			
– The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrements of non-current asset values due to their revaluation.			
(c) Correction of error/s relating to a previous reporting period			
Correction of errors disclosed in this year's financial statements:			
Correction of prior year's depreciation (Flood Mitigation)		2,339	–
Correction of prior year's Leave Provision discounting		(1,864)	–
In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively.			
These amounted to the following equity adjustments:			
– Adjustments to closing equity – 30/6/15 (relating to adjustments for the 30/6/15 year end)		475	–
Total prior period adjustments – prior period errors		<u>475</u>	<u>–</u>
(d) Voluntary changes in accounting policies			
Council made no voluntary changes in any accounting policies during the year.			

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	4,090	37,870	75,165
User charges and fees	18,802	3,562	55,287
Interest and investment revenue	2,023	990	4,058
Other revenues	87	25	4,051
Grants and contributions provided for operating purposes	527	525	21,011
Grants and contributions provided for capital purposes	1,458	5,497	22,469
Other income			
Net gains from disposal of assets	–	399	2,026
Share of interests in joint ventures and associates using the equity method	–	–	–
Total income from continuing operations	26,987	48,868	184,067
Expenses from continuing operations			
Employee benefits and on-costs	8,001	9,462	57,668
Borrowing costs	10	2,389	2,244
Materials and contracts	3,174	6,522	41,060
Depreciation and amortisation	7,471	9,499	38,168
Impairment	–	–	–
Other expenses	2,004	3,812	28,561
Net losses from the disposal of assets	206	–	–
Total expenses from continuing operations	20,866	31,684	167,701
Operating result from continuing operations	6,121	17,184	16,366
Discontinued operations			
Net profit/(loss) from discontinued operations	–	–	–
Net operating result for the year	6,121	17,184	16,366
Net operating result attributable to each council fund	6,121	17,184	16,366
Net operating result attributable to non-controlling interests	–	–	–
Net operating result for the year before grants and contributions provided for capital purposes	4,663	11,687	(6,103)

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.

Shoalhaven City Council

Notes to the Financial Statements

as at 30 June 2016

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

Statement of Financial Position by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	6,237	4,170	15,553
Investments	24,447	16,349	60,967
Receivables	4,572	4,605	9,858
Inventories	743	–	3,766
Other	8	–	349
Non-current assets classified as 'held for sale'	–	–	4,277
Total current assets	36,007	25,124	94,770
Non-current assets			
Investments	9,129	6,105	22,766
Receivables	9,280	1,750	4,020
Inventories	–	–	5,183
Infrastructure, property, plant and equipment	369,917	473,960	1,691,679
Investments accounted for using the equity method	–	–	–
Investment property	–	–	1,535
Intangible assets	–	–	–
Total non-current assets	388,326	481,815	1,725,183
TOTAL ASSETS	424,333	506,939	1,819,953
LIABILITIES			
Current liabilities			
Payables	1,182	1,035	14,196
Borrowings	6	4,729	6,346
Provisions	–	–	28,705
Total current liabilities	1,188	5,764	49,247
Non-current liabilities			
Payables	–	–	–
Borrowings	–	28,916	37,840
Provisions	–	–	3,329
Total non-current liabilities	–	28,916	41,169
TOTAL LIABILITIES	1,188	34,680	90,416
Net assets	423,145	472,259	1,729,537
EQUITY			
Retained earnings	209,313	343,953	847,147
Revaluation reserves	213,832	128,306	882,390
Total equity	423,145	472,259	1,729,537

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.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	2016		2015	
	Current	Non-current	Current	Non-current
(i) Non-current assets and disposal group assets				
Non-current assets 'held for sale'				
Land	2,879	–	880	–
Buildings	1,398	–	434	–
Total non-current assets 'held for sale'	4,277	–	1,314	–
Disposal group assets 'held for sale'				
None				
TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'	4,277	–	1,314	–

(ii) Details of assets and disposal groups

Council has made a decision to sell five parcels of land and a building. Land parcels include:

Land at George Evans Road, Wire Lane, Jacobs Drive, Bryces Road and Pleasant Way (including the buildings)

\$ '000	Assets 'held for sale'	
	2016	2015
(iii) Reconciliation of non-current assets 'held for sale' and disposal groups – i.e. discontinued operations		
Opening balance	1,314	–
Less: carrying value of assets/operations sold	(485)	–
Balance still unsold after 12 months:	829	–
Plus new transfers in:		
– Assets 'held for sale'	3,448	1,314
Closing balance of 'held for sale' non-current assets and operations	4,277	1,314

Refer to Note 27. Fair value measurement for fair value measurement information.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 23. Events occurring after the reporting date

\$ '000

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

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

Accordingly, the 'authorised for issue' date is 31/10/16.

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

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

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

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

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

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

Note 24. Discontinued operations

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

Note 25. Intangible assets

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

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

Shoalhaven City Council

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

Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

Council has legal/public obligations to make restore, rehabilitate and reinstate the following assets/operations:

Asset/operation	NPV of provision	
	2016	2015
Waste depot remediation	2,195	2,091
Balance at end of the reporting period	2,195	2,091

10(a)

Under AASB 116 – Property, Plant and Equipment, where the use of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset.

An equivalent liability must be recognised under AASB 137 – Provisions, Contingent Liabilities and Contingent Assets.

The provision has been calculated by determining the present value of the future expenditures expected to be incurred. The discount rate used is the risk free borrowing rate applicable to Council.

Reconciliation of movement in provision for year:

Balance at beginning of year	2,091	1,992
Amortisation of discount (expensed to borrowing costs)	104	99
Total – reinstatement, rehabilitation and restoration provision	2,195	2,091

Amount of expected reimbursements

Of the above provisions for reinstatement, rehabilitation and restoration works, those applicable to garbage services and waste management are able to be funded through future charges incorporated within Council's annual domestic waste management charge.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 26. Reinstatement, rehabilitation and restoration liabilities (continued)

\$ '000

Provisions for close down and restoration and for environmental clean up costs – tips and quarries

Restoration

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals

Close down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

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

Rehabilitation

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

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

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

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Shoalhaven City Council

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

Note 27. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets and liabilities

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).

Cost Approach: A valuation technique that reflects the amount what would be required to replace the service capacity of an asset (current replacement cost).

Income Approach: Valuation technique that converts future amounts (cash flows inflows/outflows) to signal the current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about these future amounts.

Market Approach: A valuation technique that uses prices and other relevant information, generated by market transactions involving identical or comparable (similar) assets, liabilities or a group of assets and liabilities such as a business.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

2016	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments – 'Held for trading'	30/06/16	–	–	34,507	34,507
Total financial assets		–	–	34,507	34,507
Investment properties					
Shops, 37-43 Kinghorne Street, Nowra	30/06/16	–	1,535	–	1,535
Total investment properties		–	1,535	–	1,535
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	–	–	33,603	33,603
Office equipment	30/06/16	–	–	3,844	3,844
Furniture and fittings	30/06/16	–	–	1,788	1,788
Operational land	30/06/13	–	–	126,818	126,818
Community land	30/06/15	–	–	102,959	102,959
Land under roads	30/06/14	–	–	3,913	3,913
Land improvements – non-depreciable	30/06/16	–	–	127,183	127,183
Land improvements – depreciable	30/06/16	–	–	662	662
Buildings – non-specialised	30/06/14	–	2,408	–	2,408
Buildings – specialised	30/06/14	–	–	196,793	196,793
Other structures	30/06/16	–	–	18,608	18,608
Roads	30/06/16	–	–	694,060	694,060
Bridges	30/06/15	–	–	63,702	63,702
Footpaths	30/06/15	–	–	45,763	45,763
Bulk earthworks (non-depreciable)	30/06/15	–	–	102,167	102,167
Stormwater drainage	30/06/15	–	–	106,328	106,328
Water supply network	30/06/16	–	–	352,686	352,686
Sewerage network	30/06/16	–	–	444,750	444,750
Swimming pools	30/06/16	–	–	10,313	10,313
Other open space / recreational assets	30/06/16	–	–	18,291	18,291
Other infrastructure	30/06/16	–	–	41,258	41,258
Library books	30/06/16	–	–	866	866
Tip asset	30/06/12	–	–	202	202
Total infrastructure, property, plant and equipment		–	2,408	2,496,557	2,498,965
Non-recurring fair value measurements					
Non-current assets classified as 'held for sale'					
Operational Land	30/06/13	–	–	2,879	2,879
Buildings	30/06/14	–	–	1,398	1,398
Total NCA's classified as 'held for sale'		–	–	4,277	4,277

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

2015	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments – 'Held for trading'	30/06/15	–	–	20,664	20,664
Total financial assets		–	–	20,664	20,664
Investment properties					
Shops, 37-43 Kinghorne Street, Nowra	30/06/15	–	1,435	–	1,435
Total investment properties		–	1,435	–	1,435
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/15	–	–	31,712	31,712
Office equipment	30/06/15	–	–	3,574	3,574
Furniture and fittings	30/06/15	–	–	499	499
Operational land	30/06/13	–	–	128,469	128,469
Community land	30/06/11	–	–	100,876	100,876
Land under roads	30/06/14	–	–	3,913	3,913
Land improvements – non-depreciable	30/06/11	–	–	78,352	78,352
Land improvements – depreciable	30/06/11	–	–	17,183	17,183
Buildings – non-specialised	30/06/14	–	2,465	–	2,465
Buildings – specialised	30/06/14	–	–	199,145	199,145
Other structures	30/06/11	–	–	21,378	21,378
Roads	30/06/15	–	–	697,769	697,769
Bridges	30/06/15	–	–	65,476	65,476
Footpaths	30/06/15	–	–	46,287	46,287
Bulk earthworks (non-depreciable)	30/06/15	–	–	102,167	102,167
Stormwater drainage	30/06/15	–	–	107,958	107,958
Water supply network	30/06/15	–	–	345,118	345,118
Sewerage network	30/06/15	–	–	443,619	443,619
Swimming pools	30/06/11	–	–	2,095	2,095
Other open space / recreational assets	30/06/11	–	–	11,155	11,155
Other infrastructure	30/06/11	–	–	72,203	72,203
Library books	30/06/15	–	–	844	844
Tip asset	30/06/12	–	–	230	230
Total infrastructure, property, plant and equipment		–	2,465	2,480,022	2,482,487
Non-recurring fair value measurements					
Non-current assets classified as 'held for sale'					
Operational Land	30/06/13	–	–	880	880
Buildings	30/06/14	–	–	434	434
Total NCA's classified as 'held for sale'		–	–	1,314	1,314

(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.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial assets

Investment - "At fair value through profit or loss" is represented by: Macquarie Investment Managed Fund and Floating Rate Notes. Council obtains valuations from its Safe Custody Operations on a monthly basis and at the end of each reporting period to ensure that the financial statements reflect the most up-to-date valuation.

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

Investment properties

Council obtains independent valuations at least every three (3) years for all investment properties. A full valuation was undertaken by Mr Peter Adlington, AAPI, of Walsh and Monaghan Pty Ltd as at 30 June 2016.

The valuation has been determined by the "capitalisation of net rental" approach where the net market rental of the property is capitalised at an appropriate market rate determined from the analysis of comparable sales. This result was compared to the "rate per square metre of building area" method of similar building sales.

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

Infrastructure, property, plant and equipment (IPP&E)

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
- Office Equipment - Computers, photocopiers, calculators etc.
- Furniture & Fittings - Chairs, desks and display boards.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. The last valuation was undertaken by Mr Adam Hopcroft AAPI, of Walsh and Monaghan Pty Ltd effective 30 June 2013.

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 quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal.

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

Community Land

Valuations of all Council's Community Land and Council managed land were based on either the land values provided by the Valuer-General or an average unit rate based on the land values for similar properties where the Valuer-General did not provide a land value having regard to the highest and best use for this land. As these rates were not considered to be observable market evidence they have been classified as level 3.

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

Land Under Roads

Council has elected to recognise Land Under Roads where the road was acquired on or after 1 July 2008. 'Land under Roads' have been valued using the square metres rates applicable for nearby or adjacent Community Land having regard to the highest and best use for this land.

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

Land Improvements - depreciable and non-depreciable

This asset class comprises land improvements such as spectator mounds, swales, berms, gardens, mulched areas, streetscaping and landscaping. These assets may be located on parks, reserves and also within road reserves. 'Land Improvements' were valued in-house using the cost approach by experienced Council engineers and asset management staff.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using level 3 valuation inputs.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

Buildings – Non specialised and Specialised

The fair value of buildings were determined by independent valuer, Scott Fullerton Valuations Pty Ltd effective 30 June 2014. Where there is a market for Council building assets, fair value has been derived from the sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach were price per square metre.

Where Council buildings are of a specialist nature and there is no active market for the assets, fair value has been determined on the basis of replacement with a new asset having similar service potential including allowances for preliminaries and professional fees. The gross current values have been derived from reference to market data for recent projects and costing guides issued by the Australian Institute of Quantity Surveyors, Rawlinson's (Australian Construction Handbook). Where a depth in market can be identified, the net current value of a building asset is the difference between the market value of the asset as a whole (including land) and the market value of the land component. Where there is no depth of market, the net current value of a building asset is the gross current value less accumulated depreciation to reflect the consumed or expired service potential of the asset.

In determining the level of accumulated depreciation the asset has been disaggregated into significant components which exhibit useful lives. Allowance has been made for the typical asset life cycle and renewal treatments of each component, residual value at the time the asset is considered to be no longer available for use and the condition of the asset. Condition was assessed taking into account both physical characteristics as well as holistic factors such as functionality, capability, utilisation and obsolescence.

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

Other Structures

This asset class comprises Boardwalks, Viewing platforms, Floodlighting Systems, Pedestrian bridges and fencing.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using level 3 valuation inputs.

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

Roads

Roads comprise road carriageway, roadside shoulders & kerb & gutter. The cost approach using level 3 inputs was used to value this asset class. Valuations for this asset class were undertaken in-house based on actual costs and assumptions from Council's Engineering Department. No market based evidence (level 2) inputs are available therefore level 3 valuation inputs were used for this asset class.

The last full valuation of road infrastructure was undertaken effective 30 June 2015.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

Bridges

The last full valuation of bridges was undertaken effective 30th June 2015.

Each bridge was assessed individually, with the valuation varying according to the material type used for construction, the deck area, condition and size. Construction estimates were determined on a similar basis to roads.

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

Stormwater Drainage

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices.

The cost approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

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

Water Supply Network

Assets within this class comprise treatment works, pumping stations and, sewerage mains.

The cost approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (level 2) other inputs (such as estimates of pattern of consumption and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as published by the Office of Water (Department of Primary Industries). According to this manual, the calculation of reference rates is based on "*competitive contract prices obtained by NSW Public Works for water supply and sewerage projects within NSW, supplemented by published rates for water supply, sewerage and stormwater works and also rates obtained from a number of Local Water Utilities and other agencies*".

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

Sewerage Network

Assets within this class comprise treatment works, pumping stations and, sewerage mains.

The cost approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (level 2) other inputs (such as estimates of pattern of consumption and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as published by the Office of Water (Department of Primary Industries). According to this manual, the calculation of reference rates is based on "*competitive contract prices obtained by NSW Public Works for water supply and sewerage projects within NSW, supplemented by published rates for water supply, sewerage and stormwater works and also rates obtained from a number of Local Water Utilities and other agencies*".

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

Swimming Pools

Assets within this class comprise Council's rock pools, outdoor swimming pools and indoor swimming pools (component of Aquatic Centre). The swimming pools were valued in-house by experienced staff in Council's Engineering Department using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Other Open Space / Recreational Assets

Assets within this class include playground equipment, BBQs and outdoor fitness facilities.

These were valued in-house by experienced staff in Council's Engineering Department using the cost approach. The approach estimated the replacement cost for asset by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

Other Infrastructure

Assets within this class include jetties, boat ramps, sea/rock/retaining walls. These were valued in-house by experienced staff in Council's Engineering Department using the cost approach. The approach estimated the replacement cost for asset by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Library Books

Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value.

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

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

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

	Note	Investments	IPPE	Held for Sale
Opening balance – 1/7/14		6,482	2,345,286	–
Transfers from/(to) level 2 FV hierarchy	274(b)	–	620	–
Transfers from/(to) another asset class		–	(1,314)	1,314
Purchases (GBV)		14,829	45,167	–
Disposals (WDV)		(677)	(7,346)	–
Depreciation and impairment		–	(51,632)	–
FV gains – Income Statement		30	–	–
Asset Revaluation Reserve		–	149,241	–
Closing balance – 30/6/15		20,664	2,480,022	1,314
Transfers from/(to) another asset class		–	(3,448)	3,448
Purchases (GBV)		15,016	65,004	–
Disposals (WDV)		(1,073)	(4,932)	(485)
Depreciation and impairment		–	(55,081)	–
FV gains – Income Statement		(100)	–	–
Asset Revaluation Reserve		–	14,992	–
Closing balance – 30/6/16		34,507	2,496,557	4,277

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

Transfer of a Non-Specialised Building (Level 2) to a specialised building (Level 3)

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

Class	Fair value (30/6/16) \$'000	Valuation technique/s	Unobservable inputs
Financial assets			
Investments	34,507	Advisor Reports	<ul style="list-style-type: none"> Unit price
I,PP&E			
Plant and equipment	33,603	Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Office equipment	3,844	Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Furniture and fittings	1,788	Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Operational land	126,818	External Valuer	<ul style="list-style-type: none"> Land value (price per square metre)
Community land	102,959	Land values obtained from the NSW Valuer - General	<ul style="list-style-type: none"> Land value (price per square metre)
Land improvements and other infrastructure	169,103	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value Asset condition
Buildings – specialised	196,793	External Valuer - Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value Asset condition
Other structures	18,608	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value Asset condition

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value (continued).

Class	Fair value (30/6/16) \$'000	Valuation technique/s	Unobservable inputs
I,PP&E (continued)			
Roads	694,060	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Bridges	63,702	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Footpaths	45,763	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Stormwater drainage	106,328	Unit rate per m ² or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Water supply network	352,686	Unit rate per m ² or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life
Sewerage network	444,750	Unit rate per m ² or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life
Swimming pools – other open space / recreational assets	28,604	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Library books	844	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition

(5). Highest and best use

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

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SHOALHAVEN CITY COUNCIL
Independent Audit Report to the Council
General Purpose Financial Statements for the Year ended 30 June 2016

Report on the Financial Report

We have audited the general purpose financial statements of Shoalhaven City Council, which comprises the Statement of Financial Performance as at 30 June 2016, Statement by Councillors and Management, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Council's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. Our audit responsibility does not extend to the Original Budget figures disclosed in the Income Statement and Cash Flow Statement, Notes 2(a), and 16 to the financial statements, estimated expenditure in Note 17, additional Council disclosure notes, nor the attached Special Schedules. Accordingly, no opinion is expressed on these matters.

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

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

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

Auditor's Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Shoalhaven City Council as of 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Report on Other Legal and Regulatory Requirements

Council's Responsibilities for compliance with other legal and regulatory requirements

Council is responsible for ensuring compliance with the accounting and reporting requirements of Division 2 of Part 3, Chapter 12 of the Local Government Act, 1993. This responsibility includes maintaining such accounting records as are necessary to correctly record and explain its financial transactions and its financial position, and to facilitate convenient and proper auditing of its financial statements.

Auditor's Responsibilities under Section 417(2) of the Local Government Act, 1993

Our responsibility is to report on Council's compliance with the accounting and reporting requirements of the Local Government Act, 1993 and Local Government (General) Regulation 2005.


Auditors' Opinion on other legal and regulatory requirements

In our opinion:

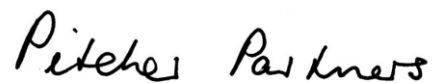
- (a) The Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13, Part 3, Division 2 and the Local Government (General) Regulation 2005; and
- (b) the Council's general purpose financial statements
 - i) have been prepared in accordance with the requirements of this Division and Regulation;
 - ii) are consistent with the Council's accounting records;
 - iii) present fairly the Council's financial position and the results of its operations;
- (c) all information relevant to the conduct of the audit has been obtained; and
- (d) there are no material deficiencies in the accounting records or financial statements that we have become aware of in the course of the audit.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the financial statements of Shoalhaven City Council for the year ended 30 June 2016 included on Shoalhaven City Council's web site. The Council is responsible for the integrity of the Shoalhaven City Council's web site. We have not been engaged to report on the integrity of the Council's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.



CARL MILLINGTON
Partner



PITCHER PARTNERS
Sydney, 31 October 2016

**SHOALHAVEN CITY COUNCIL
 INDEPENDENT AUDITORS' REPORT ON THE CONDUCT OF THE AUDIT
 (Local Government Act, 1993 - Section 417 (1) and 417(3))
 YEAR ENDED 30 JUNE 2016**

Shoalhaven City Council has prepared general and special purpose financial reports for the year ended 30 June 2016 on which we issued separate audit reports to the Council dated 31 October 2016. This report has been prepared in accordance with the requirements of the Office of Local Government and the provisions of Sections 417 (1) and 417(3) of the Local Government Act, 1993.

We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council or the New South Wales Division of Local Government, or for any purpose other than that for which it was prepared.

Audit Conclusion

Our audit of the financial reports for the year ended 30 June 2016 resulted in unqualified independent audit reports for Council's General Purpose and Special Purpose Financial Statements.

Additional Audit Considerations and Comment

Income Statement

Summarised Income Statement

	2016 Actual \$'000	2016 Budget \$'000	* Budget Variance %	2015 Actual \$'000
Operating result	39,671	24,857	59.6%F	38,253
Operating result before capital revenue	10,247	(3,455)	397%F	7,007
Rates & annual charges	116,238	116,592	0.30%U	111,460
Operating grants & contributions	22,063	19,952	10.58%F	20,178
Capital grants & contributions	29,424	28,312	3.93%F	31,246
Depreciation & amortisation	55,138	55,099	0.07%U	54,062

* Detailed explanations for material favourable (F) and unfavourable (U) budget variations are provided in Note 16 to the financial statements

Operating Result. Council's operating surplus increased from the prior period of \$38.253M to \$39.671M. This compared with a budgeted surplus of only \$24.857M for 2016. The most significant movements on the previous period's results and current year's budget were:

- Rates and annual charges increasing by \$4.778M from 2015 in accordance with the 2016 budget and the rate peg increase;
- User Charges and fees increasing by \$4.327M from 2015, this was above budget and largely due to increases in specific user charges for water and sewerage supply as well as tourist parks performing better.
- Expenses increasing by \$10.956M in accordance with the 2016 budget. The largest movement attributable to the increase was employee benefits and on-costs which increased by \$6.511M. This is further broken down by an increase in salaries and wages of \$2.937 and an increase in the employee leave entitlements of \$2.610M.

Operating Result before Capital. The operating result before capital grants and contributions was a surplus of \$10.247M compared with the prior year of \$7.007M. This compared with the original budget deficit of \$3.455M. The favourable actual to budget result was largely due to revenue items, notably 'User fees and charges' 'Interest and investment revenue', and 'Other revenues'; expense items were generally in accordance with budget with an unfavourable result for 'Employee benefits expense' offset by savings in 'Materials and contracts' and 'Other expenses'.

Rates and Annual Charges. Revenue from rates and annual charges increased to \$116.238M from \$111.460M in the prior year, and was within 1% of budget for the 2016 year.

Grants and Contributions. Operating grants and contributions for the year totalled \$22.063M and represented 9.06% (2015: 8.70%) of total income from continuing operations. This compares with the original budget of \$19.952M.

Capital grants and contributions amounted to \$29.424M (2015: 31.246M) and represented 12.08% (2015: 13.5%) of total income from continuing operations. This compares with the original budget of \$28.312M. Both categories of grants and contributions were materially consistent with the prior year and budget.

Depreciation. Included in the operating result was \$55.138M (2015: \$54.062M) for the depreciation of infrastructure, property, plant and equipment which compared with the budget of \$55.099M. Depreciation represents 27.05% (2015: 28.3%; 2014: 29.25%;) of total expenses and 22.64% (2015: 23.39%; 2014: 27.16%) of total income for the year. The stabilisation of this expense is expected given the last major asset category fair valued before 30 June 2016 was Buildings in 2014 and Roads and Stormwater assets in 2015. The 2016 fair valuation of non-depreciable land improvements and other infrastructure will not have a major effect upon the depreciation expense in future periods with the depreciation expense expected to remain stable.

Statement of Financial Position

Council's equity at 30 June 2016 amounted to \$2,624.941M (2015: \$2,570.322M) comprised of retained earnings, and reserves arising from revaluation of infrastructure assets in 2016 and prior years.

The most significant impact on equity for 2016 was the operating surplus of \$39.671M, whilst the revaluation of non-depreciable land improvements, water supply and sewerage networks, swimming pool and other infrastructure assets resulted in a \$14.992M increase in the asset base and reserves.

Movements in Cash and Cash Equivalents

Summarised Statement of Cash Flows

Activities	2016 Actual \$'000	2016 Budget \$'000	* Budget Variance %	2015 Actual \$'000
Net cash flows from operations	86,990	79,860	8.92%F	78,265
Net cash flows from investing	(84,213)	(81,708)	3.07%U	(67,644)
Net cash flows from financing	240	42	471%F	(1,915)
Net movement in cash	3,017	(1,806)		8,706

* Detailed explanations for material budget variations are provided in Note 16 to the financial statements

Council's cash and cash equivalent balances increased to a total of \$25.960M during the year, with \$86.990M being provided from operations, \$84.213M utilised in net investing activities for the acquisition and sale of financial assets and non-current assets, and \$0.24M being the excess of proceeds over repayments for borrowings/advances.

Total Investments and Cash Balances

Council's total cash and investments balance at 30 June 2016 was comprised of the following:

	2016 \$'000	2015 \$'000	2014 \$'000
Externally restricted cash	115,846	86,783	78,476
Internally restricted cash	39,290	34,816	28,881
Unrestricted cash	10,587	12,978	11,312
Total Cash, Cash Equivalents and Investments	165,723	134,577	118,669

The increase in externally restricted cash balances largely related to developer contributions for the general and water funds, sewerage rates/levies/charges that are externally restricted to sewerage services as well specific unexpended grants.

The increase in internal restrictions largely relates to committed capital works, strategic projects and critical asset compliance.

Performance Indicators and Trends

Prescribed performance indicators are included in Note 13 to the financial report and provide a comparison of the 2016 year results with prior years.

Operating performance ratio. At 3.79% this ratio is a slight reduction from the prior year of 5.23%, but is still above NSW TCorp's short-term benchmark and the Office of Local Government and TCorp's long-term expectation of break-even.

Own source operating revenue ratio. The ratio of 78.66% is a marginal increase from 2015 (77.75%) and is well above the industry benchmark of 60% and indicates that Council's reliance on external funding sources is minimal.

Unrestricted Current Ratio. This ratio of 2.14:1 is an improvement from 2015 (1.80:1) and exceeds the industry benchmark of 1.50:1 established by TCorp.

Debt Service Cover Ratio. This ratio has improved to 4.99:1 from 4.89:1 in 2015 and remains above the TCorp industry benchmark of 2.00:1.

Rates and Annual Charges Outstanding Percentage. The amount of rates uncollected at year end expressed as a percentage of the total rates and annual charges collectible was 7.51% which is marginally unfavourable to 2015 (7.32%).

The ratio remains above the TCorp industry benchmark of 5%. The Council had previously expected an improvement in this ratio with council's decision to cease the non-pursuit of outstanding pensioner debtor amounts from 1 July 2015. Water and sewer accounts were levied in June with rates only due after year end; if the ratio was to only include overdue rates and annual charges this ratio would drop to 4.89%.

Cash expense cover ratio. This liquidity ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow. Council's ratio of 8.88 exceeds the TCorp industry benchmark of 3.00 and indicates that Council has sufficient liquidity to adequately fund its short-term operations.

Legislative Compliance

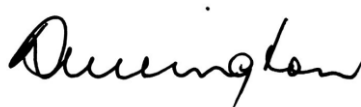
As a result of our audit we advise that no material deficiencies in the accounting records or financial reports have come to our attention during the conduct of the audit, and that Council's accounting records have been kept accurately and conscientiously and in accordance with requirements of the Local Government Act, 1993, and Regulations.

Council has complied with all statutory reporting requirements relating to Division 2 of Chapter 12 of the Local Government Act, 1993, the Code of Accounting Practice and Financial Reporting (Update 23), and other legislatively prescribed standards.

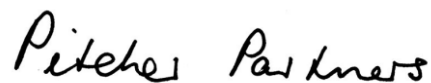
Conduct of the audit

During the conduct of our audit, a number of issues arose that required additional explanation and investigation, however we are able to report that all such issues have been appropriately attended to and there are no matters of audit significance, other than those already referred to in this report, that require mention in this or our statutory audit report.

We would like to commend the courteous and professional manner in which Council's staff has acted throughout the conduct of our audit, and their willingness to consider issues that we raised and assist us with our audit.



CARL MILLINGTON
Partner



PITCHER PARTNERS
Sydney, 31 October 2016

Shoalhaven City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2016

*We will work together in the Shoalhaven to foster
a safe and attractive community for people to live, work, stay and play;
where sustainable growth, development and environmental protection
are managed to provide a unique and relaxed lifestyle.*

Shoalhaven
City Council

Shoalhaven City Council

Special Purpose Financial Statements

for the year ended 30 June 2016

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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).
-

Shoalhaven City Council

Special Purpose Financial Statements for the year ended 30 June 2016

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 25 October 2016.



Mark Kitchener
Deputy Mayor



Patricia White
Assistant Deputy Mayor



Russ Pigg
General Manager



Pamela Gokgur
Responsible Accounting Officer

Shoalhaven City Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	4,090	4,095
User charges	18,802	16,206
Fees	–	–
Interest	2,023	2,300
Grants and contributions provided for non-capital purposes	527	532
Profit from the sale of assets	–	–
Other income	87	496
Total income from continuing operations	25,529	23,629
Expenses from continuing operations		
Employee benefits and on-costs	8,001	5,599
Borrowing costs	10	22
Materials and contracts	3,174	3,559
Depreciation and impairment	7,471	7,727
Water purchase charges	–	–
Loss on sale of assets	206	793
Calculated taxation equivalents	98	100
Debt guarantee fee (if applicable)	–	–
Other expenses	2,004	2,247
Total expenses from continuing operations	20,964	20,047
Surplus (deficit) from continuing operations before capital amounts	4,565	3,582
Grants and contributions provided for capital purposes	1,458	3,766
Surplus (deficit) from continuing operations after capital amounts	6,023	7,348
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	6,023	7,348
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,370)	(1,075)
SURPLUS (DEFICIT) AFTER TAX	4,654	6,273
Plus opening retained profits	204,735	198,819
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	98	100
– Debt guarantee fees	–	–
– Corporate taxation equivalent	1,370	1,075
Less:		
– Tax equivalent dividend paid	(100)	(100)
– Surplus dividend paid	(1,443)	(1,432)
Closing retained profits	209,313	204,735
Return on capital %	1.2%	1.0%
Subsidy from Council	3,452	4,981
Calculation of dividend payable:		
Surplus (deficit) after tax	4,654	6,273
Less: capital grants and contributions (excluding developer contributions)	–	(2,178)
Surplus for dividend calculation purposes	4,654	4,095
Potential dividend calculated from surplus	2,327	2,048

Shoalhaven City Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	37,870	36,415
User charges	1,201	708
Liquid trade waste charges	362	337
Fees	1,999	1,687
Interest	990	577
Grants and contributions provided for non-capital purposes	525	521
Profit from the sale of assets	399	–
Other income	25	219
Total income from continuing operations	43,371	40,464
Expenses from continuing operations		
Employee benefits and on-costs	9,462	9,889
Borrowing costs	2,389	2,700
Materials and contracts	6,522	6,190
Depreciation and impairment	9,499	7,699
Loss on sale of assets	–	2,177
Calculated taxation equivalents	201	203
Debt guarantee fee (if applicable)	–	–
Other expenses	3,812	3,631
Total expenses from continuing operations	31,885	32,489
Surplus (deficit) from continuing operations before capital amounts	11,486	7,975
Grants and contributions provided for capital purposes	5,497	13,917
Surplus (deficit) from continuing operations after capital amounts	16,983	21,892
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	16,983	21,892
Less: corporate taxation equivalent (30%) [based on result before capital]	(3,446)	(2,393)
SURPLUS (DEFICIT) AFTER TAX	13,537	19,500
Plus opening retained profits	328,187	307,510
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	201	203
– Debt guarantee fees	–	–
– Corporate taxation equivalent	3,446	2,393
Less:		
– Tax equivalent dividend paid	(142)	(142)
– Surplus dividend paid	(1,276)	(1,276)
Closing retained profits	343,953	328,187
Return on capital %	2.9%	2.3%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	13,537	19,500
Less: capital grants and contributions (excluding developer contributions)	(3,760)	(12,490)
Surplus for dividend calculation purposes	9,777	7,010
Potential dividend calculated from surplus	4,889	3,505

Shoalhaven City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

\$ '000	Holiday Haven Tourist Parks Category 1		Bereavement Services Category 1	
	Actual	Actual	Actual	Actual
	2016	2015	2016	2015
Income from continuing operations				
Access charges	–	–	–	–
User charges	20,669	19,502	1,794	1,508
Fees	–	–	–	–
Interest	–	–	–	–
Grants and contributions provided for non-capital purposes	–	–	–	–
Profit from the sale of assets	–	–	–	–
Other income	985	941	9	13
Total income from continuing operations	21,654	20,443	1,803	1,521
Expenses from continuing operations				
Employee benefits and on-costs	760	693	751	689
Borrowing costs	342	336	10	17
Materials and contracts	6,815	6,671	226	218
Depreciation and impairment	2,198	2,106	205	209
Loss on sale of assets	–	87	–	–
Calculated taxation equivalents	7	8	5	5
Debt guarantee fee (if applicable)	–	–	–	–
Other expenses	4,972	4,395	398	254
Total expenses from continuing operations	15,094	14,296	1,595	1,392
Surplus (deficit) from continuing operations before capital amounts	6,560	6,147	208	129
Grants and contributions provided for capital purposes	2	1	–	–
Surplus (deficit) from continuing operations after capital amounts	6,562	6,148	208	129
Surplus (deficit) from discontinued operations	–	–	–	–
Surplus (deficit) from all operations before tax	6,562	6,148	208	129
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,968)	(1,844)	(62)	(39)
SURPLUS (DEFICIT) AFTER TAX	4,594	4,304	146	90
Plus opening retained profits	30,003	28,725	314	180
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	7	8	5	5
– Debt guarantee fees	–	–	–	–
– Corporate taxation equivalent	1,968	1,844	62	39
Add:				
– Subsidy paid/contribution to operations	–	–	–	–
Less:				
– TER dividend paid	–	–	–	–
– Dividend paid	(4,594)	(4,878)	–	–
Closing retained profits	31,978	30,003	527	314
Return on capital %	16.6%	16.5%	2.4%	1.8%
Subsidy from Council	–	–	–	654

Shoalhaven City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

\$ '000	Mechanical Services		Shoalhaven Entertainment Centre	
	Category 1		Category 1	
	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Income from continuing operations				
Access charges	–	–	–	–
User charges	54	115	1,190	1,085
Fees	–	–	–	–
Interest	–	–	–	–
Grants and contributions provided for non-capital purposes	–	–	–	–
Profit from the sale of assets	–	–	–	–
Other income	3,028	4,931	77	97
Total income from continuing operations	3,082	5,046	1,267	1,182
Expenses from continuing operations				
Employee benefits and on-costs	1,944	2,769	1,034	1,024
Borrowing costs	–	–	440	473
Materials and contracts	281	574	845	666
Depreciation and impairment	11	20	666	664
Loss on sale of assets	–	–	–	–
Calculated taxation equivalents	65	77	41	–
Debt guarantee fee (if applicable)	–	–	–	–
Other expenses	804	1,240	766	265
Total expenses from continuing operations	3,105	4,680	3,792	3,092
Surplus (deficit) from continuing operations before capital amounts	(23)	366	(2,525)	(1,910)
Grants and contributions provided for capital purposes	–	–	–	–
Surplus (deficit) from continuing operations after capital amounts	(23)	366	(2,525)	(1,910)
Surplus (deficit) from discontinued operations	–	–	–	–
Surplus (deficit) from all operations before tax	(23)	366	(2,525)	(1,910)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	(110)	–	–
SURPLUS (DEFICIT) AFTER TAX	(23)	256	(2,525)	(1,910)
Plus opening retained profits	1,859	1,416	7,275	9,185
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	65	77	41	–
– Debt guarantee fees	–	–	–	–
– Corporate taxation equivalent	–	110	–	–
Add:				
– Subsidy paid/contribution to operations	–	–	–	–
Less:				
– TER dividend paid	–	–	–	–
– Dividend paid	–	–	–	–
Closing retained profits	1,901	1,859	4,791	7,275
Return on capital %	-1.8%	11.1%	-7.2%	-4.8%
Subsidy from Council	51	–	2,717	4,409

Shoalhaven City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

Aquatic Recreation
Facilities

Category 2

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	-	-
User charges	3,970	3,587
Fees	-	-
Interest	-	-
Grants and contributions provided for non-capital purposes	-	-
Profit from the sale of assets	-	-
Other income	-	-
Total income from continuing operations	3,970	3,587
Expenses from continuing operations		
Employee benefits and on-costs	4,023	3,472
Borrowing costs	157	5
Materials and contracts	1,002	1,066
Depreciation and impairment	902	977
Loss on sale of assets	1	6
Calculated taxation equivalents	31	38
Debt guarantee fee (if applicable)	-	-
Other expenses	1,884	1,840
Total expenses from continuing operations	8,000	7,404
Surplus (deficit) from continuing operations before capital amounts	(4,030)	(3,817)
Grants and contributions provided for capital purposes	50	450
Surplus (deficit) from continuing operations after capital amounts	(3,980)	(3,367)
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from all operations before tax	(3,980)	(3,367)
Less: corporate taxation equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	(3,980)	(3,367)
Plus opening retained profits	-	-
Plus adjustments for amounts unpaid:		
- Taxation equivalent payments	31	38
- Debt guarantee fees	-	-
- Corporate taxation equivalent	-	-
Add:		
- Subsidy paid/contribution to operations	3,949	3,329
Less:		
- TER dividend paid	-	-
- Dividend paid	-	-
Closing retained profits	-	-
Return on capital %	-10.5%	-11.8%
Subsidy from Council	4,673	7,055

Shoalhaven City Council

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

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	6,237	6,569
Investments	24,447	17,667
Receivables	4,572	4,312
Inventories	743	865
Other	8	–
Non-current assets classified as held for sale	–	–
Total current assets	36,007	29,413
Non-current assets		
Investments	9,129	14,817
Receivables	9,280	10,788
Inventories	–	–
Infrastructure, property, plant and equipment	369,917	362,166
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	388,326	387,771
TOTAL ASSETS	424,333	417,184
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	1,182	2,593
Borrowings	6	167
Provisions	–	–
Total current liabilities	1,188	2,760
Non-current liabilities		
Payables	–	–
Borrowings	–	6
Provisions	–	–
Total non-current liabilities	–	6
TOTAL LIABILITIES	1,188	2,766
NET ASSETS	423,145	414,418
EQUITY		
Retained earnings	209,313	204,735
Revaluation reserves	213,832	209,683
Council equity interest	423,145	414,418
Non-controlling equity interest	–	–
TOTAL EQUITY	423,145	414,418

Shoalhaven City Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	4,170	1,293
Investments	16,349	3,708
Receivables	4,605	12,393
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total Current Assets	25,124	17,394
Non-current assets		
Investments	6,105	3,109
Receivables	1,750	1,665
Inventories	–	–
Infrastructure, property, plant and equipment	473,960	469,201
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	481,815	473,975
TOTAL ASSETS	506,939	491,369
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	1,035	2,065
Borrowings	4,729	4,529
Provisions	–	–
Total current liabilities	5,764	6,594
Non-current liabilities		
Payables	–	–
Borrowings	28,916	33,646
Provisions	–	–
Total non-current liabilities	28,916	33,646
TOTAL LIABILITIES	34,680	40,240
NET ASSETS	472,259	451,129
EQUITY		
Retained earnings	343,953	328,187
Revaluation reserves	128,306	122,942
Council equity interest	472,259	451,129
Non-controlling equity interest	–	–
TOTAL EQUITY	472,259	451,129

Shoalhaven City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

\$ '000	Holiday Haven Tourist Parks		Bereavement Services	
	Category 1		Category 1	
	Actual 2016	Actual 2015	Actual 2016	Actual 2015
ASSETS				
Current assets				
Cash and cash equivalents	–	–	–	–
Investments	–	–	–	–
Receivables	90	840	695	72
Inventories	–	–	–	–
Other	–	–	–	–
Non-current assets classified as held for sale	–	–	–	–
Total Current Assets	90	840	695	72
Non-current assets				
Investments	–	–	–	–
Receivables	–	111	75	–
Inventories	–	–	–	–
Infrastructure, property, plant and equipment	41,674	39,314	9,118	7,996
Investments accounted for using equity method	–	–	–	–
Investment property	–	–	–	–
Other	5,690	6,185	–	–
Total non-current assets	47,364	45,610	9,193	7,996
TOTAL ASSETS	47,454	46,450	9,888	8,068
LIABILITIES				
Current liabilities				
Bank overdraft	–	–	–	–
Payables	1,622	1,348	(423)	40
Borrowings	2,603	1,131	57	93
Provisions	–	–	–	–
Total current liabilities	4,225	2,479	(366)	133
Non-current liabilities				
Payables	–	–	–	–
Borrowings	5,786	6,826	96	66
Provisions	–	–	–	–
Other Liabilities	–	–	7,562	6,875
Total non-current liabilities	5,786	6,826	7,658	6,941
TOTAL LIABILITIES	10,011	9,305	7,292	7,074
NET ASSETS	37,443	37,145	2,596	994
EQUITY				
Retained earnings	31,978	30,003	527	314
Revaluation reserves	5,465	7,142	2,069	680
Council equity interest	37,443	37,145	2,596	994
Non-controlling equity interest	–	–	–	–
TOTAL EQUITY	37,443	37,145	2,596	994

Shoalhaven City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

\$ '000	Mechanical Services		Shoalhaven Entertainment Centre	
	Category 1		Category 1	
	Actual 2016	Actual 2015	Actual 2016	Actual 2015
ASSETS				
Current assets				
Cash and cash equivalents	–	–	–	–
Investments	–	–	–	–
Receivables	264	60	112	76
Inventories	–	–	–	–
Other	–	–	–	–
Non-current assets classified as held for sale	–	–	–	–
Total Current Assets	264	60	112	76
Non-current assets				
Investments	–	–	–	–
Receivables	15	39	31	29
Inventories	–	–	–	–
Infrastructure, property, plant and equipment	1,298	3,302	29,105	29,716
Investments accounted for using equity method	–	–	–	–
Investment property	–	–	–	–
Other	327	–	–	–
Total non-current assets	1,640	3,341	29,136	29,745
TOTAL ASSETS	1,904	3,401	29,248	29,821
LIABILITIES				
Current liabilities				
Bank overdraft	–	–	–	–
Payables	3	52	377	358
Borrowings	–	–	549	511
Provisions	–	–	–	–
Total current liabilities	3	52	926	869
Non-current liabilities				
Payables	–	–	–	–
Borrowings	–	–	5,252	5,802
Provisions	–	–	–	–
Other Liabilities	–	1,490	18,279	15,875
Total non-current liabilities	–	1,490	23,531	21,677
TOTAL LIABILITIES	3	1,542	24,457	22,546
NET ASSETS	1,901	1,859	4,791	7,275
EQUITY				
Retained earnings	1,901	1,859	4,791	7,275
Revaluation reserves	–	–	–	–
Council equity interest	1,901	1,859	4,791	7,275
Non-controlling equity interest	–	–	–	–
TOTAL EQUITY	1,901	1,859	4,791	7,275

Shoalhaven City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

Aquatic Recreation
Facilities
Category 2

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	–	–
Investments	–	–
Receivables	25	91
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total Current Assets	25	91
Non-current assets		
Investments	–	–
Receivables	8	4
Inventories	–	–
Infrastructure, property, plant and equipment	36,861	32,426
Investments accounted for using equity method	–	–
Investment property	–	–
Other	–	–
Total non-current assets	36,869	32,430
TOTAL ASSETS	36,894	32,521
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	185	653
Borrowings	545	397
Provisions	–	–
Total current liabilities	730	1,050
Non-current liabilities		
Payables	–	–
Borrowings	4,000	4,045
Provisions	–	–
Other Liabilities	26,895	27,426
Total non-current liabilities	30,895	31,471
TOTAL LIABILITIES	31,625	32,521
NET ASSETS	5,269	–
EQUITY		
Retained earnings	–	–
Revaluation reserves	5,269	–
Council equity interest	5,269	–
Non-controlling equity interest	–	–
TOTAL EQUITY	5,269	–

Shoalhaven City Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	14
2	Water Supply Business Best-Practice Management disclosure requirements	17
3	Sewerage Business Best-Practice Management disclosure requirements	19

Shoalhaven City Council

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

Note 1. Significant accounting policies

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

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

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

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

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

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

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

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

National Competition Policy

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

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

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

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

Declared business activities

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

Category 1

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

a. Shoalhaven Water
Water Supply

b. Shoalhaven Water
Sewer Services

c. Holiday Haven Tourist Parks
Caravan Park Operations

d. Shoalhaven Mechanical Services
Mechanical Services

e. Aquatic Recreation Facilities
Swimming Pools and Aquatic Centres

Category 2

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

a. Bereavement Services
Cemetery and Crematorium Services

b. Shoalhaven Entertainment Centre
Venue for entertainment, hire and community activities

Please note that due to an organisational restructure Electrical Technology Services is now reported with Shoalhaven Water – Water Supply

Monetary amounts

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

Shoalhaven City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

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

(i) Taxation-equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 30%

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

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

Stamp Duty – If the amount secured by the mortgage is no more than \$16,000, the duty is \$5. If the amount secured by the mortgage is more than \$16,000 the duty is \$5 plus a further \$4 for every \$1000, or part, by which the amount secured exceeds \$16,000.

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be

paid from water supply and sewerage business activities.

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

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

Income tax

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

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

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

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

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

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

Shoalhaven City Council

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

Note 1. Significant accounting policies (continued)

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

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

The rate of return on capital is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.17% at 30/6/16.

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

(iv) Dividends

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

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

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

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

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

(v) Asset adjustments in balance sheet

A complete trial balance is not maintained for the following business activities:

- Holiday Haven Tourist Parks
- Bereavement Services
- Mechanical Services
- Shoalhaven Entertainment Centre
- Aquatic Recreation Facilities

The accounts that are maintained have been reported accordingly. Total assets are determined by reference to the accumulated surplus/ (deficit) brought forward in the Income Statements by business activity and adjusted accordingly.

Shoalhaven City Council

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

Note 2. Water supply business best-practice management disclosure requirements

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

2016

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	98,000
(ii)	Number of assessments multiplied by \$3/assessment	154,839
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	98,000
(iv)	Amounts actually paid for tax equivalents	100,398

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	2,326,750
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	1,450,390
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	10,078,300

2016 Surplus	4,653,500	2015 Surplus	4,095,400	2014 Surplus	4,181,400
		2015 Dividend	1,432,000	2014 Dividend	1,420,000

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	1,450,390
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	1,442,682
(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

Shoalhaven City Council

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

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2016

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	24,964
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)]	%	75.69%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	364,142
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	13,179
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	13,236
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)]	%	1.17%
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

Shoalhaven City Council

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

Note 3. Sewerage business best-practice management disclosure requirements

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

2016

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	201,000
(ii)	Number of assessments multiplied by \$3/assessment	150,135
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	150,135
(iv)	Amounts actually paid for tax equivalents	141,756

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	4,888,600
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	1,351,215
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	19,643,400

2016 Surplus	9,777,200	2015 Surplus	7,009,500	2014 Surplus	5,385,700
		2015 Dividend	1,276,000	2014 Dividend	1,253,000

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	1,351,215
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	1,275,804
(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

Shoalhaven City Council

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

Note 3. Sewerage business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2016

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	45,191
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	469,092
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	19,658
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	8,471
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)]	%	3.38%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	2,288

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	70,348
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.49%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	21,707
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)]	%	2.41%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	2,718
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	13.24%

Shoalhaven City Council

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

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

2016

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	<input type="text" value="-3.66%"/>
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): <input type="text" value="20,349"/> 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: <input type="text" value="- 614"/> Interest expense (w4a + s4a) – interest income (w9 + s10)		<input type="text" value="> 100"/>
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	<input type="text" value="20,533"/>
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	<input type="text" value="1,051"/>

- 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

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SHOALHAVEN CITY COUNCIL
Special Purpose Financial Report
Independent Auditors' Report to the Council for the Year ended 30 June 2016

Report on the Financial Statements of Council's Declared Business Activities

We have audited the accompanying financial statements, being special purpose financial statements, of Shoalhaven City Council's declared business activities, which comprises the statement of financial position as at 30 June 2016 and the income statement for the year then ended, a summary of significant accounting policies, and other explanatory notes and the Statement by Councillors and Management.

Council's Responsibilities for the Financial Statements

Council is responsible for the preparation and fair presentation of the financial statements and has determined that the accounting policies described in Note 1 to the financial statements which form part of the financial statements are appropriate to their needs. Council's responsibility also includes such internal controls as the Council determines are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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

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

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

Auditor's Opinion

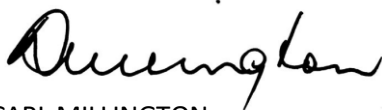
In our opinion, the financial statements present fairly, in all material respects, the financial position of Shoalhaven City Council as of 30 June 2016 and of its financial performance for the year then ended in accordance with the accounting policies described in Note 1 to the special purpose financial statements.

Basis of Accounting

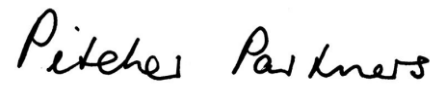
Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The special purpose financial statements have been prepared for distribution to the Council and the New South Wales Office of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this audit report or on the financial statements to which it relates to any person other than the Council or the New South Wales Office of Local Government, or for any purpose other than that for which it was prepared.

Other Matter

Shoalhaven City Council has prepared a separate financial report for the year ended 30 June 2016 in accordance with Australian Accounting Standards and the Code of Accounting Practice and Financial Reporting on which we issued a separate auditor's report to the Council dated 31 October 2016.



CARL MILLINGTON
Partner



PITCHER PARTNERS
Sydney, 31 October 2016

Shoalhaven City Council

SPECIAL SCHEDULES

for the year ended 30 June 2016

*We will work together in the Shoalhaven to foster
a safe and attractive community for people to live, work, stay and play;
where sustainable growth, development and environmental protection
are managed to provide a unique and relaxed lifestyle.*

Shoalhaven
City Council

Shoalhaven City Council

Special Schedules

for the year ended 30 June 2016

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

Background

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

Shoalhaven City Council

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

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,465	5	–	(1,460)
Administration	32,276	2,978	4,667	(24,631)
Public order and safety				
Fire service levy, fire protection, emergency services	2,640	1,195	2,736	1,291
Beach control	353	–	–	(353)
Enforcement of local government regulations	1,247	844	–	(403)
Animal control	587	510	–	(77)
Other	–	–	–	–
Total public order and safety	4,827	2,549	2,736	458
Health	1,553	264	–	(1,289)
Environment				
Noxious plants and insect/vermin control	414	230	–	(184)
Other environmental protection	7,460	1,213	71	(6,176)
Solid waste management	26,748	27,021	–	273
Street cleaning	201	2	–	(199)
Drainage	–	–	37	37
Stormwater management	100	1,087	14	1,001
Total environment	34,923	29,553	122	(5,248)
Community services and education				
Administration and education	496	82	50	(364)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	205	33	12	(160)
Children's services	1,994	1,627	21	(346)
Total community services and education	2,695	1,742	83	(870)
Housing and community amenities				
Public cemeteries	1,258	1,744	–	486
Public conveniences	1,239	–	291	(948)
Street lighting	1,593	243	–	(1,350)
Town planning	1,660	1,384	159	(117)
Other community amenities	–	–	–	–
Total housing and community amenities	5,750	3,371	450	(1,929)
Water supplies	20,297	23,842	1,458	5,003
Sewerage services	21,337	43,191	4,030	25,884

Shoalhaven City Council

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

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	2,289	409	116	(1,764)
Museums	–	–	–	–
Art galleries	391	42	–	(349)
Community centres and halls	3,384	338	667	(2,379)
Performing arts venues	2,787	1,229	–	(1,558)
Other performing arts	–	–	–	–
Other cultural services	133	–	–	(133)
Sporting grounds and venues	55	–	1,490	1,435
Swimming pools	6,724	3,969	50	(2,705)
Parks and gardens (lakes)	6,572	175	261	(6,136)
Other sport and recreation	507	347	76	(84)
Total recreation and culture	22,842	6,509	2,660	(13,673)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	5,703	3,217	–	(2,486)
Other mining, manufacturing and construction	–	–	–	–
Total mining, manufacturing and const.	5,703	3,217	–	(2,486)
Transport and communication				
Urban roads (UR) – local	9,714	2,191	1,860	(5,663)
Urban roads – regional	245	–	–	(245)
Sealed rural roads (SRR) – local	6,730	34	8,430	1,734
Sealed rural roads (SRR) – regional	1,308	371	327	(610)
Unsealed rural roads (URR) – local	4,864	35	45	(4,784)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	481	–	–	(481)
Bridges on SRR – local	880	–	–	(880)
Bridges on URR – local	562	–	–	(562)
Bridges on regional roads	6	–	291	285
Parking areas	113	5	13	(95)
Footpaths	1,299	–	855	(444)
Aerodromes	–	–	–	–
Other transport and communication	4,709	881	1,395	(2,433)
Total transport and communication	30,911	3,517	13,216	(14,178)
Economic affairs				
Camping areas and caravan parks	12,823	20,814	2	7,993
Other economic affairs	6,425	1,597	–	(4,828)
Total economic affairs	19,248	22,411	2	3,165
Totals – functions	203,827	143,149	29,424	(31,254)
General purpose revenues ⁽¹⁾		70,925		70,925
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	203,827	214,074	29,424	39,671

(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

Shoalhaven City Council

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

for the year ended 30 June 2016

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
Loans (by source)											
Commonwealth government	–	–	–	–	–	–	–	–	–	–	–
Treasury corporation	–	–	–	–	–	–	–	–	–	–	–
Other state government	–	–	–	–	–	–	–	–	–	–	–
Public subscription	–	–	–	–	–	–	–	–	–	–	–
Financial institutions	8,798	56,856	65,654	2,458	8,798	–	–	3,731	8,518	50,796	59,314
Other	287	54	341	–	287	–	–	32	28	26	54
Total loans	9,085	56,910	65,995	2,458	9,085	–	–	3,763	8,546	50,822	59,368
Other long term debt											
Ratepayers advances	36	165	201	66	37	–	–	10	37	193	230
Government advances	362	1,399	1,761	7,200	362	–	–	40	1,042	7,557	8,599
Finance leases	–	–	–	–	–	–	–	–	–	–	–
Deferred payments	–	–	–	–	–	–	–	–	–	–	–
Total long term debt	398	1,564	1,962	7,266	399	–	–	50	1,079	7,750	8,829
Total debt	9,483	58,474	67,957	9,724	9,484	–	–	3,813	9,625	58,572	68,197

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

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

Shoalhaven City Council

Special Schedule 2(b) – Statement of Internal Loans [Section 410(3) of the *Local Government Act* 1993]
for the year ended 30 June 2016

\$'000

Summary of internal loans

Borrower (by purpose)	Amount originally raised	Total repaid during the year (principal and interest)	Principal outstanding at end of year
General	5,895	807	2,184
Water	–		
Sewer	12,000	1,247	7,747
Domestic waste management			
Gas			
Other			
Totals	17,895	2,054	9,931

Note: the summary of internal loans (above) represents the total of Council's internal loans categorised according to the borrower.

Details of individual internal loans

Borrower (by purpose)	Lender (by purpose)	Date of minister's approval	Date raised	Term (years)	Dates of maturity	Rate of interest	Amount originally raised	Total repaid during year (princ. and int.)	Principal outstanding at end of year
General fund	Water Fund	11/06/2009	30/06/2009	10	30/06/2019	6.07%	5,895	807	2,184
Sewer fund	Water Fund	11/06/2009	30/06/2009	15	30/06/2024	6.28%	12,000	1,247	7,747
Totals							17,895	2,054	9,931

Shoalhaven City Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	4,628	4,380
b. Engineering and supervision	2,046	1,829
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	203	151
b. Maintenance expenses	8	2
– Mains		
c. Operation expenses	1,201	1,291
d. Maintenance expenses	1,300	1,082
– Reservoirs		
e. Operation expenses	211	169
f. Maintenance expenses	75	99
– Pumping stations		
g. Operation expenses (excluding energy costs)	179	118
h. Energy costs	701	788
i. Maintenance expenses	123	109
– Treatment		
j. Operation expenses (excluding chemical costs)	1,070	1,092
k. Chemical costs	578	611
l. Maintenance expenses	395	405
– Other		
m. Operation expenses	444	968
n. Maintenance expenses	–	–
o. Purchase of water	17	15
3. Depreciation expenses		
a. System assets	7,108	7,365
b. Plant and equipment	363	365
4. Miscellaneous expenses		
a. Interest expenses	10	22
b. Revaluation decrements	–	–
c. Other expenses	–	–
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	100	100
5. Total expenses	20,760	20,961

Shoalhaven City Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges		
a. Access (including rates)	3,387	3,401
b. Usage charges	10,548	9,684
7. Non-residential charges		
a. Access (including rates)	703	691
b. Usage charges	5,319	5,485
8. Extra charges	–	–
9. Interest income	2,023	2,300
10. Other income	3,022	3,215
10a. Aboriginal Communities Water and Sewerage Program	–	–
11. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	527	532
c. Other grants	–	28
12. Contributions		
a. Developer charges	1,458	1,183
b. Developer provided assets	–	–
c. Other contributions	–	2,583
13. Total income	26,987	29,102
14. Gain (or loss) on disposal of assets	(206)	(793)
15. Operating result	6,021	7,348
15a. Operating result (less grants for acquisition of assets)	6,021	7,348

Shoalhaven City Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	3,628	6,038
b. New assets for growth	25	6
c. Renewals	7,539	2,470
d. Plant and equipment	2,044	1,761
17. Repayment of debt	167	270
18. Totals	13,403	10,545
Non-operating funds employed		
19. Proceeds from disposal of assets	2,004	644
20. Borrowing utilised	–	–
21. Totals	2,004	644
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	46,108	45,776
b. Residential (unoccupied, ie. vacant lot)	1,640	1,760
c. Non-residential (occupied)	3,679	3,714
d. Non-residential (unoccupied, ie. vacant lot)	186	186
23. Number of ETs for which developer charges were received	222 ET	179 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 957,524	\$ 976,228

Shoalhaven City Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	10,689	3,180	13,869
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	19,995	5,949	25,944
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	370	195	565
c. User charges	1,721	611	2,332
d. Other	2,481	8,474	10,955
27. Inventories	743	–	743
28. Property, plant and equipment			
a. System assets	–	364,142	364,142
b. Plant and equipment	–	5,775	5,775
29. Other assets	8	–	8
30. Total assets	36,007	388,326	424,333
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	1,182	–	1,182
33. Borrowings	6	–	6
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	1,188	–	1,188
36. NET ASSETS COMMITTED	34,819	388,326	423,145
EQUITY			
37. Accumulated surplus			209,313
38. Asset revaluation reserve			213,832
39. TOTAL EQUITY			423,145
Note to system assets:			
40. Current replacement cost of system assets			637,523
41. Accumulated current cost depreciation of system assets			(273,381)
42. Written down current cost of system assets			364,142

Shoalhaven City Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	5,046	6,145
b. Engineering and supervision	2,046	1,829
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	1,903	1,830
b. Maintenance expenses	264	315
– Pumping stations		
c. Operation expenses (excluding energy costs)	2,038	1,991
d. Energy costs	693	657
e. Maintenance expenses	902	1,062
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	2,779	2,942
g. Chemical costs	266	276
h. Energy costs	648	667
i. Effluent management	85	107
j. Biosolids management	640	600
k. Maintenance expenses	881	1,020
– Other		
l. Operation expenses	1,389	1,602
m. Maintenance expenses	78	15
3. Depreciation expenses		
a. System assets	8,957	7,208
b. Plant and equipment	541	491
4. Miscellaneous expenses		
a. Interest expenses	2,389	2,700
b. Revaluation decrements	–	–
c. Other expenses	139	97
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	142	142
5. Total expenses	31,826	31,696

Shoalhaven City Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges (including rates)	33,490	32,606
7. Non-residential charges		
a. Access (including rates)	3,581	3,424
b. Usage charges	2,000	1,687
8. Trade waste charges		
a. Annual fees	55	52
b. Usage charges	307	283
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	1,242	1,123
10. Interest income	990	577
11. Other income	782	1,588
11a. Aboriginal Communities Water and Sewerage Program	–	–
12. Grants		
a. Grants for acquisition of assets	2,288	8,502
b. Grants for pensioner rebates	524	521
c. Other grants	1	48
13. Contributions		
a. Developer charges	1,737	1,425
b. Developer provided assets	–	–
c. Other contributions	1,472	3,990
14. Total income	48,469	55,826
15. Gain (or loss) on disposal of assets	399	(2,177)
16. Operating result	17,042	21,953
16a. Operating result (less grants for acquisition of assets)	14,754	13,451

Shoalhaven City Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	2,630	8,125
b. New assets for growth	859	2,575
c. Renewals	3,962	886
d. Plant and equipment	1,020	768
18. Repayment of debt	4,530	4,886
19. Totals	13,001	17,240
Non-operating funds employed		
20. Proceeds from disposal of assets	614	205
21. Borrowing utilised	–	–
22. Totals	614	205
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	44,691	42,619
b. Residential (unoccupied, ie. vacant lot)	1,466	1,760
c. Non-residential (occupied)	3,702	2,691
d. Non-residential (unoccupied, ie. vacant lot)	186	182
24. Number of ETs for which developer charges were received	265 ET	171 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 954,076	\$ 947,749

Shoalhaven City Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	20,519	6,105	26,624
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	2,850	1,699	4,549
c. User charges	224	51	275
d. Other	1,531	–	1,531
28. Inventories	–	–	–
29. Property, plant and equipment			
a. System assets	–	469,092	469,092
b. Plant and equipment	–	4,868	4,868
30. Other assets	–	–	–
31. Total assets	<u>25,124</u>	<u>481,815</u>	<u>506,939</u>
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	1,035	–	1,035
34. Borrowings	4,729	28,916	33,645
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	<u>5,764</u>	<u>28,916</u>	<u>34,680</u>
37. NET ASSETS COMMITTED	<u>19,360</u>	<u>452,899</u>	<u>472,259</u>
EQUITY			
38. Accumulated surplus			343,953
39. Asset revaluation reserve			128,306
40. TOTAL EQUITY			<u>472,259</u>
Note to system assets:			
41. Current replacement cost of system assets			715,818
42. Accumulated current cost depreciation of system assets			(246,726)
43. Written down current cost of system assets			<u>469,092</u>

Shoalhaven City Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2016

Administration ⁽¹⁾

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

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

Engineering and supervision ⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016

\$'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	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings	5,057	8,091	6,500	5,698	199,201	404,574	15.0%	49.0%	33.0%	1.0%	2.0%
Other Structures	Other Structures	883	353	400	298	18,608	35,301	27.0%	46.0%	18.0%	8.0%	1.0%
Roads	Sealed roads	13,784	6,892	5,900	5,294	468,881	689,177	37.0%	29.0%	27.0%	6.0%	1.0%
	Unsealed roads	929	0	1,500	1,333	5,055	9,777	40.0%	30.0%	22.0%	8.0%	0.0%
	Bridges	1,937	969	300	193	63,702	96,860	30.0%	30.0%	33.0%	6.0%	1.0%
	Footpaths	975	650	388	208	45,763	64,981	22.0%	42.0%	31.0%	4.0%	1.0%
	Bulk earthworks	511	1,022	150	–	102,167	102,167	99.0%				1.0%
	Other	4,828	3,219	3,467	3,102	220,124	321,853	20.0%	50.0%	25.0%	4.0%	1.0%
	Sub-total	22,963	12,750	11,705	10,130	905,692	1,284,815	36.4%	32.7%	25.0%	4.9%	1.0%
Water supply network	Water Supply Network	–	–	9,200	8,551	352,686	625,727	60.0%	40.0%	0.0%	0.0%	0.0%
Sewerage network	Sewerage Network	–	–	14,990	14,612	444,750	690,638	94.0%	6.0%	0.0%	0.0%	0.0%

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (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	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater Drainage	Stormwater drainage	3,220	1,840	2,500	1,204	106,328	183,978	42.0%	26.0%	26.0%	5.0%	1.0%
Open space/recreational assets	Swimming pools	–	–	1,470	1,040	10,313	22,519	31.0%	44.0%	25.0%	0.0%	0.0%
	Other open space / Recreational Assets	866	1,039	150	102	18,291	34,642	22.0%	46.0%	25.0%	4.0%	3.0%
	Sub-total	866	1,039	1,620	1,142	28,604	57,161	25.5%	45.2%	25.0%	2.4%	1.8%
Other infrastructure assets	Other infrastructure assets	4,635	6,741	4,900	3,858	41,258	84,266	15.0%	32.0%	39.0%	6.0%	8.0%
	TOTAL – ALL ASSETS	37,623	30,815	51,815	45,493	2,097,127	3,366,460	49.5%	30.5%	16.5%	2.6%	0.9%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2016

\$ '000	Amounts	Indicator	Prior periods	
	2016	2016	2015	2014
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	<u>29,169</u>	59.36%	55.50%	56.51%
Depreciation, amortisation and impairment	<u>49,138</u>			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	<u>37,623</u>	1.89%	1.59%	2.24%
Carrying value of infrastructure assets	<u>1,995,622</u>			
3. Asset maintenance ratio				
Actual asset maintenance	<u>45,493</u>	0.88	0.90	0.83
Required asset maintenance	<u>51,815</u>			

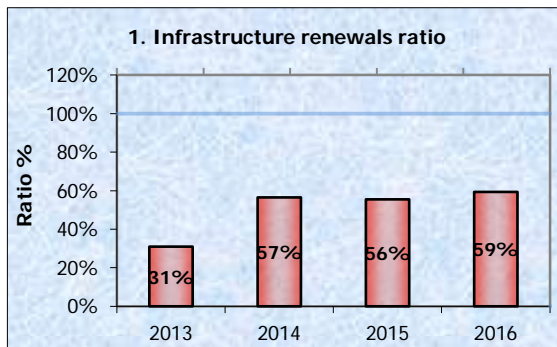
Notes

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

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

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2016



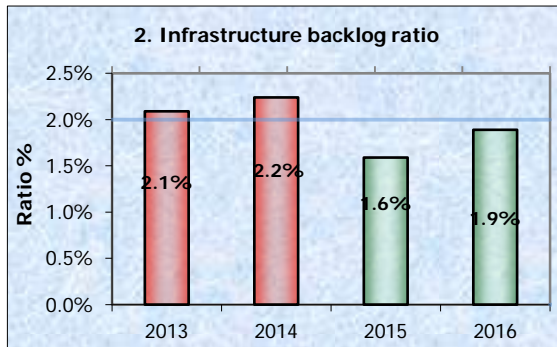
Purpose of asset renewals ratio

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

Commentary on 2015/16 result	
2015/16 Ratio	59.36%
Council is committed to asset renewal and this ratio is expected to improve in future years as Council will further allocate resources towards maintaining the service levels of existing assets.	

Benchmark: ——— Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark
■ Ratio is outside benchmark



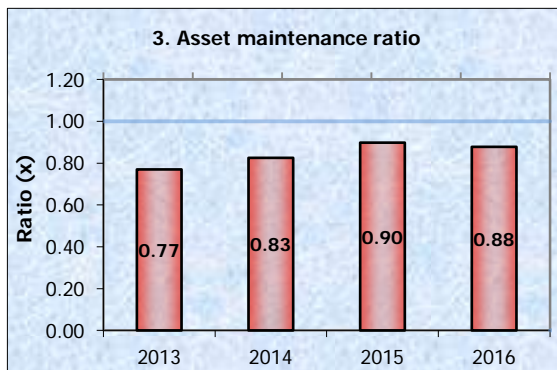
Purpose of infrastructure backlog ratio

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

Commentary on 2015/16 result	
2015/16 Ratio	1.89%
Council's Infrastructure Backlog Ratio has been steady throughout the last four years with a slight increase in 2015/16. Council is continuing to focus on appropriate asset standards for renewal and maintenance.	

Benchmark: ——— Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2015/16 result	
2015/16 Ratio	0.88 x
Council's Asset Maintenance Ratio of 0.88x is lower than the benchmark ratio of 1.00x, which indicates that the level of expenditure on the maintenance of infrastructure assets is not sufficient to prevent the infrastructure backlog from growing.	

Benchmark: ——— Minimum > 1.00
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark
■ Ratio is outside benchmark

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2016

\$ '000	Water 2016	Sewer 2016	General ⁽¹⁾ 2016
Infrastructure asset performance indicators by fund			
1. Infrastructure renewals ratio			
<u>Asset renewals ⁽²⁾</u>	110.45%	44.18%	52.99%
Depreciation, amortisation and impairment			
prior period:	42.24%	22.06%	65.42%
2. Infrastructure backlog ratio			
<u>Estimated cost to bring assets to a satisfactory standard</u>	0.00%	0.00%	3.14%
Carrying value of infrastructure assets			
prior period:	0.00%	0.00%	2.61%
3. Asset maintenance ratio			
<u>Actual asset maintenance</u>	0.93	0.97	0.81
Required asset maintenance			
prior period:	1.00	0.90	0.87

Notes

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

Shoalhaven City Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	56,717	59,001
Plus or minus adjustments ⁽²⁾	b	189	343
Notional general income	c = (a + b)	56,906	59,344
Permissible income calculation			
Special variation percentage ⁽³⁾	d	3.89%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	(34)	–
Plus special variation amount	h = d x (c – g)	2,212	–
Or plus rate peg amount	i = c x e	–	1,068
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
Sub-total	k = (c + g + h + i + j)	59,084	60,412
Plus (or minus) last year's carry forward total	l	101	196
Less valuation objections claimed in the previous year	m	–	(20)
Sub-total	n = (l + m)	101	176
Total permissible income	o = k + n	59,185	60,588
Less notional general income yield	p	59,001	60,542
Catch-up or (excess) result	q = o – p	184	46
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	20	6
Less unused catch-up ⁽⁵⁾	s	(8)	–
Carry forward to next year	t = q + r – s	196	52

Notes

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

SHOALHAVEN CITY COUNCIL

Special Schedule No. 8

Independent Auditors' Report to the Council for the Year ended 30 June 2017

Report on Special Schedule No. 8

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Shoalhaven City Council for the year ending 30 June 2017.

Responsibility of Council for Special Schedule No. 8

The Council is responsible for the preparation and fair presentation of Special Schedule No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 24. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

Our responsibility is to express an opinion on Special Schedule No. 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No. 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 8.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

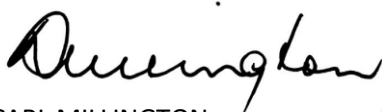
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

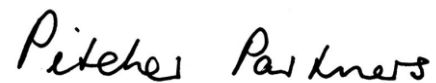
In our opinion, Special Schedule No. 8 of Shoalhaven City Council for the year ending 30 June 2017 is properly drawn up in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

Basis of Accounting

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income for the year ending 30 June 2017 is presented fairly. As a result, the schedule may not be suitable for another purpose.



CARL MILLINGTON
Partner



PITCHER PARTNERS
Sydney, 31 October 2016