



KIAMA
MUNICIPAL
COUNCIL

Annual Financial Statements 2015-16

Kiama Municipal Council

General Purpose Financial Statements

for the year ended 30 June 2016

Contents	Page
1. Understanding Council's Financial Statements	2
2. Statement by Councillors and Management	3
3. Primary Financial Statements:	
– Income Statement	4
– Statement of Comprehensive Income	5
– Statement of Financial Position	6
– Statement of Changes in Equity	7
– Statement of Cash Flows	8
4. Notes to the Financial Statements	9
5. Independent Auditor's Reports:	
– On the Financial Statements (Sect 417 [2])	91
– On the Conduct of the Audit (Sect 417 [3])	93

Overview

- (i) These financial statements are General Purpose Financial Statements and cover the operations for Kiama Municipal Council.
- (ii) Kiama Municipal 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.
-

Kiama Municipal 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.

More information

A review of Council's financial performance and position for the 15/16 financial year can be found at Note 29 of the financial statements.

Kiama Municipal Council

General Purpose Financial Statements for the year ended 30 June 2016

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

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

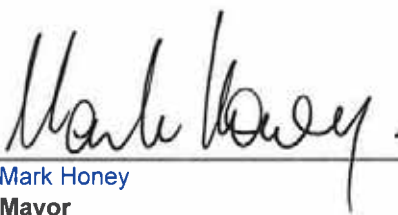
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

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

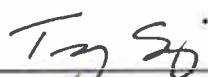
We are not aware of any matter that would render these statements false or misleading in any way.

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



Mark Honey
Mayor

Katherine Ryan
Councillor

Michael Forsyth
General manager

Tracy Sugar
Responsible accounting officer

Kiama Municipal Council

Income Statement

for the year ended 30 June 2016

Budget ¹ 2016 \$ '000		Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
18,882	Rates and annual charges	3a	18,808	18,354
14,996	User charges and fees	3b	17,376	15,982
1,155	Interest and investment revenue	3c	1,677	1,215
1,593	Other revenues	3d	3,435	4,820
9,426	Grants and contributions provided for operating purposes	3e,f	12,883	9,757
767	Grants and contributions provided for capital purposes	3e,f	14,334	1,558
Other income:				
3,967	Net gains from the disposal of assets	5	–	220
50,786	Total income from continuing operations		68,513	51,906
Expenses from continuing operations				
21,965	Employee benefits and on-costs	4a	24,813	23,001
308	Borrowing costs	4b	1	367
16,849	Materials and contracts	4c	17,172	16,509
8,960	Depreciation and amortisation	4d	6,820	8,807
–	Impairment	4d	–	–
3,526	Other expenses	4e	3,232	3,212
–	Net losses from the disposal of assets	5	1,094	–
–	Net share of interests in joint ventures and associates using the equity method	19	45	28
51,608	Total expenses from continuing operations		53,177	51,924
(822)	Operating result from continuing operations		15,336	(18)
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
(822)	Net operating result for the year		15,336	(18)
(822)	Net operating result attributable to Council		15,336	(18)
–	Net operating result attributable to non-controlling interests		–	–
(1,589)	Net operating result for the year before grants and contributions provided for capital purposes		1,002	(1,576)

¹ Original budget as approved by Council – refer Note 16

Kiama Municipal 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)		15,336	(18)
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	16,582	24,643
Total items which will not be reclassified subsequently to the operating result		16,582	24,643
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		16,582	24,643
Total comprehensive income for the year		31,918	24,625
Total comprehensive income attributable to Council		31,918	24,625
Total comprehensive income attributable to non-controlling interests		—	—

Kiama Municipal Council

Statement of Financial Position as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
ASSETS			
Current assets			
Cash and cash equivalents	6a	418	2,981
Investments	6b	35,995	35,425
Receivables	7	2,602	3,107
Inventories	8	227	409
Other	8	58	78
Non-current assets classified as 'held for sale'	22	3,729	3,620
Total current assets		43,028	45,620
Non-current assets			
Investments	6b	—	—
Receivables	7	552	442
Inventories	8	—	—
Infrastructure, property, plant and equipment	9	337,980	306,811
Investments accounted for using the equity method	19	109	154
Investment property	14	78,075	77,092
Intangible assets	25	2,400	2,400
Total non-current assets		419,116	386,899
TOTAL ASSETS		462,144	432,519
LIABILITIES			
Current liabilities			
Payables	10	64,838	65,451
Borrowings	10	843	1,693
Provisions	10	6,391	6,510
Total current liabilities		72,072	73,654
Non-current liabilities			
Payables	10	—	—
Borrowings	10	3,789	4,633
Provisions	10	134	—
Total non-current liabilities		3,923	4,633
TOTAL LIABILITIES		75,995	78,287
Net assets		386,150	354,232
EQUITY			
Retained earnings	20	160,150	144,814
Revaluation reserves	20	226,000	209,418
Council equity interest		386,150	354,232
Non-controlling equity interests		—	—
Total equity		386,150	354,232

Kiama Municipal 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)		144,814	209,418	354,232	—	354,232
a. Correction of prior period errors	20 (c)	—	—	—	—	—
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—
Revised opening balance (as at 1/7/15)		144,814	209,418	354,232	—	354,232
c. Net operating result for the year		15,336	—	15,336	—	15,336
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	16,582	16,582	—	16,582
– Revaluations: other reserves	20b (ii)	—	—	—	—	—
– Transfers to Income Statement	20b (ii)	—	—	—	—	—
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—	—	—	—
– Joint ventures and associates	19b	—	—	—	—	—
Other comprehensive income		—	16,582	16,582	—	16,582
Total comprehensive income (c&d)		15,336	16,582	31,918	—	31,918
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
Equity – balance at end of the reporting period		160,150	226,000	386,150	—	386,150

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity
2015						
Opening balance (as per last year's audited accounts)		144,832	184,775	329,607	—	329,607
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)		144,832	184,775	329,607	—	329,607
c. Net operating result for the year		(18)	—	(18)	—	(18)
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	24,643	24,643	—	24,643
– Revaluations: other reserves	20b (ii)	—	—	—	—	—
– Transfers to Income Statement	20b (ii)	—	—	—	—	—
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—	—	—	—
– Joint ventures and associates	19b	—	—	—	—	—
Other comprehensive income		—	24,643	24,643	—	24,643
Total comprehensive income (c&d)		(18)	24,643	24,625	—	24,625
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
Equity – balance at end of the reporting period		144,814	209,418	354,232	—	354,232

Kiama Municipal 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:				
18,871	Rates and annual charges		18,726	18,424
14,998	User charges and fees		17,998	17,352
1,153	Investment and interest revenue received		2,471	1,343
10,216	Grants and contributions		27,586	11,635
–	Bonds, deposits and retention amounts received		14	320
900	Other		4,335	4,752
Payments:				
(21,965)	Employee benefits and on-costs		(24,882)	(22,498)
(16,987)	Materials and contracts		(19,697)	(19,031)
(308)	Borrowing costs		(1)	(367)
(3,490)	Other		(4,201)	(1,718)
3,388	Net cash provided (or used in) operating activities	11b	22,349	10,212
Cash flows from investing activities				
Receipts:				
8,517	Sale of investment securities		35,425	34,196
–	Sale of real estate assets		285	263
6,387	Sale of infrastructure, property, plant and equipment		749	649
Payments:				
–	Purchase of investment securities		(35,995)	(35,425)
–	Purchase of investment property		(236)	–
(16,385)	Purchase of infrastructure, property, plant and equipment		(23,434)	(9,441)
–	Purchase of real estate assets		(13)	(32)
–	Contributions paid to joint ventures and associates		–	(1)
(1,481)	Net cash provided (or used in) investing activities		(23,219)	(9,791)
Cash flows from financing activities				
Receipts:				
Nil				
Payments:				
(1,692)	Repayment of borrowings and advances		(1,694)	(961)
(1,692)	Net cash flow provided (used in) financing activities		(1,694)	(961)
215	Net increase/(decrease) in cash and cash equivalents		(2,563)	(540)
546	Plus: cash and cash equivalents – beginning of year	11a	2,981	3,521
761	Cash and cash equivalents – end of the year	11a	418	2,981
Additional Information:				
plus:	Investments on hand – end of year	6b	35,995	35,425
Total cash, cash equivalents and investments			36,412	38,406

Please refer to Note 11 for additional cash flow information

Kiama Municipal Council

Notes to the 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	10
2(a)	Council functions/activities – financial information	28
2(b)	Council functions/activities – component descriptions	29
3	Income from continuing operations	30
4	Expenses from continuing operations	35
5	Gains or losses from the disposal of assets	38
6(a)	Cash and cash equivalent assets	39
6(b)	Investments	39
6(c)	Restricted cash, cash equivalents and investments – details	40
7	Receivables	42
8	Inventories and other assets	43
9(a)	Infrastructure, property, plant and equipment	44
9(b)	Externally restricted infrastructure, property, plant and equipment	45
9(c)	Infrastructure, property, plant and equipment – current year impairments	45 n/a
10(a)	Payables, borrowings and provisions	46
10(b)	Description of (and movements in) provisions	47
11	Statement of cash flows – additional information	48
12	Commitments for expenditure	50
13	Statement of performance measures:	
13a (i)	Local government industry indicators (consolidated)	51
13a (ii)	Local government industry graphs (consolidated)	52
14	Investment properties	54
15	Financial risk management	55
16	Material budget variations	59
17	Statement of developer contributions	61
18	Contingencies and other liabilities/assets not recognised	65
19	Interests in other entities	67
20	Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	72
21	Financial result and financial position by fund	73 n/a
22	'Held for sale' non-current assets and disposal groups	74
23	Events occurring after the reporting date	75 n/a
24	Discontinued operations	75 n/a
25	Intangible assets	76
26	Reinstatement, rehabilitation and restoration liabilities	76 n/a
27	Fair value measurement	77
Additional council disclosures		
28	Segment reporting	87
29	Financial review	89
30	Council information and contact details	90

n/a – not applicable

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies

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

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

(a) Basis of preparation

(i) Background

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

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

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

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

Because AASBs are sector neutral, some standards either:

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

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

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

(iii) New and amended standards adopted by Council

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

(iv) Early adoption of accounting standards

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

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

(v) Basis of accounting

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

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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

(vii) Critical accounting estimates

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

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

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

(b) Revenue recognition

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

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

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

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

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

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

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

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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

User charges, fees and other income

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

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

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

Sale of infrastructure, property, plant and equipment

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

Interest and rents

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

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

Dividend income

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

Other Income

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

(c) Principles of consolidation

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

(i) The Consolidated Fund

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

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

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

- General purpose operations
- Waste business unit
- Kiama Coast Holiday Parks
- Blue Haven Retirement Village
- Kiama Leisure Centre

(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.

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

Kiama Municipal 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 held by Council but not subject to the control of Council have been excluded from these statements.

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

(iii) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

Council has no interest in any joint arrangements.

Joint ventures

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

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

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

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

Associates

Council has no interest in any associates.

County councils

Council is not a member of any county councils.

Unconsolidated structured entities

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.

Detailed information relating to Council's interest in unconsolidated structured entities can be found at Note 19 (d).

(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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(e) Cash and Cash Equivalents

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

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

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

(f) Investments and other financial assets

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

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

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

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

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

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

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

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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

Financial assets – reclassification

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

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

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

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

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

General accounting and measurement of financial instruments:

(i) Initial recognition

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

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

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

(ii) Subsequent measurement

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

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

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

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

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

Impairment

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

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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(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.

(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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

uncollectible in a subsequent period, it is written off against the allowance account.

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

(i) Inventories

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

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

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

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

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

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

(ii) Inventory held for distribution

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

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

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

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

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

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

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

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

Acquisition of assets

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

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

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

Kiama Municipal Council

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

Note 1. Summary of significant accounting policies (continued)

- **Other assets**
(as approximated by depreciated historical cost)

- **Investment properties** – refer Note 1(p),

Initial recognition

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

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

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

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

Subsequent costs

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

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

Asset revaluations (including indexation)

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

- increases in the combined carrying amounts of asset classes arising on revaluation are credited to the asset revaluation reserve,
- to the extent that a net asset class increase reverses a decrease previously recognised via

the profit or loss, then increase is first recognised in profit or loss,

- net decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset, with all other decreases charged to the Income Statement.

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

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

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

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

Capitalisation thresholds

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

Land

- Council land	100% capitalised
- Open space	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	> \$1,000

Buildings and land improvements

Park furniture and equipment	> \$1,000
------------------------------	-----------

Building

- Construction/extensions	100% capitalised
- Renovations	> \$5,000

Other structures	> \$2,000
------------------	-----------

Stormwater assets

Drains and culverts	> \$5,000
---------------------	-----------

Kiama Municipal Council

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

Note 1. Summary of significant accounting policies (continued)

Other	> \$5,000
Transport assets	
Road construction and reconstruction	> \$5,000
Reseal/re-sheet and major repairs	> \$5,000
Bridge construction and reconstruction	> \$5,000
Other infrastructure assets	
Swimming pools	> \$5,000
Other open space/recreational assets	> \$5,000
Other infrastructure	> \$5,000

- Bridge: other	55 years
Other infrastructure assets	
- Bulk earthworks	Infinite
- Swimming pools	50 to 100 years
- Other open space/ recreational assets	15 to 95 years
- Other infrastructure	15 to 95 years

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

Depreciation

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight-line method 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	5 to 10 years
- Office furniture	10 to 20 years
- Vehicles/road making equipment	5 to 8 years
- Other plant and equipment	5 to 15 years

Other equipment

- Playground equipment	10 to 15 years
- Benches, seats etc.	10 to 25 years

Buildings

- Buildings: masonry	50 to 100 years
- Buildings: other	20 to 40 years

Stormwater assets

- Drains	120 years
- Culverts	100 years
- Flood control structures	20 to 120 years

Transportation assets

- Sealed roads: surface (spray)	12 years
- Sealed roads: surface (AC)	25 years
- Sealed roads: structure	80 to 100 years
- Unsealed roads	20 years
- Bridge: concrete	100 years

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.

Kiama Municipal Council

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

Note 1. Summary of significant accounting policies (continued)

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 owns and operates Blue Haven Retirement Village which includes independent living units, a nursing home and hostel. Bed licences are granted by the Federal Department of Health & Ageing in perpetuity and their useful life is considered to be indefinite. As a result, licences are not amortised but are subject to an annual impairment assessment.

The licences issued by the Department of Health & Ageing are issued for no consideration and are recognised in Council's books at fair value, if and only if, it is probable that the future economic benefits attributable to the bed licences will flow to Council and the fair value of bed licences can be measured reliably – refer note 25.

(n) Crown reserves

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

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

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

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

(o) Rural fire service assets

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

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

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

(p) Investment property

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

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

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

Full revaluations are carried out every 3 years with an appropriate index utilised each year in between the full revaluations.

The last full revaluation for 3 of Council's Investment Properties was dated 30/06/2015. The last full revaluation for Blue Haven Retirement Village was dated 30/06/2014.

(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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

Costs are estimated on the basis of a closure plan.

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

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

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

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

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

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

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

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

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

These costs are charged to the Income Statement.

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

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

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

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

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

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

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

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

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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

(s) Impairment of assets

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

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

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

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

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

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

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

(t) Payables

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

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

(u) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

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

(v) Borrowing costs

Borrowing costs are expensed, 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

Kiama Municipal 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.

Kiama Municipal 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 24/02/2016 and covers the period ended 30/6/2015.

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 \$ 490,364.01.

The amount of additional contributions included in the total employer contribution advised above is \$231,114.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$457,820.47 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

Kiama Municipal 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 does not self-insure.

(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.

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.

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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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 nor 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 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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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).

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

The amendments address an acknowledged inconsistency between the requirements in AASB 10 and those in AASB 128 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

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

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

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

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

(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) Refundable Residential Aged Care Accommodation Bonds

Incoming residents entering Council's low care facility may be required to pay an accommodation bond for the purpose of occupancy of units which may be for a number of years. Bonds are non-interest bearing.

Departing residents accommodation bonds become payable by Council on departure of the resident. As the Council does not have an unconditional right to defer refunds to residents for 12 months, the total resident obligation is disclosed as a current liability. This is also in line with industry practice in accounting for retirement villages. The liability is a measure of the amount that would be payable in the departure of the resident.

(af) Retirement Village Loan Licence Agreements

Incoming residents entering Council's Independent living units are required to pay a licence fee to Council for the right to occupy the unit. The loans are non-interest bearing.

Departing residents loans become payable by the Council on departure of the resident. As the Council does not have unconditional right to defer repayment of loans to residents for 12 months, the total resident loan obligation is disclosed as a current liability. This is also in line with industry practice in accounting for retirement villages. The liability is measured at the amount that would be payable on the departure of the resident.

(ag) Disclaimer

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

Kiama Municipal 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	
	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Governance	–	–	–	1,236	1,236	1,186	(1,236)	(1,236)	(1,186)	–	–
Corporate Services	822	3,513	2,758	7,430	9,006	7,465	(6,608)	(5,493)	(4,707)	1,702	25
Community Services	3,643	5,968	4,091	5,095	7,068	5,193	(1,452)	(1,100)	(1,102)	3,473	3,361
Environmental Services	5,518	5,767	5,923	4,504	4,162	3,906	1,014	1,605	2,017	51	123
Engineering & Works	6,865	15,780	2,529	16,500	15,295	16,832	(9,635)	485	(14,303)	1,559	827
Commercial Activities	17,163	20,048	20,216	16,843	16,365	17,314	320	3,683	2,902	3,371	3,132
Total functions and activities	34,011	51,076	35,517	51,608	53,132	51,896	(17,597)	(2,056)	(16,379)	10,156	7,468
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	45	28	–	(45)	(28)	–	–
General purpose income ¹	16,775	17,437	16,389	–	–	–	16,775	17,437	16,389	1,667	1,660
Operating result from continuing operations	50,786	68,513	51,906	51,608	53,177	51,924	(822)	15,336	(18)	11,823	9,128
										462,035	432,365
										462,144	432,519

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

Kiama Municipal Council

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

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

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

GOVERNANCE

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

CORPORATE SERVICES

Corporate and other support, members services, risk management, tourism.

COMMUNITY SERVICES

Administration, community centre, youth services, aged and disabled, home nursing, family history centre, public libraries other community services.

ENVIRONMENTAL SERVICES

Administration, property maintenance, animal control, beach control, enforcement of local government regulations, food control, building control, waste management, public conveniences, public halls, immunisation, town planning, environmental protection.

ENGINEERING & WORKS

Urban roads, sealed rural roads, unsealed rural roads, bridges, footpaths, parking areas, bus shelters, fire protection, RTA works, street lighting, emergency services, street cleaning, public cemeteries, swimming pools, sporting grounds, parks & gardens, private works, stormwater drainage, engineering support services.

COMMERCIAL ACTIVITIES

Caravan parks, real estate development, indoor sports complex, retirement village & waste unit.

Kiama Municipal 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		12,538	11,950
Farmland		559	651
Business		1,104	1,025
Total ordinary rates		14,201	13,626
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		4,378	4,504
Waste management services (non-domestic)		229	224
Total annual charges		4,607	4,728
TOTAL RATES AND ANNUAL CHARGES		18,808	18,354

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Kiama Municipal 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)			
Waste management services (non-domestic)		1,446	1,030
Total user charges		1,446	1,030
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building services – other		127	171
Inspection services		26	15
Planning and building regulation		557	485
Private works – section 67		–	5
Registration fees		53	34
Section 603 certificates		52	45
Total fees and charges – statutory/regulatory		815	755
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Blue Haven aged care		2,916	2,655
Council properties		524	514
Engineering services		138	140
Holiday parks		8,425	8,105
Blue Haven Care - In Home Support Packages		378	159
Leisure centre		1,743	1,752
Library and family history centre		91	86
Public cemeteries		289	253
Saddleback mountain tower		85	77
Sundry sales		1	–
Waste disposal tipping fees		106	106
Other		419	350
Total fees and charges – other		15,115	14,197
TOTAL USER CHARGES AND FEES		17,376	15,982

Kiama Municipal 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)		17	35
– Interest earned on investments (interest and coupon payment income)		1,660	1,313
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		–	(133)
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>1,677</u>	<u>1,215</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		17	35
General Council cash and investments		1,552	1,068
Restricted investments/funds – external:			
Development contributions			
– Section 94		108	112
<u>Total interest and investment revenue recognised</u>		<u>1,677</u>	<u>1,215</u>
(d) Other revenues			
Fair value increments – investment properties	14	747	961
Rental income – investment properties	14	73	71
Rental income – other council properties		137	122
Fines – parking		62	37
Fines – other		21	26
Legal fees recovery – rates and charges (extra charges)		67	–
Admin sundry income		35	88
Deferred payment liabilities amortisation		1,382	2,636
Diesel fuel rebate		43	30
Domestic Waste Management		35	–
Engineering income		81	5
Insurance claim recoveries		–	45
Motor vehicle leaseback		245	221
Recycling income (non-domestic)		5	23
Section 88 rebate		87	87
Workers comp. refund		36	80
Other		379	388
<u>TOTAL OTHER REVENUE</u>		<u>3,435</u>	<u>4,820</u>

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(e) Grants				
General purpose (untied)				
Financial assistance	1,420	1,421	—	—
Pensioners' rates subsidies – general component	247	239	—	—
Total general purpose	1,667	1,660	—	—
Specific purpose				
Blue Haven Care - In Home Support Packages	1,692	1,425	—	—
Blue Haven retirement village	3,290	3,125	—	—
Bushfire and emergency services	135	144	—	—
Centre based day care	45	54	—	—
Community transport	260	253	—	—
Community options program	160	503	—	—
Cultural development	57	56	—	—
Dementia friendly community program	8	50	—	—
Domestic assistance	489	380	—	—
Environmental protection	—	88	—	48
Home maintenance	166	163	—	—
Kiama harbour redevelopment	—	—	50	—
Library	124	63	—	—
LIRS subsidy	129	139	—	—
Organics and recycling	—	37	—	—
Personal care	46	17	—	—
Regional Carer Respite Centre	1,601	—	—	—
Reserve improvements	—	—	67	78
Respite service	130	110	—	—
Restart - Infrastructure	—	—	92	—
Road safety program	19	24	—	—
Social support	193	152	—	—
Street lighting	44	43	—	—
Traffic facilities/black spot program	—	—	636	163
Trainees	10	2	—	—
Transport	—	—	—	35
Transport (roads to recovery)	607	212	—	—
Other	106	74	—	30
Total specific purpose	9,311	7,114	845	354
Total grants	10,978	8,774	845	354
Grant revenue is attributable to:				
– Commonwealth funding	4,554	4,762	686	163
– State funding	4,663	4,012	159	78
– Other funding	1,761	—	—	113
	10,978	8,774	845	354

Kiama Municipal 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	–	–	1,332	1,114
Total developer contributions	–	–	1,332	1,114
Other contributions:				
Admin support	33	97	–	–
Community bus	89	58	–	–
Community options program	30	–	–	–
Discoveries	–	–	6,328	–
Foxground rural fire service	–	–	24	90
Insurance	81	66	–	–
Recreation and culture	–	14	–	–
Regional Carer Respite Centre	1,021	–	–	–
Roads and bridges	20	19	–	–
RMS contributions (regional roads, block grant)	610	590	5,805	–
Security bonds – elambra estate	–	118	–	–
Other	21	21	–	–
Total other contributions	1,905	983	12,157	90
Total contributions	1,905	983	13,489	1,204
TOTAL GRANTS AND CONTRIBUTIONS	12,883	9,757	14,334	1,558

\$ '000	Actual 2016	Actual 2015
---------	----------------	----------------

(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	4,535	4,336
Add: grants and contributions recognised in the current period but not yet spent:	1,691	1,975
Less: grants and contributions recognised in a previous reporting period now spent:	(1,621)	(1,776)

Net increase (decrease) in restricted assets during the period **70** **199**

Unexpended and held as restricted assets **4,605** **4,535**

Comprising:

– Specific purpose unexpended grants	390	1,025
– Developer contributions	4,215	3,510
	4,605	4,535

Kiama Municipal 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		19,689	18,208
Travel expenses		1	2
Employee leave entitlements (ELE)		2,393	2,375
Superannuation		2,222	2,062
Workers' compensation insurance		833	602
Fringe benefit tax (FBT)		32	79
Training costs (other than salaries and wages)		125	113
Other		35	47
Total employee costs		25,330	23,488
Less: capitalised costs		(517)	(487)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>		<u>24,813</u>	<u>23,001</u>
Number of 'full-time equivalent' employees (FTE) at year end		270	338
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		233	294
Interest on advances		58	73
Other debts		1	–
Total interest bearing liability costs		292	367
Less: capitalised costs		(291)	–
Total interest bearing liability costs expensed		1	367
(ii) Other borrowing costs			
Nil			
<u>TOTAL BORROWING COSTS EXPENSED</u>		<u>1</u>	<u>367</u>
(c) Materials and contracts			
Raw materials and consumables		11,489	11,655
Contractor and consultancy costs		5,417	4,685
Auditors remuneration ⁽¹⁾		56	47
Legal expenses:			
– Legal expenses: planning and development		65	26
– Legal expenses: other		54	17
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		91	79
<u>TOTAL MATERIALS AND CONTRACTS</u>		<u>17,172</u>	<u>16,509</u>

(continued on the next page...)

Kiama Municipal 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 (continued)			
1. Auditor remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor:			
Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		41	41
– Other audit and assurance services		15	6
Remuneration for audit and other assurance services		56	47
Total Auditor remuneration		56	47
2. Operating lease payments are attributable to:			
Other		91	79
		91	79

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
(d) Depreciation, amortisation and impairment					
Plant and equipment		—	—	1,530	1,508
Office equipment		—	—	120	124
Furniture and fittings		—	—	76	234
Land improvements (depreciable)		—	—	71	112
Infrastructure:					
– Buildings – non-specialised		—	—	423	466
– Buildings – specialised		—	—	1,427	2,738
– Other structures		—	—	203	464
– Roads		—	—	2,037	2,400
– Bridges		—	—	336	273
– Footpaths		—	—	247	204
– Stormwater drainage		—	—	276	224
Other assets					
– Library books		—	—	58	44
– Other		—	—	16	16
TOTAL DEPRECIATION AND					
IMPAIRMENT COSTS EXPENSED		—	—	6,820	8,807

Kiama Municipal 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:			
Contributions/levies to other levels of government			
– Crown reserve levy		334	339
– Emergency services levy (includes FRNSW, SES, and RFS levies)		270	190
Councillor expenses – mayoral fee		24	23
Councillor expenses – councillors' fees		99	97
Councillors' expenses (incl. mayor) – other (excluding fees above)		57	65
Donations, contributions and assistance to other organisations (Section 356)		260	228
Electricity and heating		782	791
Holiday parks promotion/membership		136	189
Insurance		538	559
Kiama tourism		152	158
Street lighting		343	367
Subscriptions and publications		32	–
Telephone and communications		205	205
Other		–	1
<u>TOTAL OTHER EXPENSES</u>		<u>3,232</u>	<u>3,212</u>

Kiama Municipal 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)			
Less: carrying amount of property assets sold/written off		(839)	–
Net gain/(loss) on disposal		(839)	–
Plant and equipment			
Proceeds from disposal – plant and equipment		749	649
Less: carrying amount of plant and equipment assets sold/written off		(308)	(429)
Net gain/(loss) on disposal		441	220
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(771)	–
Net gain/(loss) on disposal		(771)	–
Real estate assets held for sale			
Proceeds from disposal – real estate assets		285	–
Less: carrying amount of real estate assets sold/written off		(210)	–
Net gain/(loss) on disposal		75	–
Financial assets			
Proceeds from disposal/redemptions/maturities – financial assets		35,425	34,196
Less: carrying amount of financial assets sold/redeemed/matured		(35,425)	(34,196)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,094)	220

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		418	–	1,981	–
Cash-equivalent assets ¹					
– Deposits at call		–	–	1,000	–
Total cash and cash equivalents		418	–	2,981	–
Investments (Note 6b)					
– Long term deposits		35,995	–	35,425	–
Total investments		35,995	–	35,425	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		36,412	–	38,406	–

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'		418	–	2,981	–
--	--	------------	----------	--------------	----------

Investments

a. 'Held to maturity'	6(b-i)	35,995	–	35,425	–
Investments		35,995	–	35,425	–

Note 6(b-i)

Reconciliation of investments classified as 'held to maturity'

Balance at the beginning of the year		35,425	–	32,996	–
Additions		35,995	–	35,425	–
Disposals (sales and redemptions)		(35,425)	–	(32,996)	–
Balance at end of year		35,995	–	35,425	–

Comprising:

– Long term deposits		35,995	–	35,425	–
Total		35,995	–	35,425	–

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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
Total cash, cash equivalents and investments	36,412	–	38,406	–
attributable to:				
External restrictions (refer below)	6,688	–	6,458	–
Internal restrictions (refer below)	29,441	–	27,079	–
Unrestricted	283	–	4,869	–
	36,412	–	38,406	–

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

Details of restrictions

External restrictions – included in liabilities

Nil

External restrictions – other

Developer contributions – general	(D)	3,510	1,440	(735)	4,215
Specific purpose unexpended grants	(F)	1,025	–	(635)	390
Domestic waste management	(G)	1,923	160	–	2,083
External restrictions – other		6,458	1,600	(1,370)	6,688
Total external restrictions		6,458	1,600	(1,370)	6,688

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.

Kiama Municipal Council

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

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

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Employees leave entitlement	1,000	1,000	–	2,000
Carry over works	1,625	2,299	(1,625)	2,299
Blue Haven care – residential	9,908	–	(995)	8,913
Blue Haven ILU	4,238	167	(259)	4,146
CACP	67	288	–	355
Community bus	175	–	(25)	150
Computer	–	680	–	680
Contingencies	780	–	–	780
Fleet Replacement	–	50	–	50
Holiday parks	1,821	208	(244)	1,785
Land development	3,207	76	(346)	2,937
Organisational Development	–	300	–	300
Plant replacement	1,315	450	(439)	1,326
Property insurance	120	–	–	120
Regional Carer Respite Centre	–	1,012	(192)	820
S94 recoupments	819	715	(111)	1,423
Waste and sustainability	228	87	–	315
Waste business unit	1,776	216	(950)	1,042
Total internal restrictions	27,079	7,548	(5,186)	29,441
TOTAL RESTRICTIONS	33,537	9,148	(6,556)	36,129

Kiama Municipal 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		311	88	298	19
Interest and extra charges		7	44	42	9
User charges and fees		821	—	479	—
Private works		40	—	40	—
Accrued revenues					
– Interest on investments		230	—	1,023	—
– Other income accruals		297	—	389	—
Government grants and subsidies		446	—	337	—
Loans to sporting clubs		4	—	4	2
Net GST receivable		98	—	118	—
Other – advances to public		—	420	—	412
Other – holiday park charges		429	—	457	—
Total		2,682	552	3,187	442
Less: provision for impairment					
Rates and annual charges		(35)	—	(35)	—
User charges and fees		(45)	—	(45)	—
Total provision for impairment – receivables		(80)	—	(80)	—
<u>TOTAL NET RECEIVABLES</u>		<u>2,602</u>	<u>552</u>	<u>3,107</u>	<u>442</u>
Externally restricted receivables					
Domestic waste management		—	125	—	125
Total external restrictions		—	125	—	125
Internally restricted receivables					
Nil					
Unrestricted receivables		2,602	427	3,107	317
TOTAL NET RECEIVABLES		2,602	552	3,107	442

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.

Kiama Municipal 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)		–	–	197	–
Stores and materials		182	–	172	–
Trading stock		45	–	40	–
Total inventories at cost		227	–	409	–
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		227	–	409	–
(b) Other assets					
Prepayments		58	–	78	–
TOTAL OTHER ASSETS		58	–	78	–
Externally restricted assets					
There are no restrictions applicable to the above assets.					
Other disclosures					
(a) Details for real estate development					
Residential		–	–	197	–
Total real estate for resale		–	–	197	–
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		–	–	32	–
Other properties – book value		–	–	165	–
Total costs		–	–	197	–
Total real estate for resale		–	–	197	–
Movements:					
Real estate assets at beginning of the year		197	–	–	–
– Purchases and other costs		13	–	32	–
– Transfers in from (out to) Note 9		–	–	165	–
– WDV of sales (expense)	5	(210)	–	–	–
Total real estate for resale		–	–	197	–

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

Kiama Municipal Council

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

Note 9a. Infrastructure, property, plant and equipment

	as at 30/6/2015				Asset movements during the reporting period							as at 30/6/2016				
	At cost	At fair value	Accumulated depreciation	Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (AR)	At cost	At fair value	Accumulated depreciation	Carrying value	
\$ '000	1,155	–	–	1,155	–	–	–	–	(1,155)	–	–	–	–	–	–	–
Capital work in progress	–	15,353	9,882	5,471	4,118	–	(308)	(1,530)	–	–	–	–	17,747	9,996	7,751	
Plant and equipment	–	2,603	2,212	391	526	–	–	(120)	–	–	–	–	3,127	2,330	797	
Office equipment	–	2,496	2,143	353	131	–	–	(76)	–	–	–	–	2,627	2,219	408	
Furniture and fittings	–															
Land:																
– Operational land	–	53,150	–	53,150	–	–	(835)	–	–	(8,254)	–	–	44,061	–	44,061	
– Community land	–	36,995	–	36,995	–	–	–	–	–	8,254	14,678	–	59,927	–	59,927	
– Land under roads (post 30/6/08)	–	28	–	28	–	–	–	–	–	–	–	–	28	–	28	
Land improvements – non-depreciable	–	2,186	–	2,186	75	–	–	–	–	–	667	–	2,928	–	2,928	
Land improvements – depreciable	–	2,170	1,105	1,065	305	–	(4)	(71)	19	–	347	–	3,003	1,343	1,660	
Infrastructure:																
– Buildings – non-specialised	–	19,537	8,132	11,405	520	–	(36)	(423)	75	–	–	–	19,755	8,214	11,541	
– Buildings – specialised	–	87,329	36,140	51,189	708	1,037	(17)	(1,427)	257	–	–	–	89,327	37,581	51,746	
– Other structures	–	15,442	7,728	7,714	516	931	(20)	(203)	27	–	890	–	17,588	7,734	9,854	
– Roads	–	125,952	50,530	75,422	7,233	1,602	(428)	(2,037)	105	–	–	–	133,791	51,894	81,897	
– Bridges	–	12,592	6,404	6,188	1,611	–	–	(336)	192	–	–	–	14,324	6,669	7,655	
– Footpaths	–	10,731	4,121	6,610	213	1,273	(56)	(247)	396	–	–	–	12,469	4,280	8,189	
– Bulk earthworks (non-depreciable)	–	22,342	–	22,342	538	–	(169)	–	–	–	–	–	22,711	–	22,711	
– Stormwater drainage	–	33,147	8,750	24,397	741	461	(44)	(276)	–	–	–	–	34,284	9,005	25,279	
Other assets:																
– Library books	–	1,648	1,240	408	87	–	–	(58)	–	–	–	–	1,735	1,298	437	
– Other	–	358	16	342	701	–	–	(16)	84	–	–	–	1,142	31	1,111	
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	1,155	444,059	138,403	306,811	18,022	5,305	(1,918)	(6,820)	–	–	16,582	–	480,574	142,594	337,980	

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.

Kiama Municipal Council

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

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

\$ '000 Class of asset	Actual 2016				Actual 2015			
	At cost	At fair value	A/Dep & impairm't	Carrying value	At cost	At fair value	A/Dep & impairm't	Carrying value
Domestic waste management								
Plant and equipment	2,986	–	2,815	171	2,938	–	2,737	201
Land								
– Operational land	140	–	–	140	140	–	–	140
Total DWM	3,126	–	2,815	311	3,078	–	2,737	341
TOTAL RESTRICTED I,PP&E	3,126	–	2,815	311	3,078	–	2,737	341

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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		2,915	–	2,937	–
Payments received In advance		76	–	14	–
Accrued expenses:					
– Other expenditure accruals		192	–	415	–
Residential aged care accommodation bonds		4,918	–	4,606	–
Retirement village loan licence agreement		54,613	–	55,369	–
Security bonds, deposits and retentions		2,124	–	2,110	–
Total payables		64,838	–	65,451	–
Borrowings					
Loans – secured ¹		501	2,956	1,351	3,458
Government advances		342	833	342	1,175
Total borrowings		843	3,789	1,693	4,633
Provisions					
Employee benefits:					
Annual leave		1,636	–	1,474	–
Sick leave		574	–	699	–
Long service leave		3,861	130	3,838	–
ELE on-costs		320	4	499	–
Total provisions		6,391	134	6,510	–
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		72,072	3,923	73,654	4,633

(i) Liabilities relating to restricted assets

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

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.

Kiama Municipal Council

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

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

	Actual 2016	Actual 2015
\$ '000		
(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	4,860	3,581
Other Liabilities: Payables	59,531	60,136
	64,391	63,717

Note 10b. Description of and movements in provisions

Class of provision	2015	2016				
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	Closing balance as at 30/6/16
Annual leave	1,474	1,416	(1,254)	–	–	1,636
Sick leave	699	27	(152)	–	–	574
Long service leave	3,838	660	(507)	–	–	3,991
ELE on-costs	499	(175)	–	–	–	324
TOTAL	6,510	1,928	(1,913)	–	–	6,525

- 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.

Kiama Municipal 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	418	2,981
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		418	2,981
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		15,336	(18)
Adjust for non-cash items:			
Depreciation and amortisation		6,820	8,807
Net losses/(gains) on disposal of assets		1,094	(220)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		–	133
– Investment properties		(747)	(961)
Share of net (profits) or losses of associates/joint ventures		45	28
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		395	196
Decrease/(increase) in inventories		(15)	(11)
Decrease/(increase) in other assets		20	(69)
Increase/(decrease) in payables		(22)	(409)
Increase/(decrease) in other accrued expenses payable		(223)	215
Increase/(decrease) in other liabilities		(368)	1,958
Increase/(decrease) in employee leave entitlements		15	563
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		22,349	10,212

Kiama Municipal 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			
Nil			
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		2,000	2,000
Credit cards/purchase cards		159	150
Total financing arrangements		2,159	2,150
Amounts utilised as at balance date:			
– Credit cards/purchase cards		54	134
Total financing arrangements utilised		54	134

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.

Kiama Municipal 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)			
Nil			
(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		43	40
Later than one year and not later than 5 years		32	70
Later than 5 years		–	–
Total non-cancellable operating lease commitments		75	110

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

Photocopiers

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

Non-capital expenditure on investment properties committed for at the reporting date but not recognised in the financial statements as liabilities:

Contractual obligations – repairs and maintenance	255	252
Total commitments	255	252
These expenditures are payable as follows:		
Within the next year	255	252
Later than one year and not later than 5 years	–	–
Later than 5 years	–	–
Total payable	255	252

(e) Investment in joint operations – commitments

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

Kiama Municipal 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 20152014	
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	1,394	2.61%	-5.27%	-5.79%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	53,432			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	40,549	59.84%	77.75%	76.19%
Total continuing operating revenue ⁽¹⁾	67,766			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	36,340	4.73x	3.94x	4.40x
Current liabilities less specific purpose liabilities ^(3, 4)	7,681			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	8,215	4.85x	4.95x	4.78x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	1,695			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	415	2.16%	1.77%	2.25%
Rates, annual and extra charges collectible	19,225			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	36,412	8.66 mths	10.3 mths	9.7 mths
Payments from cash flow of operating and financing activities	4,206			

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.

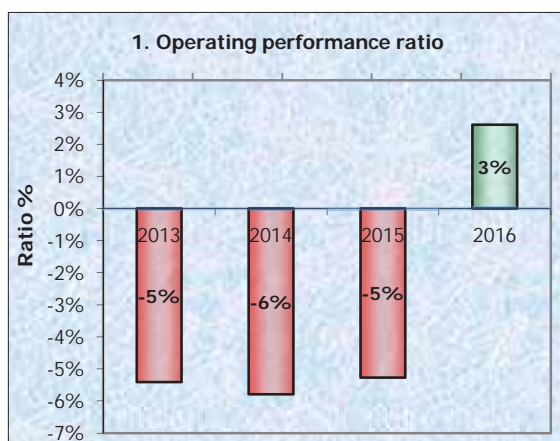
⁽³⁾ Refer to Note 10(a).

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

Kiama Municipal Council

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

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



Benchmark: — Minimum $\geq 0.00\%$

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

Purpose of operating performance ratio

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

Commentary on 2015/16 result

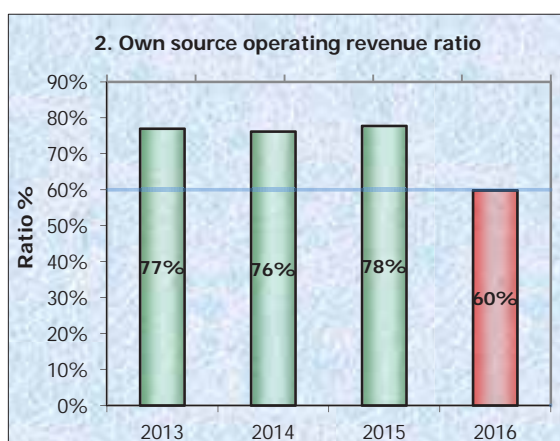
2015/16 ratio 2.61%

This ratio has shown an improvement due to the increase in operating income during the year while operating expenses have held relatively stable.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum $\geq 60.00\%$

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

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

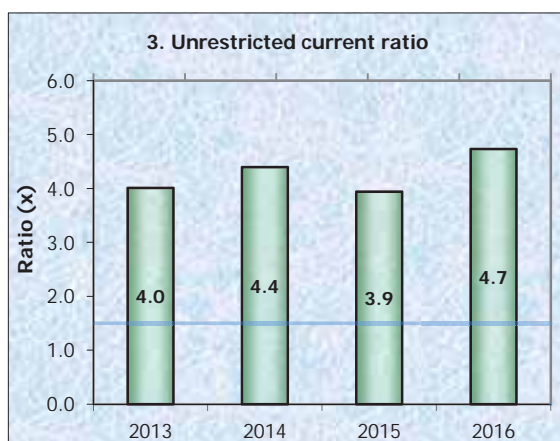
2015/16 ratio 59.84%

This ratio has been impacted by an increase in grants and capital contributions received through the year.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum ≥ 1.50

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

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 4.73x

The ratio continues to be above the industry benchmark of 2:1



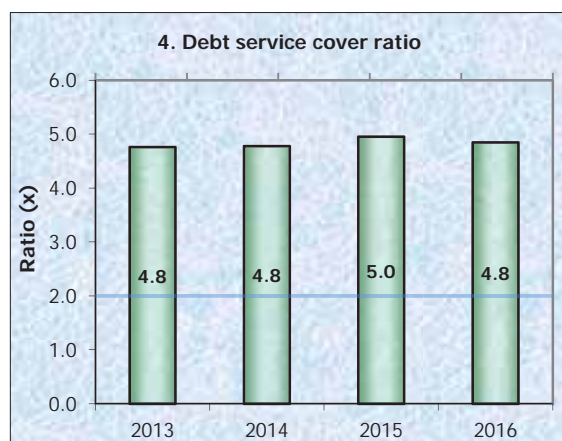
Ratio achieves benchmark

Ratio is outside benchmark

Kiama Municipal Council

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

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



Benchmark: — Minimum ≥ 2.00

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

Purpose of debt service cover ratio

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

Commentary on 2015/16 result

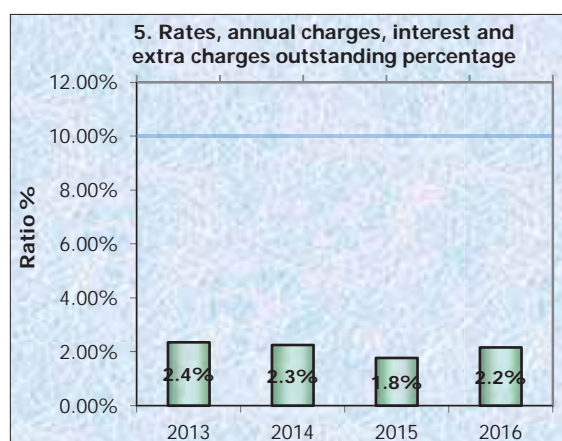
2015/16 ratio 4.85x

Council is in a strong position to service debt with the benchmark being greater than 2x



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Maximum $< 10.00\%$

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

Purpose of rates and annual charges outstanding ratio

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

Commentary on 2015/16 result

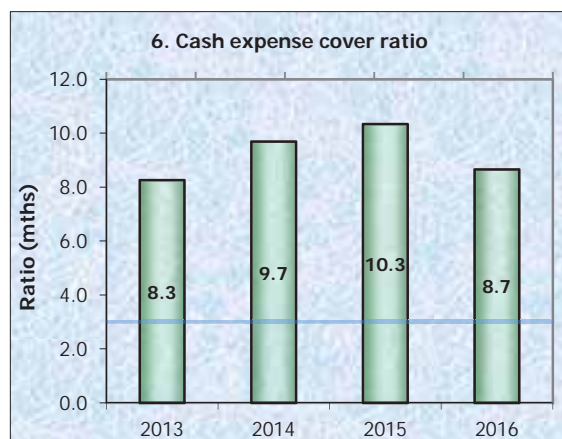
2015/16 ratio 2.16%

This ratio continues to remain within the Industry benchmark of 5%



Ratio is within Benchmark

Ratio is outside Benchmark



Benchmark: — Minimum ≥ 3.00

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

Purpose of cash expense cover ratio

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

Commentary on 2015/16 result

2015/16 ratio 8.66 mths

Council remains in a good position to continue paying its immediate expenses with the benchmark being greater than three months.



Ratio achieves benchmark

Ratio is outside benchmark

Kiama Municipal 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>78,075</u>	<u>77,092</u>
Reconciliation of annual movement:			
Opening balance		77,092	76,131
– Capitalised expenditure – this year		236	–
– Net gain/(loss) from fair value adjustments		747	961
CLOSING BALANCE – INVESTMENT PROPERTIES		<u>78,075</u>	<u>77,092</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.

Council's Investment Properties comprising Blue Haven Independent Living Units, Glenbook Farm Residence, 7 Mile Beach Kiosk and Barney St Quarry was valued in 2016 by Council staff applying an appropriate CPI rate.

(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	81	71
Later than 1 year but less than 5 years	159	113
Later than 5 years	–	–
Total minimum lease payments receivable	<u>240</u>	<u>184</u>

(e) Investment property income and expenditure – summary

Rental income from investment properties:		
– Minimum lease payments	73	71
Direct operating expenses on investment properties:		
– that generated rental income	(16)	(25)
– that did not generate rental income	(892)	(912)
Net revenue contribution from investment properties	<u>(835)</u>	<u>(866)</u>
plus:		
Fair value movement for year	<u>747</u>	<u>961</u>
Total income attributable to investment properties	<u>(88)</u>	<u>95</u>

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

Kiama Municipal 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	418	2,981	418	2,981
Investments				
– 'Held to maturity'	35,995	35,425	35,995	35,425
Receivables	3,154	3,549	3,226	3,767
Total financial assets	39,566	41,955	39,639	42,173
Financial liabilities				
Payables	64,762	65,437	64,645	65,437
Loans/advances	4,632	6,326	4,632	6,326
Total financial liabilities	69,394	71,763	69,277	71,763

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.

Kiama Municipal 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.

(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	3,641	3,641	(3,641)	(3,641)
Possible impact of a 1% movement in interest rates	364	364	(364)	(364)
2015				
Possible impact of a 10% movement in market values	3,841	3,841	(3,841)	(3,841)
Possible impact of a 1% movement in interest rates	384	384	(384)	(384)

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

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

		2016	2016	2015	2015
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		78%	71%	94%	88%
Overdue		22%	29%	6%	12%
		100%	100%	100%	100%
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables				
Current	Current	311	2,013	298	2,889
1 – 2 years overdue	30 – 60 days overdue	–	115	–	–
2 – 5 years overdue	60 – 90 days overdue	–	177	–	–
> 5 years overdue	> 90 days overdue	88	530	19	423
		399	2,835	317	3,312
(iii) Movement in provision for impairment of receivables				2016	2015
Balance at the beginning of the year				80	80
Balance at the end of the year				80	80

Kiama Municipal 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	2,124	62,552	—	—	—	—	—	64,676	64,762
Loans and advances	—	843	831	832	832	832	463	4,633	4,632
Total financial liabilities	2,124	63,395	831	832	832	832	463	69,309	69,394
2015									
Trade/other payables	2,110	63,327	—	—	—	—	—	65,437	65,437
Loans and advances	—	1,692	851	852	852	852	1,227	6,326	6,326
Total financial liabilities	2,110	65,019	851	852	852	852	1,227	71,763	71,763

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	64,762	1.00%	65,437	1.00%
Loans and advances – fixed interest rate	3,457	5.76%	4,809	5.90%
Loans and advances – variable interest rate	1,175	4.00%	1,517	4.00%
	<u>69,394</u>		<u>71,763</u>	

Kiama Municipal 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 28 April 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	18,882	18,808	(74)	(0%) U
User charges and fees	14,996	17,376	2,380	16% F
Blue Haven Care In home support programs fees increased by \$128K as a result of a change to a user pays model of service delivery.				
Building control fees have seen an increase of \$140K as a result of increased DA fees and Part 4a lodgement fees.				
Blue Haven Nursing Home resident contributions increased by \$228K over originally estimated figures.				
Holiday Park revenue has increased by \$693K over all 5 parks due to increased usage of the parks.				
The Leisure Centre's 'Learn to Swim' class has seen increased usage contributing \$196K to increased fees.				
Significant plant hire by contractors working on the Gerringong Bypass contributed significantly towards the increased revenue of \$681K.				
Interest and investment revenue	1,155	1,677	522	45% F
Interest and investment revenue has shown a significant increase over the original budget as it was set at a conservative level due to the climate of reducing interest rates. Council's investments subsequently outperformed expectations.				
Other revenues	1,593	3,435	1,842	116% F
Fair Value of Investment Properties increased in value by \$747K.				
Deferred Payment Liabilities Amortisation increased by \$668K due to turnover of Blue Haven Units.				
Operating grants and contributions	9,426	12,883	3,457	37% F
Blue Haven Care Community Programs received increased funding of \$392K.				
In 2015/16, the Regional Carer Respite Centre was transferred to Kiama Council from Southern Council's Group.				
This increased funding by \$2.6M that was not originally budgeted for.				
Blue Haven Nursing Home received increased funding of \$279K.				
Capital grants and contributions	767	14,334	13,567	1769% F
2015/16 saw a number of newly discovered assets brought to account from the work undertaken reviewing Council's asset register and contributed assets including the Gerringong Bypass. This contributed \$8.7M towards revenue.				
S94 Developer contributions increased significantly by \$1.1M.				
Net gains from disposal of assets	3,967	–	(3,967)	(100%) U
The sale of Akuna Street development was originally budgeted for in this financial year, however this sale has now been delayed until 2016/17 financial year.				

Kiama Municipal 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	21,965	24,813	(2,848)	(13%) U
A number of senior staff retirements contributed to an increase of expenses of \$567K. Expenses increased due to the Regional Carer Respite Centre costs of \$611K not originally budgetted for. Blue Haven Nursing Home expenses increased by \$650K. This expense was offset by an increase in income. An increase in plant hire wages of \$264K was offset by increased income.				
Borrowing costs	308	1	307	100% F
Interest expenses incurred have now been capitalised.				
Materials and contracts	16,849	17,172	(323)	(2%) U
Depreciation and amortisation	8,960	6,820	2,140	24% F
Depreciation figures are lower than originally estimated due to thorough review of Councils assets. Useful lives of buildings were reassessed resulting in reduction to depreciation.				
Other expenses	3,526	3,232	294	8% F
Reductions in expenses originally budgetted for were achieved for: Insurance - \$65K Electricity & Lighting - \$254K				
Net losses from disposal of assets	–	1,094	(1,094)	0% U
Losses from disposal of assets were not originally budgetted for. This result is due to a thorough review of Council's assets register.				
Joint ventures and associates – net losses	–	45	(45)	0% U
Movements in profit or losses associated with Joint ventures are not budgetted for.				

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

Cash flows from operating activities	3,388	22,349	18,961	559.7% F
Cash flows from investing activities	(1,481)	(23,219)	(21,738)	1467.8% U
Cash flows from financing activities	(1,692)	(1,694)	(2)	0.1% U

Kiama Municipal 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					
Traffic facilities	194	103	–	6	(103)	–	200	–
Parking	162	–	–	5	–	–	167	–
Open space	(22)	–	–	–	–	–	(22)	–
Community facilities	501	750	–	15	(575)	–	691	–
Other – Council chambers	2,452	236	–	74	(8)	–	2,754	–
Other	32	14	–	1	(3)	–	44	–
S94 contributions – under a plan	3,319	1,103	–	101	(689)	–	3,834	–
S94A levies – under a plan	191	229	–	7	(46)	–	381	–
Total S94 revenue under plans	3,510	1,332	–	108	(735)	–	4,215	–
Total contributions	3,510	1,332	–	108	(735)	–	4,215	–

Kiama Municipal 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					
Traffic facilities	–	69	–	–	(69)	–	–	–
Community facilities	277	632	–	10	(471)	–	448	–
Other – Council chambers	2,452	236	–	74	(8)	–	2,754	–
Other	32	11	–	1	–	–	44	–
Total	2,761	948	–	85	(548)	–	3,246	–

CONTRIBUTION PLAN NUMBER 2

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					
Traffic facilities	–	9	–	–	(9)	–	–	–
Community facilities	40	73	–	–	(59)	–	54	–
Other	–	3	–	–	(3)	–	–	–
Total	40	85	–	–	(71)	–	54	–

CONTRIBUTION PLAN NUMBER 3

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					
Traffic facilities	–	24	–	–	(24)	–	–	–
Community facilities	–	45	–	–	(45)	–	–	–
Total	–	69	–	–	(69)	–	–	–

Kiama Municipal 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 4

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					
Parking	162	–	–	5	–	–	167	–
Total	162	–	–	5	–	–	167	–

CONTRIBUTION PLAN NUMBER 7

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					
Traffic facilities	172	–	–	5	(1)	–	176	–
Open space	(22)	–	–	–	–	–	(22)	–
Community facilities	179	–	–	5	–	–	184	–
Total	329	–	–	10	(1)	–	338	–

CONTRIBUTION PLAN NUMBER 7a

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					
Traffic facilities	22	1	–	1	–	–	24	–
Community facilities	5	–	–	–	–	–	5	–
Total	27	1	–	1	–	–	29	–

Kiama Municipal Council

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

Note 17. Statement of developer contributions (continued)

\$ '000

S94A LEVIES – UNDER A PLAN

CONTRIBUTION PLAN NUMBER A

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					
Traffic facilities	61	68	–	1	(39)	–	91	–
Open space	130	161	–	6	(7)	–	290	–
Total	191	229	–	7	(46)	–	381	–

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

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

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

(ii) Statewide Limited

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

(ii) Statewide Limited (continued)

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

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

(iii) Metro Pool

Council is a member of Metro Pool, a co-operative self insurance scheme established in 1990 to help stabilise insurance premium costs, achieve significant cost savings and long term benefits for member Councils through effective risk management. There are nine member Councils joined together to secure adequate public liability and professional indemnity cover. Financial contributions to the Pool are based on the relative size of each Council and incorporate a proportion of underlying claims experience so as to reflect risk exposure.

(iv) United Independent Pools

United Independent Pools (UIP) is an incorporated organisation initially formed in 2005 by two Sydney based Local Government risk management pools- Westpool and Metro Pool. The UIP's provide risk management of property (industrial special risk), motor vehicle, Council officers statutory liabilities, and fidelity guarantee to cover the 19 member Councils. Council has adopted the equity method to account for the interest in Metro Pool and UIP.

At the reporting date, there is no requirement for member Councils to fund any shortfall and no future funding is anticipated. Refer Note 19 for details.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other liabilities

(i) Third party claims

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

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

(ii) S94 plans

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

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

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

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

(iii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

ASSETS NOT RECOGNISED:

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities

\$ '000

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

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

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

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

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

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

	Council's share of net income		Council's share of net assets	
	Actual	Actual	Actual	Actual
	2016	2015	2016	2015
Joint ventures	(45)	(28)	109	154
Associates	—	—	—	—
Total	(45)	(28)	109	154

Kiama Municipal Council

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

Note 19. Interests in other entities (continued)

\$ '000

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

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

(b) Joint ventures and associates

Council has incorporated the following joint ventures and associates into its consolidated financial statements.

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2016	2015
Metro Pool	Joint Venture	Net Equity	(28)	1
United Independent Pool	Joint Venture	Net Equity	137	153
Total carrying amounts – material joint ventures and associates			109	154

(b) Details

Name of entity	Principal activity	Place of business
Metro Pool	Public Liability & Prof Indemnity	Penrith
United Independent Pool	Property and vehicle etc.	Penrith

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2016	2015	2016	2015	2016	2015	2016	2015
Metro Pool	na	na	-0.30%	0.01%	-0.30%	0.01%	11.10%	11.10%
United Independent Pool	na	na	1.90%	2.36%	1.90%	2.36%	5.30%	5.30%

Kiama Municipal 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 (continued)

(d) Summarised financial information for joint ventures and associates

	Metro Pool		United Independent Pool	
	2016	2015	2016	2015
Statement of financial position				
Current assets				
Cash and cash equivalents	28	100	171	1,554
Other current assets	5,998	4,662	4,177	4,473
Total current assets	6,026	4,762	4,348	6,027
Non-current assets	16,408	15,491	8,539	5,761
Current liabilities				
Financial liabilities (excl. accounts payable)	1,659	1,146	2,800	1,539
Other current liabilities	206	92	345	269
Total current liabilities	1,865	1,238	3,145	1,808
Non-current liabilities	11,147	10,644	2,454	2,462
Net assets	9,422	8,371	7,288	7,518
Reconciliation of the carrying amount				
Opening net assets (1 July)	8,371	8,327	7,518	6,906
Profit/(loss) for the period	1,051	44	(230)	612
Closing net assets	9,422	8,371	7,288	7,518
Council's share of net assets (%)	-0.30%	0.01%	1.88%	2.36%
Council's share of net assets (\$)	(28)	1	137	153
Statement of comprehensive income				
Income	3,590	3,341	8,551	8,696
Interest income	774	953	423	387
Other expenses	(3,314)	(4,250)	(9,205)	(8,472)
Profit/(loss) for period	1,050	44	(231)	611
Total comprehensive income	1,050	44	(231)	611
Share of income – Council (%)	-2.9%	-111.2%	6.2%	3.5%
Profit/(loss) – Council (\$)	(30)	(49)	(14)	21
Total comprehensive income – Council (\$)	(30)	(49)	(14)	21

Kiama Municipal Council

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

Note 19. Interests in other entities (continued)

\$ '000

(c) Joint operations

Council has no interest in any joint operations.

(d) Unconsolidated structured entities

Council did not consolidate the following structured entities:

Kiama District Tourist Commerce and Industrial Association Limited (Kiama Tourism)

The principal activities undertaken include the operation of the Tourism Centre.

The purpose of Kiama Tourism is to raise the profile and performance of the tourism industry within the Kiama Local Government Area.

Kiama Tourism is financed primarily by the retail operations, commission and a levy paid by Council.

Nature of risks relating to the Unconsolidated Structured Entity

Kiama Council has agreed to provide financial support to Kiama Tourism in form of a rental subsidy, commercial contribution towards Kiama Visitors Guide, Membership fees and a levy.

This agreement to provide financial support is outlined in the Memorandum of Understanding between the two organisations. This agreement is valid until 2018 with annual reviews.

	2016	2015
Losses (or expenses) incurred by Council relating to the Structured Entity	152,000	158,125
Income received by Council relating to the Structured Entity		
Rental Subsidy	62,535	61,175
Net assets in Council's Statement of Financial Position	—	—
Maximum exposure to loss from Council's interest in the Structured Entity	152,000	158,125
Difference – net asset/(net exposure) relating to the Structured Entity:	(152,000)	(158,125)

Current intention to provide financial support

Council has a current intention to continue financial support as detailed in the Memorandum of Understanding between the two organisations.

Kiama Municipal Council

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

Note 19. Interests in other entities (continued)

\$ '000

(d) Unconsolidated structured entities (continued)

Illawarra Pilot Joint Organisation (IPJO)

The Illawarra Pilot Joint Organisation was established to provide a new way for local councils and the NSW government to work together to deliver things that matter the most to regional communities.

The objectives and functions of the IPJO are:

- a) Regional Strategic Planning
- b) Inter-governmental collaboration
- c) Regional leadership and advocacy
- d) Creating or enhancing regional strategic capacity
- e) Regional service delivery

Nature of risks relating to the Unconsolidated Structured Entity

All member councils are required to pay a membership fee. Any losses would ultimately be borne by member councils.

	2016	2015
Losses (or expenses) incurred by Council relating to the Structured Entity	50,000	23,180
Income received by Council relating to the Structured Entity		
Administration fee	24,416	77,630
Contribution towards insurance	15,116	19,032
Net assets in Council's Statement of Financial Position	—	—
Maximum exposure to loss from Council's interest in the Structured Entity	50,000	23,180
Difference – net asset/(net exposure) relating to the Structured Entity:	(50,000)	(23,180)

Current intention to provide financial support

Council has a current intention to continue financial support as detailed in the Charter between the two organisations.

(e) Subsidiaries, joint arrangements and associates not recognised

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

Kiama Municipal 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)		144,814	144,832
a. Net operating result for the year		15,336	(18)
Balance at end of the reporting period		160,150	144,814
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		196,862	180,280
– Investments Properties Revaluation Reserve		26,738	26,738
– Intangibles Revaluation Reserve		2,400	2,400
Total		226,000	209,418
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		180,280	155,637
– Revaluations for the year	9(a)	16,582	24,643
– Balance at end of year		196,862	180,280
Investments Properties Revaluation Reserve			
– Opening balance		26,738	26,738
– Balance at end of year		26,738	26,738
Intangibles Revaluation Reserve			
– Opening balance		2,400	2,400
– Balance at end of year		2,400	2,400
TOTAL VALUE OF RESERVES		226,000	209,418

(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.

Investments Properties Revaluation Reserve

– The Investment Properties Revaluation Reserve is used to record increments/decrements of Investment Properties due to their revaluation.

Intangibles Revaluation Reserve

– The Intangibles Revaluation Reserve is used to record the value of Bed Licences issued to the Blue Haven Retirement Village.

Kiama Municipal 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 (continued)

\$ '000

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

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

(d) Voluntary changes in accounting policies

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

(e) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

Note 21. Financial result and financial position by fund

Council utilises only a general fund for its operations.

Kiama Municipal 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	2016	2015	2015
	Current	Non-current	Current	Non-current
(i) Non-current assets and disposal group assets				
Non-current assets 'held for sale'				
Land	3,729	–	3,620	–
Total non-current assets 'held for sale'	3,729	–	3,620	–
Disposal group assets 'held for sale'				
None				
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	<u>3,729</u>	<u>–</u>	<u>3,620</u>	<u>–</u>

\$ '000	Assets 'held for sale'	
	2016	2015
(ii) Reconciliation of non-current assets 'held for sale' and disposal groups – i.e. discontinued operations		
Opening balance	3,620	3,593
Plus new transfers in:		
– Purchases (Land) during the year	109	27
Closing balance of 'held for sale' non-current assets and operations	<u>3,729</u>	<u>3,620</u>

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

Kiama Municipal 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'.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 25. Intangible assets

	Actual	Actual
\$ '000	2016	2015

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

Intangible assets are as follows:

Opening values:

Gross book value (1/7)	2,400	2,400
Net book value – opening balance	2,400	2,400

Closing values:

Gross book value (30/6)	2,400	2,400
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE ¹	2,400	2,400

¹ The net book value of intangible assets represent:

– Bed licences	2,400	2,400
	2,400	2,400

Bed Licences

Council owns and operates Blue Haven Retirement Village which includes independent living unit a nursing home and hostel. Bed licences are granted by the Federal Department of Health & Ageing in perpetuity and their useful life is considered to be indefinite. As a result, licenses are not amortised but are subject to an annual impairment assessment

The licences issued by the Department of Health & Ageing are issued for no consideration and are recognised in Council's books at fair value, if and only if, it is probable that the future economic benefits attributable to the bed licences will flow to Council and the fair value of bed licences can be measured reliably.

Council obtained an independent valuation for the bed licences from an industry expert and the value recorded as at 30 June 2011 is in accordance with that valuation. Council also considered the recommendations in the Productivity Commission's report "Caring for Older Australians" and will monitor the Federal Government's progress with implementation of those recommendations and the impact (if any) that such implementation will have on future values of bed licences. The Federal Government has not as yet implemented any recommendations that would impact on the carrying value of these bed licences. Other organisations are also still showing a value in their financial statements.

Note 26. Reinstatement, rehabilitation and restoration liabilities

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

Kiama Municipal 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

During the reporting period, Council has also fair value measured the following assets on a non-recurring basis:

- Non-current assets classified as 'held for sale'

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

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

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

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

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

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

		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Held to maturity’	30/06/16	35,995	–	–	35,995
Other financial assets	30/06/16	418	–	–	418
Total financial assets		36,413	–	–	36,413
Financial liabilities					
Payables	30/06/16	64,645	–	–	64,645
Loans/advances	30/06/16	4,632	–	–	4,632
Total financial liabilities		69,277	–	–	69,277
Investment properties					
Other	30/06/16	–	–	1,293	1,293
Blue Haven ILU	30/06/16	–	–	76,546	76,546
Total investment properties		–	–	77,839	77,839

Kiama Municipal 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)

		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	—	—	7,751	7,751
Office equipment	30/06/16	—	—	797	797
Furniture and fittings	30/06/16	—	—	408	408
Operational land	30/06/16	—	—	44,061	44,061
Community land	30/06/16	—	—	59,927	59,927
Land under roads	30/06/16	—	—	28	28
Land improvements – non-depreciable	30/06/16	—	—	2,928	2,928
Land improvements – depreciable	30/06/16	—	—	1,660	1,660
Buildings – non-specialised	30/06/16	—	—	11,541	11,541
Buildings – specialised	30/06/16	—	—	51,746	51,746
Other structures	30/06/16	—	—	9,854	9,854
Roads bridges footpaths	30/06/16	—	—	97,741	97,741
Bulk earthworks – non depreciable	30/06/16	—	—	22,711	22,711
Stormwater drainage	30/06/16	—	—	25,279	25,279
Library books	30/06/16	—	—	437	437
Other	30/06/16	—	—	1,111	1,111
Total infrastructure, property, plant and equipment		—	—	337,980	337,980
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Land		—	—	3,729	3,729
Total NCA’s classified as ‘held for sale’		—	—	3,729	3,729

		Fair value measurement hierarchy			
2015		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Held for trading’	30/06/15	35,425	—	—	35,425
Other financial assets	30/06/15	2,981	—	—	2,981
Total financial assets		38,406	—	—	38,406
Financial liabilities					
Payables	30/06/15	65,437	—	—	65,437
Loans/advances	30/06/15	6,326	—	—	6,326
Total financial liabilities		71,763	—	—	71,763
Investment properties					
Other		—	—	1,280	1,280
Blue Haven ILU		—	—	75,812	75,812
Total investment properties		—	—	77,092	77,092

Kiama Municipal 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)

Fair value measurement hierarchy					
Level 1	Level 2	Level 3			
Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs			
2015				Total	
Recurring fair value measurements					
Date of latest valuation					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/15	—	—	5,471	5,471
Office equipment	30/06/15	—	—	391	391
Furniture and fittings	30/06/15	—	—	353	353
Operational land	30/06/13	—	—	53,150	53,150
Community land	30/06/15	—	—	36,995	36,995
Land under roads	30/06/15	—	—	28	28
Land improvements – non-depreciable	30/06/15	—	—	2,186	2,186
Land improvements – depreciable	30/06/15	—	—	1,065	1,065
Buildings – non-specialised	30/06/13	—	—	11,405	11,405
Buildings – specialised	30/06/13	—	—	51,189	51,189
Other structures	30/06/15	—	—	7,714	7,714
Roads bridges footpaths	30/06/15	—	—	88,220	88,220
Bulk earthworks – non depreciable	30/06/15	—	—	22,342	22,342
Stormwater drainage	30/06/15	—	—	24,397	24,397
Library books	30/06/15	—	—	408	408
Other	30/06/15	—	—	342	342
Work in progress	30/06/15	—	—	1,155	1,155
Total infrastructure, property, plant and equipment		—	—	306,811	306,811
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Land	30/06/15	—	—	3,620	3,620
Total NCA’s classified as ‘held for sale’		—	—	3,620	3,620

(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.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

(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 (i.e. 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:

The Valuation techniques prescribed by AASB13 can be summarised as:

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 flow 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.

Financial assets

Held for Trading

These investments are represented by CDO's and FRN's. Council obtains valuations from its Investment Custodian, Australia and New Zealand Banking Group Limited, on a monthly basis and at the end of the reporting period to ensure the financial statements reflect the most up-to-date valuation. The valuations quoted are either sourced from market providers and participants or calculated using ANZ's own internal models and calculation methods and is based on or uses other available pricing information where considered relevant. Numerous factors may affect the information, which may or may not have been taken into account. The information provided may vary significantly from information obtained from other sources or other market participants. There are no observable inputs for this class of Financial Asset and there has been no change to the valuation process during the reporting period.

Investment properties

Council obtains independent valuations of its investment property every 3 years by a qualified valuer who has experience in the location of the property. Every other year a desktop valuation is obtained. The best evidence of fair value is the current price in an active market for similar assets. The investment property valuation is included in level 3 of the hierarchy. The key unobservable input to the valuation is the price per square metre.

As at 30 June 2016 the valuation of Blue Haven Independent Living Units was performed by Nelson Partners, Barry Coad, Senior Valuer. The valuation has been prepared on the basis of market value and realisation by the owners in a willing seller/willing purchaser situation, given appropriate marketing and on the basis of there being no financial pressure or a Receivership situation. The valuation has been based on calculations using discount rates, analysis of period of turnover if units and the appropriate length of time and inflationary rates and incorporates the traditional method accepted in the market place for valuing the owner's interest of the Villages to date.

As at 30 June 2016 the valuation for the remaining Investment properties was calculated by applying an index to the valuation as at 30 June 2015. The index applied was CPI at 2.50%.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Infrastructure, property, plant and equipment

Plant & Equipment, Office Equipment and Furniture & Fittings

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 - Trucks, tractors, jet skis, ride on mowers, street sweepers, earth moving equipment, buses and motor vehicles
- Office Equipment – Refrigerators, monitors and computer equipment
- Furniture & Fittings – Chairs and desks

The key unobservable inputs to the valuation are the remaining useful life and residual value. 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.

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 into the valuation is the price per square metre. The last valuation was undertaken at 30 June 2013 and was performed by Scott Fullarton Valuations Pty Ltd, Director Scott Fullarton FAPI, Certified Practicing Valuer, Registered Valuer No. 2144.

Generally, fair value is the most advantageous price reasonably obtained 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 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 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 metre 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 – non depreciable

Non depreciable land improvements 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 into account the pattern of consumption, estimated useful life and the residual value. There has been no change to the valuation process during the reporting period.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Land Improvements – depreciable

This asset class comprises land improvements such as playgrounds. 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.

Buildings – Specialised and Non Specialised

Buildings valuation was undertaken at 30 June 2013 and was performed by Scott Fullarton Valuations Pty Ltd, Director Scott Fullarton FAPI, Certified Practising Valuer, Registered Valuer No. 2144. The approach taken was to componentise each building into significant parts with different useful lives and took into account a range of factors. While all buildings were inspected, inputs such as estimates of residual value and pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets are classified as being valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Other Structures

This asset class includes sporting facilities, park furniture, signs, skate facilities etc. 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 classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Roads

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. The level of componentisation adopted by Council is in accordance with OLG Circular 09-09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM). Inputs such as estimates of the 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.

Bulk Earthworks – non depreciable

The 'Cost Approach' estimated the replacement cost for each asset. The level of componentisation adopted by Council is in accordance with OLG Circular 09-09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM). 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.

Stormwater Drainage

Assets within this class comprise pits, pipes 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. The level of componentisation adopted by Council is in accordance with OLG Circular 09-09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM). Inputs such as estimates of the 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

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

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.

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.

Other

Assets within this class comprise Drainage inspection data. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. There has been no change to the valuation process during the reporting period.

Non-current assets classified as 'held for sale'

This asset class comprises a parcel of land "held for sale" and is valued at cost but disclosed at fair value in the notes. The carrying amount of this asset is assumed to approximate fair value. There has been no change to the valuation process during the reporting period.

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Investment Property Blue Haven ILU	Investment Property Other	Plant & Equipment	Office Equipment	Total
Opening balance – 1/7/14	74,870	1,261	5,119	398	81,648
Purchases (GBV)	–	–	2,279	101	2,380
Disposals (WDV)	–	–	(419)	(124)	(543)
Depreciation and impairment	–	–	(1,508)	–	(1,508)
FV gains – Income Statement ¹	942	19	–	–	961
WIP Transfer	–	–	–	16	16
Closing balance – 30/6/15	75,812	1,280	5,471	391	82,954
Purchases (GBV)	236	–	4,118	526	4,880
Disposals (WDV)	–	–	(308)	–	(308)
Depreciation and impairment	–	–	(1,530)	(120)	(1,650)
FV gains – Income Statement ¹	734	13	–	–	747
Closing balance – 30/6/16	76,782	1,293	7,751	797	86,623
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 14/15	942	19	–	–	961
YE 15/16	734	13	–	–	747

	Furniture & Fittings	Operational Land	Community Land	Land Under Roads	Total
Opening balance – 1/7/14	547	51,455	36,995	28	89,025
Purchases (GBV)	40	1,860	–	–	1,900
Depreciation and impairment	(234)	(165)	–	–	(399)
Closing balance – 30/6/15	353	53,150	36,995	28	90,526
Transfers from/(to) another asset class	–	(8,254)	8,254	–	–
Purchases (GBV)	131	–	–	–	131
Disposals (WDV)	–	(835)	–	–	(835)
Depreciation and impairment	(76)	–	–	–	(76)
FV gains – other comprehensive income	–	–	14,678	–	14,678
Closing balance – 30/6/16	408	44,061	59,927	28	104,424

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Land Improvem- -ents non- depreciable	Land Improve- -ments depreciable	Buildings Non Specialised	Buildings Specialised	Total
Opening balance – 1/7/14	2,186	1,086	11,751	51,124	66,147
Purchases (GBV)	–	84	88	2,427	2,599
Depreciation and impairment	–	(112)	(466)	(2,738)	(3,316)
WIP Transfers	–	7	32	376	415
Closing balance – 30/6/15	2,186	1,065	11,405	51,189	65,845
Purchases (GBV)	75	305	520	1,745	2,645
Disposals (WDV)	–	(4)	(36)	(17)	(58)
Depreciation and impairment	–	(71)	(423)	(1,427)	(1,922)
FV gains – other comprehensive income	667	347	–	–	1,014
WIP Transfers	–	19	75	257	351
Closing balance – 30/6/16	2,928	1,660	11,541	51,746	67,875

	Other Structures	Roads	Bulk Earthworks	Stormwater Drainage	Total
Opening balance – 1/7/14	7,089	69,132	27,219	16,306	119,746
Purchases (GBV)	538	741	–	–	1,279
Disposals (WDV)	(8)	(2)	–	–	(10)
Depreciation and impairment	(464)	(2,877)	–	(224)	(3,565)
FV gains – other comprehensive income	–	21,205	(4,877)	8,315	24,643
WIP Transfers	559	21	–	–	580
Closing balance – 30/6/15	7,714	88,220	22,342	24,397	142,673
Purchases (GBV)	1,447	11,932	538	1,202	15,119
Disposals (WDV)	(20)	(484)	(169)	(44)	(717)
Depreciation and impairment	(203)	(2,620)	–	(276)	(3,099)
FV gains – other comprehensive income	890	–	–	–	890
WIP Transfers	27	693	–	–	720
Closing balance – 30/6/16	9,854	97,741	22,711	25,279	155,585

Kiama Municipal Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Library Books	Other	WIP	Held for Sale	Total
Opening balance – 1/7/14	351	94	1,275	3,593	5,313
Transfers from/(to) another asset class	–	–	(1,275)	–	(1,275)
Purchases (GBV)	101	–	1,155	27	1,283
Depreciation and impairment	(44)	(16)	–	–	(60)
WIP transfers	–	264	–	–	264
Closing balance – 30/6/15	408	342	1,155	3,620	5,525
Transfers from/(to) another asset class	–	–	(1,155)	–	(1,155)
Purchases (GBV)	87	701	–	109	897
Depreciation and impairment	(58)	(16)	–	–	(74)
WIP Transfers	–	84	–	–	84
Closing balance – 30/6/16	437	1,111	–	3,729	5,277

	Investments Held to Maturity	Total
Opening balance – 1/7/14	1,333	1,333
Disposals (WDV)	(1,200)	(1,200)
Revaluation	(133)	(133)
Closing balance – 30/6/15	–	–
Disposals (WDV)	–	–
Revaluation	–	–
Closing balance – 30/6/16	–	–

b. The valuation process for level 3 fair value measurements

The Council's Policy, for determining when transfers are made into different levels of the hierarchy, occurs at the end of the reporting period. There have been no transfers from Level 1 to Level 2 or from Level 2 to Level 1. The valuation techniques employed by Council for Level 3 Assets/Liabilities has been detailed previously. Significant Professional judgement from Council Engineer's is required when determining the valuation process and whether external valuations are required.

(5). Highest and best use

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

Kiama Municipal Council

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

Note 28. Segment reporting

\$ '000	Notes	Actual 2016	Actual 2015
Residential Aged Care: Blue Haven Nursing Home & Hostel - RAC ID 0094			
Income Statement			
Income from Continuing Operations			
Resident Fees		2,029	1,809
Other Revenues		232	224
Grants & Contributions provided for Operating Purposes		3,281	3,134
Grants & Contributions provided for Capital Purposes		—	—
Net gains from the disposal of assets		—	—
Total Income from Continuing Operations		5,542	5,167
Expenses from Continuing Operations			
Employee Costs		4,232	3,837
Borrowing Costs		—	54
Care Costs		268	65
Catering Costs		232	240
Cleaning / Laundry Costs		96	71
Repairs & Maintenance Costs		134	170
Utilities Costs		94	128
Depreciation		238	338
Other Expenses		155	186
Net Losses from the Disposal of Assets		9	—
Total Expenses from Continuing Operations		5,458	5,089
Operating Result from Continuing Operations		84	78
Net Profit/(Loss) from Discontinued Operations		—	—
Net Operating Result for the Year		84	78
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		84	78

Kiama Municipal Council

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

Note 28. Segment reporting (continued)

\$ '000	Notes	Actual 2016	Actual 2015
Residential Aged Care: Blue Haven Nursing Home & Hostel - RAC ID 0094			
Balance Sheet			
ASSETS			
Current Assets			
Cash & Cash Equivalents		11,217	11,479
Investments		—	—
Receivables		—	—
Inventories		—	—
Other		—	—
Total Current Assets		11,217	11,479
Non-Current Assets			
Investments		—	—
Receivables		—	—
Inventories		—	—
Infrastructure, Property, Plant & Equipment		15,432	15,378
Investment Property		—	—
Intangible Assets		2,400	2,400
Total Non-Current Assets		17,832	17,778
TOTAL ASSETS		29,049	29,257
LIABILITIES			
Current Liabilities			
Payables		500	500
Borrowings		—	799
Provisions		507	318
Total Current Liabilities		1,007	1,617
Non-Current Liabilities			
Payables		4,418	4,106
Borrowings		—	—
Provisions		—	—
Total Non-Current Liabilities		4,418	4,106
TOTAL LIABILITIES		5,425	5,723
Net Assets		23,624	23,534
EQUITY			
Retained Earnings		11,663	11,579
Revaluation Reserves		11,961	11,955
Total Equity		23,624	23,534

Kiama Municipal Council

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

Note 29. Financial review

\$ '000

Key financial figures of Council over the past 5 years

Financial performance figures	2016	2015	2014	2013	2012
Inflows:					
Rates and annual charges revenue	18,808	18,354	17,237	16,428	15,435
User charges revenue	17,376	15,982	15,304	14,031	14,067
Interest and investment revenue (losses)	1,677	1,215	1,719	1,724	1,484
Grants income – operating and capital	11,823	9,128	10,483	9,531	10,319
Total income from continuing operations	68,513	51,906	51,559	52,809	51,757
Sale proceeds from I,PP&E	1,034	912	3,511	5,214	4,683
New loan borrowings and advances	–	–	2,025	2,553	–
Outflows:					
Employee benefits and on-cost expenses	24,813	23,001	22,248	22,144	20,420
Borrowing costs	1	367	393	345	329
Materials and contracts expenses	17,172	16,509	16,435	15,575	15,355
Total expenses from continuing operations	53,177	51,924	55,661	49,281	47,121
Total cash purchases of I,PP&E	23,434	9,441	7,976	6,190	6,176
Total loan repayments (incl. finance leases)	1,694	961	980	870	1,120
Operating surplus/(deficit) (excl. capital income)	1,002	(1,576)	(5,885)	2,911	3,803
Financial position figures	2016	2015	2014	2013	2012
Current assets	43,028	45,620	44,860	40,449	35,167
Current liabilities	72,072	73,654	70,596	69,791	70,017
Net current assets	(29,043)	(28,034)	(25,736)	(29,342)	(34,850)
Available working capital (Unrestricted net current assets)	(57,939)	(53,368)	(51,023)	(50,041)	24,474
Cash and investments – unrestricted	283	4,869	5,654	5,788	19,968
Cash and investments – internal restrictions	29,441	27,079	26,061	21,534	1,607
Cash and investments – total	36,412	38,406	37,850	32,398	26,847
Total borrowings outstanding (Loans, advances and finance leases)	4,632	6,326	7,287	6,242	4,559
Total value of I,PP&E (excl. land and earthworks)	350,919	330,513	313,499	326,088	299,667
Total accumulated depreciation	142,594	138,403	149,227	155,935	147,402
Indicative remaining useful life (as a % of GBV)	59%	58%	52%	52%	51%

Source: published audited financial statements of Council (current year and prior year)

Kiama Municipal Council

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

Note 30. Council information and contact details

Principal place of business:

11 Manning Street
Kiama NSW 2533

Contact details

Mailing address:

PO Box75
Kiama NSW 2533

Opening hours:

8.45am to 4.15
Monday to Friday

Telephone: 02 4232 0444

Facsimile: 02 4232 0555

Internet: www.kiama.nsw.gov.au

Email: council@kiama.nsw.gov.au

Officers

GENERAL MANAGER

Michael Forsyth

RESPONSIBLE ACCOUNTING OFFICER

Tracy Sligar

PUBLIC OFFICER

Andrew De Montemas

AUDITORS

Pitcher Partners
GPO Box 1615
Sydney NSW 2001

Elected members

MAYOR

Mark Honey

COUNCILLORS

Brian Petschler
Warren Steel
Neil Reilly
Mark Honey
Gavin McClure
Kathy Rice
Dennis Seage
Andrew Sloan
Mark Way

Other information

ABN: 22 379 679 108

Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Australia

Postal Address:
GPO Box 1615
Sydney NSW 2001
Australia

Tel: +61 2 9221 2099
Fax: +61 2 92231762

www.pitcher.com.au
partners@pitcher-nsw.com.au

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane | Newcastle

KIAMA MUNICIPAL 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 Kiama Municipal Council, which comprises the Statement of Financial Position 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Kiama Municipal 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.

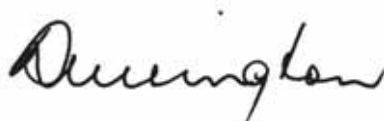
Auditors' Opinion on other legal and regulatory requirements

In our opinion:

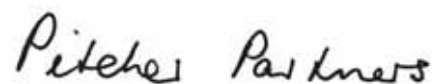
- (a) The Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13, Part 3, Division 2 and the Local Government (General) Regulation 2005; and
- (b) the Council's general purpose financial statements
 - i) have been prepared in accordance 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 Kiama Municipal Council for the year ended 30 June 2016 included on Kiama Municipal Council's web site. The Council is responsible for the integrity of the Kiama Municipal 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

Level 22 MLC Centre
 19 Martin Place
 Sydney NSW 2000
 Australia

Postal Address:
 GPO Box 1615
 Sydney NSW 2001
 Australia

Tel: +61 2 9221 2099
 Fax: +61 2 92231762

www.pitcher.com.au
 partners@pitcher-nsw.com.au

Pitcher Partners is an association of independent firms
 Melbourne | Sydney | Perth | Adelaide | Brisbane | Newcastle

KIAMA MUNICIPAL COUNCIL INDEPENDENT AUDITORS' REPORT ON THE CONDUCT OF THE AUDIT (Local Government Act, 1993 – Sections 417 (1) and 417(3)) YEAR ENDED 30 JUNE 2016

Kiama Municipal Council has prepared a general purpose financial report for the year ended 30 June 2016 on which we issued a separate audit report to the Council dated 31 October 2016. This report has been prepared in accordance with the requirements of the Division 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 report for the year ended 30 June 2016 resulted in an unqualified independent audit report for Council's General 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	15,336	(822)	1965.69%F	(18)
Operating result before capital revenue	1,002	(1,589)	163.06%F	(1,576)
Rates & annual charges	18,808	18,882	0.39%U	18,354
Operating grants & contributions	12,883	9,426	36.68%F	9,757
Capital grants & contributions	14,334	767	1768.84%F	1,558
Depreciation & amortisation	6,820	8,960	23.88%F	8,807

* 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 result for the 2016 year was a surplus of \$15.336 compared with a budgeted deficit of \$0.822M and the 2015 deficit of \$0.018M. The 2016 operating result improvement to budget was the result of:

- Improved results for 'users charges' - particularly related to non-domestic waste management services provided; significant increases over budget for operating (\$3.457M) and capital (\$13.567M) grant and contributions. Major capital grants, which had not been budgeted for, were received from the RMS related to road works as well as for asset contributions identified as part of Council's detailed review of its asset register.
- The actual expense total was unfavourable to budget by a lesser degree than the improved revenue performance. Increased costs for employee benefits and materials and contracts were partially offset by the expected reduction in the depreciation expense after the 30 June 2015 revaluation of roads and related assets.

Operating Result before Capital. The operating result before Capital grants and contributions was a surplus of \$1.002M compared with the prior year deficit of \$1.576M. This compared with the 2016 budget deficit of \$1.589M. This reflects the significant capital grants and contributions recognized in the 2016 result.

Rates and Annual Charges. Revenue from rates and annual charges increased to \$18.808M from \$18.354M in 2015 and \$17.237M in 2014. The increase was in accordance with expectations for the 2016 year.

Grants and Contributions. Operating grants and contributions for the year totalled \$12.883M (2015: \$9.757M; 2014: \$10.177M) and represented 18.8% of total income from continuing operations. This compares with budget of \$9.426M. A new item of \$1.601M was recognised in 2016 related to the Regional Carer Respite Centre which is a facility within Council's responsibility.

Capital grants and contributions amounted to \$14.334M for the 2016 year and represented 20.92% of total income from continuing operations. This compares with budget of \$0.767M; - as noted in 2015, grants finalised post-budget are not included; as noted above, a significant contributor of \$6.328M relates to 'discovered' assets identified in 2015/2016.

Depreciation. Included in the operating result was \$6.820M for the depreciation of infrastructure, property, plant and equipment; - this was a significant reduction to the 2015 expense of \$8.807M and the original budget of \$8.960M. Depreciation of Council's assets represents approximately 12.8% (2015: 17%) of total operating expenses. This reduction results from revaluation of roads and related assets at 30 June 2016 for which significant resources were employed to determine accurate estimates for these material assets.

Statement of Financial Position

Council's equity at 30 June 2016 amounted to \$386.150M comprised of retained earnings (\$160.150M), and reserves (\$226.00M) arising from revaluation of infrastructure and investment property assets in 2015/2016 and more particularly in prior years.

At balance date Council had not utilised any of its bank overdraft facility of \$2.0M.

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	22,349	3,388	189.54%F	10,212
Net cash flows from investing	(23,219)	(1,481)	134.85%U	(9,791)
Net cash flows from financing	(1,694)	(1,692)	0.31%U	(961)
Net movement in cash	(2,564)	215		(540)

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

Council's cash and cash equivalent balances decreased to a total of \$0.418M as at 30 June 2016. The net reduction in cash resulted from significant expenditure on infrastructure, property, plant and equipment.

Total Investments and Cash Balances

Council's cash and investments balances totalled \$36.412M at 30 June 2016 compared to \$38.406M in 2015. The balance was comprised of the following:

	2016 \$'000	2015 \$'000
Externally restricted cash	6,688	6,458
Internally restricted cash	29,441	27,079
Unrestricted cash	283	4,869
<i>Total Cash, Cash Equivalents and Investments</i>	<i>36,412</i>	<i>38,406</i>

Council's overall cash balance decreased whilst external and internal restrictions increased throughout the year; this resulted in lower unrestricted cash of only \$283,000 at 30 June 2016. The main change occurred with internally restricted cash balances, including provision for employee leave and for the Regional Carer Respite Centre.

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 2.61% (2015: -5.27%; 2014: -5.79%) this ratio is an improvement on previous years and reached the benchmark set by NSW TCorp and expectations of the Office of Local Government.

Own source operating revenue ratio. The ratio of 59.84% is significantly reduced from the 2015 (77.75%) and 2014 (76.19%) reflecting the significant increases in operating and capital grants and contributions received in 2015/2016 whilst other revenue sources remained stable.

Unrestricted Current Ratio. The 2016 ratio of 4.73:1 is an improvement to 2015 (3.94:1). This ratio remains above the industry benchmark of 1.50:1 established by TCorp.

Debt Service Ratio. Council's minimal indebtedness has the debt service ratio remaining less than 5% as in previous years, well below the industry benchmark of 10%.

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 2.16% compared to 1.77% in 2015 and 2.25% in 2014. The ratio remains within the industry benchmark of 5%.

Cash expense cover ratio. This liquidity ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash flow. Council's ratio of 8.66 (2015: 10.34; 2014: 9.69) exceeds the industry benchmark of 3 and indicates that Council has sufficient liquidity to adequately fund its short term obligations.

Legislative Compliance

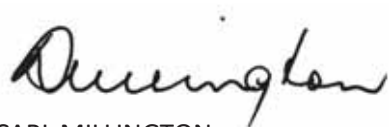
As a result of our audit we advise that no material deficiencies in the accounting records or financial reports have come to our attention during the conduct of the audit, and that Council's accounting records have been kept accurately and conscientiously and in accordance with requirements of the Local 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 24), and other legislatively prescribed standards.

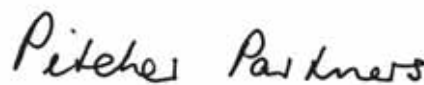
Conduct of the audit

During the conduct of our audit, there were minimal issues requiring additional explanation and investigation. 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 commend the courteous and professional manner in which Council's staff have 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

Kiama Municipal Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016

*A Municipality working together for a
healthy, sustainable & caring community*



Kiama Municipal Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents	Page
1. Statement by Councillors and Management	2
2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	n/a
Income Statement – Sewerage Business Activity	n/a
Income Statement – Other Business Activities	3
Statement of Financial Position – Water Supply Business Activity	n/a
Statement of Financial Position – Sewerage Business Activity	n/a
Statement of Financial Position – Other Business Activities	4
3. Notes to the Special Purpose Financial Statements	5
4. Auditor's Report	9

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).
-

Kiama Municipal Council

Special Purpose Financial Statements for the year ended 30 June 2016

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

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

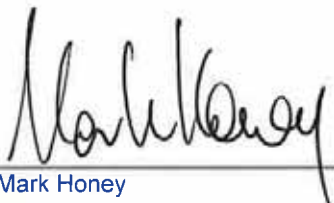
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,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

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

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

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

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



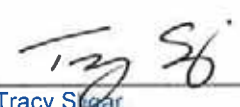
Mark Honey
Mayor



Katherine Rice
Councillor



Michael Forsyth
General manager



Tracy Sugar
Responsible accounting officer

Kiama Municipal Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

	Holiday Parks		Waste Unit	
	Category 1		Category 1	
\$ '000	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Income from continuing operations				
Access charges	—	—	—	—
User charges	8,484	8,143	2,114	1,660
Fees	—	—	2,511	2,249
Interest	—	—	—	—
Grants and contributions provided for non-capital purposes	—	—	—	—
Profit from the sale of assets	—	—	98	10
Other income	87	100	648	535
Total income from continuing operations	8,571	8,243	5,371	4,454
Expenses from continuing operations				
Employee benefits and on-costs	137	127	1,348	1,113
Borrowing costs	—	57	—	—
Materials and contracts	3,959	4,525	2,106	1,814
Depreciation and impairment	619	658	457	515
Loss on sale of assets	—	—	—	—
Calculated taxation equivalents	18	19	—	—
Debt guarantee fee (if applicable)	79	98	—	—
Other expenses	1,003	1,004	34	42
Total expenses from continuing operations	5,815	6,488	3,945	3,484
Surplus (deficit) from continuing operations before capital amounts	2,756	1,755	1,426	970
Grants and contributions provided for capital purposes	—	—	—	—
Surplus (deficit) from continuing operations after capital amounts	2,756	1,755	1,426	970
Surplus (deficit) from discontinued operations	—	—	—	—
Surplus (deficit) from all operations before tax	2,756	1,755	1,426	970
Less: corporate taxation equivalent (30%) [based on result before capital]	(827)	(527)	(428)	(291)
SURPLUS (DEFICIT) AFTER TAX	1,929	1,229	998	679
Plus opening retained profits	9,459	9,316	9,039	8,069
Plus/less: prior period adjustments	—	—	—	—
Plus/less: other adjustments	7	(1)	—	—
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	18	19	—	—
– Debt guarantee fees	79	98	—	—
– Corporate taxation equivalent	827	527	428	291
Add:				
– Subsidy paid/contribution to operations	—	—	—	—
Less:				
– TER dividend paid	—	—	—	—
– Dividend paid	(1,557)	(1,728)	—	—
Closing retained profits	10,762	9,459	10,465	9,039
Return on capital %	16.0%	11.8%	87.0%	65.0%
Subsidy from Council	—	—	—	—

Kiama Municipal Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

	Holiday Parks		Waste Unit	
	Category 1		Category 1	
\$ '000	Actual 2016	Actual 2015	Actual 2016	Actual 2015
ASSETS				
Current assets				
Cash and cash equivalents	1,446	1,557	9,034	7,754
Investments	–	–	–	–
Receivables	87	88	–	–
Inventories	–	–	–	–
Other	–	–	–	–
Non-current assets classified as held for sale	–	–	–	–
Total Current Assets	1,533	1,645	9,034	7,754
Non-current assets				
Investments	–	–	–	–
Receivables	–	–	–	–
Inventories	–	–	–	–
Infrastructure, property, plant and equipment	17,256	15,348	1,640	1,493
Investments accounted for using equity method	–	–	–	–
Investment property	83	83	–	–
Other	–	–	–	–
Total non-current assets	17,339	15,431	1,640	1,493
TOTAL ASSETS	18,872	17,076	10,674	9,247
LIABILITIES				
Current liabilities				
Bank overdraft	–	–	–	–
Payables	–	–	–	–
Borrowings	475	546	–	–
Provisions	12	12	–	–
Total current liabilities	487	558	–	–
Non-current liabilities				
Payables	–	–	–	–
Borrowings	–	–	–	–
Provisions	1,162	1,637	–	–
Other Liabilities	–	–	–	–
Total non-current liabilities	1,162	1,637	–	–
TOTAL LIABILITIES	1,649	2,195	–	–
NET ASSETS	17,223	14,881	10,674	9,247
EQUITY				
Retained earnings	10,762	9,459	10,465	9,039
Revaluation reserves	6,461	5,422	208	208
Council equity interest	17,223	14,881	10,673	9,247
Non-controlling equity interest	–	–	–	–
TOTAL EQUITY	17,223	14,881	10,673	9,247

Kiama Municipal 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	6
2	Water Supply Business Best-Practice Management disclosure requirements	n/a
3	Sewerage Business Best-Practice Management disclosure requirements	n/a

Kiama Municipal 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. Kiama Coast Holiday Parks

Caravan and Camping Parks

b. Waste Business Unit

Domestic/Commercial Waste

Category 2

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

Nil

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars.

(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-

Kiama Municipal Council

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

Note 1. Significant accounting policies (continued)

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.

Income tax

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

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

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

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(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

Kiama Municipal Council

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

Note 1. Significant accounting policies (continued)

comparable to rates of return for private businesses operating in a similar field'.

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

The rate of return on capital is calculated as follows:

Operating result before capital income + interest expense

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

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

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

(iv) Dividends

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

Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Australia

Postal Address:
GPO Box 1615
Sydney NSW 2001
Australia

Tel: +61 2 9221 2099
Fax: +61 2 92231762

www.pitcher.com.au
partners@pitcher-nsw.com.au

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane | Newcastle

KIAMA MUNICIPAL 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 Kiama Municipal 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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

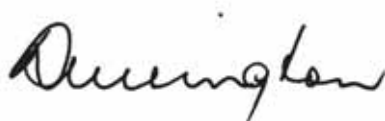
In our opinion, the financial statements present fairly, in all material respects, the financial position of Kiama Municipal Council as of 30 June 2016 and of its financial performance for the year then ended in accordance with the accounting policies described in Note 1 to the special purpose financial statements.

Basis of Accounting

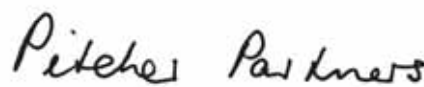
Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The special purpose financial statements have been prepared for distribution to the Council and the New South Wales Division of Local Government for the purpose of fulfilling the 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

Kiama Municipal 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

Kiama Municipal Council

SPECIAL SCHEDULES
for the year ended 30 June 2016

*A Municipality working together for a
healthy, sustainable & caring community*



Kiama Municipal Council

Special Schedules for the year ended 30 June 2016

Contents

Page

Special Schedules¹

Special Schedule 1	Net Cost of Services	2
Special Schedule 2(a)	Statement of Long Term Debt (all purposes)	4
Special Schedule 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
Special Schedule 3	Water Supply Operations – incl. Income Statement	n/a
Special Schedule 4	Water Supply – Statement of Financial Position	n/a
Special Schedule 5	Sewerage Service Operations – incl. Income Statement	n/a
Special Schedule 6	Sewerage Service – Statement of Financial Position	n/a
Notes to Special Schedules 3 and 5		n/a
Special Schedule 7	Report on Infrastructure Assets	5
Special Schedule 8	Permissible Income Calculation	10

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.

Kiama Municipal 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	1,184	–	–	(1,184)
Administration	13,244	2,149	–	(11,095)
Public order and safety				
Fire service levy, fire protection, emergency services	343	140	24	(179)
Beach control	388	6	–	(382)
Enforcement of local government regulations	146	130	–	(16)
Animal control	157	56	–	(101)
Other	–	–	–	–
Total public order and safety	1,034	332	24	(678)
Health	341	178	–	(163)
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	714	–	–	(714)
Solid waste management	4,841	6,266	–	1,425
Street cleaning	148	–	–	(148)
Drainage	–	–	–	–
Stormwater management	327	–	–	(327)
Total environment	6,030	6,266	–	236
Community services and education				
Administration and education	912	75	–	(837)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	10,986	12,965	92	2,071
Children's services	33	55	–	22
Total community services and education	11,931	13,095	92	1,256
Housing and community amenities				
Public cemeteries	108	295	–	187
Public conveniences	297	–	–	(297)
Street lighting	345	44	–	(301)
Town planning	280	542	1,331	1,593
Other community amenities	–	–	–	–
Total housing and community amenities	1,030	881	1,331	1,182
Water supplies	–	–	–	–
Sewerage services	–	–	–	–

Kiama Municipal 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	1,323	219	—	(1,104)
Museums	—	1	—	1
Art galleries	12	—	—	(12)
Community centres and halls	2,064	581	—	(1,483)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	—	—	—	—
Sporting grounds and venues	446	—	—	(446)
Swimming pools	1,820	1,775	—	(45)
Parks and gardens (lakes)	752	—	—	(752)
Other sport and recreation	862	221	—	(641)
Total recreation and culture	7,278	2,797	—	(4,481)
Fuel and energy	—	—	—	—
Agriculture	—	—	—	—
Mining, manufacturing and construction				
Building control	547	154	—	(393)
Other mining, manufacturing and construction	—	—	—	—
Total mining, manufacturing and const.	547	154	—	(393)
Transport and communication				
Urban roads (UR) – local	1,769	1,252	—	(517)
Urban roads – regional	53	—	65	12
Sealed rural roads (SRR) – local	730	12	636	(82)
Sealed rural roads (SRR) – regional	651	—	—	(651)
Unsealed rural roads (URR) – local	4	—	—	(4)
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	333	394	—	61
Bridges on SRR – local	31	—	—	(31)
Bridges on URR – local	—	—	—	—
Bridges on regional roads	25	—	—	(25)
Parking areas	17	—	—	(17)
Footpaths	599	112	—	(487)
Aerodromes	—	—	—	—
Other transport and communication	428	266	12,136	11,974
Total transport and communication	4,640	2,036	12,837	10,233
Economic affairs				
Camping areas and caravan parks	5,474	8,560	50	3,136
Other economic affairs	399	294	—	(105)
Total economic affairs	5,873	8,854	50	3,031
Totals – functions	53,132	36,742	14,334	(2,056)
General purpose revenues ⁽¹⁾		17,437		17,437
Share of interests – joint ventures and associates using the equity method	45	—		(45)
NET OPERATING RESULT ⁽²⁾	53,177	54,179	14,334	15,336

(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

Kiama Municipal 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	1,351	3,458	4,809	—	1,351	—	—	233	501	2,957	3,458
Other	—	—	—	—	—	—	—	—	—	—	—
Total loans	1,351	3,458	4,809	—	1,351	—	—	233	501	2,957	3,458
Other long term debt											
Ratepayers advances	—	—	—	—	—	—	—	—	—	—	—
Government advances	342	1,175	1,517	—	342	1	—	58	342	832	1,174
Finance leases	—	—	—	—	—	—	—	—	—	—	—
Deferred payments	—	—	—	—	—	—	—	—	—	—	—
Total long term debt	342	1,175	1,517	—	342	1	—	58	342	832	1,174
Total debt	1,693	4,633	6,326	—	1,693	1	—	291	843	3,789	4,632

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).

Kiama Municipal 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	Commercial Premises	–	–	–	–	20,502	32,364	58%	42%	0%	0%	0%
	Community Services	–	–	–	–	10,832	19,661	59%	41%	0%	0%	0%
	Holiday Parks	17	17	–	–	11,930	20,201	27%	73%	0%	0%	0%
	KMC Operational	–	–	–	–	6,182	13,559	50%	50%	0%	0%	0%
	Public Toilets	–	–	–	–	2,717	4,327	71%	29%	0%	0%	0%
	Rural Fire Service	–	–	22	15	618	950	71%	29%	0%	0%	0%
	Sports Facilities	–	–	–	–	3,708	8,003	56%	44%	0%	0%	0%
	State Emergency Services	–	–	–	–	561	787	100%	0%	0%	0%	0%
	Surf Life Saving Clubs	–	–	–	–	4,684	7,642	91%	10%	0%	0%	0%
	Other	302	302	675	636	1,553	1,588	80%	1%	0%	0%	19%
	Sub-total	319	319	697	651	63,287	109,082	54.9%	44.7%	0.2%	0.0%	0.3%
Other structures	Other structures	94	94	–	–	9,854	20,776	14%	69%	17%	1%	0%
	Sub-total	94	94	–	–	9,854	20,776	13.9%	68.9%	16.7%	0.5%	0.0%

Kiama Municipal 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
Roads	Urban Roads	–	–	841	928	–	–					
	Sealed roads	294	294	–	–	30,633	53,290	32%	67%	1%	0%	0%
	Unsealed roads	–	–	–	–	2	3	100%	0%	0%	0%	0%
	Bridges	–	–	–	–	1,464	3,125	1%	99%	0%	0%	0%
	Footpaths	–	–	–	–	3,827	6,517	40%	60%	0%	0%	0%
	Other road assets	478	478	–	–	24,007	36,418	35%	64%	0%	1%	0%
	Bulk earthworks	–	–	–	–	11,788	11,788	100%	0%	0%	0%	0%
	Rural Roads	–	–	462	466	–	–					
	Sealed roads	523	523	–	–	14,061	21,603	44%	52%	2%	0%	2%
	Unsealed roads	–	–	–	–	408	693	50%	50%	0%	0%	0%
	Bridges	269	269	–	–	3,108	4,356	48%	46%	0%	6%	0%
	Footpaths	–	–	–	–	–	–	100%	0%	0%	0%	0%
	Other road assets	74	74	–	–	1,995	2,164	89%	8%	0%	3%	0%
	Bulk earthworks	–	–	–	–	7,328	7,328	100%	0%	0%	0%	0%
	Regional Roads	–	–	605	550	–	–					
	Sealed roads	54	54	–	–	7,718	14,797	21%	78%	0%	0%	0%
	Unsealed roads	–	–	–	–	–	–	100%	0%	0%	0%	0%
	Bridges	249	249	–	–	2,810	6,553	0%	96%	0%	4%	0%
	Footpaths	–	–	–	–	562	1,073	17%	83%	0%	0%	0%
	Other road assets	129	129	–	–	1,404	1,951	61%	33%	0%	6%	1%
	Bulk earthworks	–	–	–	–	3,595	3,595	100%	0%	0%	0%	0%
Access Roads & Carparks	Access Roads & Carparks	–	–	–	–	–	–					
	Sealed roads	–	–	–	–	1,096	1,570	60%	40%	0%	0%	0%
	Unsealed roads	–	–	–	–	–	–	100%	0%	0%	0%	0%
	Bridges	–	–	–	–	335	381	87%	13%	0%	0%	0%
	Footpaths	–	–	–	–	3,803	4,820	71%	29%	0%	0%	0%
	Other road assets	330	330	–	–	508	1,273	16%	53%	5%	26%	0%
	Sub-total	2,400	2,400	1,908	1,944	120,452	183,298	42.6%	55.5%	0.6%	0.9%	0.4%

Kiama Municipal 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	–	–	95	76	–	–					
	Pits	–	–	–	–	6,627	8,746	75%	25%	0%	0%	0%
	Pipes	–	–	–	–	18,508	25,348	62%	39%	0%	0%	0%
	Open Channel	–	–	–	–	26	27	100%	0%	0%	0%	0%
	Other	–	–	–	–	118	163	88%	12%	0%	0%	0%
	Sub-total	–	–	95	76	25,279	34,284	65.1%	34.9%	0.0%	0.0%	0.0%
Open space/recreational assets	Depreciable Land Improvements	281	281	1,729	1,838	2,929	4,272	16%	74%	3%	6%	0%
	Sub-total	281	281	1,729	1,838	2,929	4,272	16.1%	74.4%	3.0%	6.1%	0.4%
	TOTAL – ALL ASSETS	3,094	3,094	4,429	4,509	221,801	351,712	46.6%	51.2%	1.4%	0.6%	0.3%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Kiama Municipal Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods 20152014	
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	12,079	244.07%	25.81%	55.75%
Depreciation, amortisation and impairment	4,949			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	3,094	1.56%	2.44%	1.65%
Carrying value of infrastructure assets	197,821			
3. Asset maintenance ratio				
Actual asset maintenance	4,509	1.02	0.98	0.95
Required asset maintenance	4,429			

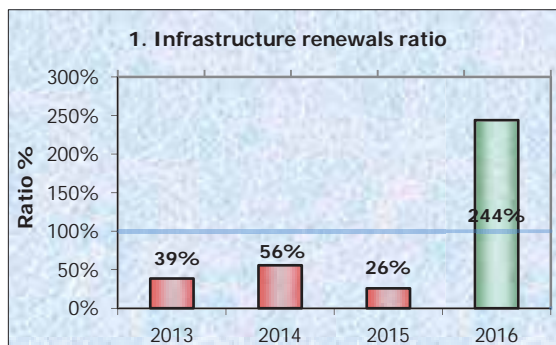
Notes

* 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.

Kiama Municipal Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2016



Benchmark: — Minimum $\geq 100.00\%$

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

Purpose of asset renewals ratio

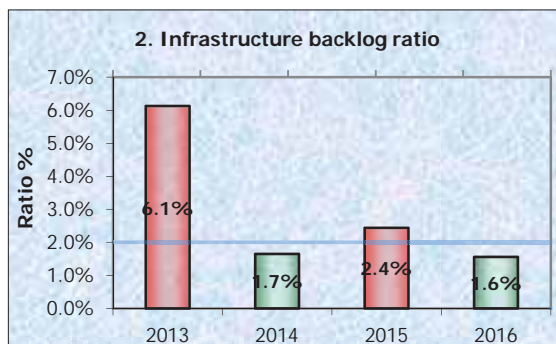
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2015/16 result

2015/16 Ratio 244.07%

This ratio has improved as Council has refined its Asset Management plans and Asset Renewal programs.

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$

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

Purpose of infrastructure backlog ratio

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

Commentary on 2015/16 result

2015/16 Ratio 1.56%

Council is spending adequately on maintenance and renewals to maintain its infrastructure assets

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Minimum > 1.00

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

Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2015/16 result

2015/16 Ratio 1.02 x

Council is spending adequately on maintenance to maintain its infrastructure assets

Ratio achieves benchmark
Ratio is outside benchmark

Kiama Municipal 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	14,104	14,596
Plus or minus adjustments ⁽²⁾	b	211	187
Notional general income	c = (a + b)	14,315	14,783
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	1.97%
Less expiring special variation amount	g	—	—
Plus special variation amount	h = d x (c – g)	—	—
Or plus rate peg amount	i = c x e	344	—
Or plus Crown land adjustment and rate peg amount	j = c x f	—	290
Sub-total	k = (c + g + h + i + j)	14,659	15,073
Plus (or minus) last year's carry forward total	l	(60)	1
Less valuation objections claimed in the previous year	m	(1)	—
Sub-total	n = (l + m)	(61)	1
Total permissible income	o = k + n	14,597	15,074
Less notional general income yield	p	14,596	15,040
Catch-up or (excess) result	q = o – p	1	34
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	—
Less unused catch-up ⁽⁵⁾	s	—	—
Carry forward to next year	t = q + r – s	1	34

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.

Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Australia

Postal Address:
GPO Box 1615
Sydney NSW 2001
Australia

Tel: +61 2 9221 2099
Fax: +61 2 92231762

www.pitcher.com.au
partners@pitcher-nsw.com.au

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane | Newcastle

KIAMA MUNICIPAL 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 Kiama Municipal 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. 9 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

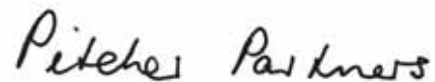
In our opinion, Special Schedule No. 8 of Kiama Municipal Council for the year ending 30 June 2017 is properly drawn up in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

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