

# Kiama Municipal Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2017

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



# Kiama Municipal Council

## General Purpose Financial Statements for the year ended 30 June 2017

Contents	Page
<b>1. Understanding Council's Financial Statements</b>	2
<b>2. Statement by Councillors and Management</b>	3
<b>3. Primary Financial Statements:</b>	
– Income Statement	4
– Statement of Comprehensive Income	5
– Statement of Financial Position	6
– Statement of Changes in Equity	7
– Statement of Cash Flows	8
<b>4. Notes to the Financial Statements</b>	9
<b>5. Independent Auditor's Reports:</b>	
– On the Financial Statements (Sect 417 [2])	87
– On the Conduct of the Audit (Sect 417 [3])	90

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### Overview

- (i) These financial statements are General Purpose Financial Statements and cover the consolidated 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 guiding principles are detailed in Chapter 3 of the LGA and includes:

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

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

- (iii) All figures presented in these financial statements are presented in Australian currency.
  - (iv) These financial statements were authorised for issue by the Council on 21 November 2017. Council has the power to amend and reissue these financial statements.
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# Kiama Municipal Council

## General Purpose Financial Statements for the year ended 30 June 2017

### Understanding Council's financial statements

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#### Introduction

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

#### What you will find in the statements

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

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

#### About the Councillor/Management Statement

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

#### About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

##### 1. The Income Statement

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

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

##### 2. The Statement of Comprehensive Income

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

##### 3. The Statement of Financial Position

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

##### 4. The Statement of Changes in Equity

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

##### 5. The Statement of Cash Flows

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

#### About the Notes to the Financial Statements

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

#### About the Auditor's Reports

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

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

#### Who uses the financial statements?

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

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

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

#### More information

A review of Council's financial performance and position for the 16/17 financial year can be found at Note 30 of the financial statements.

## Kiama Municipal Council

### General Purpose Financial Statements for the year ended 30 June 2017

### Statement by Councillors and Management

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

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

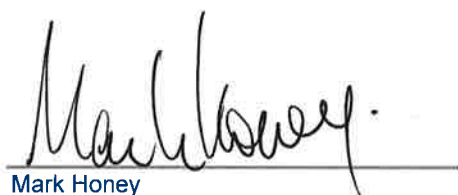
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

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

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


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




Mark Honey  
Mayor



Kathy Rice  
Councillor



Michael Forsyth  
General manager



David Mead  
Responsible accounting officer

# Kiama Municipal Council

## Income Statement

for the year ended 30 June 2017

Budget <sup>1</sup> 2017 \$ '000		Notes	Actual 2017	Actual 2016
<b>Income from continuing operations</b>				
<b>Revenue:</b>				
19,808	Rates and annual charges	3a	19,838	18,808
16,124	User charges and fees	3b	18,678	17,376
1,207	Interest and investment revenue	3c	1,844	1,677
1,886	Other revenues	3d	4,976	3,435
12,243	Grants and contributions provided for operating purposes	3e,f	11,712	12,883
1,552	Grants and contributions provided for capital purposes	3e,f	16,855	14,334
<b>Other income:</b>				
499	Net gains from the disposal of assets	5	—	—
—	Net share of interests in joint ventures and associates using the equity method	19	50	—
<b>53,319</b>	<b>Total income from continuing operations</b>		<b>73,953</b>	<b>68,513</b>
<b>Expenses from continuing operations</b>				
23,552	Employee benefits and on-costs	4a	24,825	24,813
—	Borrowing costs	4b	221	1
17,133	Materials and contracts	4c	18,159	17,172
6,884	Depreciation and amortisation	4d	6,556	6,820
—	Impairment	4d	—	—
3,645	Other expenses	4e	3,132	3,232
—	Net losses from the disposal of assets	5	328	1,094
—	Net share of interests in joint ventures and associates using the equity method	19	—	45
<b>51,214</b>	<b>Total expenses from continuing operations</b>		<b>53,221</b>	<b>53,177</b>
<b>2,105</b>	<b>Operating result from continuing operations</b>		<b>20,732</b>	<b>15,336</b>
<b>Discontinued operations</b>				
—	Net profit/(loss) from discontinued operations	24	—	—
<b>2,105</b>	<b>Net operating result for the year</b>		<b>20,732</b>	<b>15,336</b>
2,105	Net operating result attributable to Council		20,732	15,336
—	Net operating result attributable to non-controlling interests		—	—
<b>553</b>	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		<b>3,877</b>	<b>1,002</b>

<sup>1</sup> Original budget as approved by Council – refer Note 16

# Kiama Municipal Council

## Statement of Comprehensive Income for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
<b>Net operating result for the year</b> (as per Income Statement)		<b>20,732</b>	<b>15,336</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	–	16,582
Other comprehensive income – joint ventures and associates	19b	(2)	–
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>(2)</b>	<b>16,582</b>
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
<b>Total other comprehensive income for the year</b>		<b>(2)</b>	<b>16,582</b>
<b>Total comprehensive income for the year</b>		<b>20,730</b>	<b>31,918</b>
<b>Total comprehensive income attributable to Council</b>		<b>20,730</b>	<b>31,918</b>
<b>Total comprehensive income attributable to non-controlling interests</b>		<b>–</b>	<b>–</b>

# Kiama Municipal Council

## Statement of Financial Position as at 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016	Actual 2015
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	6a	2,104	418	2,981
Investments	6b	37,278	35,995	35,425
Receivables	7	2,023	2,602	3,107
Inventories	8	243	227	409
Other	8	5	58	78
Non-current assets classified as 'held for sale'	22	3,756	3,729	3,620
<b>Total current assets</b>		<b>45,409</b>	<b>43,028</b>	<b>45,620</b>
<b>Non-current assets</b>				
Investments	6b	—	—	—
Receivables	7	551	552	442
Inventories	8	—	—	—
Infrastructure, property, plant and equipment	9	357,197	337,980	306,811
Investments accounted for using the equity method	19	157	109	154
Investment property	14	80,053	78,075	77,092
Intangible assets	25	2,400	2,400	2,400
<b>Total non-current assets</b>		<b>440,358</b>	<b>419,116</b>	<b>386,899</b>
<b>TOTAL ASSETS</b>		<b>485,767</b>	<b>462,144</b>	<b>432,519</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	10	68,206	65,003	65,451
Income received in advance	10	723	76	—
Borrowings	10	654	843	1,693
Provisions	10	6,654	6,766	7,121
<b>Total current liabilities</b>		<b>76,237</b>	<b>72,688</b>	<b>74,265</b>
<b>Non-current liabilities</b>				
Payables	10	—	—	—
Borrowings	10	3,136	3,789	4,633
Provisions	10	125	128	—
<b>Total non-current liabilities</b>		<b>3,261</b>	<b>3,917</b>	<b>4,633</b>
<b>TOTAL LIABILITIES</b>		<b>79,498</b>	<b>76,605</b>	<b>78,898</b>
<b>Net assets</b>		<b>406,269</b>	<b>385,539</b>	<b>353,621</b>
<b>EQUITY</b>				
Retained earnings	20	209,407	188,677	173,341
Revaluation reserves	20	196,862	196,862	180,280
Other reserves	20	—	—	—
<b>Council equity interest</b>		<b>406,269</b>	<b>385,539</b>	<b>353,621</b>
<b>Non-controlling equity interests</b>		<b>—</b>	<b>—</b>	<b>—</b>
<b>Total equity</b>		<b>406,269</b>	<b>385,539</b>	<b>353,621</b>

## Kiama Municipal Council

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

		2017	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non- controlling interest	Total equity	2016	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non- controlling interest	Total equity
\$ '000	Notes	Retained earnings						Retained earnings					
Opening balance (as per last year's audited accounts)		188,677	196,862	—	385,539	—	385,539	144,814	209,418	—	354,232	—	354,232
a. Correction of prior period errors	20 (c)	—	—	—	—	—	—	28,527	(29,138)	—	(611)	—	(611)
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—	—	—	—	—	—	—	—
Revised opening balance		188,677	196,862	—	385,539	—	385,539	173,341	180,280	—	353,621	—	353,621
c. Net operating result for the year		20,732	—	—	20,732	—	20,732	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	(2)	—	—	(2)	—	(2)	—	—	—	—	—	—
– Other reserves movements	20b (ii)	—	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income		(2)	—	—	(2)	—	(2)	—	16,582	—	16,582	—	16,582
Total comprehensive income (c&d)		20,730	—	—	20,730	—	20,730	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		209,407	196,862	—	406,269	—	406,269	188,677	196,862	—	385,539	—	385,539



# Kiama Municipal Council

## Statement of Cash Flows for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
19,805	Rates and annual charges		19,961	18,726
16,637	User charges and fees		19,504	17,998
1,892	Investment and interest revenue received		1,703	2,471
15,857	Grants and contributions		28,957	27,586
–	Bonds, deposits and retention amounts received		69	14
1,523	Other		3,301	4,335
<b>Payments:</b>				
(23,699)	Employee benefits and on-costs		(24,940)	(24,881)
(17,611)	Materials and contracts		(17,948)	(19,697)
(236)	Borrowing costs		(221)	(1)
(3,584)	Other		(172)	(4,201)
<b>10,584</b>	<b>Net cash provided (or used in) operating activities</b>	11b	<b>30,213</b>	<b>22,349</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
16,000	Sale of investment securities		35,995	35,425
–	Sale of real estate assets		–	285
8,836	Sale of infrastructure, property, plant and equipment		767	749
<b>Payments:</b>				
–	Purchase of investment securities		(37,279)	(35,995)
–	Purchase of investment property		(273)	(236)
(22,893)	Purchase of infrastructure, property, plant and equipment		(26,955)	(23,434)
–	Purchase of real estate assets		60	(13)
<b>1,943</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(27,685)</b>	<b>(23,219)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
Nil				
<b>Payments:</b>				
(844)	Repayment of borrowings and advances		(842)	(1,694)
<b>(844)</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(842)</b>	<b>(1,694)</b>
<b>11,683</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,687</b>	<b>(2,563)</b>
12,101	Plus: cash and cash equivalents – beginning of year	11a	418	2,981
<b>23,784</b>	<b>Cash and cash equivalents – end of the year</b>	11a	<b>2,104</b>	<b>418</b>
Additional Information:				
	plus: Investments on hand – end of year	6b	37,278	35,995
	<b>Total cash, cash equivalents and investments</b>		<b>39,382</b>	<b>36,412</b>

Please refer to Note 11 for additional cash flow information.

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## 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	23
2(b)	Council functions/activities – component descriptions	24
3	Income from continuing operations	25
4	Expenses from continuing operations	31
5	Gains or losses from the disposal of assets	34
6(a)	Cash and cash equivalent assets	35
6(b)	Investments	35
6(c)	Restricted cash, cash equivalents and investments – details	36
7	Receivables	38
8	Inventories and other assets	39
9(a)	Infrastructure, property, plant and equipment	40
9(b)	Externally restricted infrastructure, property, plant and equipment	41
9(c)	Infrastructure, property, plant and equipment – current year impairments	41 n/a
10(a)	Payables, borrowings and provisions	42
10(b)	Description of (and movements in) provisions	43
11	Statement of cash flows – additional information	44
12	Commitments for expenditure	45
13	Statement of performance measures:	
13a (i)	Local government industry indicators (consolidated)	46
13a (ii)	Local government industry graphs (consolidated)	47
14	Investment properties	49
15	Financial risk management	50
16	Material budget variations	54
17	Statement of developer contributions	56
18	Contingencies and other liabilities/assets not recognised	60
19	Interests in other entities	62
20	Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	67
21	Financial result and financial position by fund	68 n/a
22	'Held for sale' non-current assets and disposal groups	69
23	Events occurring after the reporting date	70 n/a
24	Discontinued operations	70 n/a
25	Intangible assets	71
26	Reinstatement, rehabilitation and restoration liabilities	71 n/a
27	Fair value measurement	72
28	Related party disclosures	82
	<b>Additional council disclosures</b>	
29	Segment Reporting	83
30	Financial review	85
31	Council information and contact details	86

n/a – not applicable

# Kiama Municipal Council

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

### Note 1. Summary of significant accounting policies

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

#### (a) Basis of preparation

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

#### (i) New and amended standards adopted by Council

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

#### (ii) Early adoption of standards

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

#### (iii) Historical cost convention

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

#### (iv) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that

are believed to be reasonable under the circumstances.

#### **Critical accounting estimates and assumptions**

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

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

#### **Significant judgements in applying the Council's accounting policies**

- (i) Impairment of Receivables

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

#### (b) Revenue recognition

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

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

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

#### (i) Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

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

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

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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

#### (ii) User charges and fees

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

#### (iii) Sale of infrastructure, property, plant and equipment

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

#### (iv) Interest

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

#### (v) Rent

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

#### (vi) Dividend income

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

#### (vii) Other income

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

### (c) Principles of consolidation

#### (i) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- 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 (NSW) (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the Council in trust which must be applied only for the purposes of, or in accordance with the trusts relating to those monies. Trust monies and property subject to Council's control have been included in these reports.

Trust monies and property held by Council but not subject to the control of Council have been excluded from these reports. A separate statement of monies held in the Trust Fund is available for inspection at the Council office by any person free of charge.

#### (iii) County Councils

Council is not a member of any county councils.

# Kiama Municipal Council

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

### Note 1. Summary of significant accounting policies (continued)

#### (iv) Interests in other entities

##### Subsidiaries

Council has no interest in any subsidiaries.

##### Joint arrangements

AASB 11 *Joint Arrangements* defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations.

##### Joint operations

Council has no interest in any joint operations.

##### Joint ventures

Interests in joint ventures are accounted for using the equity method in accordance with AASB128 Associates and Joint Ventures. Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

The Council's share in the joint venture's gains or losses arising from transactions between itself and its joint venture are eliminated.

Adjustments are made to the joint venture's accounting policies where they are different from those of the Council for the purpose of the consolidated financial statements.

#### (d) Leases

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

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease

payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where Council is a lessor is recognised as income on a straight-line basis over the lease term.

#### (e) Impairment of assets

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

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

#### (f) Cash and cash equivalents

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

Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

#### (g) Inventories

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

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

Cost comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

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

##### (ii) Inventory held for distribution

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

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

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

borrowing costs and other holding charges are expensed as incurred.

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

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

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

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

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

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



# Kiama Municipal Council

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

### Note 1. Summary of significant accounting policies (continued)

#### (i) Investments and other financial assets

##### Classification

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

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which that are classified as non-current assets.

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

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

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

##### (iii) Held-to-maturity investments

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

amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

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

##### (iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

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

##### Recognition and de-recognition

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

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

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

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

##### Subsequent measurement

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

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

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

#### Impairment

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

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

#### (i) Assets carried at amortised cost

For loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Council may measure impairment on the basis of an instrument's fair value using an observable market price.

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

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or

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

The amount of the impairment loss is recognised in the income statement within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

#### Investment Policy

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

Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it, or its representatives, exercise the care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order (the Order) arising from the Cole Inquiry recommendations. Certain investments the Council holds are no longer prescribed; however, they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

#### (j) Fair value estimation – financial instruments

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

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



# Kiama Municipal Council

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

### Note 1. Summary of significant accounting policies (continued)

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

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

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

- **Plant and equipment**  
(as approximated by depreciated historical cost)
- **Operational land** (external valuation)
- **Community land** (external valuation)
- **Land improvements**  
(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)
- **Other assets**  
(as approximated by depreciated historical cost)
- **Investment properties** – refer Note 1(l),

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

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

For all other asset classes, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalue the asset to that amount. Full revaluations are undertaken for all assets on a five-year cycle.

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

# Kiama Municipal Council

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

### Note 1. Summary of significant accounting policies (continued)

#### Capitalisation thresholds

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

##### Land

- 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
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##### Building

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

Other structures	> \$2,000
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##### Stormwater assets

Drains and culverts	> \$5,000
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
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##### Other infrastructure assets

Swimming pools	> \$5,000
Other open space/recreational assets	> \$5,000
Other infrastructure	> \$5,000

- Other plant and equipment	5 to 15 years
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##### 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
- 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

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

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

#### Depreciation

Land is not depreciated.

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

##### Plant and equipment

- Office equipment	5 to 10 years
- Office furniture	10 to 20 years
- Vehicles/road making equipment	5 to 8 years

#### (I) Investment property

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

Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

not available, Council uses alternative valuation methods such as recent prices in less active markets, or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.

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

#### (m) Payables

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

#### (n) Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

liabilities assumed, is recognised in other income or finance cost.

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

#### (o) Borrowing costs

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

#### (p) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### (q) Employee benefits

##### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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

#### (ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

#### (iii) Retirement benefit obligations

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

#### Defined Benefit Plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the Statement of Financial Position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's

assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments that arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable.

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 02/12/2016 and covers the period ended 30/06/2016.

However the position is monitored annually and the actuary has estimated that as at 30 June 2017 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 2017 was \$ 540,700.99.

The amount of additional contributions included in the total employer contribution advised above is \$231,000.

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$511,356.12 as at 30 June 2017.

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

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

#### **(r) Land under roads**

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

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

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

#### **(s) Self-insurance**

Council does not self-insure.

#### **(t) Intangible assets**

##### **Bed Licences**

Council owns and operates Blue Haven Retirement Village which includes 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 licenses 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.

#### **(u) Crown reserves**

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

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

#### **(v) Rural fire service assets**

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

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

#### **(w) Goods and Services Tax (GST)**

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



## Kiama Municipal Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

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

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

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

Apart from the 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 2014 – 10 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture**

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

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

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

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

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

#### **AASB 9 – Financial Instruments**

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

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

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

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

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

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

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

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

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

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

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 1. Summary of significant accounting policies (continued)

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.

The full impact of these standards has yet to be ascertained or quantified but will range from additional and/or revised disclosures to changes in how certain transactions and balances are accounted for.

#### **(y) Rounding of amounts**

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

#### **(z) Comparative figures**

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

#### **(aa) Disclaimer**

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

## Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current and non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2017	2017	2016	2017	2017	2016	2017	2017	2016	2017	2016	2017	2016
Governance	–	–	–	–	1,349	1,236	–	(1,349)	(1,236)	–	–	–	–
Corporate Services	1,014	4,315	3,513	8,468	5,452	9,006	(7,454)	(1,137)	(5,493)	2,532	1,702	78,658	94,144
Community Services	4,384	6,550	5,968	7,244	7,550	7,068	(2,860)	(1,000)	(1,100)	3,328	3,473	16,067	9,749
Environmental Services	5,167	6,688	5,767	7,266	7,367	4,162	(2,099)	(679)	1,605	77	51	1,463	1,585
Engineering & Works	3,998	16,685	15,780	11,583	16,409	15,295	(7,585)	276	485	1,685	1,559	270,644	258,886
Commercial Activities	19,310	20,845	20,048	16,653	15,094	16,365	2,657	5,751	3,683	1,531	3,371	118,778	97,671
<b>Total functions and activities</b>	<b>33,873</b>	<b>55,083</b>	<b>51,076</b>	<b>51,214</b>	<b>53,221</b>	<b>53,132</b>	<b>(17,341)</b>	<b>1,862</b>	<b>(2,056)</b>	<b>9,153</b>	<b>10,156</b>	<b>485,610</b>	<b>462,035</b>
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	50	–	–	–	45	–	50	(45)	–	–	157	109
General purpose income <sup>1</sup>	18,446	18,820	17,437	–	–	–	18,446	18,820	17,437	2,435	1,667	–	–
<b>Operating result from continuing operations</b>	<b>52,319</b>	<b>73,953</b>	<b>68,513</b>	<b>51,214</b>	<b>53,221</b>	<b>53,177</b>	<b>1,105</b>	<b>20,732</b>	<b>15,336</b>	<b>11,588</b>	<b>11,823</b>	<b>485,767</b>	<b>462,144</b>

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 2017

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

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

##### **GOVERNANCE**

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

##### **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 2017

### Note 3. Income from continuing operations

<b>\$ '000</b>	<b>Notes</b>	<b>Actual 2017</b>	<b>Actual 2016</b>
<b>(a) Rates and annual charges</b>			
<b>Ordinary rates</b>			
Residential		12,962	12,538
Farmland		565	559
Business		1,141	1,104
<b>Total ordinary rates</b>		<b>14,668</b>	<b>14,201</b>
<b>Special rates</b>			
Nil			
<b>Annual charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		4,933	4,378
Waste management services (non-domestic)		237	229
<b>Total annual charges</b>		<b>5,170</b>	<b>4,607</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>19,838</b>	<b>18,808</b>

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 2017

### Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>(b) User charges and fees</b>			
<b>Specific user charges</b> (per s.502 – specific ‘actual use’ charges)			
Contract Plant and Truck Hire		1,273	1,339
Trade Waste		104	107
<b>Total user charges</b>		<b>1,377</b>	<b>1,446</b>
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Building services – other		197	127
Inspection services		–	26
Planning and building regulation		822	557
Registration fees		21	53
Section 603 certificates		53	52
<b>Total fees and charges – statutory/regulatory</b>		<b>1,093</b>	<b>815</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Blue Haven aged care		2,824	2,916
Blue haven care – in home support packages		1,911	378
Council properties		537	524
Engineering services		149	138
Holiday parks		8,096	8,425
Lease rentals		78	–
Leisure centre		1,820	1,743
Library and family history centre		111	91
Public cemeteries		252	289
Saddleback mountain tower		81	85
Sundry sales		2	1
Waste disposal tipping fees		121	106
Other		226	419
<b>Total fees and charges – other</b>		<b>16,208</b>	<b>15,115</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>18,678</b>	<b>17,376</b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>(c) Interest and investment revenue (including losses)</b>			
<b>Interest</b>			
– Interest on overdue rates and annual charges (incl. special purpose rates)		33	17
– Interest earned on investments (interest and coupon payment income)		1,811	1,660
<b><u>TOTAL INTEREST AND INVESTMENT REVENUE</u></b>		<b><u>1,844</u></b>	<b><u>1,677</u></b>
<b>Interest revenue is attributable to:</b>			
<b>Unrestricted investments/financial assets:</b>			
Overdue rates and annual charges (general fund)		33	17
General Council cash and investments		1,684	1,552
<b>Restricted investments/funds – external:</b>			
Development contributions			
– Section 94		127	108
<b><u>Total interest and investment revenue recognised</u></b>		<b><u>1,844</u></b>	<b><u>1,677</u></b>
<b>(d) Other revenues</b>			
Fair value increments – investment properties	14	1,705	747
Rental income – investment properties	14	79	73
Rental income – other council properties		99	137
Fines – parking		56	62
Fines – other		34	21
Legal fees recovery – rates and charges (extra charges)		67	67
Admin sundry income		–	35
Deferred payment liabilities amortisation		1,743	1,382
Diesel fuel rebate		51	43
Domestic waste management		–	35
Engineering income		–	81
Insurance claim recoveries		90	–
Motor vehicle leaseback		239	245
Recycling income (non-domestic)		14	5
Section 88 rebate		87	87
Workers comp. refund		–	36
Option Fee Property Sale		350	–
Other		362	379
<b><u>TOTAL OTHER REVENUE</u></b>		<b><u>4,976</u></b>	<b><u>3,435</u></b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
Financial assistance	2,260	1,420	–	–
Pensioners' rates subsidies – general component	175	247	–	–
<b>Total general purpose</b>	<b>2,435</b>	<b>1,667</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Domestic waste management	67	–	–	–
Blue Haven Care – In Home Support Packages	–	1,692	–	–
Blue Haven retirement village	3,296	3,290	32	–
Bushfire and emergency services	129	135	–	–
CCTV	–	–	64	–
Centre based day care	–	45	–	–
Community transport	304	260	–	–
Community options program	–	160	–	–
Cultural development	59	57	–	–
Dementia friendly community program	15	8	–	–
Domestic assistance	492	489	–	–
Economic development	5	–	–	–
Environmental protection	24	–	–	–
Heritage and cultural	6	–	–	–
Home maintenance	–	166	–	–
Kiama harbour redevelopment	–	–	–	50
Library	–	124	–	–
Library – per capita	57	–	–	–
Library – special projects	7	–	200	–
LIRS subsidy	98	129	–	–
Organics and recycling	21	–	20	–
Personal care	–	46	–	–
Regional Carer Respite Centre	1,943	1,601	–	–
Reserve improvements	–	–	–	67
Respite service	–	130	–	–
Restart - Infrastructure	–	–	550	92
Road safety program	26	19	–	–
Social support	–	193	–	–
Street lighting	45	44	–	–
Traffic facilities/black spot program	–	–	64	636
Trainees	–	10	–	–
Transport (roads to recovery)	701	607	–	–
Youth opportunities	50	–	–	–
Community Support	830	–	–	–
Life Saving Observation Tower	–	–	29	–
Youth Week	1	–	–	–
Other	8	106	10	–
<b>Total specific purpose</b>	<b>8,184</b>	<b>9,311</b>	<b>969</b>	<b>845</b>
<b>Total grants</b>	<b>10,619</b>	<b>10,978</b>	<b>969</b>	<b>845</b>

(continued on the next page...)

# Kiama Municipal Council

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

### Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
<b>(e) Grants (continued)</b>				
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	5,530	4,554	125	686
– State funding	5,002	4,663	74	159
– Other funding	87	1,761	770	–
	<b>10,619</b>	<b>10,978</b>	<b>969</b>	<b>845</b>
<b>(f) Contributions</b>				
<b>Developer contributions:</b>				
<b>(s93 &amp; s94 – EP&amp;A Act, s64 of the LGA):</b>				
S 94 – contributions towards amenities/services	–	–	2,123	1,332
<b>Total developer contributions</b>	<b>–</b>	<b>–</b>	<b>2,123</b>	<b>1,332</b>
<b>Other contributions:</b>				
Admin support	–	33	–	–
Community bus	71	89	–	–
Community options program	–	30	–	–
Community services	85	–	–	–
Foxground rural fire service	–	–	–	24
Insurance	–	81	–	–
Regional Carer Respite Centre	244	1,021	–	–
Roads and bridges	–	20	–	–
RMS contributions (regional roads, block grant)	621	610	–	–
RMS Contributed Assets	–	–	13,642	12,133
Other	72	21	121	–
<b>Total other contributions</b>	<b>1,093</b>	<b>1,905</b>	<b>13,763</b>	<b>12,157</b>
<b>Total contributions</b>	<b>1,093</b>	<b>1,905</b>	<b>15,886</b>	<b>13,489</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>11,712</b>	<b>12,883</b>	<b>16,855</b>	<b>14,334</b>

# Kiama Municipal Council

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

### Note 3. Income from continuing operations (continued)

	Actual 2017	Actual 2016
\$ '000		
(g) Unspent grants and contributions		
<b>Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:</b>		
Unexpended at the close of the previous reporting period	4,605	4,535
<b>Add:</b> grants and contributions recognised in the current period but not yet spent:	2,422	1,691
<b>Less:</b> grants and contributions recognised in a previous reporting period now spent:	(1,612)	(1,621)
<b>Net increase (decrease) in restricted assets during the period</b>	<b>810</b>	<b>70</b>
<b>Unexpended and held as restricted assets</b>	<b>5,415</b>	<b>4,605</b>
<b>Comprising:</b>		
– Specific purpose unexpended grants	299	390
– Developer contributions	5,116	4,215
	<b>5,415</b>	<b>4,605</b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Employee benefits and on-costs</b>			
Salaries and wages		19,873	19,689
Travel expenses		–	1
Employee leave entitlements (ELE)		2,300	2,393
Superannuation		2,207	2,222
Workers' compensation insurance		747	833
Fringe benefit tax (FBT)		61	32
Training costs (other than salaries and wages)		164	125
Other		40	35
<b>Total employee costs</b>		<b>25,392</b>	<b>25,330</b>
Less: capitalised costs		(567)	(517)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>24,825</b>	<b>24,813</b>
Number of 'full-time equivalent' employees (FTE) at year end		<b>263</b>	<b>270</b>
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on loans		176	233
Interest on advances		45	58
Other debts		–	1
<b>Total interest bearing liability costs</b>		<b>221</b>	<b>292</b>
Less: capitalised costs		–	(291)
<b>Total interest bearing liability costs expensed</b>		<b>221</b>	<b>1</b>
<b>(ii) Other borrowing costs</b>			
Nil			
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>221</b>	<b>1</b>
<b>(c) Materials and contracts</b>			
Raw materials and consumables		11,512	11,489
Contractor and consultancy costs		6,294	5,417
Auditors remuneration <sup>(1)</sup>		67	56
Legal expenses:			
– Legal expenses: planning and development		113	65
– Legal expenses: debt recovery		67	–
– Legal expenses: other		30	54
Operating leases:			
– Operating lease rentals: minimum lease payments <sup>(2)</sup>		76	91
<b>TOTAL MATERIALS AND CONTRACTS</b>		<b>18,159</b>	<b>17,172</b>

(continued on the next page...)



# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>(c) Materials and contracts (continued)</b>			
<b>1. Auditor remuneration</b>			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
<b>(i) Audit and other assurance services</b>			
– Audit and review of financial statements: Auditor-General		65	–
<b>Remuneration for audit and other assurance services</b>		<b>65</b>	<b>–</b>
<b>Total Auditor-General remuneration</b>		<b>65</b>	<b>–</b>
b. During the year, the following fees were incurred for services provided by the other Council's Auditors (and the Auditors of other consolidated entities):			
<b>(i) Audit and other assurance services</b>			
– Audit and review of financial statements: Council's Auditor		–	41
– Other audit and assurance services		2	15
<b>Remuneration for audit and other assurance services</b>		<b>2</b>	<b>56</b>
<b>Total remuneration of other Council's Auditors</b>		<b>2</b>	<b>56</b>
<b>Total Auditor remuneration</b>		<b>67</b>	<b>56</b>
<b>2. Operating lease payments are attributable to:</b>			
Other		76	91
		<b>76</b>	<b>91</b>
<b>(d) Depreciation, amortisation and impairment</b>			
Plant and equipment		1,247	1,530
Office equipment		175	120
Furniture and fittings		75	76
Land improvements (depreciable)		121	71
Infrastructure:			
– Buildings – non-specialised		390	423
– Buildings – specialised		1,482	1,427
– Other structures		231	203
– Roads		1,909	2,037
– Bridges		318	336
– Footpaths		234	247
– Stormwater drainage		288	276
Other assets			
– Library books		73	58
– Other		13	16
<b>Total depreciation and amortisation costs</b>		<b>6,556</b>	<b>6,820</b>
<b>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</b>		<b>6,556</b>	<b>6,820</b>

# Kiama Municipal Council

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

### Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>(e) Other expenses</b>			
Bad and doubtful debts		2	–
Contributions/levies to other levels of government			
– Crown reserve levy		253	334
– Emergency services levy (includes FRNSW, SES, and RFS levies)		255	270
Councillor expenses – mayoral fee		24	24
Councillor expenses – councillors' fees		99	99
Councillors' expenses (incl. mayor) – other (excluding fees above)		59	57
Donations, contributions and assistance to other organisations (Section 356)		210	260
Election expenses		178	–
Electricity and heating		685	782
Holiday parks promotion/membership		107	136
Insurance		441	538
Kiama tourism		160	152
Street lighting		349	343
Subscriptions and publications		32	32
Telephone and communications		278	205
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>3,132</u></b>	<b><u>3,232</u></b>

# Kiama Municipal Council

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

### Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2017	Actual 2016
<b>Property</b> (excl. investment property)			
Less: carrying amount of property assets sold/written off		–	(839)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>(839)</b>
<b>Plant and equipment</b>			
Proceeds from disposal – plant and equipment		765	749
Less: carrying amount of plant and equipment assets sold/written off		(701)	(308)
<b>Net gain/(loss) on disposal</b>		<b>64</b>	<b>441</b>
<b>Infrastructure</b>			
Proceeds from disposal – infrastructure		2	–
Less: carrying amount of infrastructure assets sold/written off		(454)	(771)
<b>Net gain/(loss) on disposal</b>		<b>(452)</b>	<b>(771)</b>
<b>Real estate assets held for sale</b>			
Proceeds from disposal – real estate assets		–	285
Less: carrying amount of real estate assets sold/written off		60	(210)
<b>Net gain/(loss) on disposal</b>		<b>60</b>	<b>75</b>
<b>Financial assets</b>			
Proceeds from disposal/redemptions/maturities – financial assets		35,995	35,425
Less: carrying amount of financial assets sold/redeemed/matured		(35,995)	(35,425)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(328)</b>	<b>(1,094)</b>

# Kiama Municipal Council

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

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

		2017	2017	2016	2016
		Actual	Actual	Actual	Actual
\$ '000	Notes	Current	Non-current	Current	Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		1,522	–	418	–
Cash-equivalent assets <sup>1</sup>					
– Deposits at call		582	–	–	–
<b>Total cash and cash equivalents</b>		<b>2,104</b>	<b>–</b>	<b>418</b>	<b>–</b>
Investments (Note 6b)					
– Long term deposits		37,278	–	35,995	–
<b>Total investments</b>		<b>37,278</b>	<b>–</b>	<b>35,995</b>	<b>–</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>		<b>39,382</b>	<b>–</b>	<b>36,412</b>	<b>–</b>

<sup>1</sup> 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**

<b>a. 'At fair value through the profit and loss'</b>	<b>2,104</b>	<b>–</b>	<b>418</b>	<b>–</b>
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#### **Investments**

<b>a. 'Held to maturity'</b>	<b>37,278</b>	<b>–</b>	<b>35,995</b>	<b>–</b>
<b>Investments</b>	<b>37,278</b>	<b>–</b>	<b>35,995</b>	<b>–</b>

# Kiama Municipal Council

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

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

	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
<b>\$ '000</b>				
Total cash, cash equivalents and investments	39,382	–	36,412	–
<b>attributable to:</b>				
External restrictions (refer below)	7,761	–	6,688	–
Internal restrictions (refer below)	31,482	–	29,441	–
Unrestricted	139	–	283	–
	<b>39,382</b>	<b>–</b>	<b>36,412</b>	<b>–</b>

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
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### Details of restrictions

#### External restrictions – included in liabilities

Nil

#### External restrictions – other

Developer contributions – general	(A)	4,215	2,250	(1,349)	5,116
Specific purpose unexpended grants	(B)	390	–	(91)	299
Domestic waste management	(C)	2,083	263	–	2,346
<b>External restrictions – other</b>		<b>6,688</b>	<b>2,513</b>	<b>(1,440)</b>	<b>7,761</b>
<b>Total external restrictions</b>		<b>6,688</b>	<b>2,513</b>	<b>(1,440)</b>	<b>7,761</b>

- A** Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- B** Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))
- C** 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 2017

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

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
<b>Internal restrictions</b>				
Employees leave entitlement	2,000	400	–	2,400
Carry over works	2,299	2,399	(2,299)	2,399
Blue Haven ILU	4,146	1,586	–	5,732
Blue Haven care – residential	8,913	3,233	(6,312)	5,834
CACP	355	44	(288)	111
Community bus	150	114	–	264
Computer	680	200	–	880
Contingencies	780	–	–	780
Council Elections	–	55	–	55
Fleet replacement	50	50	–	100
Holiday parks	1,785	8,226	(8,232)	1,779
Land development	2,937	–	(23)	2,914
Organisational development	300	–	(100)	200
Pavilion	–	210	–	210
Plant replacement	1,326	680	–	2,006
Property insurance	120	–	–	120
Regional carer respite centre	820	560	–	1,380
S94 recoupments	1,423	760	–	2,183
Waste and sustainability	315	88	–	403
Waste business unit	1,042	5,326	(5,286)	1,082
Arts Precinct	–	85	–	85
Future Project Development	–	70	–	70
Energy Efficiency	–	315	–	315
Leisure Centre Renewal	–	180	–	180
<b>Total internal restrictions</b>	<b>29,441</b>	<b>24,581</b>	<b>(22,540)</b>	<b>31,482</b>
<b>TOTAL RESTRICTIONS</b>	<b>36,129</b>	<b>27,094</b>	<b>(23,980)</b>	<b>39,243</b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 7. Receivables

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
<b>Purpose</b>					
Rates and annual charges		185	91	311	88
Interest and extra charges		2	56	7	44
User charges and fees		643	—	821	—
Private works		39	—	40	—
Accrued revenues					
– Interest on investments		364	—	230	—
– Other income accruals		54	—	297	—
Government grants and subsidies		56	—	446	—
Loans to sporting clubs		4	—	4	—
Net GST receivable		213	—	98	—
Other – advances to public		—	404	—	420
Other – holiday park charges		387	—	429	—
Employee Deductions and On Costs		67	—	—	—
Other debtors		89	—	—	—
<b>Total</b>		<b>2,103</b>	<b>551</b>	<b>2,682</b>	<b>552</b>
<b>Less: provision for impairment</b>					
Rates and annual charges		(35)	—	(35)	—
User charges and fees		(45)	—	(45)	—
<b>Total provision for impairment – receivables</b>		<b>(80)</b>	<b>—</b>	<b>(80)</b>	<b>—</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>2,023</u></b>	<b><u>551</u></b>	<b><u>2,602</u></b>	<b><u>552</u></b>
<b>Externally restricted receivables</b>					
<b>Domestic waste management</b>		<b>139</b>	<b>—</b>	<b>—</b>	<b>125</b>
<b>Total external restrictions</b>		<b>139</b>	<b>—</b>	<b>—</b>	<b>125</b>
<b>Internally restricted receivables</b>					
Nil					
<b>Unrestricted receivables</b>		<b>1,884</b>	<b>551</b>	<b>2,602</b>	<b>427</b>
<b>TOTAL NET RECEIVABLES</b>		<b>2,023</b>	<b>551</b>	<b>2,602</b>	<b>552</b>

#### Notes on debtors above:

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

# Kiama Municipal Council

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

### Note 8. Inventories and other assets

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Stores and materials		172	—	182	—
Trading stock		71	—	45	—
<b>Total inventories at cost</b>		<b>243</b>	<b>—</b>	<b>227</b>	<b>—</b>
(ii) Inventories at net realisable value (NRV)					
Nil					
<b><u>TOTAL INVENTORIES</u></b>		<b><u>243</u></b>	<b><u>—</u></b>	<b><u>227</u></b>	<b><u>—</u></b>
(b) Other assets					
Prepayments		5	—	58	—
<b><u>TOTAL OTHER ASSETS</u></b>		<b><u>5</u></b>	<b><u>—</u></b>	<b><u>58</u></b>	<b><u>—</u></b>

#### Externally restricted assets

There are no restrictions applicable to the above assets.

#### Other disclosures

#### (a) Details for real estate development

##### Movements:

Real estate assets at beginning of the year		–	–	197	–
– Purchases and other costs		(3,810)	–	13	–
– Transfers in from (out to) Note 9		3,750	–	–	–
– WDV of sales (expense)	5	60	–	(210)	–
<b>Total real estate for resale</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

#### (b) Inventory write downs

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

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



# Kiama Municipal Council

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

### Note 9a. Infrastructure, property, plant and equipment

Asset class  \$ '000	as at 30/6/2016			Asset movements during the reporting period					as at 30/6/2017		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	–	–	–	3,382	–	–	–	1,021	4,403	–	4,403
Plant and equipment	17,747	9,996	7,751	2,431	–	(701)	(1,247)	–	18,522	10,288	8,234
Office equipment	3,127	2,330	797	294	–	(6)	(175)	–	3,415	2,505	910
Furniture and fittings	2,627	2,219	408	167	–	–	(75)	–	2,794	2,294	500
<b>Land:</b>											
– Operational land	44,061	–	44,061	–	2,832	(59)	–	–	46,834	–	46,834
– Community land	59,927	–	59,927	–	–	–	–	(6,371)	53,556	–	53,556
– Land under roads (post 30/6/08)	28	–	28	–	–	–	–	–	28	–	28
Land improvements – non-depreciable	2,928	–	2,928	48	–	–	–	(2,383)	593	–	593
Land improvements – depreciable	3,003	1,343	1,660	78	–	–	(121)	(1,579)	80	42	38
<b>Infrastructure:</b>											
– Buildings – non-specialised	19,755	8,214	11,541	232	32	–	(390)	(8,814)	5,897	3,296	2,601
– Buildings – specialised	89,327	37,581	51,746	757	193	(20)	(1,482)	(2,827)	83,854	35,487	48,367
– Other structures	17,588	7,734	9,854	328	38	–	(231)	(7,209)	7,559	4,778	2,781
– Roads	133,791	51,894	81,897	6,703	5,225	(346)	(1,909)	(2,103)	141,058	51,591	89,467
– Bridges	14,324	6,669	7,655	–	–	–	(318)	–	14,324	6,987	7,337
– Footpaths	12,469	4,280	8,189	180	630	–	(234)	–	13,279	4,514	8,765
– Bulk earthworks (non-depreciable)	22,711	–	22,711	696	–	–	–	–	23,407	–	23,407
– Stormwater drainage	34,284	9,005	25,279	770	1,822	(23)	(288)	–	36,853	9,293	27,560
– Swimming pools	–	–	–	–	–	–	–	144	395	251	144
– Other open space/recreational assets	–	–	–	–	–	–	–	11,811	16,211	4,400	11,811
– Holiday Parks	–	–	–	–	–	–	–	19,331	29,026	9,695	19,331
<b>Other assets:</b>											
– Library books	1,735	1,298	437	60	30	–	(73)	–	1,825	1,371	454
– Other	1,142	31	1,111	–	–	–	(13)	(1,021)	122	46	76
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.</b>	<b>480,574</b>	<b>142,594</b>	<b>337,980</b>	<b>16,126</b>	<b>10,802</b>	<b>(1,155)</b>	<b>(6,556)</b>	<b>–</b>	<b>504,035</b>	<b>146,838</b>	<b>357,197</b>

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 2017

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

\$ '000 Class of asset	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
<b>Domestic waste management</b>						
Plant and equipment	3,028	2,852	176	2,986	2,815	171
Land						
– Operational land	140	–	140	140	–	140
<b>Total DWM</b>	<b>3,168</b>	<b>2,852</b>	<b>316</b>	<b>3,126</b>	<b>2,815</b>	<b>311</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>3,168</b>	<b>2,852</b>	<b>316</b>	<b>3,126</b>	<b>2,815</b>	<b>311</b>

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

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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 2017

### Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
<b>Payables</b>					
Goods and services – operating expenditure		3,142	–	2,915	–
Accrued expenses:					
– Other expenditure accruals		352	–	192	–
Residential aged care accommodation bonds		7,149	–	4,918	–
Retirement village loan licence agreement		54,898	–	54,613	–
Security bonds, deposits and retentions		2,193	–	2,124	–
Retirement Village Care Packages		185	–	–	–
Interest on Loans		63	–	–	–
ELE Oncosts		224	–	241	–
<b>Total payables</b>		<b>68,206</b>	<b>–</b>	<b>65,003</b>	<b>–</b>
<b>Income received in advance</b>					
Payments received in advance		723	–	76	–
<b>Total income received in advance</b>		<b>723</b>	<b>–</b>	<b>76</b>	<b>–</b>
<b>Borrowings</b>					
Loans – secured <sup>1</sup>		445	2,511	501	2,956
Government advances		209	625	342	833
<b>Total borrowings</b>		<b>654</b>	<b>3,136</b>	<b>843</b>	<b>3,789</b>
<b>Provisions</b>					
Employee benefits:					
Annual leave		1,719	–	1,677	–
Sick leave		567	–	686	–
Long service leave		4,055	125	4,127	128
ELE on-costs		313	–	276	–
<b>Total provisions</b>		<b>6,654</b>	<b>125</b>	<b>6,766</b>	<b>128</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>					
		<b>76,237</b>	<b>3,261</b>	<b>72,688</b>	<b>3,917</b>

#### (i) Liabilities relating to restricted assets

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

<sup>1</sup>. 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 2017

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

	Actual 2017	Actual 2016
<b>\$ '000</b>		
<b>(ii) Current liabilities not anticipated to be settled within the next twelve months</b>		
The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	4,478	4,860
Other Liabilities: Payables	62,047	59,531
	<b>66,525</b>	<b>64,391</b>

### Note 10b. Description of and movements in provisions

Class of provision	2016	2017				Closing balance as at 30/6/17
	Opening balance as at 1/7/16	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Annual leave	1,677	1,293	(1,290)	39	–	1,719
Sick leave	686	28	(122)	(25)	–	567
Long service leave	4,255	437	(576)	64	–	4,180
ELE on-costs	276	37	–	–	–	313
<b>TOTAL</b>	<b>6,894</b>	<b>1,795</b>	<b>(1,988)</b>	<b>78</b>	<b>–</b>	<b>6,779</b>

- 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 2017

### Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6a	2,104	418
Less bank overdraft	10	–	–
<b>Balance as per the Statement of Cash Flows</b>		<b>2,104</b>	<b>418</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		<b>20,732</b>	<b>15,336</b>
Adjust for non-cash items:			
Depreciation and amortisation		6,556	6,820
Net losses/(gains) on disposal of assets		328	1,094
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment properties		(1,705)	(747)
Share of net (profits) or losses of associates/joint ventures		(50)	45
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		580	395
Decrease/(increase) in inventories		(16)	(15)
Decrease/(increase) in other assets		53	20
Increase/(decrease) in payables		227	(22)
Increase/(decrease) in other accrued expenses payable		160	(223)
Increase/(decrease) in other liabilities		3,463	(368)
Increase/(decrease) in employee leave entitlements		(115)	15
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>30,213</b>	<b>22,349</b>
<b>(c) Non-cash investing and financing activities</b>			
Nil			
<b>(d) Financing arrangements</b>			
<b>(i) Unrestricted access was available at balance date to the following lines of credit:</b>			
Bank overdraft facilities <sup>(1)</sup>		2,000	2,000
Credit cards/purchase cards		200	159
<b>Total financing arrangements</b>		<b>2,200</b>	<b>2,159</b>
<b>Amounts utilised as at balance date:</b>			
– Credit cards/purchase cards		155	54
<b>Total financing arrangements utilised</b>		<b>155</b>	<b>54</b>

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 2017

### Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Capital commitments (exclusive of GST)</b>			
Nil			
<b>(b) Finance lease commitments</b>			
Nil			
<b>(c) Operating lease commitments (non-cancellable)</b>			
<b>a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:</b>			
Within the next year		32	43
Later than one year and not later than 5 years		–	32
Later than 5 years		–	–
<b>Total non-cancellable operating lease commitments</b>		<b>32</b>	<b>75</b>
<b>b. Non-cancellable operating leases include the following assets:</b>			
Photocopiers			
Contingent rentals may be payable depending on the condition of items or usage during the lease term.			
<b>Conditions relating to operating leases:</b>			
– All operating lease agreements are secured only against the leased asset.			
– No lease agreements impose any financial restrictions on Council regarding future debt etc.			
<b>(d) Investment property commitments</b>			
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		249	255
<b>Total commitments</b>		<b>249</b>	<b>255</b>
<b>These expenditures are payable as follows:</b>			
Within the next year		249	255
Later than one year and not later than 5 years		–	–
Later than 5 years		–	–
<b>Total payable</b>		<b>249</b>	<b>255</b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Amounts 2017	Indicator 2017	Prior periods		Benchmark
			2016	2015	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expe .	2,450	4.43%	2.61%	-5.27%	>0.00%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	55,343				
2. Own source operating revenue ratio					
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	43,631	60.43%	59.84%	77.75%	>60.00%
Total continuing operating revenue <sup>(1)</sup>	72,198				
3. Unrestricted current ratio					
Current assets less all external restrictions <sup>(2)</sup>	37,509	3.86x	4.38x	3.94x	>1.5x
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	9,712				
4. Debt service cover ratio					
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	9,227	8.68x	4.85x	4.95x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	1,063				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	299	1.47%	2.16%	1.77%	<10% Rural
Rates, annual and extra charges collectible	20,353				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	39,382	10.71 mths	8.7 mths	10.3 mths	> 3 mths
Payments from cash flow of operating and financing activities	3,677				

#### Notes

<sup>(1)</sup> 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.

<sup>(2)</sup> Refer Notes 6-8 inclusive.

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

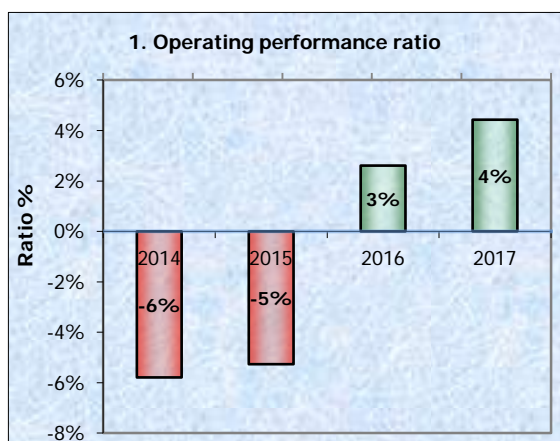
<sup>(3)</sup> Refer to Note 10(a).

<sup>(4)</sup> 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 2017

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



Benchmark: — Minimum  $\geq 0.00\%$

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



#### Purpose of operating performance ratio

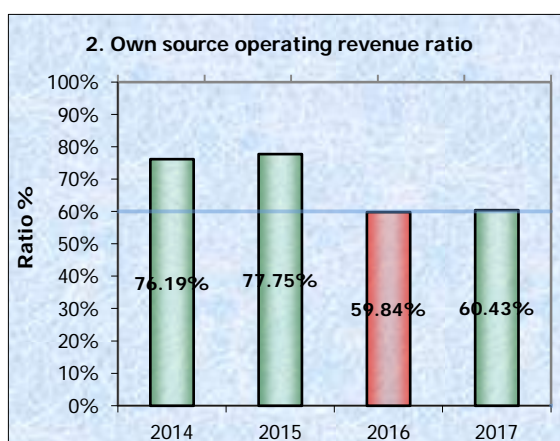
This ratio measures Council's achievement of containing operating expenditure within operating revenue.

#### Commentary on 2016/17 result

**2016/17 ratio 4.43%**

The improvement in this ratio is the result of the growth in operating revenues continuing to exceed the growth in operating expenses.

 Ratio achieves benchmark  
 Ratio is outside benchmark



Benchmark: — Minimum  $\geq 60.00\%$

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



#### Purpose of own source operating revenue ratio

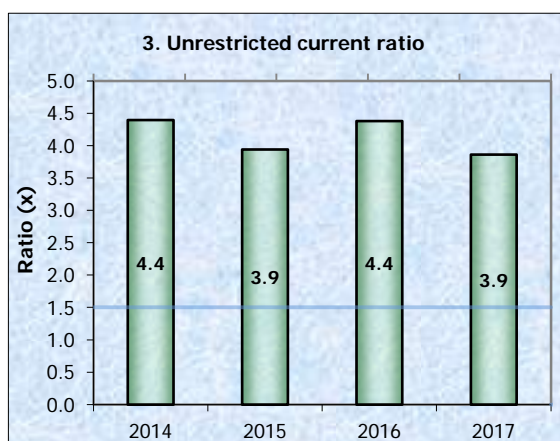
This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

#### Commentary on 2016/17 result

**2016/17 ratio 60.43%**

With no significant changes in funding sources during the year, this ratio continues to meet the minimum benchmark percentage.

 Ratio achieves benchmark  
 Ratio is outside benchmark



Benchmark: — Minimum  $\geq 1.50$

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



#### Purpose of unrestricted current ratio

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

#### Commentary on 2016/17 result

**2016/17 ratio 3.86x**

The ratio has reduced slightly due to higher current liabilities but continues to be responsibly above the industry benchmark of 1.5:1.

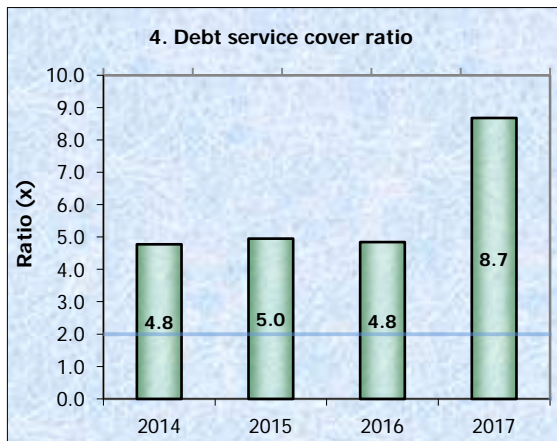
 Ratio achieves benchmark  
 Ratio is outside benchmark



# Kiama Municipal Council

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

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



Benchmark: — Minimum  $\geq 2.00$

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

#### Purpose of debt service cover ratio

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

#### Commentary on 2016/17 result

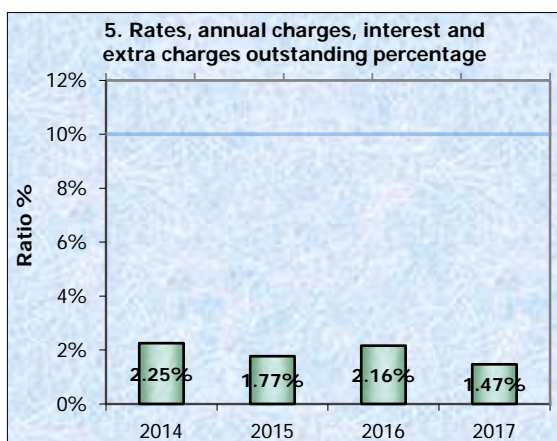
**2016/17 ratio 8.68x**

During the year, a number of loans matured and for the remaining loans costs continue to decrease as they approach maturity. The reduction in servicing costs is the main factor for the substantial improvement in this ratio.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Maximum  $< 10.00\%$

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

#### Purpose of rates and annual charges outstanding ratio

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

#### Commentary on 2016/17 result

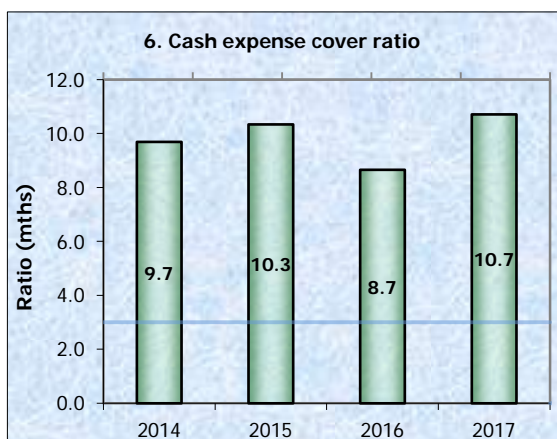
**2016/17 ratio 1.47%**

The continuous monitoring of outstanding rates linked to a positive approach to debt recovery continues to the achievement of strong result in this ratio.



Ratio is within Benchmark

Ratio is outside Benchmark



Benchmark: — Minimum  $\geq 3.00$

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

#### Purpose of cash expense cover ratio

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

#### Commentary on 2016/17 result

**2016/17 ratio 10.71 mths**

An increase in the amount of cash and term deposits during the year combined with lower cash outflows for operating and financing activities has strengthened Council's position to manage the impact of risks to cash inflows.



Ratio achieves benchmark

Ratio is outside benchmark

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 14. Investment properties

\$ '000	Notes	Actual 2017	Actual 2016
(a) Investment properties at fair value			
<u>Investment properties on hand</u>		<u>80,053</u>	<u>78,075</u>
<b>Reconciliation of annual movement:</b>			
Opening balance		78,075	77,092
– Acquisitions		–	236
– Capitalised expenditure – this year		273	–
– Net gain/(loss) from fair value adjustments		1,705	747
<b>CLOSING BALANCE – INVESTMENT PROPERTIES</b>		<b><u>80,053</u></b>	<b><u>78,075</u></b>

#### (b) Valuation basis

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

The 2017 revaluations were based on independent assessments made by:  
Nelson Partners Australia

#### (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 – Council as lessor

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	82	81
Later than 1 year but less than 5 years	58	159
Later than 5 years	–	–
<b>Total minimum lease payments receivable</b>	<b><u>140</u></b>	<b><u>240</u></b>

#### (e) Investment property income and expenditure – summary

<b>Rental income from investment properties:</b>		
– Minimum lease payments	79	73
<b>Direct operating expenses on investment properties:</b>		
– that generated rental income	(21)	(16)
– that did not generate rental income	(872)	(892)
<b>Net revenue contribution from investment properties</b>	<b><u>(814)</u></b>	<b><u>(835)</u></b>
plus:		
<b>Fair value movement for year</b>	<b><u>1,705</u></b>	<b><u>747</u></b>
<b>Total income attributable to investment properties</b>	<b><u>891</u></b>	<b><u>(88)</u></b>

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 2017

### 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	
	2017	2016	2017	2016
<b>Financial assets</b>				
Cash and cash equivalents	2,104	418	2,103	418
Investments				
– 'Held to maturity'	37,278	35,995	37,859	35,995
Receivables	2,574	3,154	2,574	3,226
<b>Total financial assets</b>	<b>41,956</b>	<b>39,566</b>	<b>42,536</b>	<b>39,639</b>
<b>Financial liabilities</b>				
Payables	68,206	65,003	68,206	64,645
Loans/advances	3,790	4,632	3,790	4,632
<b>Total financial liabilities</b>	<b>71,996</b>	<b>69,635</b>	<b>71,996</b>	<b>69,277</b>

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 2017

### Note 15. Financial risk management (continued)

\$ '000

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

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

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

The risks associated with the investments held are:

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

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
<b>2017</b>				
Possible impact of a 10% movement in market values	3,527	3,527	(3,527)	(3,527)
Possible impact of a 1% movement in interest rates	352	352	(352)	(352)
<b>2016</b>				
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)

# Kiama Municipal Council

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

### Note 15. Financial risk management (continued)

\$ '000

#### (b) Credit risk

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

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

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

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

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

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:

		2017	2017	2016	2016
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
<b>(i) Ageing of receivables – %</b>					
Current (not yet overdue)		67%	75%	78%	71%
Overdue		33%	25%	22%	29%
		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
<b>(ii) Ageing of receivables – value</b>					
<b>Rates and annual charges</b>	<b>Other receivables</b>				
Current	Current	185	1,558	311	2,013
1 – 2 years overdue	31 – 60 days overdue	–	102	–	115
2 – 5 years overdue	61 – 90 days overdue	–	159	–	177
> 5 years overdue	> 91 days overdue	91	559	88	530
		<b>276</b>	<b>2,378</b>	<b>399</b>	<b>2,835</b>
<b>(iii) Movement in provision for impairment of receivables</b>				2017	2016
Balance at the beginning of the year				80	80
<b>Balance at the end of the year</b>				<b>80</b>	<b>80</b>

# Kiama Municipal Council

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

### Note 15. Financial risk management (continued)

\$ '000

#### (c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2017									
Trade/other payables	2,193	66,020	–	–	–	–	–	68,213	68,206
Loans and advances	–	655	679	705	733	555	463	3,790	3,790
Total financial liabilities	2,193	66,675	679	705	733	555	463	72,003	71,996
2016									
Trade/other payables	2,124	62,552	–	–	–	–	–	64,676	65,003
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	69,635

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

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

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	68,206	0.00%	65,003	1.00%
Loans and advances – fixed interest rate	2,957	5.60%	3,457	5.76%
Loans and advances – variable interest rate	833	4.25%	1,175	4.00%
	<b>71,996</b>		<b>69,635</b>	

# Kiama Municipal Council

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

### Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 28 June 2016.

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

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

**Note that for variations\* of budget to actual :**

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

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

\$ '000	2017 Budget	2017 Actual	2017 Variance* -----		
<b>REVENUES</b>					
<b>Rates and annual charges</b>	<b>19,808</b>	<b>19,838</b>	<b>30</b>	<b>0%</b>	<b>F</b>
<b>User charges and fees</b>	<b>16,124</b>	<b>18,678</b>	<b>2,554</b>	<b>16%</b>	<b>F</b>
Changes in the funding and delivery model for Blue Haven Care In Home Care Support programs started in the 2015/2016 financial year continued this year generating an additional \$1.9m over budget. Planning and building incomes exceeded budget by \$213k. Income from Leisure Centre activities exceeded budget by \$ 90 k. Other increases over budget included Library Income \$30k, Blue Haven Aged Care \$34k and various inspection and registration fees of \$25k.					
<b>Interest and investment revenue</b>	<b>1,207</b>	<b>1,844</b>	<b>637</b>	<b>53%</b>	<b>F</b>
Prudent management of cashflows during the year generated increased funds for investment, which when combined with interest rates being maintained at higher levels than used for the original budget, have combined to yield a significantly over budget return.					
<b>Other revenues</b>	<b>1,886</b>	<b>4,976</b>	<b>3,090</b>	<b>164%</b>	<b>F</b>
An unbudgeted increase in the valuation of Council's Investment Properties of \$1.7m was the major factor in the variance from budget.					
<b>Operating grants and contributions</b>	<b>12,243</b>	<b>11,712</b>	<b>(531)</b>	<b>(4%)</b>	<b>U</b>
<b>Capital grants and contributions</b>	<b>1,552</b>	<b>16,855</b>	<b>15,303</b>	<b>986%</b>	<b>F</b>
A second tranche of road assets associated with the Gerringong Bypass valued at \$13.6m was contributed to Council by the RMS which had not been included in the original budget.					
<b>Net gains from disposal of assets</b>	<b>499</b>	<b>–</b>	<b>(499)</b>	<b>(100%)</b>	<b>U</b>
The result of asset sales and scrappings for this financial year was a loss of \$328,000.					
<b>Joint ventures and associates - net profits</b>	<b>–</b>	<b>50</b>	<b>50</b>	<b>0%</b>	<b>F</b>
Movements in profits or losses associated with Joint Ventures are not budgeted for.					



# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 Variance*	
<b>EXPENSES</b>				
Employee benefits and on-costs	23,552	24,825	(1,273)	(5%) U
Borrowing costs	–	221	(221)	0% U
Materials and contracts	17,133	18,159	(1,026)	(6%) U
Depreciation and amortisation	6,884	6,556	328	5% F
Other expenses	3,645	3,132	513	14% F
Reduction in expenses compared to budget occurred across a range of expenses with major ones being Electricity and Heating \$110k, Contributions \$107k, Crown Reserve Levy \$126k, Street Lighting \$60k and other minor expenses \$20k.				
Net losses from disposal of assets	–	328	(328)	0% U
Losses from disposal of assets was not originally budgetted for. Actual losses are net of profits and are largely the result of scrapping or writing of minor assets.				

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

Cash flows from operating activities	10,584	30,213	19,629	185.5%	F
The variance is due to receipts from user charges and fees and other income exceeding budgetted receipts by \$4.4m and reduced payments for operating expenses of \$1.1m					
Cash flows from investing activities	1,943	(27,685)	(29,628)	(1524.8%)	U
The variance was due to underestimating receipts from the sale of investments \$20m; overstating inflows from sale of property plant and equipment by \$7.7m; understating purchases of investment securities \$37.8m and infrastructure, property, plant and equipment by \$4.5m					
Cash flows from financing activities	(844)	(842)	2	(0.2%)	F



## Kiama Municipal Council

### Notes to the Financial Statements

for the year ended 30 June 2017

### Note 17. Statement of developer contributions

\$ '000

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

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

#### SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Traffic facilities	200	152	–	5	(153)	–	204	–
Parking	167	71	–	5	–	–	243	–
Open space	(22)	–	–	–	–	–	(22)	–
Community facilities	691	1,280	–	20	(1,106)	–	885	–
Other – Council chambers	2,754	405	–	83	(7)	–	3,235	–
Other	44	40	–	2	(7)	–	79	–
<b>S94 contributions – under a plan</b>	<b>3,834</b>	<b>1,948</b>	<b>–</b>	<b>115</b>	<b>(1,273)</b>	<b>–</b>	<b>4,624</b>	<b>–</b>
<b>S94A levies – under a plan</b>	<b>381</b>	<b>175</b>	<b>–</b>	<b>12</b>	<b>(76)</b>	<b>–</b>	<b>492</b>	<b>–</b>
<b>Total S94 revenue under plans</b>	<b>4,215</b>	<b>2,123</b>	<b>–</b>	<b>127</b>	<b>(1,349)</b>	<b>–</b>	<b>5,116</b>	<b>–</b>
<b>Total contributions</b>	<b>4,215</b>	<b>2,123</b>	<b>–</b>	<b>127</b>	<b>(1,349)</b>	<b>–</b>	<b>5,116</b>	<b>–</b>

## Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions (continued)

\$ '000

## S94 CONTRIBUTIONS – UNDER A PLAN

## CONTRIBUTION PLAN NUMBER 1

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Traffic facilities	–	119	–	–	(119)	–	–	–
Community facilities	448	1,089	–	15	(940)	–	612	–
Other – Council chambers	2,754	405	–	83	(7)	–	3,235	–
Other	44	33	–	2	–	–	79	–
<b>Total</b>	<b>3,246</b>	<b>1,646</b>	<b>–</b>	<b>100</b>	<b>(1,066)</b>	<b>–</b>	<b>3,926</b>	<b>–</b>

## 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	–	21	–	–	(21)	–	–	–
Community facilities	54	169	–	–	(142)	–	81	–
Other	–	7	–	–	(7)	–	–	–
<b>Total</b>	<b>54</b>	<b>197</b>	<b>–</b>	<b>–</b>	<b>(170)</b>	<b>–</b>	<b>81</b>	<b>–</b>

## 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	–	12	–	–	(12)	–	–	–
Community facilities	–	22	–	–	(22)	–	–	–
<b>Total</b>	<b>–</b>	<b>34</b>	<b>–</b>	<b>–</b>	<b>(34)</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions (continued)

\$ '000

## S94 CONTRIBUTIONS – UNDER A PLAN

## CONTRIBUTION PLAN NUMBER 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	167	–	–	5	–	–	172	–
<b>Total</b>	<b>167</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>172</b>	<b>–</b>

## 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	176	–	–	5	(1)	–	180	–
Open space	(22)	–	–	–	–	–	(22)	–
Community facilities	184	–	–	5	(2)	–	187	–
<b>Total</b>	<b>338</b>	<b>–</b>	<b>–</b>	<b>10</b>	<b>(3)</b>	<b>–</b>	<b>345</b>	<b>–</b>

## 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	24	–	–	–	–	–	24	–
Community facilities	5	–	–	–	–	–	5	–
<b>Total</b>	<b>29</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>29</b>	<b>–</b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### 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	91	52	–	2	(29)	–	116	–
Open space	290	123	–	10	(47)	–	376	–
<b>Total</b>	<b>381</b>	<b>175</b>	<b>–</b>	<b>12</b>	<b>(76)</b>	<b>–</b>	<b>492</b>	<b>–</b>

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

#### LIABILITIES NOT RECOGNISED:

##### 1. Guarantees

##### (i) Defined benefit superannuation contribution plans

Council 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 2017

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

\$ '000

#### LIABILITIES NOT RECOGNISED (continued):

##### 2. Other liabilities

###### (i) Third party claims

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

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

###### (ii) S94 plans

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

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

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

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

###### (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 2017

### 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
	2017	2016	2017	2016
Joint ventures	50	(45)	157	109
Associates	—	—	—	—
<b>Total</b>	<b>50</b>	<b>(45)</b>	<b>157</b>	<b>109</b>

# Kiama Municipal Council

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

### 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	2017	2016
Metro Pool	Joint Venture	Net Equity	28	(28)
United Independent Pool	Joint Venture	Net Equity	129	137
<b>Total carrying amounts – material joint ventures and associates</b>			<b>157</b>	<b>109</b>

##### (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	Interest in outputs		Interest in ownership		Proportion of voting power	
	2017	2016	2017	2016	2017	2016
Metro Pool	0.2%	-0.3%	0.2%	-0.3%	14.3%	11.1%
United Independent Pool	2.0%	1.9%	2.0%	1.9%	5.9%	5.3%



# Kiama Municipal Council

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

### 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	
	2017	2016	2017	2016
<b>Statement of financial position</b>				
<b>Current assets</b>				
Cash and cash equivalents	28	28	505	171
Other current assets	5,738	5,998	6,239	4,177
<b>Non-current assets</b>	<b>18,168</b>	<b>16,408</b>	<b>5,889</b>	<b>8,539</b>
<b>Current liabilities</b>				
Current financial liabilities (excluding trade and other payables and provisions)	1,443	1,659	2,890	2,800
Other current liabilities	150	206	423	345
<b>Non-current liabilities</b>				
Non-current financial liabilities (excluding trade and other payables and provisions)	<b>10,730</b>	<b>11,147</b>	<b>2,830</b>	<b>2,454</b>
<b>Net assets</b>	<b>11,611</b>	<b>9,422</b>	<b>6,490</b>	<b>7,288</b>
<b>Reconciliation of the carrying amount</b>				
Opening net assets (1 July)	9,422	8,371	7,288	7,518
Profit/(loss) for the period	2,189	1,051	(796)	(230)
<b>Closing net assets</b>	<b>11,611</b>	<b>9,422</b>	<b>6,492</b>	<b>7,288</b>
<b>Council's share of net assets (%)</b>	<b>0.2%</b>	<b>-0.3%</b>	<b>2.0%</b>	<b>1.9%</b>
<b>Council's share of net assets (\$)</b>	<b>27</b>	<b>(28)</b>	<b>130</b>	<b>137</b>
<b>Statement of comprehensive income</b>				
Income	2,779	3,590	8,302	8,551
Interest income	1,089	774	585	423
Other expenses	(1,681)	(3,314)	(9,682)	(9,205)
<b>Profit/(loss) for period</b>	<b>2,187</b>	<b>1,050</b>	<b>(795)</b>	<b>(231)</b>
<b>Total comprehensive income</b>	<b>2,187</b>	<b>1,050</b>	<b>(795)</b>	<b>(231)</b>
<b>Share of income – Council (%)</b>	<b>2.7%</b>	<b>-2.9%</b>	<b>1.2%</b>	<b>6.2%</b>
<b>Profit/(loss) – Council (\$)</b>	<b>59</b>	<b>(30)</b>	<b>(10)</b>	<b>(14)</b>
<b>Total comprehensive income – Council (\$)</b>	<b>59</b>	<b>(30)</b>	<b>(10)</b>	<b>(14)</b>

## Kiama Municipal Council

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

#### Note 19. Interests in other entities (continued)

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\$ '000

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##### (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.

	2017	2016
Losses (or expenses) incurred by Council relating to the Structured Entity	160,000	152,000
Income received by Council relating to the Structured Entity		
Rental Subsidy	63,079	62,535
<b>Net assets in Council's Statement of Financial Position</b>	—	—
<b>Maximum exposure to loss from Council's interest in the Structured Entity</b>	160,000	152,000
<b>Difference – net asset/(net exposure) relating to the Structured Entity:</b>	(160,000)	(152,000)

##### **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 2017

### 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.

	2017	2016
Losses (or expenses) incurred by Council relating to the Structured Entity	51,938	50,000
Income received by Council relating to the Structured Entity		
Administration fee	25,567	24,416
Contribution towards insurance	6,051	15,116
<b>Net assets in Council's Statement of Financial Position</b>	—	—
<b>Maximum exposure to loss from Council's interest in the Structured Entity</b>	<b>51,938</b>	<b>50,000</b>
<b>Difference – net asset/(net exposure) relating to the Structured Entity:</b>	<b>(51,938)</b>	<b>(50,000)</b>

##### 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 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Retained earnings</b>			
<b>Movements in retained earnings were as follows:</b>			
Balance at beginning of year (from previous years audited accounts)		188,677	144,814
a. Correction of prior period errors	20 (c)	–	28,527
b. Other comprehensive income (excl. direct to reserves transactions)		(2)	–
c. Net operating result for the year		20,732	15,336
<b>Balance at end of the reporting period</b>		<b>209,407</b>	<b>188,677</b>

### (b) Revaluation reserves

#### (i) Reserves are represented by:

– Infrastructure, property, plant and equipment revaluation reserve	196,862	196,862
<b>Total</b>	<b>196,862</b>	<b>196,862</b>

#### (ii) Reconciliation of movements in reserves:

<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– Opening balance		196,862	180,280
– Revaluations for the year	9(a)	–	16,582
<b>– Balance at end of year</b>		<b>196,862</b>	<b>196,862</b>
<b>TOTAL VALUE OF RESERVES</b>		<b>196,862</b>	<b>196,862</b>

#### (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.

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>(c) Correction of error/s relating to a previous reporting period</b>			
<b>Correction of errors disclosed in last year's financial statements:</b>			
In accordance with AASB 119 and AASB 108 Council made a change in the measurement basis to calculate leave provisions, the balance of the provision at 30 June 2016 changed by the following due to the prior period error.			
Provision for Employee Leave entitlements		–	611
Retained Earnings		–	(611)
In accordance with AASB 140 Investment Property and AASB 138 Intangibles the carrying amount for Bed Licences and Investment Properties Reserves has been recognised within Retained Earnings as prior period error			
Investments Properties Revaluation Reserve		–	(26,738)
Intangibles Revaluation Reserve		–	(2,400)
Retained Earnings		–	29,138
<b>In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively.</b>			
<b>These amounted to the following equity adjustments:</b>			
– Adjustments to closing equity – 30/6/16 (relating to adjustments for the 30/6/16 year end)		–	(611)
<b>Total prior period adjustments – prior period errors</b>		<b>–</b>	<b>(611)</b>

### (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 2017

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

\$ '000	2017	2017	2016	2016
	Current	Non-current	Current	Non-current
(i) Non-current assets and disposal group assets				
<b>Non-current assets 'held for sale'</b>				
Land	3,756	–	3,729	–
<b>Total non-current assets 'held for sale'</b>	<b>3,756</b>	<b>–</b>	<b>3,729</b>	<b>–</b>
<b>Disposal group assets 'held for sale'</b>				
None				
<b><u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u></b>	<b><u>3,756</u></b>	<b><u>–</u></b>	<b><u>3,729</u></b>	<b><u>–</u></b>

Council has a site available for sale over which an option to purchase has been granted which will expire during the 2017/18 financial year.

\$ '000	Assets 'held for sale'	
	2017	2016
(ii) Reconciliation of non-current assets 'held for sale'		
Opening balance	3,729	3,620
Plus new transfers in:		
– Purchases (Land) during the year	27	109
<b>Closing balance of 'held for sale' non-current assets and operations</b>	<b><u>3,756</u></b>	<b><u>3,729</u></b>

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 2017

#### Note 23. Events occurring after the reporting date

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\$ '000

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Events that occur between the end of the reporting period (30 June 2017) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

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

Accordingly, the 'authorised for issue' date is 21/11/17.

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

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

These financial statements (and the figures therein) incorporate all 'adjusting events' that provided evidence of conditions that existed at 30 June 2017.

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

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

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

#### Note 24. Discontinued operations

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

## Kiama Municipal Council

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

#### Note 25. Intangible assets

	Actual 2017	Actual 2016
\$ '000		
Intangible assets represent identifiable non-monetary assets without physical substance.		
Intangible assets are as follows:		
<b>Opening values:</b>		
Gross book value (1/7)	2,400	2,400
Accumulated amortisation (1/7)	–	–
<b>Net book value – opening balance</b>	<b>2,400</b>	<b>2,400</b>
<b>Closing values:</b>		
Gross book value (30/6)	2,400	2,400
Accumulated amortisation (30/6)	–	–
<b><u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u></b> <sup>1</sup>	<b><u>2,400</u></b>	<b><u>2,400</u></b>

<sup>1</sup> The net book value of intangible assets represent:

– Bed licences	2,400	2,400
	<b>2,400</b>	<b>2,400</b>

#### 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 2017

### Note 27. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- 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			
2017		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Investment properties					
Other	30/06/17	—	—	1,305	1,305
Blue Haven ILU	30/06/17	—	—	78,748	78,748
Total investment properties		—	—	80,053	80,053

# Kiama Municipal Council

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

### Note 27. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2017		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/17	—	—	8,234	8,234
Office equipment	30/06/17	—	—	910	910
Furniture and fittings	30/06/17	—	—	500	500
Operational land	30/06/17	—	—	46,834	46,834
Community land	30/06/17	—	—	53,556	53,556
Land under roads	30/06/17	—	—	28	28
Land improvements – non-depreciable	30/06/17	—	—	593	593
Land improvements – depreciable	30/06/17	—	—	38	38
Buildings – non-specialised	30/06/17	—	—	2,601	2,601
Buildings – specialised	30/06/17	—	—	48,367	48,367
Other structures	30/06/17	—	—	2,781	2,781
Roads bridges footpaths	30/06/17	—	—	105,569	105,569
Bulk earthworks – non depreciable	30/06/17	—	—	23,407	23,407
Stormwater drainage	30/06/17	—	—	27,560	27,560
Library books	30/06/17	—	—	454	454
Other	30/06/17	—	—	76	76
Swimming Pools	30/06/17	—	—	144	144
Other Open Space Recreation Assets	30/06/17	—	—	11,811	11,811
Holiday Parks	30/06/17	—	—	19,331	19,331
Work in Progress	30/06/17	—	—	4,403	4,403
Total infrastructure, property, plant and equipment		—	—	357,197	357,197
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Land	30/06/17	—	—	3,756	3,756
Total NCA’s classified as ‘held for sale’		—	—	3,756	3,756
2016					
Recurring fair value measurements					
Investment properties					
Other	30/06/16	—	—	1,293	1,293
Blue Haven ILU	30/06/16	—	—	76,782	76,782
Total investment properties		—	—	78,075	78,075

# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 27. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	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

### (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 2017

#### 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 2017

#### 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 2017

#### Note 27. Fair value measurement (continued)

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##### **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 2017

#### Note 27. Fair value measurement (continued)

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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.

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##### **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.

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# Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

### Note 27. Fair value measurement (continued)

\$ '000

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

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

	Investment Property Blue Haven ILU	Investment Property Other	Plant & Equipment	Office Equipment	Total
<b>Opening balance – 1/7/15</b>	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 <sup>1</sup>	734	13	–	–	747
<b>Closing balance – 30/6/16</b>	<b>76,782</b>	<b>1,293</b>	<b>7,751</b>	<b>797</b>	<b>86,623</b>

Purchases (GBV)	–	–	2,426	294	2,720
Disposals (WDV)	–	–	(701)	(6)	(707)
Depreciation and impairment	–	–	(1,247)	(175)	(1,422)
FV gains – Income Statement <sup>1</sup>	20,118	13	–	–	20,131
<b>Closing balance – 30/6/17</b>	<b>96,900</b>	<b>1,306</b>	<b>8,229</b>	<b>910</b>	<b>107,345</b>

<sup>1</sup> FV gains recognised in the Income Statement relating to assets still on hand at year end total:

YE 15/16	734	13	–	–	747
YE 16/17	–	–	–	–	–

	Furniture & Fittings	Operational Land	Community Land	Land Under Roads	Total
<b>Opening balance – 1/7/15</b>	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
<b>Closing balance – 30/6/16</b>	<b>408</b>	<b>44,061</b>	<b>59,927</b>	<b>28</b>	<b>104,424</b>
Purchases (GBV)	167	2,832	–	–	2,999
Disposals (WDV)	–	(59)	–	–	(59)
Depreciation and impairment	(75)	–	–	–	(75)
<b>Closing balance – 30/6/17</b>	<b>500</b>	<b>46,834</b>	<b>59,927</b>	<b>28</b>	<b>107,289</b>



## Kiama Municipal Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 27. Fair value measurement (continued)

\$ '000

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

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

	Land Improvem- -ents non- depreciable	Land Improve- -ments depreciable	Buildings Non Specialised	Buildings Specialised	Total
<b>Opening balance – 1/7/15</b>	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
<b>Closing balance – 30/6/16</b>	<b>2,928</b>	<b>1,660</b>	<b>11,541</b>	<b>51,746</b>	<b>67,875</b>
Purchases (GBV)	48	78	264	950	1,340
Disposals (WDV)	–	–	–	(20)	(20)
Depreciation and impairment	–	(121)	(390)	(1,482)	(1,993)
<b>Closing balance – 30/6/17</b>	<b>2,976</b>	<b>1,617</b>	<b>11,415</b>	<b>51,194</b>	<b>67,202</b>

	Other Structures	Roads	Bulk Earthworks	Stormwater Drainage	Total
<b>Opening balance – 1/7/15</b>	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
<b>Closing balance – 30/6/16</b>	<b>9,854</b>	<b>97,741</b>	<b>22,711</b>	<b>25,279</b>	<b>155,585</b>
Purchases (GBV)	366	12,738	696	2,592	16,392
Disposals (WDV)	–	(346)	–	(23)	(369)
Depreciation and impairment	(231)	(2,461)	–	(288)	(2,980)
<b>Closing balance – 30/6/17</b>	<b>9,989</b>	<b>107,672</b>	<b>23,407</b>	<b>27,560</b>	<b>168,628</b>

# Kiama Municipal Council

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

### Note 27. Fair value measurement (continued)

\$ '000

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

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

	Library Books	Other	WIP	Held for Sale	Total
<b>Opening balance – 1/7/15</b>	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
<b>Closing balance – 30/6/16</b>	<b>437</b>	<b>1,111</b>	<b>–</b>	<b>3,729</b>	<b>5,277</b>
Purchases (GBV)	90	–	–	–	90
Depreciation and impairment	(73)	(13)	–	–	(86)
WIP Transfer	–	(1,021)	–	–	(1,021)
<b>Closing balance – 30/6/17</b>	<b>454</b>	<b>77</b>	<b>–</b>	<b>3,729</b>	<b>4,260</b>

#### 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 2017

### Note 28. Related party disclosures

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\$

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#### a. Key management personnel

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

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

	Actual 2017
<b>Compensation:</b>	
Short-term benefits	1,504,088
Post-employment benefits	142,113
Termination benefits	264,580
<b>Total</b>	<b>1,910,781</b>

#### b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

#### c. Other related party transactions

Nil

# Kiama Municipal Council

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

### Note 29. Segment reporting

\$ '000	Notes	Actual 2017	Actual 2016
<b>Residential Aged Care: Blue Haven Nursing Home &amp; Hostel - RAC ID 0094</b>			
<b>Income Statement</b>			
<b>Income from Continuing Operations</b>			
Resident Fees		1,959	2,029
Other Revenues		201	232
Grants & Contributions provided for Operating Purposes		3,312	3,281
Grants & Contributions provided for Capital Purposes		—	—
Net gains from the disposal of assets		—	—
<b>Total Income from Continuing Operations</b>		<b>5,472</b>	<b>5,542</b>
<b>Expenses from Continuing Operations</b>			
Employee Costs		3,762	4,232
Borrowing Costs		—	—
Care Costs		349	268
Catering Costs		234	232
Cleaning / Laundry Costs		93	96
Repairs & Maintenance Costs		145	134
Utilities Costs		84	94
Depreciation		251	238
Other Expenses		319	155
Net Losses from the Disposal of Assets		—	9
<b>Total Expenses from Continuing Operations</b>		<b>5,237</b>	<b>5,458</b>
<b>Operating Result from Continuing Operations</b>		<b>235</b>	<b>84</b>
Net Profit/(Loss) from Discontinued Operations		—	—
<b>Net Operating Result for the Year</b>		<b>235</b>	<b>84</b>
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>		<b>235</b>	<b>84</b>

# Kiama Municipal Council

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

### Note 29. Segment reporting (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>Residential Aged Care: Blue Haven Nursing Home &amp; Hostel - RAC ID 0094</b>			
<b>Balance Sheet</b>			
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents		13,822	11,217
Investments		—	—
Receivables		—	—
Inventories		—	—
<b>Total Current Assets</b>		<b>13,822</b>	<b>11,217</b>
<b>Non-Current Assets</b>			
Investments		—	—
Receivables		—	—
Inventories		—	—
Infrastructure, Property, Plant & Equipment		15,213	15,432
Investment Property		—	—
Intangible Assets		2,400	2,400
<b>Total Non-Current Assets</b>		<b>17,613</b>	<b>17,832</b>
<b>TOTAL ASSETS</b>		<b>31,435</b>	<b>29,049</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables		1,000	500
Income received in advance		—	—
Borrowings		—	—
Provisions		529	507
<b>Total Current Liabilities</b>		<b>1,529</b>	<b>1,007</b>
<b>Non-Current Liabilities</b>			
Payables		6,149	4,418
Borrowings		—	—
Provisions		—	—
<b>Total Non-Current Liabilities</b>		<b>6,149</b>	<b>4,418</b>
<b>TOTAL LIABILITIES</b>		<b>7,678</b>	<b>5,425</b>
<b>Net Assets</b>		<b>23,757</b>	<b>23,624</b>
<b>EQUITY</b>			
Retained Earnings		11,796	11,663
Revaluation Reserves		11,961	11,961
<b>Total Equity</b>		<b>23,757</b>	<b>23,624</b>

# Kiama Municipal Council

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

### Note 30. Financial review

\$ '000

#### Key financial figures of Council over the past 5 years (consolidated)

Financial performance figures	2017	2016	2015	2014	2013
<b>Inflows:</b>					
Rates and annual charges revenue	19,838	18,808	18,354	17,237	16,428
User charges revenue	18,678	17,376	15,982	15,304	14,031
Interest and investment revenue (losses)	1,844	1,677	1,215	1,719	1,724
Grants income – operating and capital	11,588	11,823	9,128	10,483	9,531
Total income from continuing operations	73,953	68,513	51,906	51,559	52,809
Sale proceeds from I,PP&E	767	1,034	912	3,511	5,214
New loan borrowings and advances	–	–	–	2,025	2,553
<b>Outflows:</b>					
Employee benefits and on-cost expenses	24,825	24,813	23,001	22,248	22,144
Borrowing costs	221	1	367	393	345
Materials and contracts expenses	18,159	17,172	16,509	16,435	15,575
Total expenses from continuing operations	53,221	53,177	51,924	55,661	49,281
Total cash purchases of I,PP&E	26,955	23,434	9,441	7,976	6,190
Total loan repayments (incl. finance leases)	842	1,694	961	980	870
Operating surplus/(deficit) (excl. capital income)	3,877	1,002	(1,576)	(5,885)	2,911
<b>Financial position figures</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Current assets	45,409	43,028	45,620	44,860	40,449
Current liabilities	76,237	72,688	73,654	70,596	69,791
Net current assets	(30,828)	(29,660)	(28,034)	(25,736)	(29,342)
Available working capital (Unrestricted net current assets)	(62,902)	(58,180)	(53,368)	(51,023)	(50,041)
Cash and investments – unrestricted	139	283	4,869	5,654	5,788
Cash and investments – internal restrictions	31,482	29,441	27,079	26,061	21,534
Cash and investments – total	39,382	36,412	38,406	37,850	32,398
Total borrowings outstanding (Loans, advances and finance leases)	3,790	4,632	6,326	7,287	6,242
Total value of I,PP&E (excl. land and earthworks)	379,617	350,919	330,513	313,499	326,088
Total accumulated depreciation	146,838	142,594	138,403	149,227	155,935
Indicative remaining useful life (as a % of GBV)	61%	59%	58%	52%	52%

**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 2017

### Note 31. Council information and contact details

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#### 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](http://www.kiama.nsw.gov.au)

**Email:** [council@kiama.nsw.gov.au](mailto:council@kiama.nsw.gov.au)

#### Officers

##### GENERAL MANAGER

Michael Forsyth

##### RESPONSIBLE ACCOUNTING OFFICER

David Mead

##### PUBLIC OFFICER

Sue Basa

##### AUDITORS

Audit Office of NSW  
GPO Box 12, Sydney NSW 2001

#### Elected members

##### MAYOR

Mark Honey

##### COUNCILLORS

Kathy Price  
Matt Brown  
Neil Reilly  
Andrew Sloan  
Warren Steel  
Don Watson  
Mark Way  
Mark Westoff

#### Other information

**ABN:** 22 379 679 108



## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### The Council of the Municipality of Kiama

To the Councillors of the The Council of the Municipality of Kiama

### Opinion

I have audited the accompanying financial statements of The Council of the Municipality of Kiama (the Council), which comprise the statement of financial position as at 30 June 2017, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been presented, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

### Basis for Opinion

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

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

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



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

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

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

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

### **Other Matter**

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 31 October 2016.

### **The Councillors' Responsibility for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, Note 2(a), Note 16 budget variation explanations and Note 30.
- on the attached Special Schedules
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, appearing to read 'Karen Taylor', with a stylized, cursive script.

Karen Taylor  
Director, Financial Audit Services

21 November 2017  
SYDNEY

Councillor Mark Honey  
Kiama Municipal Council  
PO Box 75  
KIAMA NSW 2533

Contact: Karen Taylor  
Phone no: 02 9275 7100  
Our ref: D1730323/1747

21 November 2017

Dear Mayor

**Report on the Conduct of the Audit  
for the year ended 30 June 2017  
Kiama Municipal Council**

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

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

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

## **INCOME STATEMENT**

### **Operating result**

	<b>2017</b>	<b>2016</b>	<b>Variance</b>
	<b>\$m</b>	<b>\$m</b>	<b>%</b>
<b>Rates and annual charges revenue</b>	19.8	18.8	5.3 ↑
<b>Grants and contributions revenue</b>	28.6	27.2	5.1 ↑
<b>Operating result for the year</b>	20.7	15.3	35.3 ↑
<b>Net operating result before capital amounts</b>	3.9	1.0	290.0 ↑

## Rates and annual charges revenue

Growth in revenue from rates and annual charges of 5.3 per cent is consistent with the increase in annual cost of Domestic waste charges in the 2016–17 financial year and the rate peg.

## Grants and Contributions.

Advance receipt of \$769,000 of the 2017–18 financial assistance grant, higher road contributions from Roads and Maritime Services (RMS) and more s.94 contributions all contributed to the 5.1 per cent increase.

Operating grants and contributions of \$11.7 million represented 15.8 per cent of total income from continuing operations (18.8 per cent in 2016–17). Capital grants and contributions of \$16.8 million represented 22.8 per cent of total income from continuing operations (20.9 per cent in 2016–17).

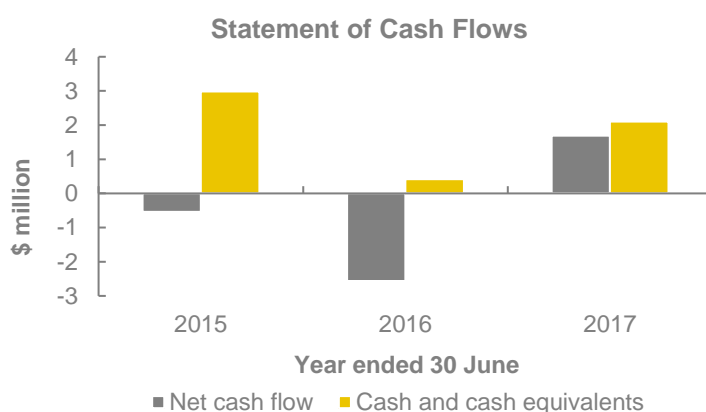
## Operating Result.

In addition to the items mentioned above, the improved operating result was mainly due to major expenses including employee benefits, material cost and depreciation remained consistent with the prior year.

The operating result before capital amounts was impacted by higher capital grants and contributions in the current year.

## STATEMENT OF CASH FLOWS

Council's cash and cash equivalent balances increased by \$1.69 million to \$2.1 million, with \$30.2 million being provided from operations, \$27.69 million net invested in financial and non-current assets, and \$0.8 million used in financing activities.



## FINANCIAL POSITION

### Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	7.8	6.7	Externally restricted balances include unexpended developer contributions and domestic waste management charges.
Internal restrictions	31.5	29.4	
Unrestricted	0.1	0.3	Balances are internally restricted due to Council policy or decisions for forward plans including works program. Unrestricted balances provide liquidity for day-to-day operations.
<b>Cash and investments</b>	<b>39.4</b>	<b>36.4</b>	

## PERFORMANCE RATIOS

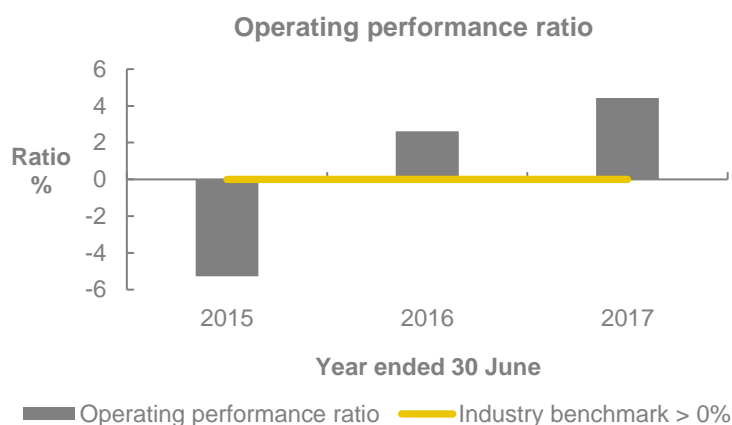
The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7.

### Operating performance ratio

Council's operating performance ratio of 4.43 per cent in 2016–17 exceeds the benchmark.

The main factors contributing to the improved ratio were the capital contribution from RMS and advance receipt of the 2017–18 financial assistance grant.

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

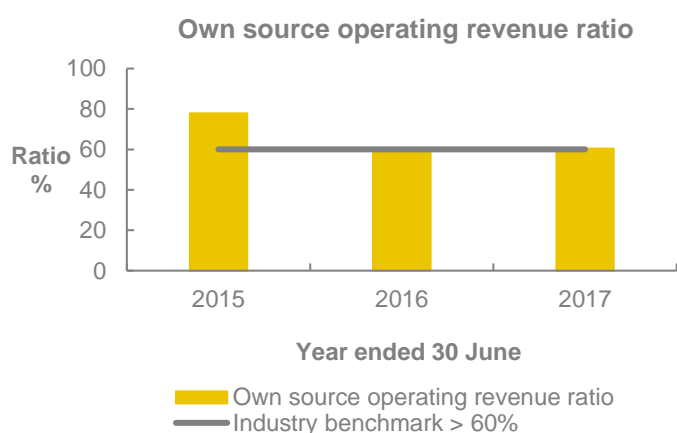


### Own source operating revenue ratio

Council's own source operating ratio of 60.43 per cent reflects acceptable level of reliance on grant revenue and meets the benchmark.

The ratio has remained relatively stable over the last two years.

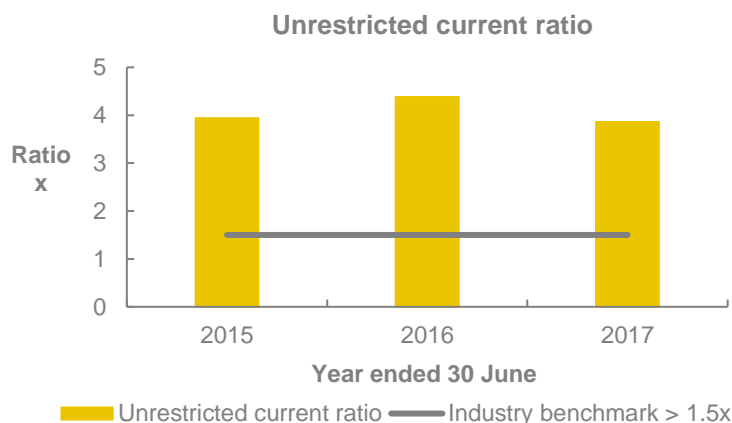
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



### Unrestricted current ratio

This ratio indicates Council currently has \$3.86 of unrestricted assets available to service every \$1.0 of its unrestricted current liabilities. This reflects a sufficient operating buffer for use in Council's operations and exceeds the benchmark.

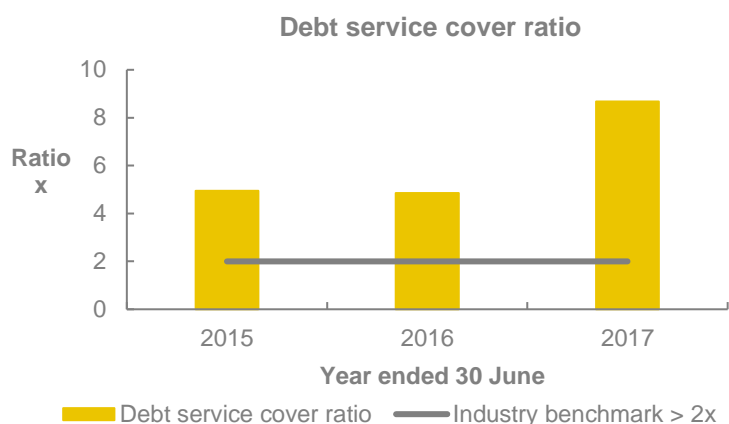
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



## Debt service cover ratio

Council's debt service cover ratio of 8.68 times continues to exceed benchmark. The ratio improved due to less borrowings this year.

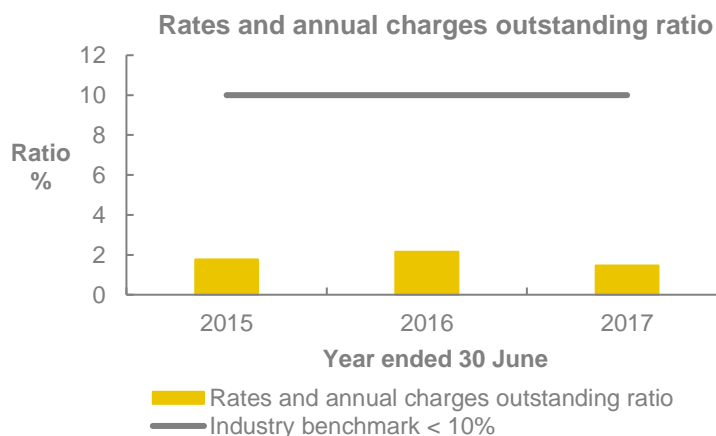
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



## Rates and annual charges outstanding rates

Council's outstanding rates and charges ratio of 1.47 per cent remains within the benchmark.

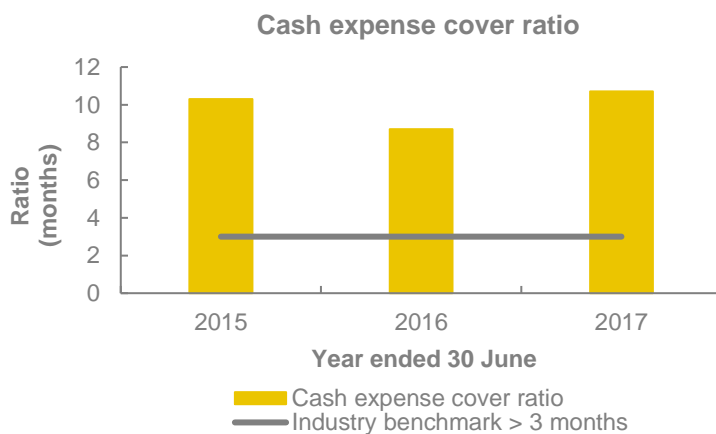
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils. As Kiama does not provide sewer and water a 5 per cent benchmark would be more reasonable.



## Cash expense cover ratio

Council's cash expense cover ratio of 10.7 months continues to exceed the benchmark. This reflects its ability to improve balances of cash and term deposits.

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

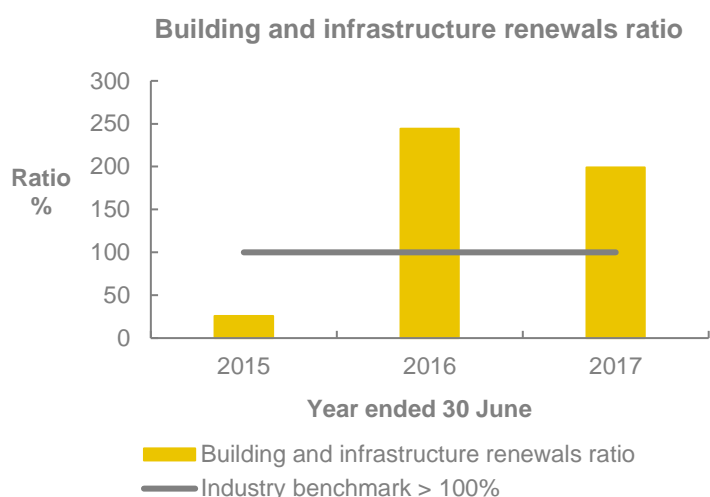


## Building and infrastructure renewals ratio

Council's infrastructure renewals ratio is above industry benchmarks. This ratio shows Council's commitment to asset renewal. However, its asset base is also lower than other Councils.

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

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



## OTHER MATTERS

### Council Entities

I did not audit the following council entities:

- Kiama District Tourist Commerce and Industrial Association Ltd. (Kiama Tourism)
- United Independent Pools
- Metro Pool
- Illawarra Pilot Joint Organisation.

I have not audited the financial statements of the council entities listed above as the Act does not appoint the Auditor-General as the independent statutory auditor of council entities. The Auditor-General's obligations with respect to auditing council entities are satisfied through performing those audit procedures necessary to form an opinion on the Council's consolidated general purpose financial reports.

### New accounting standards implemented

#### AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

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

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

## Legislative compliance

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

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



Karen Taylor  
Director, Financial Audit Services



# Kiama Municipal Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2017

---

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



# Kiama Municipal Council

## Special Purpose Financial Statements

for the year ended 30 June 2017

Contents	Page
<b>1. Statement by Councillors and Management</b>	<b>2</b>
<b>2. Special Purpose Financial Statements:</b>	
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
<b>3. Notes to the Special Purpose Financial Statements</b>	<b>5</b>
<b>4. Auditor's Report</b>	<b>9</b>

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### Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
  - (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.  
  
Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
  - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.  
  
These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
  - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

# Kiama Municipal Council

## Special Purpose Financial Statements for the year ended 30 June 2017

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

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

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

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

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

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

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



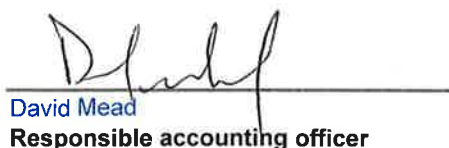
Mark Honey  
Mayor



Kathy Rice  
Councillor



Michael Forsyth  
General manager



David Mead  
Responsible accounting officer

# Kiama Municipal Council

## Income Statement of Council's Other Business Activities

for the year ended 30 June 2017

	Holiday Parks		Waste Unit	
	Category 1		Category 1	
\$ '000	Actual 2017	Actual 2016	Actual 2017	Actual 2016
<b>Income from continuing operations</b>				
Access charges	—	—	—	—
User charges	8,147	8,484	1,941	2,114
Fees	32	30	2,690	2,511
Interest	—	—	—	—
Grants and contributions provided for non-capital purposes	—	—	—	—
Profit from the sale of assets	—	—	31	98
Share of profit from equity accounted investment	—	—	—	—
Other income	47	57	664	648
<b>Total income from continuing operations</b>	<b>8,226</b>	<b>8,571</b>	<b>5,326</b>	<b>5,371</b>
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs	112	137	1,414	1,348
Borrowing costs	24	—	—	—
Materials and contracts	4,326	3,959	1,973	2,106
Depreciation, amortisation and impairment	651	619	301	457
Calculated taxation equivalents	19	18	—	—
Debt guarantee fee (if applicable)	60	79	—	—
Other expenses	890	1,003	32	34
<b>Total expenses from continuing operations</b>	<b>6,082</b>	<b>5,815</b>	<b>3,720</b>	<b>3,945</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>2,144</b>	<b>2,756</b>	<b>1,606</b>	<b>1,426</b>
Grants and contributions provided for capital purposes	—	—	—	—
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>2,144</b>	<b>2,756</b>	<b>1,606</b>	<b>1,426</b>
Surplus (deficit) from discontinued operations	—	—	—	—
<b>Surplus (deficit) from all operations before tax</b>	<b>2,144</b>	<b>2,756</b>	<b>1,606</b>	<b>1,426</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	(643)	(827)	(482)	(428)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>1,501</b>	<b>1,929</b>	<b>1,124</b>	<b>998</b>
<b>Plus opening retained profits</b>	11,471	9,459	2,474	9,039
<b>Plus/less: prior period adjustments</b>	—	—	—	(7,258)
<b>Plus/less: other adjustments</b>	—	7	—	—
<b>Plus adjustments for amounts unpaid:</b>				
– Taxation equivalent payments	19	18	—	—
– Debt guarantee fees	60	79	—	—
– Corporate taxation equivalent	643	827	482	428
<b>Add:</b>				
– Subsidy paid/contribution to operations	—	—	—	—
<b>Less:</b>				
– TER dividend paid	—	—	—	—
– Dividend paid	(1,785)	(848)	(752)	(733)
<b>Closing retained profits</b>	<b>11,909</b>	<b>11,471</b>	<b>3,328</b>	<b>2,474</b>
<b>Return on capital %</b>	<b>12.5%</b>	<b>16.0%</b>	<b>65.4%</b>	<b>87.0%</b>
<b>Subsidy from Council</b>	—	—	—	—

# Kiama Municipal Council

## Statement of Financial Position – Council's Other Business Activities

as at 30 June 2017

	Holiday Parks		Waste Unit	
	Category 1		Category 1	
\$ '000	Actual 2017	Actual 2016	Actual 2017	Actual 2016
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	1,779	1,785	1,082	1,042
Investments	–	–	–	–
Receivables	387	457	–	–
Inventories	–	–	–	–
<b>Total Current Assets</b>	<b>2,166</b>	<b>2,242</b>	<b>1,082</b>	<b>1,042</b>
<b>Non-current assets</b>				
Investments	–	–	–	–
Receivables	–	–	–	–
Inventories	–	–	–	–
Infrastructure, property, plant and equipment	17,291	17,256	2,455	1,640
Investments accounted for using equity method	–	–	–	–
Investment property	83	83	–	–
Intangible assets	–	–	–	–
<b>Total non-current assets</b>	<b>17,374</b>	<b>17,339</b>	<b>2,455</b>	<b>1,640</b>
<b>TOTAL ASSETS</b>	<b>19,540</b>	<b>19,581</b>	<b>3,537</b>	<b>2,682</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft	–	–	–	–
Payables	–	–	–	–
Income received in advance	–	–	–	–
Borrowings	263	475	–	–
Provisions	12	12	–	–
<b>Total current liabilities</b>	<b>275</b>	<b>487</b>	<b>–</b>	<b>–</b>
<b>Non-current liabilities</b>				
Payables	–	–	–	–
Borrowings	–	–	–	–
Provisions	896	1,162	–	–
Other Liabilities	–	–	–	–
<b>Total non-current liabilities</b>	<b>896</b>	<b>1,162</b>	<b>–</b>	<b>–</b>
<b>TOTAL LIABILITIES</b>	<b>1,171</b>	<b>1,649</b>	<b>–</b>	<b>–</b>
<b>NET ASSETS</b>	<b>18,369</b>	<b>17,932</b>	<b>3,537</b>	<b>2,682</b>
<b>EQUITY</b>				
Retained earnings	11,908	11,471	3,329	2,474
Revaluation reserves	6,461	6,461	208	208
Other reserves	–	–	–	–
<b>Council equity interest</b>	<b>18,369</b>	<b>17,932</b>	<b>3,537</b>	<b>2,682</b>
Non-controlling equity interest	–	–	–	–
<b>TOTAL EQUITY</b>	<b>18,369</b>	<b>17,932</b>	<b>3,537</b>	<b>2,682</b>

## Kiama Municipal Council

### Special Purpose Financial Statements

for the year ended 30 June 2017

#### 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 2017

#### Note 1. Significant accounting policies

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

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

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

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

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

#### National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

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

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

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

activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

#### Declared business activities

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

#### Category 1

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

##### a. **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. Where this is the case, they are disclosed as a cost of operations just like all other costs.

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

## Kiama Municipal Council

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

#### Note 1. Significant accounting policies (continued)

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

##### Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$549,000 of combined land values attracts 0%. For the combined land values in excess of \$549,001 up to \$3,357,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,357,000 a premium marginal rate of 2.0% applies.

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

##### Income tax

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

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

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

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

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

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

##### Local government rates and charges

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

##### Loan and debt guarantee fees

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

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

##### (ii) Subsidies

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

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

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

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

##### (iii) Return on investments (rate of return)

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

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



## Kiama Municipal Council

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

#### Note 1. Significant accounting policies (continued)

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

The rate of return is calculated as follows:

#### **Operating result before capital income + interest expense**

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.38% at 30/6/17.

#### **(iv) Dividends**

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



## **INDEPENDENT AUDITOR'S REPORT**

### **Report on the special purpose financial statement**

#### **The Council of the Municipality of Kiama**

To the Councillors of the The Council of the Municipality of Kiama

### **Opinion**

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

The Declared Business Activities of the Council are:

- Holiday Parks
- Waste Unit.

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

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

### **Basis for Opinion**

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

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

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

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

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

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

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

## **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to Note (1) to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

## **Other Matter**

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 31 October 2016.

## **The Councillors' Responsibility for the Financial Statements**

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

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

## **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf).

The description forms part of my auditor's report.

My opinion does not provide assurance:

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



Karen Taylor  
Director, Financial Audit Services

21 November 2017  
SYDNEY

# Kiama Municipal Council

SPECIAL SCHEDULES  
for the year ended 30 June 2017

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



# Kiama Municipal Council

## Special Schedules for the year ended 30 June 2017

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

<sup>1</sup> 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 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>1,349</b>	–	–	<b>(1,349)</b>
<b>Administration</b>	<b>13,135</b>	<b>1,779</b>	–	<b>(11,356)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	850	575	–	<b>(275)</b>
Beach control	322	38	–	<b>(284)</b>
Enforcement of local government regulations	54	–	–	<b>(54)</b>
Animal control	71	21	–	<b>(50)</b>
Other	–	–	–	<b>–</b>
<b>Total public order and safety</b>	<b>1,297</b>	<b>634</b>	–	<b>(663)</b>
<b>Health</b>	<b>549</b>	–	–	<b>(549)</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	–	–	–	<b>–</b>
Other environmental protection	220	41	–	<b>(179)</b>
Solid waste management	4,698	6,745	–	<b>2,047</b>
Street cleaning	512	–	–	<b>(512)</b>
Drainage	–	–	–	<b>–</b>
Stormwater management	374	–	–	<b>(374)</b>
<b>Total environment</b>	<b>5,804</b>	<b>6,786</b>	–	<b>982</b>
<b>Community services and education</b>				
Administration and education	2,289	214	–	<b>(2,075)</b>
Social protection (welfare)	–	–	–	<b>–</b>
Aged persons and disabled	9,934	14,639	–	<b>4,705</b>
Children's services	–	–	–	<b>–</b>
<b>Total community services and education</b>	<b>12,223</b>	<b>14,853</b>	–	<b>2,630</b>
<b>Housing and community amenities</b>				
Public cemeteries	103	252	–	<b>149</b>
Public conveniences	–	–	–	<b>–</b>
Street lighting	–	–	–	<b>–</b>
Town planning	271	139	2,245	<b>2,113</b>
Other community amenities	–	–	–	<b>–</b>
<b>Total housing and community amenities</b>	<b>374</b>	<b>391</b>	<b>2,245</b>	<b>2,262</b>
<b>Water supplies</b>	–	–	–	<b>–</b>
<b>Sewerage services</b>	–	–	–	<b>–</b>

## Kiama Municipal Council

# Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Recreation and culture</b>				
Public libraries	1,102	464	—	(638)
Museums	—	—	—	—
Art galleries	—	—	—	—
Community centres and halls	536	—	—	(536)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	—	—	—	—
Sporting grounds and venues	281	—	—	(281)
Swimming pools	808	1,270	—	462
Parks and gardens (lakes)	771	—	—	(771)
Other sport and recreation	2,081	586	—	(1,495)
<b>Total recreation and culture</b>	<b>5,579</b>	<b>2,320</b>	<b>—</b>	<b>(3,259)</b>
<b>Fuel and energy</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Agriculture</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Mining, manufacturing and construction</b>				
Building control	1,752	910	—	(842)
Other mining, manufacturing and construction	—	—	—	—
<b>Total mining, manufacturing and const.</b>	<b>1,752</b>	<b>910</b>	<b>—</b>	<b>(842)</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	3,041	1,411	—	(1,630)
Urban roads – regional	—	—	—	—
Sealed rural roads (SRR) – local	337	—	—	(337)
Sealed rural roads (SRR) – regional	491	—	—	(491)
Unsealed rural roads (URR) – local	—	—	—	—
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	—	—	—	—
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	—	—	—	—
Footpaths	110	119	—	9
Aerodromes	—	—	—	—
Other transport and communication	10	439	14,410	14,839
<b>Total transport and communication</b>	<b>3,989</b>	<b>1,969</b>	<b>14,410</b>	<b>12,390</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	5,573	8,226	—	2,653
Other economic affairs	1,597	560	—	(1,037)
<b>Total economic affairs</b>	<b>7,170</b>	<b>8,786</b>	<b>—</b>	<b>1,616</b>
<b>Totals – functions</b>	<b>53,221</b>	<b>38,428</b>	<b>16,655</b>	<b>1,862</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>18,820</b>		<b>18,820</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	<b>—</b>	<b>50</b>		<b>50</b>
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>53,221</b>	<b>57,298</b>	<b>16,655</b>	<b>20,732</b>

(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 2017

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
<b>Loans (by source)</b>											
Commonwealth Government	–	–	–							–	–
NSW Treasury Corporation	–	–	–							–	–
Other State Government	–	–	–							–	–
Public subscription	–	–	–							–	–
Financial institutions	501	2,957	<b>3,458</b>	–	501	–	–	176	445	2,512	<b>2,957</b>
Other	–	–	–							–	–
<b>Total loans</b>	<b>501</b>	<b>2,957</b>	<b>3,458</b>	<b>–</b>	<b>501</b>	<b>–</b>	<b>–</b>	<b>176</b>	<b>445</b>	<b>2,512</b>	<b>2,957</b>
<b>Other long term debt</b>											
Ratepayers advances	–	–	–							–	–
Government advances	342	832	<b>1,174</b>	–	341	–	–	45	209	624	<b>833</b>
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
<b>Total long term debt</b>	<b>342</b>	<b>832</b>	<b>1,174</b>	<b>–</b>	<b>341</b>	<b>–</b>	<b>–</b>	<b>45</b>	<b>209</b>	<b>624</b>	<b>833</b>
<b>Total debt</b>	<b>843</b>	<b>3,789</b>	<b>4,632</b>	<b>–</b>	<b>842</b>	<b>–</b>	<b>–</b>	<b>221</b>	<b>654</b>	<b>3,136</b>	<b>3,790</b>

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 2017

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>a</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings			423	454							
	Commercial Premises					20,691	33,581	58%	42%	0%	0%	0%
	Community Services					10,670	19,757	57%	43%	0%	0%	0%
	KMC Operational					6,506	13,764	47%	53%	0%	0%	0%
	Public Toilets					2,264	3,448	78%	22%	0%	0%	0%
	Rural Fire Service					630	977	72%	28%	0%	0%	0%
	Sports Facilities					3,739	8,120	56%	44%	0%	0%	0%
	State Emergency Services					550	788	91%	9%	0%	0%	0%
	Surf Life Saving Clubs					4,622	7,682	85%	15%	0%	0%	0%
	Other					1,296	1,332	98%	2%	0%	0%	0%
	<b>Sub-total</b>	–	–	<b>423</b>	<b>454</b>	<b>50,968</b>	<b>89,449</b>	<b>60.0%</b>	<b>40.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Other structures	Other structures			11	9	2,781	7,358	12%	88%	0%	0%	0%
	<b>Sub-total</b>	–	–	<b>11</b>	<b>9</b>	<b>2,781</b>	<b>7,358</b>	<b>12.0%</b>	<b>88.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

## Kiama Municipal Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>a</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Roads	<b>Urban Roads</b>			752	737							
	Sealed roads	552	552			31,918	55,248	33%	62%	4%	1%	0%
	Unsealed roads					2	3	100%	0%	0%	0%	0%
	Bridges					1,258	2,713	1%	99%	0%	0%	0%
	Footpaths					4,263	7,100	43%	54%	3%	0%	0%
	Other road assets					26,451	39,462	38%	61%	1%	0%	0%
	Bulk earthworks					12,181	12,181	100%	0%	0%	0%	0%
	<b>Rural Roads</b>			524	530							
	Sealed roads					15,385	22,922	48%	51%	1%	0%	0%
	Unsealed roads					402	693	50%	50%	0%	0%	0%
	Bridges					5,725	6,923	73%	27%	0%	0%	0%
	Footpaths					23	23	100%	0%	0%	0%	0%
	Other road assets					3,072	3,319	88%	10%	2%	0%	0%
	Bulk earthworks					7,631	7,631	100%	0%	0%	0%	0%
	<b>Regional Roads</b>			575	616							
	Sealed roads					7,463	14,790	20%	79%	1%	0%	0%
	Unsealed roads											
	Bridges					2,909	6,458	4%	96%	0%	0%	0%
	Footpaths					582	1,116	19%	77%	4%	0%	0%
	Other road assets					2,444	3,080	44%	52%	4%	0%	0%
	Bulk earthworks					3,595	3,595	100%	0%	0%	0%	0%
	<b>Access Roads &amp; Carparks</b>			133	89							
	Footpaths					3,651	4,790	72%	28%	0%	0%	0%
	Other road assets					21	21	99%	1%	0%	0%	0%
	<b>Sub-total</b>	<b>552</b>	<b>552</b>	<b>1,984</b>	<b>1,972</b>	<b>128,976</b>	<b>192,068</b>	<b>45.5%</b>	<b>52.5%</b>	<b>1.8%</b>	<b>0.3%</b>	<b>0.0%</b>

## Kiama Municipal Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>a</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage			119	150							
	Pits					7,339	9,533	76%	24%	0%	0%	0%
	Pipes					19,823	26,876	63%	37%	0%	0%	0%
	Open Channel					26	27	100%	0%	0%		0%
	Other					372	412	96%	4%	0%	0%	0%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>119</b>	<b>150</b>	<b>27,560</b>	<b>36,848</b>	<b>66.8%</b>	<b>33.2%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Open space/recreational assets	Swimming pools					144	396	1%	99%	0%	0%	0%
	Recreation					11,811	16,211	57%	42%	1%	0%	0%
	Other			1,786	1,559							
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>1,786</b>	<b>1,559</b>	<b>11,955</b>	<b>16,607</b>	<b>55.7%</b>	<b>43.4%</b>	<b>1.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Other infrastructure assets	Other					19,331						
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>19,331</b>	<b>–</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
	<b>TOTAL – ALL ASSETS</b>	<b>552</b>	<b>552</b>	<b>4,323</b>	<b>4,144</b>	<b>241,571</b>	<b>342,330</b>	<b>51.3%</b>	<b>47.5%</b>	<b>1.0%</b>	<b>0.2%</b>	<b>0.0%</b>

## Notes:

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

## Infrastructure asset condition assessment 'key'

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

# Kiama Municipal Council

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

\$ '000	Amounts 2017	Indicator 2017	Benchmark	Prior periods 20162015	
Infrastructure asset performance indicators * consolidated					
1. Infrastructure renewals ratio					
Asset renewals <sup>(1)</sup>	9,666	199.22%	>= 100%	244.07%	25.81%
Depreciation, amortisation and impairment	4,852				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	552	0.25%	< 2%	1.56%	2.44%
Net carrying amount of infrastructure assets	218,202				
3. Asset maintenance ratio					
Actual asset maintenance	4,144	0.96	> 1.00	1.02	0.98
Required asset maintenance	4,323				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	552	0.16%		0.00%	
Gross replacement cost	342,330				

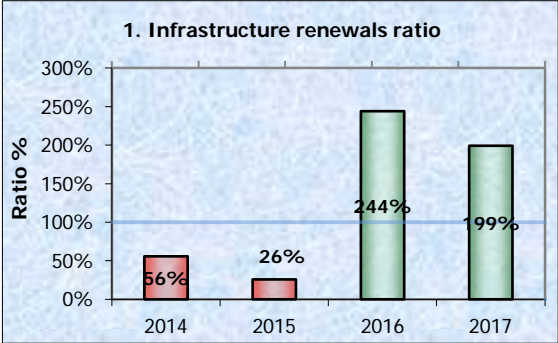
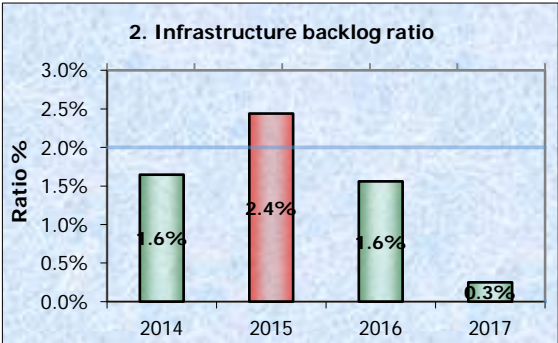
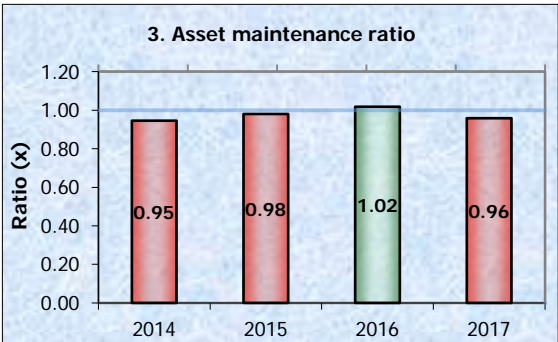
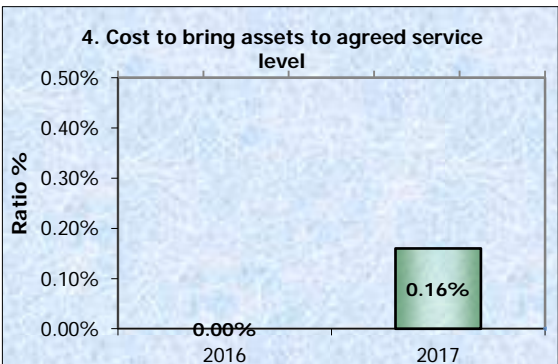
### Notes

\* 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 2017

<p><b>1. Infrastructure renewals ratio</b></p>  <p>Benchmark: <span style="color: blue;">—</span> 100.00%</p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p><b>Purpose of asset renewals ratio</b></p> <p>To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.</p>	<p><b>Commentary on 2016/17 result</b></p> <p><b>2016/17 Ratio    199.22%</b></p> <p>Continuing refinement of Asset Management Plans and Asset Renewal programs is adjusting the timing of asset renewals and the amount spent from year to year. Council continues to achieve a result well above the benchmark.</p>
<p><b>2. Infrastructure backlog ratio</b></p>  <p>Benchmark: <span style="color: blue;">—</span> 2.00%</p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p><b>Purpose of infrastructure backlog ratio</b></p> <p>This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.</p>	<p><b>Commentary on 2016/17 result</b></p> <p><b>2016/17 Ratio    0.25%</b></p> <p>The significant amounts spent on renewals over the past years is reducing the amount of the infrastructure backlog. Growth in the carrying value of infrastructure assets is also contributing to the favourable result for this year.</p>
<p><b>3. Asset maintenance ratio</b></p>  <p>Benchmark: <span style="color: blue;">—</span> 1.00</p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p><b>Purpose of asset maintenance ratio</b></p> <p>Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.</p>	<p><b>Commentary on 2016/17 result</b></p> <p><b>2016/17 Ratio    0.96 x</b></p> <p>Council continues to spend adequate funds on asset maintenance which is contributing to reducing the infrastructure backlog.</p>
<p><b>4. Cost to bring assets to agreed service level</b></p> 	<p><b>Purpose of agreed service level ratio</b></p> <p>This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.</p>	<p><b>Commentary on 2016/17 result</b></p> <p><b>2016/17 Ratio    0.16%</b></p> <p>The achievement of a ratio of 0.16% is a positive reflection of the effectiveness of the asset management policies, processes and priorities implemented by Council particularly over the past three years.</p>

# Kiama Municipal Council

## Special Schedule 8 – Permissible Income Calculation for the year ended 30 June 2018

\$'000		Calculation 2016/17	Calculation 2017/18
<b>Notional general income calculation <sup>(1)</sup></b>			
Last year notional general income yield	a	14,596	15,040
Plus or minus adjustments <sup>(2)</sup>	b	187	271
<b>Notional general income</b>	$c = (a + b)$	<b>14,783</b>	<b>15,311</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%
Or rate peg percentage	e	1.80%	1.50%
Or crown land adjustment (incl. rate peg percentage)	f	1.97%	1.75%
Less expiring special variation amount	g	—	—
Plus special variation amount	$h = d \times (c - g)$	—	—
Or plus rate peg amount	$i = c \times e$	—	—
Or plus Crown land adjustment and rate peg amount	$j = c \times f$	290	268
<b>Sub-total</b>	$k = (c + g + h + i + j)$	<b>15,073</b>	<b>15,579</b>
Plus (or minus) last year's carry forward total	l	1	34
Less valuation objections claimed in the previous year	m	—	—
<b>Sub-total</b>	$n = (l + m)$	<b>1</b>	<b>34</b>
<b>Total permissible income</b>	$o = k + n$	<b>15,074</b>	<b>15,613</b>
Less notional general income yield	p	15,040	15,619
<b>Catch-up or (excess) result</b>	$q = o - p$	<b>34</b>	<b>(6)</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	—	—
Less unused catch-up <sup>(5)</sup>	s	—	—
<b>Carry forward to next year</b>	$t = q + r - s$	<b>34</b>	<b>(6)</b>

### Notes

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



## **INDEPENDENT AUDITOR'S REPORT**

### **Special Schedule No. 8**

#### **The Council of the Municipality of Kiama**

To the Councillors of The Council of the Municipality of Kiama

### **Opinion**

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

In my opinion, Special Schedule No. 8 of The Council of the Municipality of Kiama for 30 June 2018 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

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

### **Basis for Opinion**

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

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

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

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

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

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

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

## **Emphasis of Matter - Basis of Accounting**

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

## **Other Matter**

Special Schedule No.8 of the Council for the year ended 30 June 2017 was audited by another auditor who expressed an unmodified opinion on Special Schedule No. 8 on 31 October 2016.

## **Councillors' Responsibility for Special Schedule No. 8**

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

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

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

My objectives are to:

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

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

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

My opinion does not provide assurance:

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



Karen Taylor  
Director, Financial Audit Services

21 November 2017  
SYDNEY