

Dungog Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2014

*“A vibrant, united community, with a sustainable economy.
An area where rural character, community safety,
and lifestyle are preserved.”*



Dungog Shire Council

General Purpose Financial Statements

for the financial year ended 30 June 2014

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Overview

(i) These financial statements are General Purpose Financial Statements and cover the consolidated operations for Dungog Shire Council.

(ii) Dungog Shire Council is a body politic of NSW, Australia - being constituted as a Local Government area by proclamation and is duly empowered by the Local Government Act (LGA) 1993 of NSW.

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

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

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

(iii) All figures presented in these financial statements are presented in Australian Currency.

(iv) These financial statements were authorised for issue by the Council on 24 November 2014. Council has the power to amend and reissue these financial statements.

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Understanding Council's Financial Statements

Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their Council & Community.

What you will find in the Statements

The financial statements set out the financial performance, financial position & cash flows of Council for the financial year ended 30 June 2014.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting & 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 & ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate 5 "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income & 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 values of Council's Infrastructure, Property, Plant & Equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its Assets, Liabilities & "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 5 primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by external accountants (that generally specialize in Local Government).

In NSW, the Auditor provides 2 audit reports:

1. An opinion on whether the financial statements present fairly the Council's financial performance & position, &
2. Their observations on the conduct of the Audit including commentary on the Council's financial performance & financial position.

Who uses the Financial Statements ?

The financial statements are publicly available documents & must be presented at a Council meeting between 7 days & 5 weeks after the date of the Audit Report.

Submissions from the public can be made to Council up to 7 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.

Dungog Shire Council

General Purpose Financial Statements

for the financial year ended 30 June 2014

Statement by Councillors and Management

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

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

The Local Government Act 1993 (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


accords with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 16th September 2014.




Cr Harold Johnson
MAYOR



Cr Anthony McKenzie
COUNCILLOR



Craig Deasey
GENERAL MANAGER



Shaun Chandler
RESPONSIBLE ACCOUNTING OFFICER

Dungog Shire Council

Income Statement

for the financial year ended 30 June 2014

Budget ¹ 2014	\$ '000	Notes	Actual 2014	Actual 2013
Income from Continuing Operations				
<i>Revenue:</i>				
6,093	Rates & Annual Charges	3a	6,017	5,782
790	User Charges & Fees	3b	981	789
279	Interest & Investment Revenue	3c	465	453
952	Other Revenues	3d	894	1,199
3,745	Grants & Contributions provided for Operating Purposes	3e,f	3,382 ²	4,904
4,089	Grants & Contributions provided for Capital Purposes	3e,f	3,254	3,436
<i>Other Income:</i>				
-	Net gains from the disposal of assets	5	-	-
-	Net Share of interests in Joint Ventures & Associated			
6	Entities using the equity method	19	7	4
15,954	Total Income from Continuing Operations		15,000	16,567
Expenses from Continuing Operations				
3,849	Employee Benefits & On-Costs	4a	4,139	3,807
97	Borrowing Costs	4b	143	158
5,008	Materials & Contracts	4c	4,245	4,318
2,528	Depreciation & Amortisation	4d	3,033	2,829
-	Impairment	4d	-	60
1,460	Other Expenses	4e	1,380	1,462
1,338	Net Losses from the Disposal of Assets	5	1,283	504
14,280	Total Expenses from Continuing Operations		14,223	13,138
1,674	Operating Result from Continuing Operations		777	3,429
Discontinued Operations				
-	Net Profit/(Loss) from Discontinued Operations	24	-	-
1,674	Net Operating Result for the Year		777	3,429
1,674	Net Operating Result attributable to Council		768	3,425
-	Net Operating Result attributable to Non-controlling Interests		9	4
(2,415)	Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		(2,477)	(7)

¹ Original Budget as approved by Council - refer Note 16

² Financial Assistance Grants for 13/14 are lower, reflecting a timing difference due to a change in how the grant is paid - refer Note 3 (e)

Dungog Shire Council

Statement of Comprehensive Income for the financial year ended 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
Net Operating Result for the year (as per Income statement)		777	3,429
Other Comprehensive Income:			
Amounts which will not be reclassified subsequently to the Operating Result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	169,386	246
Total Items which will not be reclassified subsequently to the Operating Result		169,386	246
Amounts which will be reclassified subsequently to the Operating Result when specific conditions are met			
Nil			
Total Other Comprehensive Income for the year		169,386	246
Total Comprehensive Income for the Year		170,163	3,675
Total Comprehensive Income attributable to Council		170,154	3,671
Total Comprehensive Income attributable to Non-controlling Interests		9	4

Dungog Shire Council

Statement of Financial Position

as at 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
ASSETS			
Current Assets			
Cash & Cash Equivalents	6a	6,942	11,111
Investments	6b	3,500	1,000
Receivables	7	2,540	974
Inventories	8	1,256	1,390
Other	8	16	210
Non-current assets classified as "held for sale"	22	-	-
Total Current Assets		14,254	14,685
Non-Current Assets			
Investments	6b	-	-
Receivables	7	66	70
Inventories	8	26	27
Infrastructure, Property, Plant & Equipment	9	295,955	149,427
Investments accounted for using the equity method	19	39	30
Investment Property	14	-	-
Intangible Assets	25	-	-
Total Non-Current Assets		296,086	149,554
TOTAL ASSETS		310,340	164,239
LIABILITIES			
Current Liabilities			
Payables	10	999	1,023
Borrowings	10	181	434
Provisions	10	1,800	1,722
Total Current Liabilities		2,980	3,179
Non-Current Liabilities			
Payables	10	96	97
Borrowings	10	710	700
Provisions	10	2,275	2,112
Total Non-Current Liabilities		3,081	2,909
TOTAL LIABILITIES		6,061	6,088
Net Assets		304,279	158,151
EQUITY			
Retained Earnings	20	122,440	145,707
Revaluation Reserves	20	181,800	12,414
Council Equity Interest		304,240	158,121
Non-controlling Interests		39	30
Total Equity		304,279	158,151

Dungog Shire Council

Statement of Changes in Equity
for the financial year ended 30 June 2014

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non- controlling Interest	Total Equity
2014						
Opening Balance (as per Last Year's Audited Accounts)		145,707	12,414	158,121	30	158,151
a. Correction of Errors	20 (c)	(24,035)	-	(24,035)	-	(24,035)
Revised Opening Balance (as at 1/7/13)		121,672	12,414	134,086	30	134,116
c. Net Operating Result for the Year		768	-	768	9	777
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)		169,386	169,386	-	169,386
Other Comprehensive Income		-	169,386	169,386	-	169,386
Total Comprehensive Income (c&d)		768	169,386	170,154	9	170,163
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		122,440	181,800	304,240	39	304,279

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non- controlling Interest	Total Equity
2013						
Opening Balance (as per Last Year's Audited Accounts)		142,282	12,168	154,450	26	154,476
a. Correction of Prior Period Errors	20 (c)	-	-	-	-	-
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
Revised Opening Balance (as at 1/7/12)		142,282	12,168	154,450	26	154,476
c. Net Operating Result for the Year		3,425	-	3,425	4	3,429
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)		246	246	-	246
Other Comprehensive Income		-	246	246	-	246
Total Comprehensive Income (c&d)		3,425	246	3,671	4	3,675
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		145,707	12,414	158,121	30	158,151

Dungog Shire Council

Statement of Cash Flows

for the financial year ended 30 June 2014

Budget 2014	\$ '000	Notes	Actual 2014	Actual 2013
Cash Flows from Operating Activities				
Receipts:				
6,093	Rates & Annual Charges		5,981	5,763
790	User Charges & Fees		984	807
279	Investment & Interest Revenue Received		463	459
7,834	Grants & Contributions		5,057	9,025
-	Bonds, Deposits & Retention amounts received		67	42
883	Other		1,788	2,900
Payments:				
(3,953)	Employee Benefits & On-Costs		(3,986)	(3,752)
(5,009)	Materials & Contracts		(4,648)	(5,141)
(97)	Borrowing Costs		(64)	(84)
-	Bonds, Deposits & Retention amounts refunded		(134)	-
(1,296)	Other		(1,679)	(1,999)
5,524	Net Cash provided (or used in) Operating Activities	11b	3,829	8,020
Cash Flows from Investing Activities				
Receipts:				
-	Sale of Investment Securities		-	500
1,318	Sale of Real Estate Assets		206	460
-	Sale of Infrastructure, Property, Plant & Equipment		86	323
-	Deferred Debtors Receipts		6	4
Payments:				
-	Purchase of Investment Securities		(2,500)	(1,000)
(4,889)	Purchase of Infrastructure, Property, Plant & Equipment		(5,545)	(5,924)
-	Purchase of Real Estate Assets		(6)	(312)
-	Contributions Paid to Joint Ventures & Associates		(2)	-
(3,571)	Net Cash provided (or used in) Investing Activities		(7,755)	(5,949)
Cash Flows from Financing Activities				
Receipts:				
650	Proceeds from Borrowings & Advances		200	-
Payments:				
(441)	Repayment of Borrowings & Advances		(443)	(135)
209	Net Cash Flow provided (used in) Financing Activities		(243)	(135)
2,162	Net Increase/(Decrease) in Cash & Cash Equivalents		(4,169)	1,936
9,847	plus: Cash & Cash Equivalents - beginning of year	11a	11,111	9,175
12,009	Cash & Cash Equivalents - end of the year	11a	6,942	11,111
Additional Information:				
	plus: Investments on hand - end of year	6b	3,500	1,000
Total Cash, Cash Equivalents & Investments			10,442	12,111

Please refer to Note 11 for additional cash flow information

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

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n/a - not applicable

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

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

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

(a) Basis of preparation

(i) Background

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

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

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

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

Because AASBs are sector neutral, some standards either:

- (a) have local Australian content and prescription that is specific to the Not-For-Profit sector (including Local Government) which are not in compliance with IFRS's, or
- (b) specifically exclude application by Not for Profit entities.

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

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

(iii) New and amended standards adopted by Council

During the current year, the following relevant standards became mandatory for Council and have been adopted:

- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits

AASB 13 Fair Value Measurement has not affected the assets or liabilities which are to be measured at fair value, however it provides detailed guidance on how to measure fair value in accordance with the accounting standards.

It introduces the concept of highest and best use for non-financial assets and has caused the Council to review their valuation methodology.

The level of disclosures regarding fair value have increased significantly and have been included in the financial statements at Note 27.

AASB 119 Employee Benefits introduced revised definitions for short-term employee benefits.

Whilst the Council has reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period, there has been no effect on the amounts disclosed as leave liabilities since Council's existing valuation policy was to discount annual leave payable more than 12 months after the end of the reporting period to present values.

(iv) Early adoption of Accounting Standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2014.

Refer further to paragraph (ab) relating to a summary of the effects of Standards with future operative dates.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

(v) Basis of Accounting

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

- (i) financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets which are all valued at fair value,
- (ii) the write down of any Asset on the basis of Impairment (if warranted) and
- (iii) certain classes of Infrastructure, Property, Plant & Equipment that are accounted for at fair valuation.

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

(vi) Changes in Accounting Policies

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

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

(vii) Critical Accounting Estimates

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

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

Critical judgements in applying 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.
- (ii) Projected Section 94 Commitments - Council has used significant judgement in determining future Section 94 income and expenditure in Note 17.

(b) Revenue recognition

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

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

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of S94 of the EPA Act 1979.

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

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

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

User Charges, Fees and Other Income

User charges, fees and other income (including fines) are recognised as revenue when the service

has been provided, the payment is received, or when the penalty has been applied, whichever first occurs.

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

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

Sale of Infrastructure, Property, Plant and Equipment

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

Interest and Rents

Rents and other income are recognised as revenue on a proportional basis when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

Interest Income from Cash & Investments is accounted for using the effective interest rate at the date that interest is earned.

(c) Principles of Consolidation

These financial statements incorporate **(i)** the assets and liabilities of Council and any entities (or operations) that it **controls** (as at 30 June 2014) and **(ii)** all the related operating results (for the financial year ended the 30th June 2014).

The financial statements also include Council's share of the assets, liabilities, income and expenses of any **Jointly Controlled Operations** under the appropriate headings.

In the process of reporting on Council's activities as a single unit, all inter-entity year end balances and reporting period transactions have been eliminated in full between Council and its controlled entities.

(i) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the LGA 1993, all money and property received by Council is held in the Council's Consolidated Fund

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

unless it is required to be held in the Council's Trust Fund.

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

The following entities have been included as part of the Consolidated Fund:

- General Purpose Operations
- Dungog Shire Council Water Supply Fund
- Dungog Shire Council Sewerage Service Fund

Due to their immaterial value and nature, the following Committees, Entities & Operations have been excluded from consolidation:

- Clarence Town School Arts
- Dungog Showground
- James Theatre Management Committee
- Martins Creek School of Arts
- Gresford School of Arts
- Paterson School of Arts
- Vacy School of Arts
- Vacy Sportsground
- Paterson Sportsground
- Gresford Sporting Complex

The **(i)** total income and expenditure from continuing operations and **(ii)** the net assets held by these excluded Committees & Operations is as follows:

Total income from continuing operations	\$62,710
Total expenditure from continuing operations	\$66,993
Total net assets held (ie Equity)	\$-4,283

Note:

Where actual figures are not known, best estimates have been applied.

(ii) The Trust Fund

In accordance with the provisions of Section 411 of the Local Government Act 1993 (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the Council in trust 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 statements.

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

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

(iii) Joint Ventures

Council participates in cooperative arrangements with other Councils for the provision of services and facilities, and Councils interest in joint ventures have been included within the financial reports and shown within Note 19.

(iv) Associated Entities

Refer to (iii) above.

(v) County Councils

Council is not a member of any County Councils.

(vi) Additional Information

Note 19 provides more information in relation to Joint Venture Entities, Associated Entities and Joint Venture Operations where applicable.

(d) Leases

All Leases entered into by Council are reviewed and classified on inception date as an Operating Lease.

Finance Leases

Council does not enter into Finance Leases.

Operating Leases

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

Payments made under operating leases (net of any incentives received from the lessor) are charged to

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

the income statement on a straight-line basis over the period of the lease.

(e) Cash and Cash Equivalents

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

- cash **on hand**,
- deposits held **at call** with financial institutions,
- other short-term, highly liquid investments **with original maturities of three months or less** that are readily convertible to known amounts of cash and 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 balance sheet but are incorporated into Cash & Cash Equivalents for presentation of the Cash Flow Statement.

(f) Investments and Other Financial Assets

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

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

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

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

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

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

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

(ii) Loans and receivables

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

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

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

(iii) Held-to-maturity investments

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

In contrast to the “Loans & Receivables” classification, these investments are generally quoted in an active market.

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

(iv) Available-for-sale financial assets

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

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

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

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

Financial Assets – Reclassification

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

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

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

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

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

General Accounting & Measurement of Financial Instruments:

(i) Initial Recognition

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

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

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

(ii) Subsequent Measurement

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

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

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

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

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

Impairment

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

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

(iii) Types of Investments

Council has an approved Investment Policy in order to undertake its investment of money in accordance with (and to comply with) Section 625 of the Local Government Act and S212 of the LG (General) Regulation 2005.

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

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

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

(g) Fair value estimation

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

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

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

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

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

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

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

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

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

(h) Receivables

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

Receivables (excluding Rates & Annual Charges) are generally due for settlement no more than 30 days from the date of recognition.

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

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

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

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

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

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

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

Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(i) Inventories

Raw Materials and Stores, Work in Progress and Finished Goods

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

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

Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

Land Held for Resale/Capitalisation of Borrowing Costs

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

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

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

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

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

(j) Infrastructure, Property, Plant and Equipment (I,PP&E)

Acquisition of assets

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

At balance date, the following classes of I,PP&E were stated at their Fair Value;

- **Operational Land**
- **Buildings – Specialised/Non Specialised Plant and Equipment**
(as approximated by depreciated historical cost)
- **Community Land**
- **Other Structures**
- **Roads, Bridges, Footpaths, Earthworks.**
- **Stormwater drainage**

Initial Recognition

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

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

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

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

Subsequent costs

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

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

Asset Revaluations (including Indexation)

In accounting for Asset Revaluations relating to Infrastructure, Property, Plant & Equipment:

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

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

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

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

Capitalisation Thresholds

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

Land

- council land	100% Capitalised
- open space	100% Capitalised
- land under roads (purchases after 30/6/08)	Not Capitalised

Plant & Equipment

Office Furniture	> \$1,000
Office Equipment	> \$1,000
Other Plant & Equipment	> \$1,000

Buildings & Land Improvements

Park Furniture & Equipment	> \$2,000
Building	
- construction/extensions	100% Capitalised
- renovations	> \$10,000
Other Structures	> \$2,000

Stormwater Assets

Drains & Culverts	> \$5,000
Other	> \$5,000

Transport Assets

Road construction & reconstruction	> \$10,000
Reseal/Re-sheet & major repairs:	> \$10,000
Bridge construction & reconstruction	> \$10,000

Depreciation

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight line method in order to allocate an assets cost (net of residual values) over its estimated useful life.

Land is not depreciated.

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

Office equipment	5 – 10 yrs
Pumps and telemetry	15 – 20 yrs
Office furniture	10 – 20 yrs
Drains	80 – 100 yrs
Vehicles &	
Road making Equipment	5 – 8 yrs
Culverts	50 – 80 yrs
Other plant and equipment	5 – 15 yrs

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

Flood control structures		80 – 100 yrs
Buildings – Masonry		50 – 100 yrs
Sealed roads	Surface	15 yrs
	Other	20 – 40 yrs
	Structure	50 yrs
Playground equipment		5 – 15 yrs
Unsealed roads		20 yrs
Benches, seats etc		10 – 20 yrs
Bridge – Concrete		80 yrs
Dams and reservoirs		80 – 100 yrs
Dams and reservoirs- other		50 yrs
Bulk earthworks		Infinite
Reticulation pipes		PVC 70 – 80 yrs
Reticulation pipes - other		25 – 75 yrs
Timber Bridges		50 yrs

Depreciation periods for infrastructure assets have been estimated based on the best information available to Council, but appropriate records covering entire life cycle of these assets are not available and care should be used in interpreting financial information based on these estimates.

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

Disposal and De-recognition

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

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

(k) Land

Land (other than Land under Roads) is in accordance with Part 2 of Chapter 6 of the Local Government Act (1993) classified as either Operational or Community.

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

(l) Land under roads

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

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

(m) Intangible Assets

Council has not classified any assets as Intangible.

(n) Crown Reserves

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

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

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

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

(o) Rural Fire Service assets

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

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

Until such time as discussions on this matter have concluded and the legislation changed, Council will

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

continue to account for these assets as it has been doing in previous years, which is to incorporate the assets, their values and depreciation charges within these financial statements.

(p) Investment property

Council does not currently have investment properties.

(q) Provisions for close down, restoration and for environmental clean up costs – including Tips and Quarries

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

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

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

Costs are estimated on the basis of a closure plan.

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

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

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

The amortisation or 'unwinding' of the discount applied in establishing the net present value of

provisions is charged to the income statement in each accounting period.

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

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

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

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

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

These costs are charged to the income statement.

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

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

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

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

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

Specific Information relating to Council's provisions relating to Close down, Restoration and Remediation costs can be found at Note 26.

(r) Non-Current Assets (or Disposal Groups) "Held for Sale" & Discontinued Operations

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

The exception to this is plant and motor vehicles which are turned over on a regular basis. Plant and motor vehicles are retained in Non Current Assets under the classification of Infrastructure, Property, Plant and Equipment - unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

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

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

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

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

The results of discontinued operations are presented separately on the face of the income statement.

(s) Impairment of assets

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

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

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

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

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

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

Goodwill & other Intangible Assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment.

(t) Payables

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

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

(u) Borrowings

Loans are carried at their principal amounts which represents the present value of future cash flows associated with servicing the debt. Interest is accrued over the period to which it relates and is recorded as part of "payables".

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

(v) Borrowing costs

Borrowing costs are expensed.

(w) Provisions

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

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

Provisions are not recognised for future operating losses.

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

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

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

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

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

(x) Employee benefits

(i) Short Term Obligations

Short term employee benefit obligations include liabilities for wages and salaries (including non-monetary benefits), annual leave and vesting sick

leave expected to be settled within the 12 months after the reporting period.

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

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

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

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

Wages & salaries, annual leave and vesting sick leave are all classified as Current Liabilities.

(ii) Other Long Term Obligations

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

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

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

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

Due to the nature of when and how Long Service Leave can be taken, all Long Service Leave for employees with 4 or more years of service has been classified as Current, as it has been deemed that Council does not have the unconditional right to defer settlement beyond 12 months – even though it is not anticipated that all employees with more than 4 years

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

service (as at reporting date) will apply for and take their leave entitlements in the next 12 months.

(iii) Retirement benefit obligations

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

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

Defined Benefit Plans

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

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

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

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

This Scheme has been deemed to be a "multi employer fund" for the purposes of AASB 119.

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

The last valuation of the Scheme was performed by Mr Richard Boyfield, Representative of Mercer Consulting (Australia) Pty Ltd, AFS Licence No.

411770 on 30 June 2014 and covers the period ended 30/06/2014.

However the position is monitored annually and the Actuary has estimated that as at 30 June 2014 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 2014 was \$ 179,763.

The amount of additional contributions included in the total employer contribution advised above is \$65,708.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$262,832 as at 30 June 2014.

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

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

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

Defined Contribution Plans

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

(iv) Employee Benefit On-Costs

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

These amounts include Superannuation and Workers Compensation expenses which will be payable upon the future payment of certain Leave Liabilities accrued as at 30/6/14.

(y) Self insurance

Council does not self insure.

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

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

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

Exceptions

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

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

(aa) Taxes

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

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

Goods & Services Tax (GST)

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

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

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

The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the Balance Sheet. Operating cash flows within the Cash Flow Statement are on a gross basis, ie. they are inclusive of GST where applicable.

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

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

(ab) New accounting standards and interpretations

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2014.

Council has not adopted any of these standards early.

Council's assessment of the impact of these new standards and interpretations is set out below.

Applicable to Local Government with implications:

AASB 9 Financial Instruments, associated standards, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and transitional disclosures and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017)

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities.

The standard is not applicable until 1 January 2015 but is available for early adoption.

When adopted, the standard will affect in particular Council's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss although there is currently a proposal by the IASB to introduce a Fair value through Other Comprehensive Income category for debt instruments.

There will be no impact on Council's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Council does not have any such liabilities.

The de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

Applicable to Local Government but no implications for Council;

AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective for 30 June 2015 Financial Statements)

There are no changes to reported financial position or performance from AASB 2013 – 3, however additional disclosures may be required.

Applicable to Local Government but not relevant to Council at this stage;

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to

Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective for 30 June 2015 Financial Statements for not-for-profit entities)

This suite of five new and amended standards address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities.

The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities.

It focuses on the need to have both power and rights or exposure to variable returns.

Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

Control exists when the investor can use its power to affect the amount of its returns.

There is also new guidance on participating and protective rights and on agent/principal relationships. Council does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements.

The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture.

Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard.

AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

Council's investment in the joint venture partnership will be classified as a joint venture under the new rules.

As Council already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

Application of this standard by Council will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Council's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa.

The amendments also introduce a "partial disposal" concept.

Council is still assessing the impact of these amendments.

Council does not expect to adopt the new standards before their operative date.

They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2015.

Not applicable to Local Government per se;

None

There are no other standards that are "not yet effective" and expected to have a material impact on

Council in the current or future reporting periods and on foreseeable future transactions.

(ac) Rounding of amounts

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

(ad) Comparative Figures

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

(ae) Disclaimer

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 2(a). Council Functions / Activities - Financial Information

Functions/Activities	Income, Expenses and Assets have been directly attributed to the following Functions / Activities. Details of these Functions/Activities are provided in Note 2(b).												
	Income from Continuing Operations			Expenses from Continuing Operations			Operating Result from Continuing Operations			Grants included in Income from Continuing Operations		Total Assets held (Current & Non-current)	
	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2014	2014	2013	2014	2014	2013	2014	2014	2013	2014	2013	2014	2013
Governance	-	-	-	447	517	679	(447)	(517)	(679)	-	-	360	246
Administration	224	564	946	1,524	1,423	1,048	(1,300)	(859)	(102)	-	-	10,394	10,808
Public Order & Safety	138	131	342	723	656	818	(585)	(525)	(476)	50	140	3,555	3,636
Health	64	12	-	140	26	-	(76)	(14)	-	-	113	4	1
Environment	1,704	2,105	2,087	1,855	1,910	1,441	(151)	195	646	202	282	2,348	2,121
Community Services & Education	92	102	104	206	174	189	(114)	(72)	(85)	10	21	1,912	1,953
Housing & Community Amenities	443	356	658	1,081	1,105	1,004	(638)	(749)	(346)	63	8	3,094	3,480
Water Supplies	-	8	11	-	-	501	-	8	(490)	-	-	271	265
Sewerage Services	-	1	2	-	-	-	-	1	2	-	-	52	51
Recreation & Culture	71	388	456	1,202	1,150	1,089	(1,131)	(762)	(633)	80	51	18,234	10,089
Mining, Manufacturing & Construction	86	105	69	272	353	406	(186)	(248)	(337)	-	-	2,404	2,865
Transport & Communication	6,298	4,577	4,448	6,321	6,487	5,513	(23)	(1,910)	(1,065)	799	569	264,960	124,854
Economic Affairs	163	205	162	509	422	450	(346)	(217)	(288)	-	-	2,713	3,840
Total Functions & Activities	9,283	8,554	9,285	14,280	14,223	13,138	(4,997)	(5,669)	(3,853)	1,204	1,184	310,301	164,209
Share of gains/(losses) in Associates & Joint Ventures (using the Equity Method)	-	7	4	-	-	-	-	7	4	-	-	39	30
General Purpose Income ¹	6,671	6,439	7,278	-	-	-	6,671	6,439	7,278	1,178	2,239	-	-
Operating Result from Continuing Operations	15,954	15,000	16,567	14,280	14,223	13,138	1,674	777	3,429	2,382	3,423	310,340	164,239

1. Includes: Rates & Annual Charges (incl. Ex-Gratia), Untied General Purpose Grants & Unrestricted Interest & Investment Income.

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 2(b). Council Functions / Activities - Component Descriptions

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

GOVERNANCE

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

ADMINISTRATION

Corporate Support and Other Support Services (not otherwise attributed to the listed functions / activities).

PUBLIC ORDER & SAFETY

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

HEALTH

Inspection, immunisations, food control, health centres, other, administration.

ENVIRONMENT

Noxious plants and insect/vermin control, other environmental protection, solid waste management, street cleaning, drainage, stormwater management.

COMMUNITY SERVICES & EDUCATION

Administration, other community services.

HOUSING & COMMUNITY AMENITIES

Housing, town planning, street lighting, other sanitation and garbage, public cemeteries, public conveniences, other community amenities.

WATER SUPPLIES

SEWERAGE SERVICES

RECREATION & CULTURE

Public libraries, museums, community centres, public halls, swimming pools, sporting grounds, parks and gardens..

MINING, MANUFACTURING & CONSTRUCTION

Building control, quarries & pits, other.

TRANSPORT & COMMUNICATION

Urban roads, sealed rural roads, unsealed rural roads, bridges, footpaths, parking areas, bus shelters and services, other.

ECONOMIC AFFAIRS

Camping areas, caravan parks, tourism and area promotion, industrial development promotion, saleyards , real estate development, other business undertakings.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
(a) Rates & Annual Charges			
Ordinary Rates			
Residential		2,530	2,368
Farmland		2,044	1,999
Business		305	306
Total Ordinary Rates		4,879	4,673
Special Rates			
Nil			
Annual Charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		975	946
Sanitary		18	21
Stormwater Management Services		41	40
Waste Management Services (non-domestic)		103	101
Section 611 Charges		1	1
Total Annual Charges		1,138	1,109
TOTAL RATES & ANNUAL CHARGES		6,017	5,782
Council has used 2012 year valuations provided by the NSW Valuer General in calculating its rates.			
(b) User Charges & Fees			
Specific User Charges (per s.502 - Specific "actual use" charges)			
Domestic Waste Management Services		188	185
Total User Charges		188	185
Other User Charges & Fees			
(i) Fees & Charges - Statutory & Regulatory Functions (per s.608)			
Building Control		50	31
Planning & Building Regulation		264	181
Private Works - Section 67		12	6
Town Planning		39	49
Other		38	20
Total Fees & Charges - Statutory/Regulatory		403	287
(ii) Fees & Charges - Other (incl. General User Charges) (per s.608)			
Caravan Park		168	136
Cemeteries		37	28
Onsite Sewerage Management Services		145	104
Septic Tank Inspections		-	1
Tourism		4	3
Inspections & Construction Certificates - Roads		36	45
Total Fees & Charges - Other		390	317
TOTAL USER CHARGES & FEES		981	789

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
(c) Interest & Investment Revenue (incl. losses)			
Interest & Dividends			
- Interest on Overdue Rates & Annual Charges (incl. Special Purpose Rates)		28	30
- Interest earned on Investments (interest & coupon payment income)		437	423
TOTAL INTEREST & INVESTMENT REVENUE		465	453
Interest Revenue is attributable to:			
Unrestricted Investments/Financial Assets:			
Overdue Rates & Annual Charges (General Fund)		28	30
General Council Cash & Investments		354	336
Restricted Investments/Funds - External:			
Development Contributions			
- Section 94		75	76
Water Fund Operations		7	9
Sewerage Fund Operations		1	2
Total Interest & Investment Revenue Recognised		465	453
(d) Other Revenues			
Rental Income - Other Council Properties		119	104
Fines - Other		18	16
Landfill Recycling Stations Sales		93	86
Legal Fees Recovery - Rates & Charges (Extra Charges)		1	-
Legal Fees Recovery - Other		12	23
Commissions & Agency Fees		134	96
Insurance Claim Recoveries		-	23
Section 88 Fee Collected		148	174
Workers Compensation & Insurance Rebates		37	60
Divest Water & Sewer Operation		300	614
Other		32	3
TOTAL OTHER REVENUE		894	1,199

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 3. Income from Continuing Operations (continued)

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
(e) Grants				
General Purpose (Untied)				
Financial Assistance - General Component	696	1,381	-	-
Financial Assistance - Local Roads Component	416	790	-	-
Pensioners' Rates Subsidies - General Component	66	68	-	-
Total General Purpose	1,178	2,239	-	-

¹ The Financial Assistance Grant for 13/14 reflects a one off reduction due to the fact that this grant is no longer being paid in advance by up to 50% as has occurred in previous years - it does not represent a loss of income but is instead a timing difference.

Specific Purpose

Pensioners' Rates Subsidies:

- Domestic Waste Management	27	29	-	-
Bushfire & Emergency Services	-	29	-	-
Community Care	2	10	-	-
Environmental Protection	128	253	-	-
Heritage & Cultural	2	8	-	-
Hunter Area Assistance Scheme	8	11	-	-
Library	29	29	6	6
Library - special projects	-	16	-	-
Noxious Weeds	47	45	-	-
NSW Rural Fire Services	50	111	-	-
Public Halls	20	-	-	-
Recreation & Culture	-	-	25	-
Street Lighting	6	6	-	-
Transport (Roads to Recovery)	401	401	-	-
Transport (Other Roads & Bridges Funding)	331	162	67	-
Roadside Vegetation Project	-	68	-	-
Public Amenities	-	-	55	-
Total Specific Purpose	1,051	1,178	153	6
Total Grants	2,229	3,417	153	6

Grant Revenue is attributable to:

- Commonwealth Funding	1,178	2,268	-	-
- State Funding	717	1,149	153	6
- Other Funding	334	-	-	-
	2,229	3,417	153	6

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 3. Income from Continuing Operations (continued)

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
(f) Contributions				
Developer Contributions:				
(s93 & s94 - EP&A Act, s64 of the LGA):				
S 94 - Contributions towards amenities/services	-	-	279	1,030
Total Developer Contributions	17 -	-	279	1,030
Other Contributions:				
Bushfire Services	-	-	-	125
Paving	-	8	-	-
Rail Services Authority	22	226	-	-
Recreation & Culture	4	-	167	-
RMS Contributions (Regional Roads, Block Grant)	1,078	1,052	2,655	2,275
Rural Land Use Strategy Funding	-	150	-	-
Tourism	7	7	-	-
Other	42	44	-	-
Total Other Contributions	1,153	1,487	2,822	2,400
Total Contributions	1,153	1,487	3,101	3,430
TOTAL GRANTS & CONTRIBUTIONS	3,382	4,904	3,254	3,436

\$ '000	Actual 2014	Actual 2013
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(g) Restrictions relating to Grants and Contributions

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

Unexpended at the Close of the Previous Reporting Period	3,406	2,339
add: Grants & contributions recognised in the current period but not yet spent:	518	1,170
less: Grants & contributions recognised in a previous reporting period now spent:	(14)	(103)
Net Increase (Decrease) in Restricted Assets during the Period	504	1,067
Unexpended and held as Restricted Assets	3,910	3,406
Comprising:		
- Specific Purpose Unexpended Grants	208	196
- Developer Contributions	3,550	3,196
- Other Contributions	152	14
	3,910	3,406

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
(a) Employee Benefits & On-Costs			
Salaries and Wages		3,549	3,229
Employee Leave Entitlements (ELE)		439	432
Superannuation - Defined Contribution Plans		180	141
Superannuation - Defined Benefit Plans		266	268
Workers' Compensation Insurance		91	93
Fringe Benefit Tax (FBT)		53	35
Training Costs (other than Salaries & Wages)		72	36
Other		12	13
Total Employee Costs		4,662	4,247
less: Capitalised Costs		(523)	(440)
TOTAL EMPLOYEE COSTS EXPENSED		4,139	3,807
Number of "Equivalent Full Time" Employees at year end		65	65
(b) Borrowing Costs			
(i) Interest Bearing Liability Costs			
Interest on Loans		63	83
Interest on Advances		1	1
Total Interest Bearing Liability Costs Expensed		64	84
(ii) Other Borrowing Costs			
Discount adjustments relating to movements in Provisions (other than ELE)			
- Remediation Liabilities	26	79	74
Total Other Borrowing Costs		79	74
TOTAL BORROWING COSTS EXPENSED		143	158

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
(c) Materials & Contracts			
Raw Materials & Consumables		4,221	4,136
Contractor & Consultancy Costs		68	71
Auditors Remuneration ⁽¹⁾		31	26
Legal Expenses:			
- Legal Expenses: Planning & Development		37	15
- Legal Expenses: Other		31	23
Operating Leases:			
- Operating Lease Rentals: Minimum Lease Payments ⁽²⁾		43	47
Total Materials & Contracts		4,431	4,318
less: Capitalised Costs		(186)	-
TOTAL MATERIALS & CONTRACTS		4,245	4,318

1. Auditor Remuneration**Audit and Other Assurance Services**

- Audit & review of financial statements: Council's Auditor		31	26
Remuneration for audit and other assurance services		31	26

2. Operating Lease Payments are attributable to:

Computers		43	47
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\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2014	Actual 2013	Actual 2014	Actual 2013
(d) Depreciation, Amortisation & Impairment					
Plant and Equipment		-	-	617	582
Office Equipment		-	-	8	10
Furniture & Fittings		-	-	4	7
Buildings - Specialised		-	-	466	386
Other Structures		-	-	16	131
Infrastructure:					
- Roads		-	60	1,134	1,106
- Bridges		-	-	482	427
- Footpaths		-	-	13	-
- Stormwater Drainage		-	-	34	36
- Swimming Pools		-	-	24	-
- Other Open Space/Recreational Assets		-	-	92	-
Other Assets					
- Library Books		-	-	35	35
Asset Reinstatement Costs	9 & 26	-	-	108	109
TOTAL DEPRECIATION & IMPAIRMENT COSTS EXPENSED		-	60	3,033	2,829

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
(e) Other Expenses			
Other Expenses for the year include the following:			
Advertising		56	53
Agency Collection Costs - Australia Post		18	16
Bank Charges		13	12
Commissions		82	64
Contributions/Levies to Other Levels of Government			
- Emergency Services Levy (includes FRNSW, SES, and RFS Levies)		18	22
- NSW RB		15	14
- NSW Rural Fire Service Levy		153	211
- Waste Levy		146	176
Councillor Expenses - Mayoral Fee		13	13
Councillor Expenses - Councillors' Fees		77	75
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		16	6
Donations, Contributions & Assistance to other organisations (Section 356)		5	4
Electricity & Heating		128	126
Fees & Charges		4	3
Insurance		385	379
Newcastle Regional Library		24	28
Postage		22	19
Printing & Stationery		30	30
Risk Management - Claim Excess		-	5
Street Lighting		99	95
Subscriptions & Publications		9	22
Telephone & Communications		36	42
Valuation Fees		17	33
Weight of loads Co-Operative		14	14
<u>TOTAL OTHER EXPENSES</u>		<u>1,380</u>	<u>1,462</u>

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2014	Actual 2013
Property (excl. Investment Property)			
less: Carrying Amount of Property Assets Sold / Written Off		-	(90)
Net Gain/(Loss) on Disposal		-	(90)
Plant & Equipment			
Proceeds from Disposal - Plant & Equipment		86	323
less: Carrying Amount of P&E Assets Sold / Written Off		(116)	(322)
Net Gain/(Loss) on Disposal		(30)	1
Infrastructure			
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(1,251)	(400)
Net Gain/(Loss) on Disposal		(1,251)	(400)
Real Estate Assets Held For Sale			
Proceeds from Disposal - Real Estate Assets		206	460
less: Carrying Amount of Real Estate Assets Sold / Written Off		(208)	(475)
Net Gain/(Loss) on Disposal		(2)	(15)
Financial Assets*			
Proceeds from Disposal / Redemptions / Maturities - Financial Assets		-	500
less: Carrying Amount of Financial Assets Sold / Redeemed / Matured		-	(500)
Net Gain/(Loss) on Disposal		-	-
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(1,283)</u>	<u>(504)</u>

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 6a. - Cash Assets and Note 6b. - Investments

\$ '000	Notes	2014 Actual Current	2014 Actual Non Current	2013 Actual Current	2013 Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		119	-	197	-
Cash-Equivalent Assets ¹					
- Deposits at Call		173	-	564	-
- Short Term Deposits		6,650	-	10,350	-
Total Cash & Cash Equivalents		6,942	-	11,111	-
Investments (Note 6b)					
- Floating Rate Deposits (with Maturities > 3 months)		3,500	-	1,000	-
Total Investments		3,500	-	1,000	-
TOTAL CASH ASSETS, CASH EQUIVALENTS & INVESTMENTS		10,442	-	12,111	-

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

Cash, Cash Equivalents & Investments were classified at year end in accordance with AASB 139 as follows:

Cash & Cash Equivalents					
a. Cash & Cash Equivalents		6,942	-	11,111	-
Investments					
b. "Held to Maturity"		3,500	-	1,000	-
Investments	6(b-ii)	3,500	-	1,000	-

Refer to Note 27 - Fair Value Measurement for information regarding the fair value of investments held.

Note 6(b-ii)**Reconciliation of Investments classified as "Held to Maturity"**

Balance at the Beginning of the Year		1,000	-	500	-
Additions		2,500	-	1,000	-
Disposals (sales & redemptions)		-	-	(500)	-
Balance at End of Year		3,500	-	1,000	-
Comprising:					
- Floating Rate Deposits (with Maturities > 3 months)		3,500	-	1,000	-
Total		3,500	-	1,000	-

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 6c. Restricted Cash, Cash Equivalents & Investments - Details

\$ '000	2014	2014	2013	2013
	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Total Cash, Cash Equivalents and Investments	10,442	-	12,111	-
attributable to:				
External Restrictions (refer below)	5,110	-	4,888	-
Internal Restrictions (refer below)	5,223	-	7,217	-
Unrestricted	109	-	6	-
	10,442	-	12,111	-

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
-----------------	--------------------	------------------------------	--------------------------------	--------------------

Details of Restrictions

External Restrictions - Included in Liabilities

Nil

External Restrictions - Other

Developer Contributions - General (D)	3,196	354	-	3,550
RMS (formerly RTA) Contributions (E)	14	152	(14)	152
Specific Purpose Unexpended Grants (F)	196	12	-	208
Water Supplies (G)	265	6	-	271
Sewerage Services (G)	51	1	-	52
Domestic Waste Management (G)	691	63	(285)	469
Rail Services Australia	39	-	-	39
Aged Care Residential Loans	97	-	(1)	96
Bike Path	8	-	-	8
Deposits & Retentions	266	57	(123)	200
Kerb & Gutter	10	-	-	10
Pavement	54	-	-	54
RLCIP Infrastructure Funding	1	-	-	1
External Restrictions - Other	4,888	645	(423)	5,110
Total External Restrictions	4,888	645	(423)	5,110

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

E RMS Contributions which are not yet expended for the provision of services and amenities in accordance with those contributions.

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

G Water, Sewerage, Domestic Waste Management (DWM) & other Special Rates/Levies/Charges are externally restricted assets and must be applied for the purposes for which they were raised.

Dungog Shire Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 6c. Restricted Cash, Cash Equivalents & Investments - Details (continued)

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
Internal Restrictions				
Plant & Vehicle Replacement	1,126	2,070	(2,200)	996
Employees Leave Entitlement	722	85	-	807
Financial Assistance Grant	1,987	1,109	(2,709)	387
Insurance Equalisation	271	17	(24)	264
Settlement for the Aged	121	89	(81)	129
Buildings & Grounds	263	65	(12)	316
Shire Properties	261	6	(6)	261
Special Projects	440	407	(327)	520
Town Funds	156	-	(10)	146
Other Waste Management	432	133	(123)	442
RB Unexpended	319	217	(36)	500
Water & Sewer Transfer	1,114	300	(964)	450
Other	5	-	-	5
Total Internal Restrictions	7,217	4,498	(6,492)	5,223
TOTAL RESTRICTIONS	12,105	5,143	(6,915)	10,333

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 7. Receivables

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
Purpose					
Rates & Annual Charges		315	-	279	-
Interest & Extra Charges		3	-	1	-
User Charges & Fees		12	-	12	-
Private Works		13	-	9	-
Accrued Revenues					
- Other Income Accruals		59	-	70	-
Government Grants & Subsidies		157	-	153	-
Deferred Debtors		7	66	9	70
RMS (formerly RTA)		1,863	-	343	-
Rates Legal Costs Recovery		23	-	24	-
Kerb & Guttering		12	-	14	-
Other Debtors		76	-	60	-
Total		2,540	66	974	70
less: Provision for Impairment					
Nil					
TOTAL NET RECEIVABLES		2,540	66	974	70
Externally Restricted Receivables					
Water Supply					
- Rates & Availability Charges		-	-	13	-
- Other		8	-	-	-
Sewerage Services					
- Other		1	-	-	-
Total External Restrictions		9	-	13	-
Internally Restricted Receivables					
Nil					
Unrestricted Receivables		2,531	66	961	70
TOTAL NET RECEIVABLES		2,540	66	974	70

Notes on Debtors above:

- (i) Rates & 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 & charges at 9.00% (2013 10.00%).
Generally all other receivables are non interest bearing.
- (iv) Please refer to Note 15 for issues concerning Credit Risk and Fair Value disclosures.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 8. Inventories & Other Assets

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
Inventories					
Real Estate for resale (refer below)		866	26	1,067	27
Stores & Materials		389	-	322	-
Trading Stock		1	-	1	-
Total Inventories		1,256	26	1,390	27
Other Assets					
Prepayments		16	-	210	-
Total Other Assets		16	-	210	-
TOTAL INVENTORIES / OTHER ASSETS		1,272	26	1,600	27

Externally Restricted Assets

There are no restrictions applicable to the above assets.

Other Disclosures**Details for Real Estate Development**

Residential		866	-	1,067	27
Industrial/Commercial		-	26	-	-
Total Real Estate for Resale		866	26	1,067	27

(Valued at the lower of cost and net realisable value)

Represented by:

Acquisition Costs		29	26	1,067	27
Development Costs		837	-	-	-
Total Costs		866	26	1,067	27
Total Real Estate for Resale		866	26	1,067	27

Movements:

Real Estate assets at beginning of the year		1,067	27	1,235	22
- Purchases and other costs		7	(1)	307	5
- WDV of Sales (exp)	5	(208)	-	(475)	-
Total Real Estate for Resale		866	26	1,067	27

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

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2013					Asset Movements during the Reporting Period							as at 30/6/2014				
	At	At	Accumulated		Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	WIP Transfers	Adjustment prior year Depreciation against equity	Revaluation Decrements to Equity (ARR)	Revaluation Increments to Equity (ARR)	At	At	Accumulated		Carrying
	Cost	Fair Value	Dep'n	Impairment	Value								Cost	Fair Value	Dep'n	Impairment	Value
Capital Work in Progress	2,683	-	-	-	2,683	837	-	-	(1,203)	-	-	-	2,317	-	-	-	2,317
Plant & Equipment	-	7,789	4,053	-	3,736	803	(83)	(617)	-	-	-	-	-	8,425	4,586	-	3,839
Office Equipment	-	624	596	-	28	-	-	(8)	-	-	-	-	-	624	604	-	20
Furniture & Fittings	-	207	184	-	23	16	-	(4)	-	-	-	-	-	220	185	-	35
Land:																	
- Operational Land	-	5,970	-	-	5,970	379	-	-	-	-	-	-	-	6,349	-	-	6,349
- Community Land	-	4,337	-	-	4,337	173	-	-	-	-	-	-	-	4,510	-	-	4,510
Buildings - Specialised	-	29,463	21,343	-	8,120	92	-	(466)	-	-	(90)	-	-	29,465	21,809	-	7,656
Other Structures	860	-	624	-	236	10	-	(16)	-	367	-	203	-	1,461	661	-	800
Infrastructure:																	
- Roads	124,973	-	20,788	60	104,125	3,044	(1,250)	(1,134)	1,203	(26,676)	-	52,125	-	202,777	71,280	60	131,437
- Bridges	36,375	-	21,359	-	15,016	34	-	(482)	-	(4)	-	7,234	-	54,633	32,835	-	21,798
- Footpaths	1,188	-	440	-	748	-	-	(13)	-	274	-	44	-	1,242	189	-	1,053
- Bulk Earthworks (non-depreciable)	-	-	-	-	-	-	-	-	-	-	-	87,307	-	87,307	-	-	87,307
- Stormwater Drainage	2,599	-	1,622	-	977	-	-	(34)	-	773	-	21,866	-	32,710	9,128	-	23,582
- Swimming Pools	934	126	951	-	109	3	-	(24)	-	341	-	196	-	1,687	1,062	-	625
- Other Open Space/Recreational Assets	4,279	-	2,991	-	1,288	152	(34)	(92)	-	890	-	501	-	4,877	2,172	-	2,705
Other Assets:																	
- Library Books	607	-	475	-	132	34	-	(35)	-	-	-	-	-	641	510	-	131
Reinstatement, Rehabilitation & Restoration Assets (refer Note 26):																	
- Tip & Quarry Assets	2,240	-	341	-	1,899	-	-	(108)	-	-	-	-	-	2,240	449	-	1,791
TOTAL INFRASTRUCTURE, PROPERTY, PLANT & EQUIP.	176,738	48,516	75,767	60	149,427	5,577	(1,367)	(3,033)	-	(24,035)	(90)	169,476	2,317	439,168	145,470	60	295,955

.Additions to Buildings & Infrastructure Assets are made up of Asset Renewals (\$4,799) and New Assets (\$786). 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 & Equipment.

Dungog Shire Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 9b. Externally Restricted Infrastructure, Property, Plant & Equipment

\$ '000	Actual 2014				Actual 2013			
	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value
Class of Asset								
Domestic Waste Management								
Plant & Equipment	-	163	11	152	-	8	6	2
Buildings	-	46	23	23	-	23	23	-
Other Structures	-	2	1	1	-	-	-	-
Other Assets	-	109	87	22	102	-	83	19
Total DWM	-	320	122	198	102	31	112	21
Other Restricted Assets								
- Stormwater Drainage	-	32,710	9,128	23,582	2,599	-	1,622	977
Total Other Restrictions	-	32,710	9,128	23,582	2,599	-	1,622	977
TOTAL RESTRICTED I,PP&E	-	33,030	9,250	23,780	2,701	31	1,734	998

Note 9c. Infrastructure, Property, Plant & Equipment - Current Year Impairments

\$ '000	Notes	Actual 2014	Actual 2013
Impairment Losses recognised in the Income Statement:			
Impairment of Cross Keys Causeway		-	(60)
Total Impairment Losses		-	(60)
IMPAIRMENT of ASSETS - GAINS/(LOSSES) in P/L	4(d)	-	(60)

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 10a. Payables, Borrowings & Provisions

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
Payables					
Goods & Services - operating expenditure		765	-	677	-
Payments Received In Advance		22	-	68	-
Accrued Expenses:					
- Other Expenditure Accruals		11	-	10	-
Security Bonds, Deposits & Retentions		201	-	268	-
Alison Court - Aged Care Advances		-	96	-	97
Total Payables		999	96	1,023	97
Borrowings					
Loans - Secured ¹		179	701	432	689
Government Advances		2	9	2	11
Total Borrowings		181	710	434	700
Provisions					
Employee Benefits;					
Annual Leave		515	-	492	-
Sick Leave		8	-	7	-
Long Service Leave		1,217	84	1,163	-
Sub Total - Aggregate Employee Benefits		1,740	84	1,662	-
Asset Remediation/Restoration (Future Works) ²⁶		-	2,191	-	2,112
Provision for Impairment - Roads, bridges, footpaths		60	-	60	-
Total Provisions		1,800	2,275	1,722	2,112
Total Payables, Borrowings & Provisions		2,980	3,081	3,179	2,909
(i) Liabilities relating to Restricted Assets					
		2014		2013	
		Current	Non Current	Current	Non Current
Externally Restricted Assets					
Water		-	-	2	-
Liabilities relating to externally restricted assets		-	-	2	-
Internally Restricted Assets					
Nil					
Total Liabilities relating to restricted assets		-	-	2	-
Total Liabilities relating to Unrestricted Assets		2,980	3,081	3,177	2,909
TOTAL PAYABLES, BORROWINGS & PROVISIONS		2,980	3,081	3,179	2,909

¹ Loans are secured over the General Rating Income of Council

Disclosures on Liability Interest Rate Risk Exposures, Fair Value Disclosures & Security can be found in Note 15.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 10a. Payables, Borrowings & Provisions (continued)

\$ '000	Actual 2014	Actual 2013
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(ii) Current Liabilities not anticipated to be settled within the next 12 months

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

Provisions - Employees Benefits	1,423	1,264
	<u>1,423</u>	<u>1,264</u>

Note 10b. Description of and movements in Provisions

Class of Provision	2013		2014			
	Opening Balance as at 1/7/13	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	Unused amounts reversed	Closing Balance as at 30/6/14
Annual Leave	492	272	(249)	-	-	515
Sick Leave	7	1	-	-	-	8
Long Service Leave	1,163	182	(44)	-	-	1,301
Asset Remediation	2,112	79	-	-	-	2,191
Other	60	-	-	-	-	60
TOTAL	3,834	534	(293)	-	-	4,075

- a. Employees Leave Entitlements & On-Costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- b. Asset Remediation, Reinstatement & Restoration Provisions represent the Present Value estimate of future costs Council will incur in order to remove, restore & remediate assets &/or activities as a result of past operations.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2014	Actual 2013
(a) Reconciliation of Cash Assets			
Total Cash & Cash Equivalent Assets	6a	6,942	11,111
Less Bank Overdraft	10	-	-
BALANCE as per the STATEMENT of CASH FLOWS		6,942	11,111
(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities			
Net Operating Result from Income Statement		777	3,429
Adjust for non cash items:			
Depreciation & Amortisation		3,033	2,829
Net Losses/(Gains) on Disposal of Assets		1,283	504
Non Cash Capital Grants and Contributions		(32)	(125)
Impairment Losses Recognition - I,PP&E		-	60
Unwinding of Discount Rates on Reinstatement Provisions		79	74
Share of Net (Profits) or Losses of Associates/Joint Ventures		(7)	(4)
+/- Movement in Operating Assets and Liabilities & Other Cash Items:			
Decrease/(Increase) in Receivables		(1,568)	1,476
Decrease/(Increase) in Inventories		(67)	(9)
Decrease/(Increase) in Other Assets		194	9
Increase/(Decrease) in Payables		88	(382)
Increase/(Decrease) in other accrued Expenses Payable		1	3
Increase/(Decrease) in Other Liabilities		(114)	41
Increase/(Decrease) in Employee Leave Entitlements		162	55
Increase/(Decrease) in Other Provisions		-	60
NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS		3,829	8,020
(c) Non-Cash Investing & Financing Activities			
Bushfire Assets via Grants		-	125
Clarence Town Tennis Clubhouse		32	-
Total Non-Cash Investing & Financing Activities		32	125
(d) Financing Arrangements			
(i) Unrestricted lines of credit available at balance date:			
Bank Overdraft Facilities ⁽¹⁾		300	300
Credit Cards / Purchase Cards		25	25
Total Financing Arrangements		325	325

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 & Other Payables are disclosed in Note 15.

(ii) Secured Loan Liabilities

Loans are secured by a mortgage over future years Rate Revenue only.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2014	Actual 2013
(a) Capital Commitments (exclusive of GST)			
Nil			
(b) Finance Lease Commitments			
Nil			
(c) Operating Lease Commitments (Non Cancellable)			
Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:			
Within the next year		19	28
Later than one year and not later than 5 years		27	28
Later than 5 years		-	-
Total Non Cancellable Operating Lease Commitments		46	56

b. Non Cancellable Operating Leases include the following assets:

Computer & Other Plant/Equipment

Conditions relating to Operating Leases:

- All Operating Lease Agreements are secured only against the Leased Asset.
- No Lease Agreements impose any financial restrictions on Council regarding future debt etc.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 13a(i). Statement of Performance Measurement - Indicators (Consolidated)

\$ '000	Amounts 2014	Indicator 2014	Prior Periods 2013 2012	
Local Government Industry Indicators - Consolidated				
1. Operating Performance Ratio				
Total continuing operating revenue ⁽¹⁾				
<u>(excl. Capital Grants & Contributions) - Operating Expenses</u>	<u>(1,201)</u>	-10.23%	3.76%	6.15%
Total continuing operating revenue ⁽¹⁾ (excl. Capital Grants & Contributions)	11,739			
2. Own Source Operating Revenue Ratio				
Total continuing operating revenue ⁽¹⁾				
<u>(less ALL Grants & Contributions)</u>	<u>8,357</u>	55.74%	49.65%	48.41%
Total continuing operating revenue ⁽¹⁾	14,993			
3. Unrestricted Current Ratio				
<u>Current Assets less all External Restrictions ⁽²⁾</u>	<u>9,135</u>	5.87 : 1	5.11	5.07
Current Liabilities less Specific Purpose Liabilities ^(3, 4)	1,557			
4. Debt Service Cover Ratio				
Operating Result ⁽¹⁾ before capital excluding interest and depreciation / impairment / amortisation (EBITDA)	<u>1,975</u>	3.37	12.08	0.15
Principal Repayments (from the Statement of Cash Flows) + Borrowing Interest Costs (from the Income Statement)	586			
5. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage				
<u>Rates, Annual and Extra Charges Outstanding</u>	<u>318</u>	5.03%	4.61%	4.55%
Rates, Annual and Extra Charges Collectible	6,326			
6. Cash Expense Cover Ratio				
Current Year's Cash and Cash Equivalents including All Term Deposits	<u>6,942</u>	7.60	12.00	10.94
Payments from cash flow of operating and financing activities	913			

Notes

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

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any Real Estate & Land for resale not expected to be sold in the next 12 months

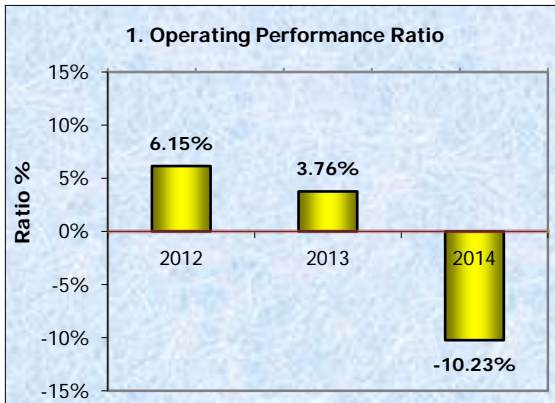
⁽³⁾ Refer to Note 10(a).

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

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 13a(ii). Local Government Industry Indicators - Graphs (Consolidated)



Purpose of Operating Performance Ratio

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

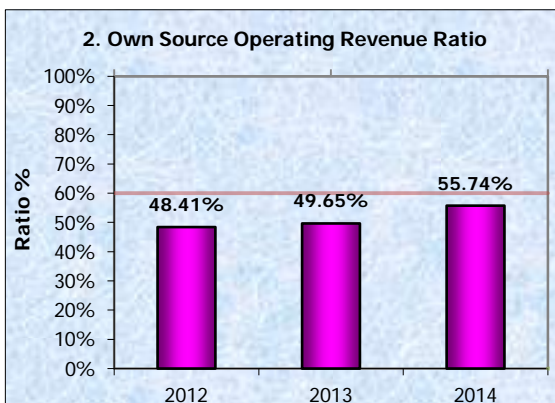
Commentary on 2013/14 Result

2013/14 Ratio -10.23%

Partial prepayment of the 2014 Financial Assistance Grant to the value of \$ 1.1m in 2013 has resulted in operating income for 2014 being significantly reduced. As a consequence the operating performance ratio shows a negative.

— Minimum 0.00%

Source for Benchmark: Code of Accounting Practice and Financial Reporting



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 & contributions.

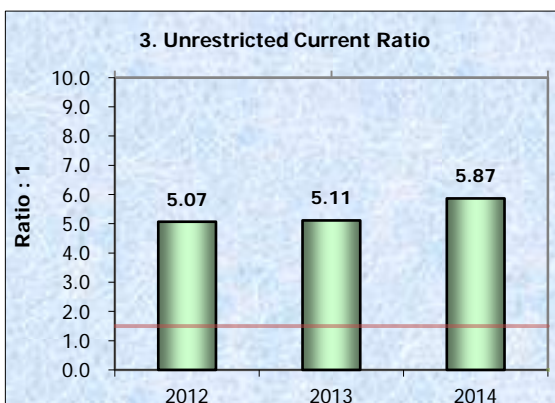
Commentary on 2013/14 Result

2013/14 Ratio 55.74%

Due to the partial prepayment of the 2014 Financial Assistant grant has seen a reduction in overall operating revenue resulting in the ratio of own source revenue increasing. Continues to highlight Council's high dependence on external funding sources.

— Minimum 60.00%

Source for Benchmark: Code of Accounting Practice and Financial Reporting



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 2013/14 Result

2013/14 Ratio 5.87 : 1

Unrestricted Current ratio highlights Council's ability to satisfactorily meet short term obligations as they fall due. Councils position has improved slightly during the period and remains solid.

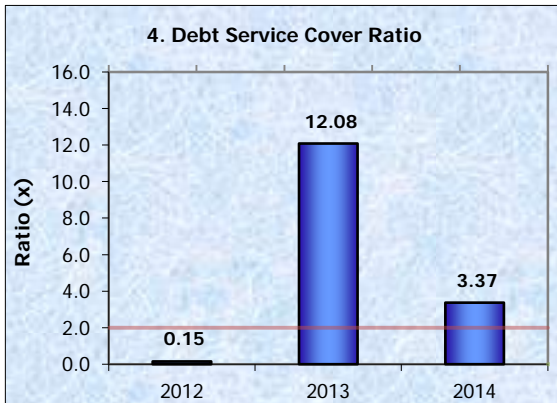
— Minimum 1.50

Source for Benchmark: Code of Accounting Practice and Financial Reporting

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 13a(ii). Local Government Industry Indicators - Graphs (Consolidated)



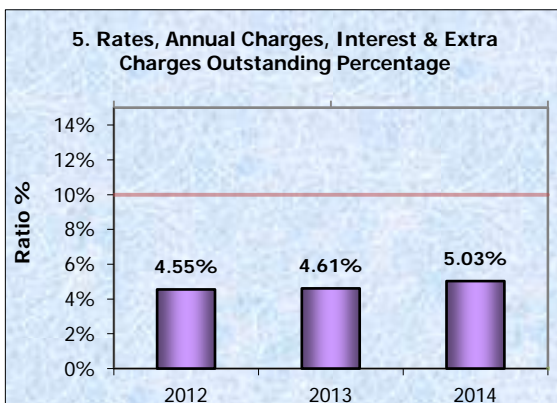
— Minimum 2.00

Source for Benchmark: NSW Treasury Corporation

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 2013/14 Result	
2013/14 Ratio	3.37
<p>The debt service cover ratio is lower than previous year due loan payouts to the value of \$290,000 in 2014. Council continues to hold sufficient funds to service existing debt levels.</p>	



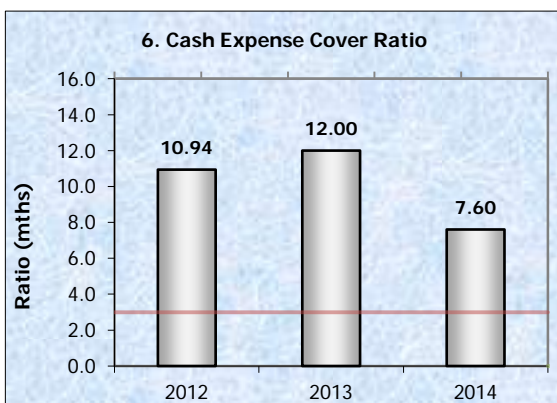
— Maximum 10.00%

Source for Benchmark: Office of Local Govt - Comparative Information (10/11)

Purpose of Rates & 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 2013/14 Result	
2013/14 Ratio	5.03%
<p>The rates and charges outstanding percentage has increased slightly during the period. Rate recovery efforts remain strong and effective.</p>	



— Minimum 3.00

Source for Benchmark: Code of Accounting Practice and Financial Reporting

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 Result	
2013/14 Ratio	7.60
<p>Council is able to pay immediate expenses without additional cash flow for a period of 8 months. This is slightly lower than the previous period due to outstanding RMS debtor at 30 June 2014.</p>	

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 13b. Statement of Performance Measurement - Indicators (by Fund)

\$ '000	Water 2014	Sewer 2014	General ⁵ 2014
Local Government Industry Indicators - by Fund			
1. Operating Performance Ratio			
Total continuing operating revenue ⁽¹⁾			
<u>(excl. Capital Grants & Contributions) - Operating Expenses</u>	n/a	n/a	-10.31%
Total continuing operating revenue ⁽¹⁾			
(excl. Capital Grants & Contributions)	prior period: -4466.67%	100.00%	6.81%
2. Own Source Operating Revenue Ratio			
Total continuing operating revenue ⁽¹⁾			
<u>(less ALL Grants & Contributions)</u>	n/a	n/a	55.72%
Total continuing operating revenue ⁽¹⁾	prior period: 100.00%	100.00%	49.61%
3. Unrestricted Current Ratio			
<u>Current Assets less all External Restrictions ⁽²⁾</u>	n/a	n/a	5.87 : 1
Current Liabilities less Specific Purpose Liabilities ^(3, 4)	prior period: 138.00	No Liabilities	5.11
4. Debt Service Cover Ratio			
<u>Operating Result ⁽¹⁾ before capital excluding interest and depreciation / impairment / amortisation (EBITDA)</u>	n/a	n/a	3.36
Principal Repayments (from the Statement of Cash Flows) + Borrowing Interest Costs (from the Income Statement)	prior period: 0.00	0.00	13.45
5. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage			
<u>Rates, Annual and Extra Charges Outstanding</u>	n/a	n/a	5.03%
Rates, Annual and Extra Charges Collectible	prior period: 650.00%	0.00%	4.39%
6. Cash Expense Cover Ratio			
<u>Current Year's Cash and Cash Equivalents including All Term Deposits</u> x12	n/a	n/a	7.25
Payments from cash flow of operating and financing activities	prior period: 0.00	0.00	11.66

Notes

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

(5) General Fund refers to all of Council's activities except for its Water & Sewer activities which are listed separately.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 14. Investment Properties

\$ '000

Council has not classified any Land or Buildings as "Investment Properties"

Note 15. Financial Risk Management

Risk Management

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

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

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

Financial risk management is carried out by Council's Finance Section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's Financial Assets & Financial Liabilities recognised in the financial statements is presented below.

	Carrying Value		Fair Value	
	2014	2013	2014	2013
Financial Assets				
Cash and Cash Equivalents	6,942	11,111	6,942	11,111
Investments				
- "Held to Maturity"	3,500	1,000	3,500	1,000
Receivables	2,606	1,044	2,606	1,044
Total Financial Assets	13,048	13,155	13,048	13,155
Financial Liabilities				
Payables / Advances	1,095	1,052	1,073	1,052
Loans	891	1,134	891	1,134
Total Financial Liabilities	1,986	2,186	1,964	2,186

Fair Value is determined as follows:

- **Cash & Cash Equivalents, Receivables, Payables** - are estimated to be the carrying value which approximates mkt value.
- **Borrowings & Held to Maturity Investments** - are based upon estimated future cash flows discounted by the current market interest rates applicable to assets & liabilities with similar risk profiles, unless quoted market prices are available.
- Financial Assets classified (i) "**at fair value through profit & 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 & liabilities

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 15. Financial Risk Management (continued)

\$ '000

(a) Cash & Cash Equivalents, Financial assets 'at fair value through the profit & Loss' "Available-for-sale" financial assets & "Held-to-maturity" Investments

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

Council's Finance area manages the Cash & Investments portfolio with the assistance of independent advisors.

Council has an Investment Policy which complies with the Local Government Act & Minister's Investment Order. This Policy is regularly reviewed by Council and it's 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 & Investments.

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
2014				
Possible impact of a 1% movement in Interest Rates	104	104	(104)	(104)
2013				
Possible impact of a 1% movement in Interest Rates	111	111	(111)	(111)

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 15. Financial Risk Management (continued)

\$ '000

(b) Receivables

Council's major receivables comprise **(i)** Rates & Annual charges and **(ii)** User Charges & 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 & 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:

	2014 Rates & Annual Charges	2014 Other Receivables	2013 Rates & Annual Charges	2013 Other Receivables
(i) Ageing of Receivables - %				
Current (not yet overdue)	0%	95%	0%	0%
Overdue	100%	5%	100%	100%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
(ii) Ageing of Receivables - value				
Current (not yet overdue)	-	2,158	-	-
Past due by up to 30 days	-	88	-	-
Past due by more than 90 days	315	45	279	765
	<u>315</u>	<u>2,291</u>	<u>279</u>	<u>765</u>

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 15. Financial Risk Management (continued)

\$ '000

(c) Payables & Borrowings

Payables & 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 & overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's Payables & 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		
2014									
Trade/Other Payables/Advances	201	872	-	-	-	-	-	1,073	1,073
Loans	-	169	169	124	124	124	332	1,042	891
Total Financial Liabilities	201	1,041	169	124	124	124	332	2,115	1,964
2013									
Trade/Other Payables/Advances	268	784	-	-	-	-	-	1,052	1,052
Loans	-	495	269	208	208	208	-	1,388	1,134
Total Financial Liabilities	268	1,279	269	208	208	208	-	2,440	2,186

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

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

	2014		2013	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables/Advances	1,073	0.0%	1,052	0.0%
Loans - Fixed Interest Rate	891	6.6%	1,134	6.9%
	<u>1,964</u>		<u>2,186</u>	

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 13/14 was adopted by the Council on 28 June 2013.

While the Income Statement included in this General Purpose Financial Report must disclose the Original Budget adopted by Council, the Local Government Act 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	2014 Budget	2014 Actual	2014 ----- Variance* -----		
REVENUES					
Rates & Annual Charges	6,093	6,017	(76)	(1%)	U
User Charges & Fees	790	981	191	24%	F
Higher than budgeted income from Onsite Sewerage Management fees \$145,000 and Caravan Park income					
Interest & Investment Revenue	279	465	186	67%	F
Investment funds were committed to longer term deposits (less than 12 months) to take advantage of higher interest when available, together with longer term floating rate investments, resulting in higher levels of interest earned.					
Other Revenues	952	894	(58)	(6%)	U
Operating Grants & Contributions	3,745	3,382	(363)	(10%)	U
Capital Grants & Contributions	4,089	3,254	(835)	(20%)	U
Grant funding for some Regional Roads Projects were deferred until the following period due to timing of works.					
Share of Net Profits - Joint Ventures & Associates	6	7	1	17%	F
Hunter Councils higher than budgeted share of profits.					

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 16. Material Budget Variations (continued)

\$ '000	2014 Budget	2014 Actual	2014 ----- Variance* -----		
EXPENSES					
Employee Benefits & On-Costs	3,849	4,139	(290)	(8%)	U
Borrowing Costs	97	143	(46)	(47%)	U
Increase in remediation liabilities due to inclusion of Quarries.					
Materials & Contracts	5,008	4,245	763	15%	F
Lower than budgeted expenditure in Computer Hardware/Software and Licensing \$58,396, lower than budgeted expenditure on maintenance and repairs of Urban Roads \$108,556 and Regional Roads \$150,428 due to timing of operational works.					
Depreciation & Amortisation	2,528	3,033	(505)	(20%)	U
Higher than budgeted depreciation expense following revaluation of council buildings and the unbudgetted inclusion of Quarries for Depreciation and Remediation.					
Other Expenses	1,460	1,380	80	5%	F
Net Losses from Disposal of Assets	1,338	1,283	55	4%	F
Write off of Roads assets as a result of the renewals capital works undertaken on MR101 - Dungog Road.					
Budget Variations relating to Council's Cash Flow Statement include:					
Cash Flows from Operating Activities	5,524	3,829	(1,695)	(30.7%)	U
Lower than budgeted cash flow due to the timing of funding payments in particular the prepayment of \$1.3m in Financial Assistance Grant in the 2013 financial year.					
Cash Flows from Investing Activities	(3,571)	(7,755)	(4,184)	117.2%	U
Investment in longer term investments \$2.5m and the purchase of operational land Abbots Flat \$375,000 and Sheltons \$150,000. Together with lower than budgeted sales of Residential land at Melbee Estate.					
Cash Flows from Financing Activities	209	(243)	(452)	(216.3%)	U
Lower than budgeted income from loan undertakings due to the timing of works for Woerdens Road Bridge.					

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 17. Statement of Developer Contributions

\$ '000

Council recovers contributions, raises levies & 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 & levies and the value of all remaining funds which are "restricted" in their future use.

SUMMARY OF CONTRIBUTIONS & LEVIES

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	903	49	-	20	-	-	972	91	-	1,063	-
Traffic Facilities	32	-	-	-	-	-	32	-	-	32	-
Open Space	768	119	-	50	-	-	937	225	-	1,162	-
Community Facilities	1,053	66	-	4	-	-	1,123	113	-	1,236	-
Bushfire	274	21	-	1	-	-	296	29	-	325	-
Other	155	24	-	-	-	-	179	36	-	215	-
S94 Contributions - under a Plan	3,185	279	-	75	-	-	3,539	494	-	4,033	-
Total S94 Revenue Under Plans	3,185	279	-	75	-	-	3,539				-
S94 not under Plans	11	-	-	-	-	-	11	-	-	11	-
Total Contributions	3,196	279	-	75	-	-	3,550	494	-	4,044	-

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - UNDER A PLAN

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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	25	2	-	1	-	-	28			28	
Traffic Facilities	7	-	-	-	-	-	7			7	
Open Space	16	1	-	-	-	-	17			17	
Community Facilities	27	1	-	1	-	-	29			29	
Bushfire	21	-	-	-	-	-	21			21	
Total	96	4	-	2	-	-	102	-	-	102	-

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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	330	-	-	7	-	-	337			337	
Open Space	50	-	-	1	-	-	51			51	
Community Facilities	112	-	-	3	-	-	115			115	
Bushfire	27	-	-	1	-	-	28			28	
Other	2	-	-	-	-	-	2			2	
Total	521	-	-	12	-	-	533	-	-	533	-

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Sports Fields	659	91	-	16	-	-	766	174		940	
Parklands	43	3	-	1	-	-	47	7		54	
Swimming Pools	217	19	-	5	-	-	241	33		274	
Indoor Sports	222	20	-	5	-	-	247	36		283	
Local Community Centre	78	7	-	2	-	-	87	14		101	
District Community Centre	54	5	-	1	-	-	60	10		70	
Youth Venue	40	4	-	1	-	-	45	6		51	
Arts & Crafts Centre	11	1	-	-	-	-	12	2		14	
Aged Facilities	37	4	-	1	-	-	42	5		47	
Library	118	10	-	3	-	-	131	22		153	
Pre School	137	14	-	3	-	-	154	18		172	
Rural Sub-Arterial Roads	156	11	-	4	-	-	171	19		190	
Rural Local Roads	344	36	-	8	-	-	388	72		460	
Traffic Management	25	1	-	1	-	-	27	-		27	
Bikeways Facilities	45	4	-	1	-	-	50	10		60	
Fire Service	226	21	-	5	-	-	252	29		281	
Section 94 Administration	45	14	-	1	-	-	60	22		82	
Unsealed Roads & Bridges	3	-	-	-	-	-	3	1		4	
Other	108	10	-	3	-	-	121	14		135	
Total	2,568	275	-	61	-	-	2,904	494	-	3,398	-

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - NOT UNDER A PLAN

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	2	-	-	-	-	-	2			2	
Open Space	9	-	-	-	-	-	9			9	
Total	11	-	-	-	-	-	11	-	-	11	-

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 18. Contingencies & 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 & 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.

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) StateCover Limited

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

StateCover is a company providing workers compensation insurance cover to the NSW Local Government Industry and specifically Council.

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

These future equity contributions would be required to maintain the company's minimum level of Net Assets in accordance with its Licence Requirements.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 18. Contingencies & Other Assets/Liabilities Not Recognised (continued)

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Guarantees Continued

Hunter Council Ltd

Council is joint guarantor for a loan of \$2.86M which was drawn down on the 1st July 2003 by Hunter Councils Limited. The total loan approved was for \$3.4M of which Council's exposure will be \$97,795.71.

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 Councils intention to spend funds in the manner and timing set out in those Plans.

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 & including 30/6/08.

(ii) Infringement Notices/Fines

Fines & Penalty Income, the result of Council issuing Infringement Notices is followed up and collected by the Infringement Processing Bureau.

Councils Revenue Recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at Year End, there is a potential asset due to Council representing issued but unpaid Infringement Notices.

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

(iii) Rural Fire Fighting Assets

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

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 19. Controlled Entities, Associated Entities & Interests in Joint Ventures

\$ '000

Council's objectives can and in some cases are best met through the use of separate entities & 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 Councils (i) interest and (ii) control and the type (form) of entity/operation, as follows;

Subsidiaries

Note 19(a)

Operational Arrangements where Councils Control (but not necessarily Interest) exceeds 50%

Associated Entities & Joint Venture Entities

Note 19(b) (i)&(ii)

Arrangements in the form of a Separate Entity that deploys the resources of the operation itself. Under Associated Entities, Council significantly influences the operations (but does not control them, whilst for JV Entities, Council Jointly Controls the Operations with other parties.

Joint Venture Operations

Note 19(c)

Arrangements that do not comprise an actual individual entity which can deploy the resources of the individual participants. Under JV Operations, Council Jointly Controls the operations with the Other Parties involved.

Subsidiaries, Associated Entities and Joint Ventures Not Recognised

Note 19(d)

Accounting Recognition:

(i) Subsidiaries disclosed under Note 19(a), and Joint Venture 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) Associated Entities and Joint Venture Entities as per Notes 19(b)(i) & (ii) 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 2014	Actual 2013	Actual 2014	Actual 2013
Associated Entities	-	-	-	-
Joint Venture Entities	7	4	39	30
Total	7	4	39	30

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 19. Controlled Entities, Associated Entities & Interests in Joint Ventures

\$ '000

(a) Subsidiaries (ie. Entities & Operations controlled by Council)

Council has no interest in any Subsidiaries.

(b) Associated Entities & Joint Venture Entities

(i) Associated Entities

Council has no interest in any Associated Entities.

(ii) Joint Ventures (JV)

(a) Carrying Amounts

Name of Entity	Principal Activity	2014	2013
Hunter Councils Limited	To improve quality & efficiency of Local Govt Services in the Hunter	39	30
Total Carrying Amounts - Joint Venture Entities		39	30

(b) Relevant Interests

Name of Entity	Interest in Outputs		Interest in Ownership		Proportion of Voting Power	
	2014	2013	2014	2013	2014	2013
Hunter Councils Limited	3%	3%	3%	3%	3%	3%

(d) Share of JV Assets & Liabilities

	Assets		Liabilities		Net Assets
	Current	Non Current	Current	Non Current	
2014					
Hunter Councils Limited	13	128	16	86	39
Totals	13	128	16	86	39
2013					
Hunter Councils Limited	10	95	12	63	30
Totals	10	95	12	63	30

(e) Share of JV Revenues, Expenses & Results

	2014			2013		
	Revenues	Expenses	Result	Revenues	Expenses	Result
Hunter Councils Limited	41	34	7	32	28	4
Totals	41	34	7	32	28	4

(c) Joint Venture Operations

Council has no interest in any Joint Venture Operations.

(d) Subsidiaries, Associated Entities & Joint Venture Operations Not Recognised

All Subsidiaries, Associated Entities & Joint Ventures have been recognised in this Financial Report as required.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2014	Actual 2013
(a) Retained Earnings			
Movements in Retained Earnings were as follows:			
Balance at beginning of Year (from previous years audited accounts)		145,707	142,282
a. Correction of Prior Period Errors	20 (c)	(24,035)	-
d. Net Operating Result for the Year		768	3,425
Balance at End of the Reporting Period		122,440	145,707
(b) Reserves			
(i) Reserves are represented by:			
- Infrastructure, Property, Plant & Equipment Revaluation Reserve		181,800	12,414
Total		181,800	12,414
(ii) Reconciliation of movements in Reserves:			
Infrastructure, Property, Plant & Equipment Revaluation Reserve			
- Opening Balance		12,414	12,168
- Revaluations for the year	9(a)	169,386	246
- Balance at End of Year		181,800	12,414
TOTAL VALUE OF RESERVES		181,800	12,414
(iii) Nature & Purpose of Reserves			
Infrastructure, Property, Plant & Equipment Revaluation Reserve			
- The Infrastructure, Property, Plant & Equipment Revaluation Reserve is used to record increments/decrements of Non Current Asset values due to their revaluation.			
(c) Correction of Error/s relating to a Previous Reporting Period			
During the revaluation exercise in the 2014 year, an understatement in prior years Depreciation of some Assets has been identified and an adjustment has been made against the current year IPPE and Retained Earnings to correct these errors, as it was found to be impractical to restate the prior year comparatives.			
These amounted to the following Equity Adjustments:			
- Asset depreciation understatement		(24,035)	-
Total Prior Period Adjustments - Prior Period Errors		(24,035)	-
(d) Voluntary Changes in Accounting Policies			
Council made no voluntary changes in any accounting policies during the year.			

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 21. Financial Result & Financial Position by Fund

Income Statement by Fund \$ '000	Actual 2014	Actual 2014	Actual 2014
Continuing Operations	Water	Sewer	General¹
Income from Continuing Operations			
Rates & Annual Charges	-	-	6,017
User Charges & Fees	-	-	981
Interest & Investment Revenue	7	1	457
Other Revenues	-	-	894
Grants & Contributions provided for Operating Purposes	-	-	3,382
Grants & Contributions provided for Capital Purposes	-	-	3,254
Other Income			
Net Gains from Disposal of Assets	-	-	-
Share of interests in Joint Ventures & Associates using the Equity Method	-	-	7
Total Income from Continuing Operations	7	1	14,992
Expenses from Continuing Operations			
Employee Benefits & on-costs	-	-	4,139
Borrowing Costs	-	-	143
Materials & Contracts	-	-	4,245
Depreciation & Amortisation	-	-	3,033
Impairment	-	-	-
Other Expenses	-	-	1,380
Net Losses from the Disposal of Assets	-	-	1,283
Total Expenses from Continuing Operations	-	-	14,223
Operating Result from Continuing Operations	7	1	769
Discontinued Operations			
Net Profit/(Loss) from Discontinued Operations	-	-	-
Net Operating Result for the Year	7	1	769
Net Operating Result attributable to each Council Fund	7	1	760
Net Operating Result attributable to Non-controlling Interests	-	-	9
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	7	1	(2,485)

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

NB. All amounts disclosed above are Gross - that is, they include internal charges & recoveries made between the Funds.

Dungog Shire Council

Notes to the Financial Statements

as at 30 June 2014

Note 21. Financial Result & Financial Position by Fund (continued)

Statement of Financial Position by Fund \$ '000	Actual 2014	Actual 2014	Actual 2014
ASSETS	Water	Sewer	General¹
Current Assets			
Cash & Cash Equivalents	271	52	6,619
Investments	-	-	3,500
Receivables	10	1	2,529
Inventories	-	-	1,256
Other	-	-	16
Total Current Assets	281	53	13,920
Non-Current Assets			
Receivables	-	-	66
Inventories	-	-	26
Infrastructure, Property, Plant & Equipment	-	-	295,955
Investments Accounted for using the equity method	-	-	39
Total Non-Current Assets	-	-	296,086
TOTAL ASSETS	281	53	310,006
LIABILITIES			
Current Liabilities			
Payables	-	-	999
Borrowings	-	-	181
Provisions	-	-	1,800
Total Current Liabilities	-	-	2,980
Non-Current Liabilities			
Payables	-	-	96
Borrowings	-	-	710
Provisions	-	-	2,275
Total Non-Current Liabilities	-	-	3,081
TOTAL LIABILITIES	-	-	6,061
Net Assets	281	53	303,945
EQUITY			
Retained Earnings	253	53	122,134
Revaluation Reserves	28	-	181,772
Council Equity Interest	281	53	303,906
Non-controlling Interests	-	-	39
Total Equity	281	53	303,945

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

NB. All amounts disclosed above are Gross - that is, they include internal receivables & payables between the Funds.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 22. "Held for Sale" Non Current Assets & Disposal Groups

\$ '000

Council did not classify any Non Current Assets or Disposal Groups as "Held for Sale".

Note 23. Events occurring after the Reporting Date

Events that occur between the end of the reporting period (ending 30 June 2014) 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 24/11/14.

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 2014.

(ii) Events that provide evidence of conditions that arose after the Reporting Period

These financial statements (& figures therein) do not incorporate any "non-adjusting events" that have occurred after 30 June 2014 and which are only indicative of conditions that arose after 30 June 2014.

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

Note 24. Discontinued Operations

Council has not classified any of its Operations as "Discontinued".

Note 25. Intangible Assets

Intangible Assets represent identifiable non-monetary asset without physical substance.

Council is unaware of any control over Intangible Assets that warrant recognition in the Financial Statements, including either internally generated and developed assets or purchased assets.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 26. Reinstatement, Rehabilitation & Restoration Liabilities

\$ '000

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

Asset/Operation	Estimated year of restoration	NPV of Provision	
		2014	2013
Tips - Dungog Shire	2031	1,135	1,116
Quarries - Dungog Shire	various	1,056	996
Balance at End of the Reporting Period	10(a)	2,191	2,112

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

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

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

Reconciliation of movement in Provision for year:

Balance at beginning of year	2,112	2,038
Amounts capitalised to new or existing assets:		
Amortisation of discount (expensed to borrowing costs)	79	74
Total - Reinstatement, rehabilitation and restoration provision	2,191	2,112

Amount of Expected Reimbursements

Of the above Provisions for Reinstatement, Rehabilitation and Restoration works, those applicable to Garbage Services & Waste Management are able to be funded through future charges incorporated within Council's Annual Domestic Waste Management Charge.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement

\$ '000

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

- Infrastructure, Property, Plant and Equipment

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

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

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

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

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

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

2014	Fair Value Measurement Hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring Fair Value Measurements				
Infrastructure, Property, Plant & Equipment				
Plant & Equipment	-	-	3,839	3,839
Office Equipment	-	-	20	20
Furniture & Fittings	-	-	35	35
Operational Land	-	-	6,349	6,349
Community Land	-	-	4,510	4,510
Buildings	-	-	7,656	7,656
Other Structures	-	-	4,130	4,130
Roads	-	-	131,437	131,437
Bridges	-	-	21,798	21,798
Footpaths	-	-	1,053	1,053
Bulk Earthworks	-	-	87,307	87,307
Stormwater Drainage	-	-	23,582	23,582
Other Assets	-	-	131	131
Restoration Assets	-	-	1,791	1,791
Total Infrastructure, Property, Plant & Equipment	-	-	293,638	293,638

(2) Transfers between Level 1 & 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.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

(3) Valuation techniques used to derive Level 2 and Level 3 Fair Values

Current Replacement Costs (CRC)

Current Replacement Cost is the minimum that it would cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits.

Residual Value (RV)

The Residual Value of an asset is the estimated amount that would be obtained today from disposal of the asset after deducting the estimated costs of disposal.

Condition Assessment

Condition assessment of the various assets has been undertaken IPWEA guidelines and Council requirements using the skills of consultants, experienced engineering and operational staff. All assets, with the exception of unsealed roads, have been rated using a 1 to 5 rating system where a rating of 1 represents "as new" condition and a rating of 5 represents "very poor" condition requiring renewal of the asset. Unsealed Roads have been rated utilising a 1 to 3 rating system where a rating of 1 represents "as new" condition and a rating of 3 represents "very poor" condition requiring renewal of the asset.

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

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

Infrastructure, Property, Plant & 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 purchase cost of these assets is taken as their fair value. There has been no change in the valuation process during the period.

OPERATIONAL LAND

The valuation of Councils operational land was undertaken as at 30 June 2013 by Nicholas Brady Valuations (NICHOLAS BRADY AAPI (VAL,P&M) Certified Practising Valuer, Real Estate Valuers, Registration No. 3609).

The land value has been assessed by Direct Comparison on a rate per square metre, and has been valued in accordance with the Dungog Shire Council Draft LEP 2013. The valuations were based on the Draft LEP 2013 as the "market place" would also have due regard to the proposed zoning. Sale prices of comparable land parcels were considered where appropriate. The most significant unobservable input into the valuation of operational land is the price per square metre. These assets have been classified as using Level 3 valuation inputs due to the professional judgement required and used by the Valuer to determine the price per square metre. There have been no changes in the valuation process during the period.

COMMUNITY LAND

Land values based on the 2012 valuation made by the Valuer-General were used to value Council's Community Land, where the Valuer-General did not provide a Land Value, an average unit rate based on similar properties was used taking into regard the highest or best use for the land. As these rates are not

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

considered to be observable market evidence they have been classified as Level 3 valuation inputs. There has been no change in the valuation process during the period.

BUILDINGS

Council's buildings were valued using the summation (cost) approach by Nicholas Brady Valuations (NICHOLAS BRADY AAPI (VAL, P&M) Certified Practising Valuer, Real Estate Valuers, Registration No. 3609) as at 30 June 2013.

Having regard to the specialised nature of the majority of the improvements, Council's buildings were valued by the Summation Approach, whereby the depreciated replacement cost of the improvements is added to the land value.

The replacement cost of each building was estimated taking into account different components within the building, their use and useful lives. The unit rate could be supported by market evidence making it a Level 2 input, however, inputs such as estimates of residual use, and patterns of consumption required significant professional judgement and impact significantly on the final determination of fair value. As such these assets have been valued using Level 3 unobservable inputs. There have been no changes in the valuation process during the period.

ROADS

Roads have been broken down into Regional, Rural Local Sealed, Rural Local Unsealed, Urban Local Sealed and Urban Local Unsealed Roads for condition rating and valuation purposes.

Sealed Roads - All

Data Collection - Data collection for sealed roads was undertaken by external consultants utilising video and in-vehicle roughness count technologies. Where an intersection occurs, the pavement values are attributed to the through road.

Componentisation - The road asset has been componentised in accordance with required guidelines. Sealed Roads have been broken down into three (3) components being Earthworks (non-depreciable), Pavement and Seal. The pavement and seal have been separated due to different life expectations for these two components. Costs are based upon existing road dimensions.

Condition - Condition assessment was undertaken by external consultants utilising video and in-vehicle roughness count technologies. The roads have been segmented and the pavement condition information detailed for each segment. Condition indicators were collected as follows:-

- Regional Roads:-
 - Roughness - NAASRA standards used
 - Pavement Defects - by area
 - Surface Defects - by area
 - Cracking - all cracking types recorded by area
- Local Sealed Roads (Rural and Urban):-
 - Pavement Defects - by area
 - Surface Defects - by area
 - Cracking - all cracking types recorded by area

From the above condition indicators, a 1 to 5 rating system was utilised to identify the condition of the asset.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

Percentage Life Remaining - The rating of the road was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:-

Rating	Factor Applied	Percentage Depreciated	% Life Remaining
1	0	0%	100%
2	4	16%	84%
3	9	36%	64%
4	16	64%	36%
5	25	100%	0%

Useful Life - Traffic volumes and geographical location play little part in the life of a road asset as it is assumed that the asset was designed for the traffic loadings to be carried. Useful lives have therefore been determined based upon experience, observed lives of assets and industry standards as follows:-

- Earthworks - No Useful Life has been applied as Earthworks do not depreciate over time.
- Pavement - The useful life of a sealed pavement was adopted as 60 years based upon the following:-
 - 0 year - Year of construction
 - 15 years - Reseal
 - 30 years - Rehabilitation
 - 45 years - Reseal
 - 60 years - Full reconstruction
- Seal - The useful life of the seal was based on 15 years as per industry standard;

Current Replacement Cost (CRC) - The CRC has been determined as follows:-

- Earthworks - CRC is based on topography to determine the amount of earthworks required and current costings for the construction of the earthworks in today's dollars;
- Pavement - CRC has been based upon the cost to rehabilitate these roads utilising the average of three (3) recent projects undertaken by Council;
- Seal - CRC has been based upon current contracted sealing costs through Dungog Shire Council's involvement with the Regional Procurement Tenders.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of sealed roads, it was determined that the following residual values apply:-

- Earthworks - Have an indefinite life/residual value and will therefore not be depreciated;
- Pavements - Whilst pavements may have some residual value in terms of the possibility of the in-situ material being re-used in the rehabilitation of the pavement. It has, however, been determined that existing pavements would need to be treated (stabilised) or replaced at the end of their useful lives and the cost of such would more or less negate the value of that pavement component. Therefore, the residual value has been determined to have no material value in the calculation of depreciation;
- Seals - These have no financial implications on the application of the next seal. Therefore there is no residual value.

Depreciation - All sealed road assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data Limitations – Inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

fair value. Additionally due to limitations in the historical records of very long lived assets there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

Unsealed Roads - All

Data Collection - Data collection for unsealed roads was undertaken via physical measurement by Council staff to determine dimensions. Where an intersection occurs, the pavement values are attributed to the through road.

Componentisation - The road asset has been componentised in accordance with required guidelines. As there is no "surface" on unsealed roads, the unsealed road asset has been broken down into two (2) components being Earthworks (non-depreciable) and Pavement. Costs are based upon existing road dimensions.

Condition - The roads have been segmented and assessment undertaken by experienced Council engineering and operational staff. As the surface condition of unsealed roads is highly changeable due to weather and climatic conditions, the condition was then based upon the depth of gravel on individual sections. From these indicators, a 1 to 3 rating system was utilised to identify the condition of the asset.

Percentage Life Remaining - As the rating of the road was based upon depth of gravel and it is expected that this depth will deteriorate consistently over time, the percentage of life remaining was based upon a straight line depreciation model. This process may be reviewed for future revaluations.

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards as follows:-

- Earthworks - No Useful Life has been applied as Earthworks do not depreciate over time.
- Pavement - The useful life of the unsealed pavement was adopted as 20 years based upon experience and observed lives of assets.

Current Replacement Cost (CRC) - The CRC has been determined as follows:-

- Earthworks - CRC has been based on topography to determine the amount of earthworks required and current costings for the construction of the earthworks in today's dollars;
- Pavement - CRC has been based upon the minimum gravel depths as determined by Council standards as set out in Council's "Road Strategy", normal Council practice and current costings for the construction of the pavement in today's dollars.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of unsealed roads, it was determined that the following residual values apply:-

- Earthworks - Have an indefinite life/residual value and will therefore not be depreciated;
- Pavements - In the case of unsealed road pavements, full depreciation or end of useful life is determined when there is no residual gravel on the pavement. By definition, there is no material available to be re-used therefore there is no residual value for the determination of depreciation;

Depreciation - All unsealed road assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data Limitations – Inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

fair value. Additionally due to limitations in the historical records of very long lived assets there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

BRIDGES

In accordance with the definitions used by the Grants Commission, a structure with an opening of greater than 6m in deck length is assessed as a bridge. Bridges have been broken down into Timber Structures (full or part timber construction) and Non-Timber Structures (primarily concrete or concrete/steel structures) for condition rating and valuation purposes.

Timber Bridges

Data Collection - Data collection for timber bridges was undertaken via physical measurement by Council staff to determine dimensions.

Componentisation - The timber bridge asset has been componentised into two (2) components being Substructure and Superstructure. The substructure and superstructure have been separated to allow for differential condition rating of these two components.

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each bridge. A 1 to 5 rating system was then utilised to identify the condition of each component of the asset and an average condition of these two components adopted as the overall bridge condition.

Percentage Life Remaining - The rating of the timber bridge was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:-

Rating	Percentage Depreciated	% Life Remaining
1	0%	100%
2	36%	64%
3	64%	36%
4	84%	16%
5	100%	0%

Useful Life - Useful lives have therefore been determined based upon experience, observed lives of assets and industry standards. The useful life of a timber bridge has been adopted as 50 years.

Current Replacement Cost (CRC) - The CRC has been determined based upon experience, observed lives of assets and industry standards.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of timber bridges there would be no residual components that would have any value in the replacement of the asset with a concrete structure. Therefore there is no residual value applied.

Depreciation - All timber bridges have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data Limitations – Inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

fair value. Additionally due to limitations in the historical records of very long lived assets there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

Non-Timber Bridges

Data Collection - Data collection for non-timber bridges was undertaken via physical measurement by Council staff to determine dimensions.

Componentisation - The non-timber bridge asset has not been componentised any further than it being a single asset.

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each bridge. A 1 to 5 rating system was then utilised to identify the condition of the asset.

Percentage Life Remaining - As non-timber bridges deteriorate at a different rate to timber bridges, the following exponential decay curve was utilised to calculate the percentage of life remaining:-

Rating	Percentage Depreciated	% Life Remaining
1	0%	100%
2	16%	84%
3	36%	64%
4	64%	36%
5	100%	0%

Useful Life - Useful lives have therefore been determined based upon experience, observed lives of assets and industry standards. The useful life of a non-timber bridge has been adopted as 80 years.

Current Replacement Cost (CRC) - The CRC has been determined based upon the Rawlinson's Australian Construction Handbook, recent bridge tenders received by Council and industry standards.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of non-timber bridges there would be no residual components that would be expected to last double the 80 year useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - All non-timber bridges have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data Limitations – Inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

RURAL STORMWATER DRAINAGE & CAUSEWAYS

Drainage structures on the Rural Road network have been broken down into Culvert Structures and Causeways.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

Culvert Structures

Data Collection - Data collection was undertaken via physical measurement by Council staff to determine dimensions. There is a limitation in the data due to only 23% of Unsealed Rural Roads, 48% of Sealed Rural Roads and 96% of Regional Roads stormwater network being inspected and the data from this applied across the entire Rural stormwater network.

Componentisation - The culvert asset has been componentised into two (2) components being the culvert pipe or box section and the headwall component. These have been separated to allow for differential condition rating of these two components.

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each structure. A 1 to 5 rating system was then utilised to identify the condition of each component of the asset and an average condition of these two components adopted as the overall culvert structure condition.

Percentage Life Remaining - The rating of the structure was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:-

Rating	Percentage Depreciated	% Life Remaining
1	0%	100%
2	16%	84%
3	36%	64%
4	64%	36%
5	100%	0%

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - The CRC has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of concrete culvert structures, there would be no residual components that would be expected to last double the initial useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - All concrete culvert structures have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Causeways

Data Collection - Data collection for Causeways was undertaken via physical measurement by Council staff to determine dimensions.

Componentisation - The causeway asset has been componentised into two (2) components being the culvert pipe or box section (if existing) and the causeway component. These have been separated to allow for differential condition rating of these two components.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each bridge. A 1 to 5 rating system was then utilised to identify the condition of the asset.

Percentage Life Remaining - The rating of the structure was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:-

Rating	Percentage Depreciated	% Life Remaining
1	0%	100%
2	16%	84%
3	36%	64%
4	64%	36%
5	100%	0%

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - The CRC has been determined has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of concrete causeway structures, there would be no residual components that would be expected to last double the 80 year useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - All causeway structures have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

URBAN STORMWATER DRAINAGE

Data Collection - Data collection was undertaken via physical measurement by Council staff and Council records to determine dimensions.

Componentisation - The asset has been componentised into individual components within the asset class.

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each structure. A 1 to 5 rating system was then utilised to identify the condition of each component of the asset and an average condition of these two components adopted as the overall culvert structure condition.

Percentage Life Remaining - The rating of the asset was then utilised to determine the percentage of life remaining.

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - The CRC has been determined has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of concrete culvert structures, there would be no residual components that would be expected to last double the initial useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - All concrete culvert structures have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

FOOTPATH, KERB & GUTTER AND GUARDRAIL

Ancillary Items on the Road network have been broken down into Footpaths, Kerb & Gutter and Guardrail Assets.

Footpaths and Kerb & Gutter

Data Collection - Data collection was undertaken via physical measurement by Council staff to determine dimensions and use of aerial photography for confirmation.

Componentisation - Footpaths, bike paths and kerb & gutter have been segmented to different locations and identified as individual assets.

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each asset. A 1 to 5 rating system was then utilised to identify the condition of each asset.

Percentage Life Remaining - The rating of the asset was then used to calculate the percentage of life remaining.

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - The CRC has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of these assets, there would be no residual components that would be expected to last double the initial useful life. Whilst there may be a residual earthworks value, this would be negated by the cost to remove the existing fully depreciated asset. Therefore there is no residual value applied.

Depreciation - All of these assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Guardrail

Data Collection - Data collection was undertaken via physical measurement by Council staff to determine dimensions and use of aerial photography for confirmation.

Componentisation - Guardrail sections have been identified as individual assets.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each section. A 1 to 5 rating system was then utilised to identify the condition of each asset.

Percentage Life Remaining - The rating of the guardrail was then used to calculate the percentage of life remaining.

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - The CRC has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of guardrail, there would be no residual components that would be expected to last double the initial useful life. Therefore there is no residual value applied.

Depreciation - All guardrail assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

PARK ASSETS (Non-Building) & OTHER STRUCTURES

Data Collection - Data collection was undertaken via physical measurement by Council staff to determine dimensions and use of aerial photography for confirmation.

Componentisation - Asset have been identified as individual assets.

Condition - Condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each section. A 1 to 5 rating system was then utilised to identify the condition of each asset.

Percentage Life Remaining - The rating of the asset was then used to calculate the percentage of life remaining.

Useful Life - Useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - The CRC has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual Values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of these assets, there would be no residual components that would be expected to last double the initial useful life. Therefore there is no residual value applied.

Depreciation - All of these assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

LANDFILL AND QUARRY ASSETS

See note 26 for background and breakdown of these assets.

Values are estimates of rehabilitation costs, and these included capping of landfill, revegetation of roadside quarry's, battering of high walls, safety fencing and other associated restoration works.

There is extensive professional judgement which impacts 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 design, specification and dimensions of these assets.

Inputs include discount rates, cost escalation, cost timing and regulation changes.

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

\$ '000

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

a. The following tables present the changes in Level 3 Fair Value Asset Classes.

	Plant & Equipment	Office Equipment	Furniture & Fittings	Operational Land	Total
Adoption of AASB 13	3,736	28	23	5,970	9,757
Purchases (GBV)	803	-	16	379	1,198
Disposals (WDV)	(83)	-	-	-	(83)
Depreciation & Impairment	(617)	(8)	(4)	-	(629)
Closing Balance - 30/6/14	3,839	20	35	6,349	10,243

	Communty Land	Buildings Specialised	Other Structures	Roads	Total
Adoption of AASB 13	4,337	8,120	1,633	104,125	118,215
Transfers from/(to) another asset class	-	-	-	1,203	1,203
Purchases (GBV)	173	92	165	3,044	3,474
Disposals (WDV)	-	-	(34)	(1,250)	(1,284)
Depreciation & Impairment	-	(466)	(132)	(1,134)	(1,732)
FV Gains - Other Comprehensive Income	-	(90)	900	52,125	52,935
Prior year adjustment - Depreciation	-	-	1,598	(26,676)	(25,078)
Closing Balance - 30/6/14	4,510	7,656	4,130	131,437	147,733

	Bridges	Bulk Earthworks	Footpaths	Stormwater Drainage	Total
Adoption of AASB 13	15,016	-	748	977	16,741
Purchases (GBV)	34	-	-	-	34
Depreciation & Impairment	(482)	-	(13)	(34)	(529)
FV Gains - Other Comprehensive Income	7,234	87,307	44	21,866	116,451
Prior year adjustment - Depreciation	(4)	-	274	773	1,043
Closing Balance - 30/6/14	21,798	87,307	1,053	23,582	133,740

	Other Assets	Restoration Assets	Total
Adoption of AASB 13	132	1,899	2,031
Purchases (GBV)	34	-	34
Depreciation & Impairment	(35)	(108)	(143)
Closing Balance - 30/6/14	131	1,791	1,922

Dungog Shire Council

Notes to the Financial Statements

for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

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

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

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various Level 3 Asset Class fair values.

I,PP&E

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl probable)	Relationship of unobservable inputs to Fair Value
Plant & Equipment	3,894	*Gross Replacement Cost *Remaining Useful Life *Residual Value	*Varies significantly from asset to asset *5-20 Years *0-40%	Significant changes in gross replacement value, pattern of consumption effecting remaining useful life would result in significant changes in fair value measurement.
Operational Land	6,349	*Land value (Price per square metre)	*\$0 to \$420 (per square mtr)	Significant changes in the price per square metre based on unimproved capital value would result in significant changes in fair value measurement.
Community Land	4,510	*Valuer General Value	*Varies depending on the location and size of asset.	Significant changes in the price per square metre based on unimproved capital value would result in significant changes in fair value measurement.
Buildings	7,657	*Gross Replacement Cost *Remaining Useful Life *Asset Condition *Residual Value	*Varies significantly from asset to asset *50-100 Years *Poor to Good *5%-85%	Significant changes in gross replacement value, pattern of consumption effecting remaining useful life would result in significant changes in fair value measurement.
Other Structures	4,130	*Gross Replacement Cost *Remaining Useful Life *Asset Condition *Residual Value	*Varies significantly from asset to asset *0-60 Years *Poor to Good *0-85%	Significant changes in gross replacement value, pattern of consumption effecting remaining useful life would result in significant changes in fair value measurement.
Roads	131,437	*Gross Replacement Cost *Remaining Useful Life *Asset Condition *Residual Value	*Varies significantly from asset to asset *0-60 Years *Very Poor to Very Good *0-100%	Replacement cost is dependant on changeable costs – eg materials, changes in which will impact fair value. Condition rating, useful life and residual value may be affected by a number of variables, such as climatic conditions, use, maintenance and environment.

Dungog Shire Council

Notes to the Financial Statements for the financial year ended 30 June 2014

Note 27. Fair Value Measurement (continued)

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl probable)	Relationship of unobservable inputs to Fair Value
Bridges	21,798	*Gross Replacement Cost *Remaining Useful Life *Asset Condition *Residual Value	*Varies significantly from asset to asset *0-60 Years *Very Poor to Very Good *0-100%	Replacement cost is dependant on changeable costs – eg materials, changes in which will impact fair value. Condition rating, useful life and residual value may be affected by a number of variables, such as climatic conditions, use, maintenance and environment.
Footpath	1,053	*Gross Replacement Cost *Remaining Useful Life *Asset Condition *Residual Value	*Varies significantly from asset to asset *10-70 Years * Poor to Good *75-100%	Replacement cost is dependant on changeable costs – eg materials, changes in which will impact fair value. Condition rating, useful life and residual value may be affected by a number of variables, such as climatic conditions, use, maintenance and environment.
Bulk Earthworks	87,307	Gross Replacement Cost	Varies	Significant changes in gross replacement value, pattern of consumption effecting remaining useful life would result in significant changes in fair value measurement.
Stormwater Drainage	23,582	*Gross Replacement Cost *Remaining Useful Life *Asset Condition *Residual Value	*Varies significantly from asset to asset *Varies * Very Poor to Very Good *0-100%	Replacement cost is dependant on changeable costs – eg materials, changes in which will impact fair value. Condition rating, useful life and residual value may be affected by a number of variables, such as climatic conditions, use, maintenance and environment.
Other Assets	131	*Gross Replacement Estimates	*Varies	Replacement cost is dependant on changeable costs – eg materials, changes in which will impact fair value.
Landfill & Quarry Assets	1,791	*Unit cost assumptions for rehabilitation rates, discounted rates and CPI, Legislative requirement, Estimate of time when work will be required.	-	Significant changes in discounted rates, rehab rates or CPI will have a significant affect on the value of these assets.

(5). Highest and best use

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

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Forsyths Business Services Pty Ltd
ABN 66 182 781 401

INDEPENDENT AUDIT REPORT
Report on the general purpose financial statements

To Dungog Shire Council

SCOPE

The financial statements comprises the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the Statement by Councillors and Management in the approved form as required by Section 413(2)(C) of the *Local Government Act 1993* for Dungog Shire Council (the Council), for the year ended 30th June 2014.

Councils' responsibility for the financial statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Local Government Act 1993* and regulations and the Local Government Code of Accounting Practice and Financial Reporting. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements to the Council based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit responsibility does not extend to the Original Budget figures included in the Income Statement and Statement of Cash Flows and the Original Budget disclosures in Notes 2 and 16 to the financial statements and accordingly, we express no opinion on them.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

AUDIT OPINION

In our opinion:

- (a) The accounting records of Dungog Shire Council have been kept in accordance with the requirements of Division 2 of Part 3 of the *Local Government Act, 1993*;
- (b) the general purpose financial statements:
 - (i) have been prepared in accordance with the requirements of Division 2 of Part 3 of the *Local Government Act, 1993*;
 - (ii) are consistent with the Council's accounting records; and
 - (iii) presents fairly, in all material respects, the Council's financial position as at 30th June 2014 and the results of its operations for the year then ended; and
- (c) we have been able to obtain all information relevant to the conduct of our audit; and
- (d) no material deficiencies in the records or the financial statements were detected in the course of the audit.

Forsyths

Forsyths Business Services Pty Ltd



Paul Cornall
Principal

24th November 2014

92 Rusden Street Armidale

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)"

24 November 2014

The Mayor
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Forsyths Business Services Pty Ltd
ABN 66 182 781 401

Dear Sir,

AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

We are pleased to report that we have completed the audit of Dungog Shire Council's ("the Council") financial statements and records for the year ended 30 June 2014 and have reported on the general purpose financial statements and special purpose financial statements as required by the provisions of Section 417(2) of the *Local Government Act 1993*.

Under Section 417(3) of the *Local Government Act 1993* we are also required to report on the conduct of the audit.

Council's responsibilities

The Council is responsible for preparing financial statements that give a true and fair view of the financial position and performance of the Council, and complies with Accounting Standards in Australia, in accordance with the *Local Government Act 1993*. This includes responsibility for maintaining adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Objectives

We conducted an independent audit of the financial statements in order to express an opinion on them to the Council. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement and Statement of Cash Flows and the Original Budget disclosures in Notes 2 and 16 and accordingly, we express no opinion on them.

The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Knowledge with integrity

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We performed procedures to assess whether in all material respects the financial statements present fairly, in accordance with the *Local Government Act 1993*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Council's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial statements. These and other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the Council.

We have issued our audit opinion on the basis of the foregoing comments.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

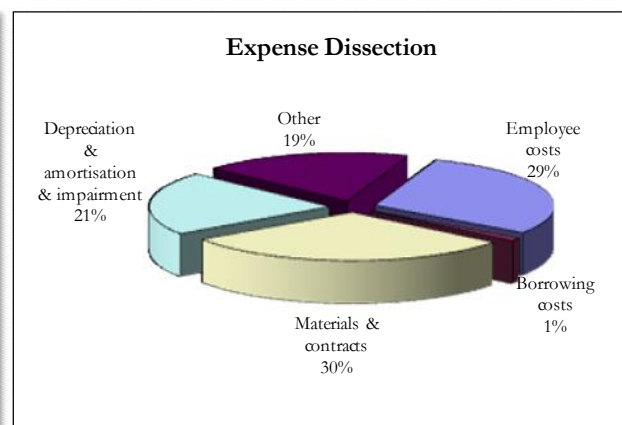
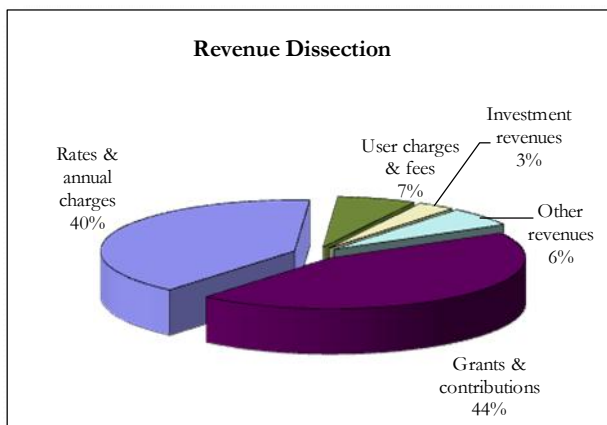
This auditor's report relates to the financial statements of Dungog Shire Council for the year ended 30 June 2014 included on Dungog Shire Council's web site. Council is responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Council's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

Additional Reporting Requirements

In accordance with Section 417(3) of the *Local Government Act 1993* we make the following comments in relation to the results and financial trends.

The Income Statement for the year ended 30th June 2014 discloses the following result:

INCOME STATEMENT	Budget	Actual	Actual	Variance	
	2014	2014	2013	Actual	Budget
	\$'000	\$'000	\$'000	%	%
INCOME FROM CONTINUING OPERATIONS					
Rates & annual charges	6,093	6,017	5,782	4.1%	-1.2%
User charges & fees	790	981	789	24.3%	24.2%
Investment revenues	279	465	453	2.6%	66.7%
Other revenues from ordinary activities	952	894	1,199	-25.4%	-6.1%
Grants & contributions for operating purposes	3,745	3,382	4,904	-31.0%	-9.7%
Grants & contributions For capital purposes	4,089	3,254	3,436	-5.3%	-20.4%
Gain from interests in joint ventures & associates	0	7	4	75.0%	16.7%
Total income from continuing operations	15,954	15,000	16,567	-9.5%	-6.0%
EXPENSES FROM CONTINUING OPERATIONS					
Employee benefits & oncosts	3,849	4,139	3,807	8.7%	7.5%
Borrowing costs	97	143	158	-9.5%	47.4%
Materials and contracts	5,008	4,245	4,318	-1.7%	-15.2%
Depreciation, amortisation and impairment	2,528	3,033	2,889	-5.6%	20.0%
Other expenses from ordinary activities	1,460	1,380	1,462	5.0%	-5.5%
Loss from disposal of assets	1,338	1,283	504	154.6%	-4.1%
Total Expenses from continuing operations	14,280	14,223	13,138	8.3%	-0.4%
OPERATING RESULT FROM CONTINUING OPERATIONS	1,674	777	3,429	-77.3%	-53.6%
NET OPERATING RESULT BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(2,415)	(2,477)	(7)	-100.0%	2.6%



Council has reported a surplus from continuing activities of \$0.8m for 2014 compared with a surplus of \$3.4m in 2013. This result includes grants for capital purposes of \$3.2m. The expenditure of these grants is not recorded in this statement but in the Statement of Financial Position. Excluding the capital grants, Council recorded a loss of \$2.5m (2013: loss \$7,000).

The results include depreciation of \$3.1m (which is based on previous historic asset values) that is expected to almost double to \$6m as a result of the significant revaluation of infrastructure assets completed at the end of the 2014 financial year. Should depreciation increase to \$6m the actual deficit before capital income would have been \$5.5m for the 2014 year.



Revenues from continuing activities decreased by \$1.6m or 9.5% compared to 2013 due mainly to a decrease in grants & contributions for operating and capital purposes and lower other income partially offset by higher rates and annual charge and interest income.

Grants for operating purposes reduced due to no prepaid Financial Assistance Grants (FAG's) instalments for 2014. Grants and contributions for capital purposes decreased due to lower developer contributions arising from development activity in the region. Other revenue decreased due to the one-off final compensation instalment in 2013 from Hunter Water Corporation for the transfer of water and sewer operations that occurred in 2009. Rates and annual charges increased due to rate pegging allowances and an increase in rateable properties. Interest revenue increased due to higher levels of cash held by Council throughout 2014 compared to 2013.

Expenditure from continuing activities has increased by \$1.1m compared to 2013 as a result of general CPI increases in operating costs and pay award increases and higher losses from disposal of assets due to the write off of the remaining value of infrastructure assets replaced (mainly portions of Clarence Town Road replaced) during 2014.

Comparison of actual to budget performance

The budget amounts included above are those adopted in the original budget and exclude re-votes from the previous year and variations to the budget during the year. The actual operating surplus from continuing activities for the year of \$0.8m compares with the original budget surplus of \$1.7m.

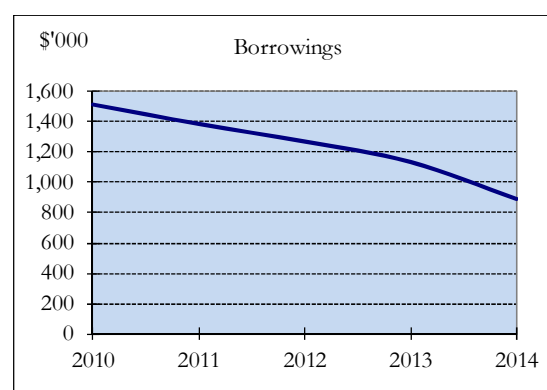
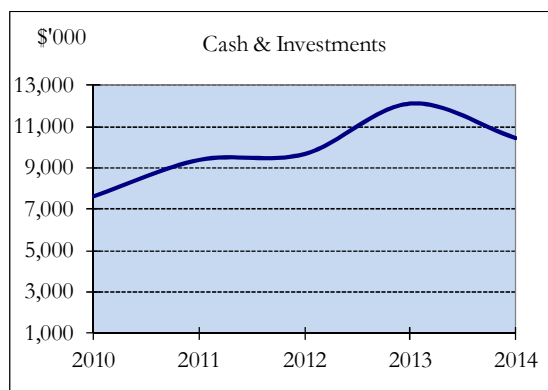
The \$0.9m variation between the actual results and the original budget was due to the following:

- Capital Grants and contributions income (unfavourable to budget \$0.8m) – There were delays in completion of works for the Regional Roads project (mainly Clarence Town Road) leading to deferral in grant funding.
- Operating grants and contributions income (unfavourable to budget \$0.4m) - Due to the cessation of FAG prepaid instalments.
- Materials and contracts (favourable to budget \$0.8m) – There was lower than expected expenditure on computer costs, maintenance and repair of regional roads projects due to the timing of works .
- Depreciation and amortisation (unfavourable to budget \$0.5m) – The original budget did not make provision for increased depreciation on assets following the revaluation in prior years (mainly buildings) and also the impact of quarry remediation asset depreciation not included in the original budget.



The following schedule of assets and liabilities has been extracted from the Statement of Financial Position as at 30th June 2014. This schedule discloses the consolidated assets and liabilities of all functions.

SCHEDULE OF ASSETS & LIABILITIES	2014	2013	Variance
	\$'000	\$'000	%
CURRENT ASSETS			
Cash and cash equivalents	6,942	11,111	-37.5%
Investments	3,500	1,000	250.0%
Receivables	2,540	974	160.8%
Inventories	1,256	1,390	-9.6%
Other	16	210	-92.4%
TOTAL CURRENT ASSETS	14,254	14,685	-2.9%
CURRENT LIABILITIES			
Payables	999	1,023	-2.3%
Borrowings	181	434	-58.3%
Provisions	1,800	1,722	4.5%
TOTAL CURRENT LIABILITIES	2,980	3,179	-6.3%
NET CURRENT ASSETS	11,274	11,506	-2.0%
NON-CURRENT ASSETS			
Inventory	26	27	-3.7%
Receivables	66	70	-5.7%
Other	39	30	30.0%
Infrastructure, Property Plant & Equipment	295,955	149,427	98.1%
TOTAL NON-CURRENT ASSETS	296,086	149,554	98.0%
NON-CURRENT LIABILITIES			
Payables	96	97	-1.0%
Provisions	2,275	2,112	7.7%
Borrowings	710	700	1.4%
TOTAL NON-CURRENT LIABILITIES	3,081	2,909	5.9%
NET ASSETS	304,279	158,151	92.4%



Cash and investments decreased by \$1.7m from 2013 due to the lower operating surplus in 2014. This was a result of the loss of prepaid FAG instalments and the timing of capital grant receivable collections.

Loans overall decreased by \$0.2m due to scheduled repayments.



Infrastructure property, plant and equipment increased by \$146.5m mainly due to the significant revaluation of \$145.4m on all major infrastructure assets, especially roads, bridges, drainage and bulk earthworks. As previously reported in our audit reports, Council had been unable to complete the revaluation of its major infrastructure assets since 2010 due to a lack of Engineering resources within Council and delays in the compilation of the necessary data.

Asset additions, including Clarence Town Road upgrades, of \$5.6m were offset by depreciation of \$3m and the write off of assets replaced of \$1.4m.

Other major balance sheet movements include:

- Receivables – There was an increase in unpaid grant and contribution debtors at the end of 2014; and
- Other current assets – Council did not prepay certain insurance premiums at the end of 2014 compared to 2013.

NET CURRENT ASSETS

The Net Current Asset position at year end is an important financial indicator as it discloses the working capital available to Council to fund day to day operations, infrastructure replacement and renewal and new community projects. The funding of restrictions should also be considered when evaluating funds available for working capital purposes. The following table provides a reconciliation of restricted and unrestricted assets:

	Water \$'000	Sewerage \$'000	Dom Waste \$'000	General \$'000	Total \$'000
Current Assets	281	53	469	13,451	14,254
Current Liabilities	-	-	-	2,980	2,980
Net Current Assets	281	53	469	10,471	11,274
Plus: Employee Provisions >12mths	-	-	-	423	423
Total Funds before Restrictions	281	53	469	10,894	11,697
LESS: Restricted Cash & Investments (Included in Revenue)					
Developer Contributions	-	-	-	3,550	3,550
Specific Purpose Grants & Contributions	-	-	-	208	208
Deposits and retentions	-	-	-	200	200
Other external restrictions	-	-	-	360	360
	-	-	-	4,318	3,758
NET FUNDS AVAILABLE	281	53	469	6,576	7,939
LESS Internal Restrictions	-	-	-	5,223	5,223
Net Funds After All Restrictions	281	53	469	1,353	2,716

INTERNAL RESTRICTIONS	Opening \$'000	Transfer to \$'000	Transfer from \$'000	Closing \$'000
Employee leave entitlements	722	85	-	807
Plant replacement	1,126	2,070	2,200	996
Shire properties	261	6	6	261
Special projects	440	407	327	520
Town funds	156	-	10	146
Financial assistance grant	1,987	1,109	2,709	387
Settlement for the aged	121	89	81	129
Other waste management	432	133	123	442
Insurance equalisation	271	17	24	264
RBF unexpended	319	217	36	500
Other	1,382	365	976	771
	7,217	4,498	6,492	5,223



After funding all restrictions, Council’s general fund has reserves of \$1.4m which is considered satisfactory to fund short to medium term needs (ignoring long term infrastructure renewal issues).

The internal restriction for employee leave entitlements represents 44% of total leave liability. The level of employee leave funding is considered satisfactory and is consistent with restrictions imposed by Councils of similar size and the age profile of employees.

Water and Sewer operations were transferred to Hunter Water in 2009. The remaining cash reserves were retained to complete Council’s obligations under the transfer agreement. The use of the funds are expected to be resolved in the 2015 financial year.

Local Government Industry Performance Indicators

The Code of Accounting Practice requires the mandatory disclosure of certain performance indicators. These financial indicators are useful in assessing performance, financial position and the likely financial burden to be placed on ratepayers.

The key consolidated financial indicators disclosed in the Financial Statements are:

RATIO	PURPOSE	2014	2013	2012	Benchmarks
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating reveune.	-10.2%	3.8%	6.2%	Tcorp >-4% FFF >0% (3 yrs) Group 10 -6.8% average
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	55.7%	49.7%	48.4%	Tcorp >60% FFF >60% (3 yrs) Group 10 49% average
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	5.87	5.11	5.07	Tcorp >1.5 Group 10 5.1 average
DEBT SERVICE COVER RATIO	To assess the availability of operating cash to service debt including interest, principle and lease payments.	3.37	12.08	0.15	Tcorp >2 FFF >0% <20% (3 yrs) Group 10 26.5% average
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	5.0%	4.6%	4.6%	Tcorp <10% Group 10 9.2% average
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	7.6	12.0	10.9	Tcorp >3 Group 10 6.3 average

Operating performance

An operating performance deficit of 10.2% compares to a surplus in 2013 of 3.8% and means that Councils operating revenue, excluding capital grants and contributions are insufficient to cover operating expenditure, especially depreciation of infrastructure assets. This compares to the State average deficit of 5% and Group 10 average deficit of 6.8% for 2013. The decline in this ratio for 2014 is due to lower revenues mainly as a result of the cessation of prepaid financial assistance grant



instalments and higher expenses. The Fit for Future benchmark is that councils should average breakeven or better over a three year period.

Owned source operating revenue

A ratio of 55.7% (2013: 49.7%) for the 2014 year highlights that Council has a lower dependence on grants and contributions compared to the Group 10 average of 49.0% but lower than the State average of 58.6% for 2013. The TCorp benchmark for sustainability is to have a ratio of greater than 60% and the Fit for Future benchmark is to average greater than 60% over a three year period.

Unrestricted Ratio

The unrestricted ratio excludes all current assets and liabilities that are restricted to specific purposes such as water, sewer, domestic waste management functions and specific purpose unexpended grants & contributions and adjusting for employee entitlements not expected to be settled within 12 months. This ratio is before setting aside cash to fund internal restrictions relative to the general function. The ratio of 5.87 as at 30 June 2014 indicates that there is \$5.87 of unrestricted current assets for every \$1.00 of current liabilities. Councils ratio of 5.87 compares to the average of 5.1 for category 10 Councils and the State average of 4.0 for 2013. The ratio is above the TCorp benchmark of greater than 1.5.

Debt service cover ratio

The debt service cover ratio of 3.37 times indicates that council has \$3.37 before interest and depreciation to pay interest and principal repayments on current borrowings. This compares to the Group 10 average of 26.5 and the State average of 29.2 for 2013. The TCorp benchmark for sustainability is to have a ratio of greater than 2.0 and the Fit for the Future guidelines is to have a ratio greater than 0 and less than 20. The reduction in this ratio for 2014 is due to the impacts of the lower financial assistance grant revenues and the net repayments on loans acquired in prior financial years to fund infrastructure replacements.

Outstanding rate ratio

The outstanding rates and charges ratio of 5.0% is similar to the previous year. Council's outstanding rates ratio is lower than the Group 10 average of 9.2%. The TCorp benchmark for rural Council's is to have an outstanding rates ratio of less than 10%. The ratio is an indicator of Council's good debt collection processes.

Cash expense ratio

The ratio indicates that Council can pay 7.6 months of its expenses without additional cash inflows. This compares to the Group 10 average of 6.3 and the State average of 5.4 for 2013. The TCorp benchmark is to have reserves to meet at least 3 months of operating expenditure



Infrastructure Asset Performance Indicators (unaudited)

With the emphasis on “Fit for the Future” we have included comments on unaudited infrastructure asset performance measures disclosed in the Special Schedule 7 as follows:

RATIO	PURPOSE	2014	2013	2012	Benchmarks
BUILDING AND INFRASTRUCTURE RENEWALS RATIO	To assess the proportion spent on infrastructure renewals vs infrastructure deterioration.	182.0%	213.7%	104.0%	Tcorp >100% FFF >100% (3 yrs) Group 10 79% average
INFRASTRUCTURE BACKLOG RATIO	To assess the infrastructure backlog against the total value of councils infrastructure.	14.0%	41.0%	40.0%	Tcorp <20% FFF <1% Group 10 16.6% average
ASSET MAINTENANCE RATIO	To assess the actual vs required annual maintenance expenditure.	50.0%	111.0%	108.0%	Tcorp >100% FFF >100% (3 yrs) Group 10 90% average
CAPITAL EXPENDITURE RATIO	To assess the extent to which council is forecasting to expand its asset base with capital expenditure.	1.4	1.9	1.3	Tcorp >1.1

Asset Renewal Ratio

The asset renewals ratio outlines Council’s performance with renewing its infrastructure assets against the level of estimated infrastructure asset deterioration (as represented by depreciation expense). For 2014 Council spent \$1.82 for every \$1 in estimated asset deterioration (2013: \$2.14). The Group 10 ratio was \$0.79 and the state average for the asset renewal ratio was \$0.81 for the 2013 year. The Fit for Future benchmark is to have a three year average of greater than \$1.00.

The current trend in the ratio highlights that Council expended more on asset renewals compared to the estimated reduction in asset condition over the past three years and therefore, based on this ratio, Council’s expenditure on infrastructure has resulted in an improvement in infrastructure assets. Given the ratio is based on depreciation on the carrying value of infrastructure assets prior to the current revaluation, it is expected that the ratio would be significantly lower should depreciation increase to approximately \$6m. If a depreciation figure of \$6m is used, the ratio for 2014 would drop from 182% to approximately 78%.

It should also be noted most of the renewal works has been grant funded and that Council’s infrastructure still requires significant works as outlined in Special Schedule 7, which discloses that the estimated cost to bring infrastructure assets to a satisfactory standard is \$26.4m.

Council should aim to continue to maintain the current level of infrastructure spending to improve infrastructure asset condition.

*Infrastructure backlog ratio*

An infrastructure backlog ratio of 14% indicates that the infrastructure backlog represents 14.0% of the value of Councils infrastructure and compares to a Group 10 average of 16.6% and State average of 10.0% for 2013. The TCorp benchmark is a ratio less than 20% and the “fit for future” benchmark is less than 2% which Council is not achieving.

Asset maintenance ratio

The Asset Maintenance ratio of 50% indicates that Council has undertaken insufficient maintenance to keep pace with required maintenance as determine by Council’s engineers and maintenance staff. This compares negatively to the Group 10 average of 90% and the State average of 70% for 2013. A ratio of greater than 1.0 is considered acceptable by TCorp and the Fit for the Future requirements.

Capital expenditure ratio

The capital expenditure ratio of 1.4 indicates that Council has expended \$1.40 on capital expenditure for every dollar of depreciation. The TCorp benchmark is for a Council to have a capital expenditure ratio of greater than 1.1. Again this ratio is based on depreciation expenditure that has not been adjusted by the revaluation of infrastructure completed at the end of the 2014 financial year. If depreciation was adjusted to \$6m the ratio would reduce from 1.4 to 0.7.

The decrease in cash and investments reflected in the Statement of Financial Position is also evident in the following table extracted from the Statement of Cash Flows.

CASH MOVEMENTS	Actual	Actual	Variance
	2014	2013	
	\$'000	\$'000	%
CASH INFLOWS			
Operating Receipts	14,340	18,996	-24.5%
Proceeds from Assets Sales	292	783	-62.7%
Repayment from Deferred Debtors	6	4	50.0%
Proceeds from sale of investments	0	500	100.0%
Proceeds from Borrowings	200	0	100.0%
TOTAL RECEIPTS	14,838	20,283	-26.8%
CASH OUTFLOWS			
Operating Payments	10,511	10,976	-4.2%
Purchase of investments	2,500	1,000	150.0%
Purchase of Assets	5,551	6,236	-11.0%
Repayment of Loans	443	135	228.1%
Other	2	0	100.0%
TOTAL PAYMENTS	19,007	18,347	3.6%
TOTAL CASH MOVEMENT	(4,169)	1,936	-315.3%
Total Cash & Investments on Hand	10,442	12,111	-13.8%

Cash and investments decreased due to the lower operating cash surplus in 2014 and lower proceeds on sale of land subdivision assets.

Cash outflows for Purchase of Assets of \$5.6m includes road and bridge construction totalling \$3.9m. This compares to the \$1.6m annual rate of depreciation of these assets. The remaining asset purchases included plant and equipment replacements of \$0.8m and various other assets purchases of \$0.9m.



SPECIAL PURPOSE FINANCIAL STATEMENTS

Council is required to report the financial results of identified Business Units in accordance with National Competition Policy guidelines. The reports are known as Special Purpose Financial Statements and are subject to audit. Council has identified Water, Sewerage and Hunter Council's joint venture (which is immaterial to comment on in this report) as Business Units.

WATER SUPPLY FUNCTION

The Special Purpose Financial Statements disclose that the Water Supply function recorded an operating surplus of \$7,000. The Net Current Asset position records a positive balance of \$281,000. The function was transferred to Hunter Water in 2009 and is expected to be wound up in the 2015 financial year with current cash reserves utilised to complete the wind-up of the fund.

SEWERAGE SERVICES

The Special Purpose Financial Statements disclose that the Sewer Supply function recorded a break even result of \$1,000 due to the function being dormant following the transfer of core activities to Hunter Water Corporation in 2009. The Net Current Assets position show a surplus of \$53,000. The function is expected to be wound up in the 2015 financial year with current cash reserves utilised to complete the wind-up of the fund.

GENERAL

FINANCIAL SUSTAINABILITY

The recent assessments by TCorp, Office of Local Government and the local government reform panel for all NSW councils provides insight into the NSW Government expectations of councils and how they are assessing the viability and structure of local government in the future.

During the 2013 year all councils have had an external assessment by NSW Treasury Corporation ("TCorp") of the sector's financial sustainability. TCorp has defined financial sustainability as follows:

"A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community"

Based on TCorp's assessment of Council's financial results from 2009 to 2012, the unaudited Special Schedule 7, ten year financial forecasts and other factors (e.g. Population growth, workforce demographics and skills, environmental and natural disaster factors) it has assessed Council's financial sustainability as Weak and its outlook as Negative.

It should be noted that the audit of the financial statements is an audit of Council at a point in time whereas the TCorp report evaluation is for the future sustainability of Council and:

- Did not take into account the financial results for 2013 and 2014;
- It includes unaudited data from Special Schedule 7 as well as the ten year financial forecast; and
- Is based upon future data, which includes assumptions and judgements regarding the future operations of Council, including what revenue and expenses will be incurred in the future, as well as significant judgement with regard to other non-financial information.



Based on our review of the TCorp report, for Council to improve its future financial sustainability it will need to consider the following:

- Seek variations in rating and user charge revenue increases in order to match or exceed future increases in operational expenditure;
- Continue to improve its asset management plans and processes in order to understand future infrastructure replacement and maintenance needs;
- Prudent use of borrowings to support long term infrastructure improvements;
- Improve the accuracy and integrity of its ten year plans and special schedules 7;

- Continue to review its long term financial forecast modelling and assumptions in order to provide an accurate picture of long term financial issues; and
- Further community consultation to identify acceptable service levels including acceptable condition of its infrastructure assets.

During 2013 an audit of Local Government infrastructure across all councils, excluding county councils, in NSW was conducted using a survey of councils' infrastructure management processes and practices, historical financial information and through a number of visits to councils. As a result of the audit councils asset management practices were graded as either Very Strong, Strong, Moderate, Weak, Very Weak or Distressed. Council was assessed as Distressed from this review.

The audit identified the following focus areas for all councils to achieve sustainable infrastructure service levels:

- Skilled People – develop asset management skills and capacity within councils;
- Appropriate Processes – implement appropriate asset management practices focusing on community service level negotiations, risk management and infrastructure vulnerability assessments, and identification of critical infrastructure;
- Reliable data – development of specific asset management measurement parameters, improved reporting of asset management and progress on achieving the delivery program; and
- Adequate resources – adequately fund asset management through the use of debt, local Government Renewal Scheme funding, special rate variations and grant funds.

Subsequently after the release of the report from the local government review panel and local government Acts taskforce, the NSW Government response is outlined in its “fit for the future” blueprint. This will require councils to assess their current financial position and submit a fit for the future proposal by 30 June 2015. Presently there has been no guidelines issued on the form of the response but indicators are they will use the above reports (TCorp and OLG infrastructure management report) along with the local government review panel recommendations.

Should councils be deemed “unfit” then the NSW Government will strongly encourage councils to consider the following options:

- Seek voluntary merger with other councils in order to meet a sustainable “threshold”;
- Develop regional joint organisations with separate governance structures to manage critical elements for a number of councils (e.g. finance and IT, economic development, engineering, etc.);
- Accepting the offer for cheaper finance to build and maintain facilities; and
- Utilising the innovation fund to help smaller councils explore new ways to working with other councils.



Reporting obligations under the Local Government Act

We note that, Council's core accounting systems and records are satisfactory, however, we note that improvements are required in asset management systems to ensure the requirement of cyclical asset revaluations can be achieved within the prescribed timeframes and that depreciation modelling (including residual values, updates to condition data and useful lives) can meet the requirements of Council and the Office of Local Government.

Council will need to focus on improving the controls over asset management and communications between finance and engineering to improve the efficiency and accuracy of the financial statement completion process.

The audited financial statements are being submitted to the Office of Local Government after the legislated deadline of 31 October 2014 but within the approved extended timeframe of 30 November 2014.

Matters of a technical nature have been documented in a management letter to the General Manager.

We take this opportunity of thanking the General Manager and his staff for their co-operation and assistance during the course of the audit.

Under section 419 of the *Local Government Act 1993*, Council is required to give public notice of a Council meeting for the purpose of presenting the audited financial statements and the auditor's report. A Principal of this firm is available to attend this meeting to address any questions in respect of the audit report or the conduct of the audit.

Yours faithfully

Forsyths Business Services Pty Ltd

Paul R Cornall
Principal

Dungog Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2014

*“A vibrant, united community, with a sustainable economy.
An area where rural character, community safety,
and lifestyle are preserved.”*



Dungog Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2014

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Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division 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 & 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 over \$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 & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).
-

Dungog Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2014

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 & Costing for Council Businesses - A Guide to Competitive Neutrality".
- The Local Government Code of Accounting Practice and Financial Reporting.
- The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

To the best of our knowledge and belief, these Financial Statements:

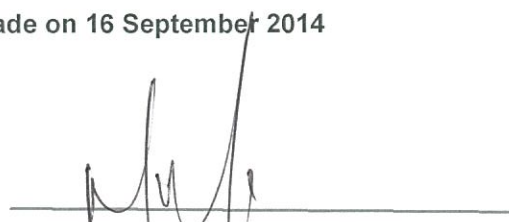
- Present fairly the Operating Result and Financial Position for each of Council's declared Business Activities for the year, and
- Accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 16 September 2014



Cr Harold Johnson
MAYOR



Cr Anthony McKenzie
COUNCILLOR



Craig Deasey
GENERAL MANAGER



Shaun Chandler
RESPONSIBLE ACCOUNTING OFFICER

Dungog Shire Council

Income Statement of Council's Water Supply Business Activity

for the financial year ended 30 June 2014

\$ '000	Actual 2014	Actual 2013
Income from continuing operations		
Access charges	-	-
User charges	-	-
Fees	-	-
Interest	7	9
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	-
Other income	-	-
Total income from continuing operations	7	9
Expenses from continuing operations		
Employee benefits and on-costs	-	-
Borrowing costs	-	-
Materials and contracts	-	-
Depreciation and impairment	-	-
Water purchase charges	-	-
Loss on sale of assets	-	-
Calculated taxation equivalents	-	-
Debt guarantee fee (if applicable)	-	-
Other expenses	-	411
Total expenses from continuing operations	-	411
Surplus (deficit) from Continuing Operations before capital amounts	7	(402)
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from Continuing Operations after capital amounts	7	(402)
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	7	(402)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	7	(402)
plus Opening Retained Profits	274	766
plus/less: Prior Period Adjustments	-	-
plus/less: Other Adjustments (Paterson Reservoir - transfer to Hunter Water)	-	(90)
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	-	-
- Debt guarantee fees	-	-
- Corporate taxation equivalent	-	-
less:		
- Tax Equivalent Dividend paid	-	-
- Surplus dividend paid	-	-
Closing Retained Profits	281	274
Return on Capital %	n/a	n/a
Subsidy from Council	-	-
Calculation of dividend payable:		
Surplus (deficit) after tax	7	(402)
less: Capital grants and contributions (excluding developer contributions)	-	-
Surplus for dividend calculation purposes	7	-
Potential Dividend calculated from surplus	-	-

Dungog Shire Council

Income Statement of Council's Sewerage Business Activity

for the financial year ended 30 June 2014

\$ '000	Actual 2014	Actual 2013
Income from continuing operations		
Access charges	-	-
User charges	-	-
Liquid Trade Waste charges	-	-
Fees	-	-
Interest	1	2
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	-
Other income	-	-
Total income from continuing operations	1	2
Expenses from continuing operations		
Employee benefits and on-costs	-	-
Borrowing costs	-	-
Materials and contracts	-	-
Depreciation and impairment	-	-
Loss on sale of assets	-	-
Calculated taxation equivalents	-	-
Debt guarantee fee (if applicable)	-	-
Other expenses	-	-
Total expenses from continuing operations	-	-
Surplus (deficit) from Continuing Operations before capital amounts	1	2
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from Continuing Operations after capital amounts	1	2
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	1	2
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(0)	(1)
SURPLUS (DEFICIT) AFTER TAX	1	1
plus Opening Retained Profits	52	50
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	-	-
- Debt guarantee fees	-	-
- Corporate taxation equivalent	0	1
less:		
- Tax Equivalent Dividend paid	-	-
- Surplus dividend paid	-	-
Closing Retained Profits	53	52
Return on Capital %	n/a	n/a
Subsidy from Council	-	-
Calculation of dividend payable:		
Surplus (deficit) after tax	1	1
less: Capital grants and contributions (excluding developer contributions)	-	-
Surplus for dividend calculation purposes	1	1
Potential Dividend calculated from surplus	0	1

Dungog Shire Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2014

Hunter Councils Ltd

Category 2

\$ '000	Actual 2014	Actual 2013
Income from continuing operations		
Access charges	-	-
User charges	37	29
Fees	-	-
Interest	-	-
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	-
Other income	4	2
Total income from continuing operations	41	31
Expenses from continuing operations		
Employee benefits and on-costs	-	-
Borrowing costs	3	3
Materials and contracts	25	19
Depreciation and impairment	4	4
Loss on sale of assets	-	-
Calculated taxation equivalents	-	-
Debt guarantee fee (if applicable)	1	1
Other expenses	2	2
Total expenses from continuing operations	35	29
Surplus (deficit) from Continuing Operations before capital amounts	6	2
Grants and contributions provided for capital purposes	-	2
Surplus (deficit) from Continuing Operations after capital amounts	6	4
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	6	4
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(2)	(1)
SURPLUS (DEFICIT) AFTER TAX	4	3
plus Opening Retained Profits	(11)	(16)
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	-	-
- Debt guarantee fees	1	1
- Corporate taxation equivalent	2	1
add:		
- Subsidy Paid/Contribution To Operations	-	-
less:		
- TER dividend paid	-	-
- Dividend paid	-	-
Closing Retained Profits	(4)	(11)
Return on Capital %	7.0%	5.3%
Subsidy from Council	-	-

Dungog Shire Council

Statement of Financial Position - Council's Water Supply Business Activity
as at 30 June 2014

\$ '000	Actual 2014	Actual 2013
ASSETS		
Current Assets		
Cash and cash equivalents	271	265
Investments	-	-
Receivables	10	11
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	281	276
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	-	-
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
Total non-Current Assets	-	-
TOTAL ASSETS	281	276
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	-	2
Interest bearing liabilities	-	-
Provisions	-	-
Total Current Liabilities	-	2
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	-	-
Total Non-Current Liabilities	-	-
TOTAL LIABILITIES	-	2
NET ASSETS	281	274
EQUITY		
Retained earnings	253	246
Revaluation reserves	28	28
Council equity interest	281	274
Non-controlling equity interest	-	-
TOTAL EQUITY	281	274

Dungog Shire Council

Statement of Financial Position - Council's Sewerage Business Activity

as at 30 June 2014

\$ '000	Actual 2014	Actual 2013
ASSETS		
Current Assets		
Cash and cash equivalents	52	51
Investments	-	-
Receivables	1	1
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	53	52
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	-	-
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
Total non-Current Assets	-	-
TOTAL ASSETS	53	52
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	-	-
Interest bearing liabilities	-	-
Provisions	-	-
Total Current Liabilities	-	-
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	-	-
Total Non-Current Liabilities	-	-
TOTAL LIABILITIES	-	-
NET ASSETS	53	52
EQUITY		
Retained earnings	53	52
Revaluation reserves	-	-
Council equity interest	53	52
Non-controlling equity interest	-	-
TOTAL EQUITY	53	52

Dungog Shire Council

Statement of Financial Position - Council's Other Business Activities

as at 30 June 2014

Hunter Councils Ltd

Category 2

\$ '000	Actual 2014	Actual 2013
ASSETS		
Current Assets		
Cash and cash equivalents	8	5
Investments	-	-
Receivables	-	5
Inventories	5	-
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	13	10
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	128	95
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
Total Non-Current Assets	128	95
TOTAL ASSETS	141	105
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	3	3
Interest bearing liabilities	9	8
Other Current liabilities	2	-
Provisions	2	1
Total Current Liabilities	16	12
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	86	63
Provisions	-	-
Other Liabilities	-	-
Total Non-Current Liabilities	86	63
TOTAL LIABILITIES	102	75
NET ASSETS	39	30
EQUITY		
Retained earnings	(4)	(11)
Revaluation reserves	43	41
Council equity interest	39	30
Non-controlling equity interest	-	-
TOTAL EQUITY	39	30

Dungog Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2014

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3	Sewerage Business Best Practice Management disclosure requirements	14

Dungog Shire Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2014

Note 1. Significant Accounting Policies

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

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

The figures presented in these special purpose financial statements, unless otherwise stated, have been prepared in accordance with:

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

The disclosures in these special purpose financial statements have been prepared in accordance with:

- the Local Government Act and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

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

National Competition Policy

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

The framework for its application is set out in the June 1996 Government Policy statement on the "Application of National Competition Policy to Local Government".

The "Pricing & 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 & costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of 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 & Costing for Council Businesses - A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Water & Sewerage Supplies

Dungog Shire Council transferred the Water and Sewerage Operation to Hunter Water in 1 July 2008, Council continues to hold debtors in relation to the water and sewer operation and as such the finalisation of the transfer has not occurred yet.

Hunter Councils Limited

Council has an interest in Hunter Councils Limited, along with other member Councils.

The organisation was established in January 2003 after receiving Minister's consent, pursuant to Section 358(1)(a) of the Local Government Act 1993 to improve the quality and efficiency of local government service throughout the Hunter Region.

Monetary Amounts

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

(i) Taxation Equivalent Charges

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

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax

Dungog Shire Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

Note 1. Significant Accounting Policies

payments have been applied to all Council nominated business activities and are reflected in these financial statements.

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

Local Government Rates & 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 & 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 the 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 where 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 the council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported Business Activity.

(iii) Return on Investments (Rate of Return)

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

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

The Rate of Return on Capital is calculated as follows:

Operating Result before Capital Income + Interest Expense

Written Down Value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 3.56% at 30/6/14.

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

(iv) Dividends

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

Dungog Shire Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

Note 2. Water Supply Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2014

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	<input type="text" value="-"/>
(ii)	No of assessments multiplied by \$3/assessment	<input type="text" value="-"/>
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	<input type="text" value="-"/>
(iv)	Amounts actually paid for Tax Equivalents	<input type="text"/>

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	<input type="text" value="-"/>
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	<input type="text" value="-"/>
(iii)	Cumulative surplus before Dividends for the 3 years to 30 June 2014, less the cumulative dividends paid for the 2 years to 30 June 2013 & 30 June 2012	<input type="text" value="-"/>

2014 Surplus	-	2013 Surplus	-	2012 Surplus	-
		2013 Dividend	-	2012 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	<input type="text" value="-"/>
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	<input type="text"/>

3. Required outcomes for 6 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

(i)	Completion of Strategic Business Plan (including Financial Plan)	<input type="text"/>
(ii)	Full Cost Recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines]	<input type="text"/>
	- Complying charges [Item 2(b) in Table 1]	<input type="text"/>
	- DSP with Commercial Developer Charges [Item 2(e) in Table 1]	<input type="text"/>
	- If Dual Water Supplies, Complying Charges [Item 2(g) in Table 1]	<input type="text"/>
(iii)	Sound Water Conservation and Demand Management implemented	<input type="text"/>
(iv)	Sound Drought Management implemented	<input type="text"/>
(v)	Complete Performance Reporting Form (by 15 September each year)	<input type="text"/>
(vi)	a. Integrated Water Cycle Management Evaluation	<input type="text"/>
	b. Complete and implement Integrated Water Cycle Management Strategy	<input type="text"/>

Dungog Shire Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

Note 2. Water Supply Business Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2014

National Water Initiative (NWI) Financial Performance Indicators

NWI F1	Total Revenue (Water) Total Income (w13) - Grants for the Acquisition of Assets (w11a) - Interest Income (w9) - Aboriginal Communities W&S Program Income (w10a)	\$'000	-
NWI F4	Revenue from Residential Usage Charges (Water) Income from Residential Usage Charges (w6b) x 100 divided by the sum of [Income from Residential Usage Charges (w6a) + Income from Residential Access Charges (w6b)]	%	n/a
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) Written down current cost of system assets (w47)	\$'000	-
NWI F11	Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2)	\$'000	-
NWI F14	Capital Expenditure (Water) Acquisition of fixed assets (w16)	\$'000	-
NWI F17	Economic Real Rate of Return (Water) [Total Income (w13) - Interest Income (w9) - Grants for acquisition of assets (w11a) - Operating Costs (NWI F11) - Current Cost Depreciation (w3)] x 100 divided by [Written Down Current Cost of System Assets (w47) + Plant & Equipment (w33b)]	%	n/a
NWI F26	Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a)	\$'000	-

- Notes:
- References to w (eg. w12) refer to item numbers within Special Schedules No. 3 & 4 of Council's Annual Financial Statements.
 - The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

Dungog Shire Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

Note 3. Sewerage Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2014

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	<input type="text" value="-"/>
(ii)	No of assessments multiplied by \$3/assessment	<input type="text" value="-"/>
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	<input type="text" value="-"/>
(iv)	Amounts actually paid for Tax Equivalents	<input type="text"/>

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	<input type="text" value="-"/>
(ii)	No. of assessments x (\$30 less tax equivalent charges per assessment)	<input type="text" value="-"/>
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2014, less the cumulative dividends paid for the 2 years to 30 June 2013 & 30 June 2012	<input type="text" value="-"/>

2014 Surplus	<input type="text" value="-"/>	2013 Surplus	<input type="text" value="-"/>	2012 Surplus	<input type="text"/>
		2013 Dividend	<input type="text" value="-"/>	2012 Dividend	<input type="text"/>

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	<input type="text" value="-"/>
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	<input type="text"/>

3. Required outcomes for 4 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

(i)	Completion of Strategic Business Plan (including Financial Plan)	<input type="text"/>
(ii)	Pricing with full cost-recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines]	<input type="text"/>
	Complying charges	
	(a) Residential [Item 2(c) in Table 1]	<input type="text"/>
	(b) Non Residential [Item 2(c) in Table 1]	<input type="text"/>
	(c) Trade Waste [Item 2(d) in Table 1]	<input type="text"/>
	DSP with Commercial Developer Charges [Item 2(e) in Table 1]	<input type="text"/>
	Liquid Trade Waste Approvals & Policy [Item 2(f) in Table 1]	<input type="text"/>
(iii)	Complete Performance Reporting Form (by 15 September each year)	<input type="text"/>
(iv)	a. Integrated Water Cycle Management Evaluation	<input type="text"/>
	b. Complete and implement Integrated Water Cycle Management Strategy	<input type="text"/>

Dungog Shire Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

Note 3. Sewerage Business Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2014

National Water Initiative (NWI) Financial Performance Indicators

NWI F2	Total Revenue (Sewerage) Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10) - Aboriginal Communities W&S Program Income (w10a)	\$'000	-
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48)	\$'000	-
NWI F12	Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	-
NWI F15	Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17)	\$'000	-
NWI F18	Economic Real Rate of Return (Sewerage) [Total Income (s14) - Interest Income (s10) - Grants for acquisition of Assets (s12a) - Operating cost (NWI F12) - Current cost depreciation (s3)] x 100 divided by [Written down current cost (ie. WDCC) of System Assets (s48) + Plant & Equipment (s34b)]	%	n/a
NWI F27	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	-

National Water Initiative (NWI) Financial Performance Indicators Water & Sewer (combined)

NWI F3	Total Income (Water & Sewerage) Total Income (w13 + s14) + Gain/Loss on disposal of assets (w14 + s15) minus Grants for acquisition of assets (w11a + s12a) - Interest Income (w9 + s10)	\$'000	-
NWI F8	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	n/a
NWI F16	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	-
NWI F19	Economic Real Rate of Return (Water & Sewerage) [Total Income (w13 + s14) - Interest Income (w9 + s10) - Grants for acquisition of assets (w11a + s12a) - Operating Cost (NWI F11 + NWI F12) - Current cost depreciation (w3 + s3)] x 100 divided by [Written down replacement cost of fixed assets (NWI F9 + NWI F10) + Plant & equipment (w33b + s34b)]	%	n/a
NWI F20	Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$'000	-
NWI F21	Dividend Payout Ratio (Water & Sewerage) Dividend (NWI F20) x 100 divided by Net Profit after tax (NWI F24)	%	n/a

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Forsyths Business Services Pty Ltd
ABN 66 182 781 401

INDEPENDENT AUDIT REPORT
Report on the special purpose financial statements

To Dungog Shire Council

SCOPE

We have audited the special purpose financial statements of Dungog Shire Council for the year ended 30th June 2014 comprising the Statement by Councillors and Management, Income Statement of Business Activities, Statement of Financial Position by Business Activities, and Note 1 to the financial statements. The financial statements include the accounts of the business activities of the Council and the entities it controlled at the year's end or from time to time during the year.

Councils' responsibility for the financial statements

The Council is responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the requirements of the Division of Local Government and Council. The Councils' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the Council or the Division of Local Government. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Knowledge with integrity

reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

The special purpose financial statements have been prepared for distribution to the Council and the Division of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council or the Division of Local Government or for any purpose other than for which the report was prepared.

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

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

AUDIT OPINION

In our opinion, the Special Purpose Financial Statements of the Dungog Shire Council for the year ended 30th June 2014 are presented fairly, in all material respects, in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

BASIS OF ACCOUNTING

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Division of Local Government. As a result, the financial statements may not be suitable for another purpose.

Forsyths

Forsyths Business Services Pty Ltd

P.R. Cornall

Paul Cornall
Principal

24th November 2014

92 Rusden Street Armidale

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

Dungog Shire Council

SPECIAL SCHEDULES

for the year ended 30 June 2014

*“A vibrant, united community, with a sustainable economy.
An area where rural character, community safety,
and lifestyle are preserved.”*



Dungog Shire Council

Special Schedules

for the financial year ended 30 June 2014

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- Special Schedule No. 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
- Special Schedule No. 3	Water Supply Operations - incl. Income Statement	5
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¹ Special Schedules are not audited (with the exception of Special Schedule 9).

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.

Dungog Shire Council

Special Schedule No. 1 - Net Cost of Services
for the financial year ended 30 June 2014

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Governance	517	-	-	(517)
Administration	1,423	237	327	(859)
Public Order and Safety				
Fire Service Levy, Fire Protection, Emergency Services	580	54	22	(504)
Beach Control	-	-	-	-
Enforcement of Local Govt. Regulations	41	14	-	(27)
Animal Control	35	41	-	6
Other	-	-	-	-
Total Public Order & Safety	656	109	22	(525)
Health	26	12	-	(14)
Environment				
Noxious Plants and Insect/Vermin Control	123	48	-	(75)
Other Environmental Protection	394	418	-	24
Solid Waste Management	1,296	1,598	-	302
Street Cleaning	45	-	-	(45)
Drainage	-	-	-	-
Stormwater Management	52	41	-	(11)
Total Environment	1,910	2,105	-	195
Community Services and Education				
Administration & Education	58	13	-	(45)
Social Protection (Welfare)	-	-	-	-
Aged Persons and Disabled	116	89	-	(27)
Children's Services	-	-	-	-
Total Community Services & Education	174	102	-	(72)
Housing and Community Amenities				
Public Cemeteries	42	37	-	(5)
Public Conveniences	85	-	55	(30)
Street Lighting	91	-	6	(85)
Town Planning	774	258	-	(516)
Other Community Amenities	113	-	-	(113)
Total Housing and Community Amenities	1,105	295	61	(749)
Water Supplies	-	8	-	8
Sewerage Services	-	1	-	1

Dungog Shire Council

Special Schedule No. 1 - Net Cost of Services (continued)

for the financial year ended 30 June 2014

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Recreation and Culture				
Public Libraries	180	34	6	(140)
Museums	45	-	-	(45)
Art Galleries	-	-	-	-
Community Centres and Halls	196	1	90	(105)
Performing Arts Venues	-	-	-	-
Other Performing Arts	-	-	-	-
Other Cultural Services	1	7	-	6
Sporting Grounds and Venues	226	15	229	18
Swimming Pools	282	4	-	(278)
Parks & Gardens (Lakes)	220	1	1	(218)
Other Sport and Recreation	-	-	-	-
Total Recreation and Culture	1,150	62	326	(762)
Fuel & Energy	-	-	-	-
Agriculture	-	-	-	-
Mining, Manufacturing and Construction				
Building Control	239	105	-	(134)
Other Mining, Manufacturing & Construction	114	-	-	(114)
Total Mining, Manufacturing and Const.	353	105	-	(248)
Transport and Communication				
Urban Roads (UR) - Local	655	2	-	(653)
Urban Roads - Regional	18	-	-	(18)
Sealed Rural Roads (SRR) - Local	2,910	354	-	(2,556)
Sealed Rural Roads (SRR) - Regional	1,412	1,695	2,518	2,801
Unsealed Rural Roads (URR) - Local	768	-	-	(768)
Unsealed Rural Roads (URR) - Regional	-	-	-	-
Bridges on UR - Local	4	-	-	(4)
Bridges on SRR - Local	241	-	-	(241)
Bridges on URR - Local	247	-	-	(247)
Bridges on Regional Roads	186	-	-	(186)
Parking Areas	4	-	-	(4)
Footpaths	16	-	-	(16)
Aerodromes	-	-	-	-
Other Transport & Communication	26	8	-	(18)
Total Transport and Communication	6,487	2,059	2,518	(1,910)
Economic Affairs				
Camping Areas & Caravan Parks	169	168	-	(1)
Other Economic Affairs	253	37	-	(216)
Total Economic Affairs	422	205	-	(217)
Totals – Functions	14,223	5,300	3,254	(5,669)
General Purpose Revenues ⁽²⁾		6,439		6,439
Share of interests - joint ventures & associates using the equity method	-	7		7
NET OPERATING RESULT ⁽¹⁾	14,223	11,746	3,254	777

(1) As reported in the Income Statement

(2) Includes: Rates & Annual Charges (incl. Ex Gratia, excl. Water & Sewer), Non Capital General Purpose Grants, Interest on Investments (excl. Ext. Restricted Assets) & Interest on overdue Rates & Annual Charges

Dungog Shire Council

Special Schedule No. 2(a) - Statement of Long Term Debt (all purpose)

for the financial year ended 30 June 2014

\$'000

Classification of Debt	Principal outstanding at beginning of the year			New Loans raised during the year	Debt redemption during the year		Transfers to Sinking Funds	Interest applicable for Year	Principal outstanding at the end of the year		
	Current	Non Current	Total		From Revenue	Sinking Funds			Current	Non Current	Total
Loans (by Source)											
Commonwealth Government	-	-	-							-	-
Treasury Corporation	-	-	-							-	-
Other State Government	-	-	-							-	-
Public Subscription	-	-	-							-	-
Financial Institutions	432	691	1,123	200	441	-	-	64	179	703	882
Other	-	-	-							-	-
Total Loans	432	691	1,123	200	441	-	-	64	179	703	882
Other Long Term Debt											
Ratepayers Advances	-	-	-							-	-
Government Advances	2	9	11	-	2	-	-	-	2	7	9
Finance Leases	-	-	-							-	-
Deferred Payments	-	-	-							-	-
Total Long Term Debt	2	9	11	-	2	-	-	-	2	7	9
Total Debt	434	700	1,134	200	443	-	-	64	181	710	891

Notes: Excludes (i) Internal Loans & (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).

Dungog Shire Council

Special Schedule No. 3 - Water Supply Income Statement

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2014

\$'000	Actuals 2014	Actuals 2013
A Expenses and Income		
Expenses		
1. Management expenses		
a. Administration	-	-
b. Engineering and Supervision	-	-
2. Operation and Maintenance expenses		
- Dams & Weirs		
a. Operation expenses	-	-
b. Maintenance expenses	-	-
- Mains		
c. Operation expenses	-	-
d. Maintenance expenses	-	-
- Reservoirs		
e. Operation expenses	-	-
f. Maintenance expenses	-	-
- Pumping Stations		
g. Operation expenses (excluding energy costs)	-	-
h. Energy costs	-	-
i. Maintenance expenses	-	-
- Treatment		
j. Operation expenses (excluding chemical costs)	-	-
k. Chemical costs	-	-
l. Maintenance expenses	-	-
- Other		
m. Operation expenses	-	-
n. Maintenance expenses	-	-
o. Purchase of water	-	-
3. Depreciation expenses		
a. System assets	-	-
b. Plant and equipment	-	-
4. Miscellaneous expenses		
a. Interest expenses	-	-
b. Revaluation Decrements	-	-
c. Other expenses	-	411
d. Impairment - System assets	-	-
e. Impairment - Plant and equipment	-	-
f. Aboriginal Communities Water & Sewerage Program	-	-
g. Tax Equivalents Dividends (actually paid)	-	-
5. Total expenses	-	411

Dungog Shire Council

Special Schedule No. 3 - Water Supply Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2014

\$'000	Actuals 2014	Actuals 2013
Income		
6. Residential charges		
a. Access (including rates)	-	-
b. Usage charges	-	-
7. Non-residential charges		
a. Access (including rates)	-	-
b. Usage charges	-	-
8. Extra charges	1	2
9. Interest income	6	7
10. Other income	-	-
10a. Aboriginal Communities Water and Sewerage Program	-	-
11. Grants		
a. Grants for acquisition of assets	-	-
b. Grants for pensioner rebates	-	-
c. Other grants	-	-
12. Contributions		
a. Developer charges	-	-
b. Developer provided assets	-	-
c. Other contributions	-	-
13. Total income	<u>7</u>	<u>9</u>
14. Gain (or loss) on disposal of assets	-	(90)
15. Operating Result	<u>7</u>	<u>(492)</u>
15a. Operating Result (less grants for acquisition of assets)	7	(492)

Dungog Shire Council

Special Schedule No. 3 - Water Supply Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2014

\$'000	Actuals 2014	Actuals 2013
B Capital transactions		
Non-operating expenditures		
16. Acquisition of Fixed Assets		
a. New Assets for Improved Standards	-	-
b. New Assets for Growth	-	-
c. Renewals	-	-
d. Plant and equipment	-	-
17. Repayment of debt		
a. Loans	-	-
b. Advances	-	-
c. Finance leases	-	-
18. Transfer to sinking fund	-	-
19. Totals	<u>-</u>	<u>-</u>
Non-operating funds employed		
20. Proceeds from disposal of assets	-	-
21. Borrowing utilised		
a. Loans	-	-
b. Advances	-	-
c. Finance leases	-	-
22. Transfer from sinking fund	-	-
23. Totals	<u>-</u>	<u>-</u>
C Rates and charges		
24. Number of assessments		
a. Residential (occupied)	-	-
b. Residential (unoccupied, ie. vacant lot)	-	-
c. Non-residential (occupied)	-	-
d. Non-residential (unoccupied, ie. vacant lot)	-	-
25. Number of ETs for which developer charges were received	- ET	- ET
26. Total amount of pensioner rebates (actual dollars)	\$ -	\$ -

Dungog Shire Council

Special Schedule No. 3 - Water Supply Cross Subsidies
for the financial year ended 30 June 2014

\$'000	Yes	No	Amount
D Best practice annual charges and developer charges*			
27. Annual charges			
a. Does Council have best-practice water supply annual charges and usage charges*?	<input type="checkbox"/>	<input type="checkbox"/>	
If Yes, go to 28a.			
If No, please report if council has removed land value from access charges (ie rates)?			
	<input type="checkbox"/>	<input type="checkbox"/>	
NB. Such charges for both residential customers and non-residential customers comply with section 3.2 of Water Supply, Sewerage and Trade Waste Pricing Guidelines, NSW Office of Water, December, 2002. Such charges do not involve significant cross subsidies.			
b. Cross-subsidy from residential customers using less than allowance (page 25 of Guidelines)			<input type="text"/>
c. Cross-subsidy to non-residential customers (page 24 of Guidelines)			<input type="text"/>
d. Cross-subsidy to large connections in unmetered supplies (page 26 of Guidelines)			<input type="text"/>
28. Developer charges			
a. Has council completed a water supply Development Servicing** Plan?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Total cross-subsidy in water supply developer charges for 2012/13 (page 47 of Guidelines)			<input type="text"/>
** In accordance with page 9 of Developer Charges Guidelines for Water Supply, Sewerage and Stormwater, NSW Office of Water, December, 2002.			
29. Disclosure of cross-subsidies			
Total of cross-subsidies (27b +27c + 27d + 28b)			<input type="text" value="-"/>

* Councils which have not yet implemented best practice water supply pricing should disclose cross-subsidies in items 27b, 27c and 27d above.

However, disclosure of cross-subsidies is **not** required where a Council has implemented best practice pricing and is phasing in such pricing over a period of 3 years.

Dungog Shire Council

Special Schedule No. 4 - Water Supply Statement of Financial Position

Includes INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
as at 30 June 2014

\$'000	Actuals Current	Actuals Non Current	Actuals Total
ASSETS			
30. Cash and investments			
a. Developer charges	-	-	-
b. Special purpose grants	-	-	-
c. Accrued leave	-	-	-
d. Unexpended loans	-	-	-
e. Sinking fund	-	-	-
f. Other	271	-	271
31. Receivables			
a. Specific purpose grants	-	-	-
b. Rates and Availability Charges	-	-	-
c. User Charges	8	-	8
d. Other	-	-	-
32. Inventories	-	-	-
33. Property, plant and equipment			
a. System assets	-	-	-
b. Plant and equipment	-	-	-
34. Other assets	-	-	-
35. Total assets	<u>279</u>	<u>-</u>	<u>279</u>
LIABILITIES			
36. Bank overdraft	-	-	-
37. Creditors	-	-	-
38. Borrowings			
a. Loans	-	-	-
b. Advances	-	-	-
c. Finance leases	-	-	-
39. Provisions			
a. Tax equivalents	-	-	-
b. Dividend	-	-	-
c. Other	-	-	-
40. Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
41. NET ASSETS COMMITTED	<u>279</u>	<u>-</u>	<u>279</u>
EQUITY			
42. Accumulated surplus			-
43. Asset revaluation reserve			-
44. TOTAL EQUITY			<u>-</u>
Note to system assets:			
45. Current replacement cost of system assets			
46. Accumulated current cost depreciation of system assets			-
47. Written down current cost of system assets			-

Dungog Shire Council

Special Schedule No. 5 - Sewerage Service Income Statement

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2014

\$'000	Actuals 2014	Actuals 2013
A Expenses and Income		
Expenses		
1. Management expenses		
a. Administration	-	-
b. Engineering and Supervision	-	-
2. Operation and Maintenance expenses		
- Mains		
a. Operation expenses	-	-
b. Maintenance expenses	-	-
- Pumping Stations		
c. Operation expenses (excluding energy costs)	-	-
d. Energy costs	-	-
e. Maintenance expenses	-	-
- Treatment		
f. Operation expenses (excl. chemical, energy, effluent & biosolids management costs)	-	-
g. Chemical costs	-	-
h. Energy costs	-	-
i. Effluent Management	-	-
j. Biosolids Management	-	-
k. Maintenance expenses	-	-
- Other		
l. Operation expenses	-	-
m. Maintenance expenses	-	-
3. Depreciation expenses		
a. System assets	-	-
b. Plant and equipment	-	-
4. Miscellaneous expenses		
a. Interest expenses	-	-
b. Revaluation Decrements	-	-
c. Other expenses	-	-
d. Impairment - System assets	-	-
e. Impairment - Plant and equipment	-	-
f. Aboriginal Communities Water & Sewerage Program	-	-
g. Tax Equivalent Dividends (actually paid)	-	-
5. Total expenses	-	-

Dungog Shire Council

Special Schedule No. 5 - Sewerage Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2014

\$'000	Actuals 2014	Actuals 2013
Income		
6. Residential charges (including rates)	-	-
7. Non-residential charges		
a. Access (including rates)	-	-
b. Usage charges	-	-
8. Trade Waste Charges		
a. Annual Fees	-	-
b. Usage charges	-	-
c. Excess mass charges	-	-
d. Re-inspection fees	-	-
9. Extra charges	-	-
10. Interest income	1	2
11. Other income	-	-
11a. Aboriginal Communities Water & Sewerage Program	-	-
12. Grants		
a. Grants for acquisition of assets	-	-
b. Grants for pensioner rebates	-	-
c. Other grants	-	-
13. Contributions		
a. Developer charges	-	-
b. Developer provided assets	-	-
c. Other contributions	-	-
14. Total income	<u>1</u>	<u>2</u>
15. Gain (or loss) on disposal of assets	-	-
16. Operating Result	<u>1</u>	<u>2</u>
16a. Operating Result (less grants for acquisition of assets)	1	2

Dungog Shire Council

Special Schedule No. 5 - Sewerage Income Statement (continued)

Includes ALL INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
for the financial year ended 30 June 2014

\$'000	Actuals 2014	Actuals 2013
B Capital transactions		
Non-operating expenditures		
17. Acquisition of Fixed Assets		
a. New Assets for Improved Standards	-	-
b. New Assets for Growth	-	-
c. Renewals	-	-
d. Plant and equipment	-	-
18. Repayment of debt		
a. Loans	-	-
b. Advances	-	-
c. Finance leases	-	-
19. Transfer to sinking fund	-	-
20. Totals	<u>-</u>	<u>-</u>
Non-operating funds employed		
21. Proceeds from disposal of assets	-	-
22. Borrowing utilised		
a. Loans	-	-
b. Advances	-	-
c. Finance leases	-	-
23. Transfer from sinking fund	-	-
24. Totals	<u>-</u>	<u>-</u>
C Rates and charges		
25. Number of assessments		
a. Residential (occupied)		-
b. Residential (unoccupied, ie. vacant lot)		-
c. Non-residential (occupied)		-
d. Non-residential (unoccupied, ie. vacant lot)		-
26. Number of ETs for which developer charges were received	ET	- ET
27. Total amount of pensioner rebates (actual dollars)	\$	-

Dungog Shire Council

Special Schedule No. 5 - Sewerage Cross Subsidies
for the financial year ended 30 June 2014

\$'000	Yes	No	Amount
D Best practice annual charges and developer charges*			
28. Annual charges			
a. Does Council have best-practice sewerage annual charges, usage charges and trade waste fees & charges*?	<input type="checkbox"/>	<input type="checkbox"/>	
If Yes, go to 29a.			
If No, please report if council has removed land value from access charges (ie rates)?	<input type="checkbox"/>	<input type="checkbox"/>	
NB. Such charges for both residential customers and non-residential customers comply with section 4.2 & 4.3 of the Water Supply, Sewerage and Trade Waste Pricing Guidelines, NSW Office of Water, December, 2002. Such charges do not involve significant cross subsidies.			
b. Cross-subsidy to non-residential customers (page 45 of Guidelines)			<input type="text"/>
c. Cross-subsidy to trade waste discharges (page 46 of Guidelines)			<input type="text"/>
29. Developer charges			
a. Has council completed a sewerage Development Servicing** Plan?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Total cross-subsidy in sewerage developer charges for 2012/13 (page 47 of Guidelines)			<input type="text"/>
** In accordance with page 9 of Developer Charges Guidelines for Water Supply, Sewerage and Stormwater, NSW Office of Water, December, 2002.			
30. Disclosure of cross-subsidies			
Total of cross-subsidies (28b + 28c + 29b)			<input type="text" value="-"/>

* Councils which have not yet implemented best practice sewer pricing & liquid waste pricing should disclose cross-subsidies in items 28b and 28c above.

However, disclosure of cross-subsidies is **not** required where a Council has implemented best practice sewerage and liquid waste pricing and is phasing in such pricing over a period of 3 years.

Dungog Shire Council

Special Schedule No. 6 - Sewerage Service Statement of Financial Position

Includes INTERNAL TRANSACTIONS, ie. prepared on a Gross Basis.
as at 30 June 2014

\$'000	Actuals Current	Actuals Non Current	Actuals Total
ASSETS			
31. Cash and investments			
a. Developer charges	-	-	-
b. Special purpose grants	-	-	-
c. Accrued leave	-	-	-
d. Unexpended loans	-	-	-
e. Sinking fund	-	-	-
f. Other	52	-	52
32. Receivables			
a. Specific purpose grants	-	-	-
b. Rates and Availability Charges	-	-	-
c. User Charges	-	-	-
d. Other	1	-	1
33. Inventories	-	-	-
34. Property, plant and equipment			
a. System assets	-	-	-
b. Plant and equipment	-	-	-
35. Other assets	-	-	-
36. Total Assets	<u>53</u>	<u>-</u>	<u>53</u>
LIABILITIES			
37. Bank overdraft	-	-	-
38. Creditors	-	-	-
39. Borrowings			
a. Loans	-	-	-
b. Advances	-	-	-
c. Finance leases	-	-	-
40. Provisions			
a. Tax equivalents	-	-	-
b. Dividend	-	-	-
c. Other	-	-	-
41. Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
42. NET ASSETS COMMITTED	<u>53</u>	<u>-</u>	<u>53</u>
EQUITY			
42. Accumulated surplus			-
44. Asset revaluation reserve			-
45. TOTAL EQUITY			<u>-</u>
Note to system assets:			
46. Current replacement cost of system assets			-
47. Accumulated current cost depreciation of system assets			-
48. Written down current cost of system assets			-

Dungog Shire Council

Notes to Special Schedule No.'s 3 & 5

for the financial year ended 30 June 2014

Administration ⁽¹⁾

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

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

Engineering and supervision ⁽¹⁾

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

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

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

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

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

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

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

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

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

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

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a Annual Fees, 8b Usage Charges and 8c Excess Mass Charges and 8d Re-inspection Fees.

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

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

Notes:

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

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

Dungog Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets

as at 30 June 2014

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard ⁽¹⁾	Required ⁽²⁾ Annual Maintenance	Actual ⁽³⁾ Maintenance 2013/14	Written Down Value (WDV) ⁽⁴⁾	Assets in Condition as a % of WDV ^{(4), (5)}				
						1	2	3	4	5
Buildings	Council Offices / Administration Centres	110	20	9	293	0%	90%	0%	10%	0%
	Council Works Depot	283	28	21	311	0%	60%	0%	40%	0%
	RFS	43	15	2	999	0%	90%	10%	0%	0%
	SES	1	3	3	285	0%	100%	0%	0%	0%
	Aged Units	34	15	14	1,040	0%	0%	86%	14%	0%
	Youth - DINS	7	2	2	306	0%	0%	100%	0%	0%
	Other Sanitation	-	-	-	-	0%	0%	0%	0%	
	Landfill	-	2	2	35	0%	100%	0%	0%	0%
	Pools	81	30	19	144	0%	0%	85%	15%	0%
	Sports Grounds	319	10	2	1,132	0%	10%	70%	10%	10%
	Council Public Halls	139	30	15	1,298	0%	75%	10%	10%	5%
	Libraries	17	5	5	236	0%	100%	0%	0%	0%
	Community Centres	56	8	7	509	0%	0%	50%	30%	20%
	Museums	53	6	2	497	0%	60%	30%	5%	5%
	Parks	50	5	5	47	5%	10%	30%	25%	30%
	Caravan Parks	40	6	6	231	0%	0%	80%	15%	5%
	Tourim	2	2	1	96	0%	100%	0%	0%	0%
	Saleyards	-	-	-	9	0%	0%	50%	50%	0%
	Real Estate Development	15	2	-	17	0%	0%	80%	20%	0%
	Public Amenities/Toilets	43	80	61	171	0%	20%	30%	30%	20%
Other	-	-	-	-	0%	0%	0%	0%		
	sub total	1,293	269	176	7,656	0.0%	44.7%	39.4%	11.1%	4.8%

Dungog Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued) as at 30 June 2014

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard ⁽¹⁾	Required Annual Maintenance ⁽²⁾	Actual Maintenance 2013/14 ⁽³⁾	Written Down Value (WDV) ⁽⁴⁾	Assets in Condition as a % of WDV ^{(4), (5)}				
						1	2	3	4	5
Other Structures	Other Structures	-	20	-	800	14%	22%	35%	21%	8%
	sub total	-	20	-	800	14.0%	22.0%	35.0%	21.0%	8.0%
Roads	Sealed Roads	14,607	3,666	1,856	126,536	7%	45%	32%	8%	8%
	Unsealed Roads	3,371	1,229	564	4,901	0%	19%	81%	0%	0%
	Bridges	6,713	388	166	21,798	9%	12%	71%	5%	3%
	Footpaths	35	35	8	1,053	14%	83%	0%	3%	0%
	Other	-	-	-	-	0%	0%	0%	0%	
	sub total	24,726	5,318	2,594	154,288	7.1%	39.8%	38.8%	7.3%	7.0%
Stormwater Drainage	Pollutant Traps									
	Drainage	269	69	77	23,582	10%	84%	4%	1%	1%
	sub total	269	69	77	23,582	10.0%	84.0%	4.0%	1.0%	1.0%
Open Space/ Recreational Assets	Swimming Pools	150	10	5	3,330	0%	40%	0%	60%	0%
	sub total	150	10	5	3,330	0.0%	40.0%	0.0%	60.0%	0.0%
TOTAL - ALL ASSETS		26,438	5,686	2,852	189,656	7.1%	45.4%	33.8%	7.6%	6.0%

Special Schedule No. 7 - Report on Infrastructure Assets (continued)

as at 30 June 2014

Notes:

- (1). Satisfactory is defined as “satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate”.
The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard.
This estimated cost should not include any planned enhancements (ie.to heighten, intensify or improve the facilities).
- (2). Required Annual Maintenance is “what should be spent to maintain assets in a satisfactory standard.
- (3). Actual Maintenance is what has been spent in the current year to maintain the assets.
Actual Maintenance may be higher or lower than the required annual maintenance due to the timing of when the maintenance actually occurs.
- (4). Written Down Value is in accordance with Note 9 of Council's General Purpose Financial Statements
- (5). **Infrastructure Asset Condition Assessment "Key"**

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

Dungog Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued)
for the financial year ended 30 June 2014

\$ '000	Amounts	Indicator	Prior Periods	
	2014	2014	2013	2012
Infrastructure Asset Performance Indicators Consolidated				
1. Building and Infrastructure Renewals Ratio				
Asset Renewals (Building and Infrastructure) ⁽¹⁾	4,085	181.96%	213.70%	104.00%
Depreciation, Amortisation & Impairment	2,245			
2. Infrastructure Backlog Ratio				
Estimated Cost to bring Assets to a Satisfactory Condition	26,438	0.14	0.41	0.40
Total value ⁽²⁾ of Infrastructure, Building, Other Structures & depreciable Land Improvement Assets	189,656			
3. Asset Maintenance Ratio				
Actual Asset Maintenance	2,852	0.50	1.11	1.08
Required Asset Maintenance	5,686			
4. Capital Expenditure Ratio				
Annual Capital Expenditure	4,210	1.39	1.85	1.32
Annual Depreciation	3,033			

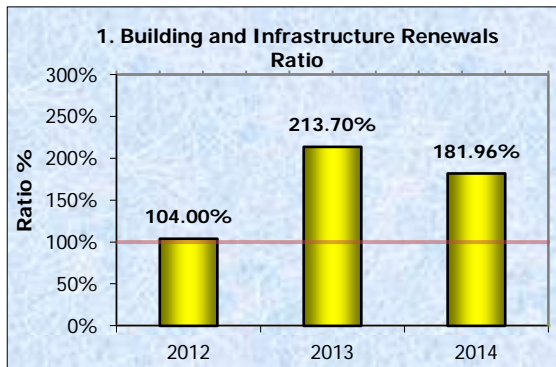
Notes

⁽¹⁾ Asset Renewals represent the replacement &/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. Asset Renewals include building and infrastructure assets only.

⁽²⁾ Written down value

Dungog Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued) for the financial year ended 30 June 2014



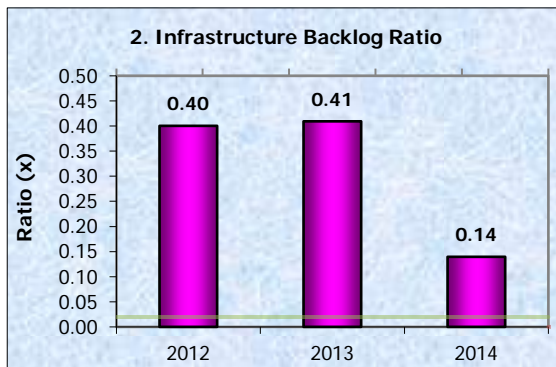
— Minimum 100.00%

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Purpose of Asset Renewals Ratio

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

Commentary on 2013/14 Result	
2013/14 Ratio	181.96%
Building and Infrastructure ratio continues to be strong due to the current capital expenditure on Main Road 301.	



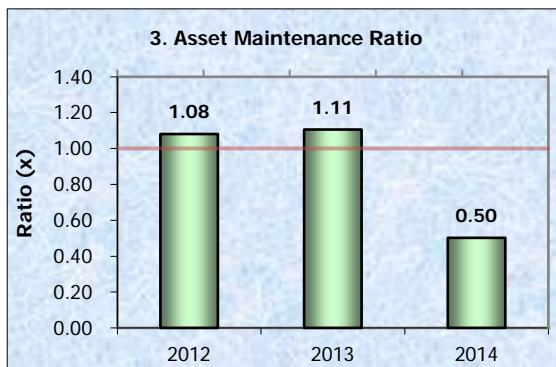
— Maximum .02

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Purpose of Infrastructure Backlog Ratio

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

Commentary on 2013/14 Result	
2013/14 Ratio	0.14 x
The revaluation of Councils assets to fair value in 2014 has resulted in a more reliable assessment of the backlog in Councils Infrastructure.	



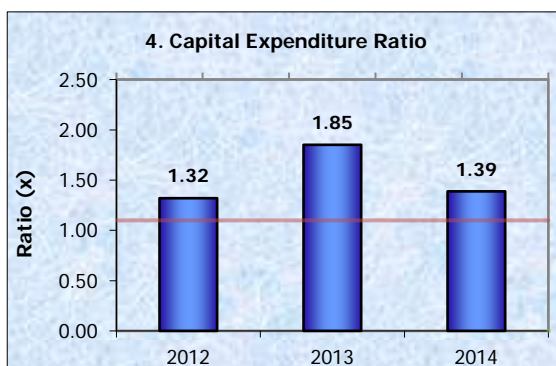
— Minimum 1.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Purpose of Asset Maintenance Ratio

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

Commentary on 2013/14 Result	
2013/14 Ratio	0.50 x
Timing of Capital works programs within the roads infrastructure has resulted in lower than budgeted expenditure on maintenance, this together with more reliable fair value condition based assessments has identified increased asset maintenance requirements.	



— Minimum 1.10

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Purpose of Capital Expenditure Ratio

To assess the extent to which a Council is expanding its asset base thru capital expenditure on both new assets and the replacement and renewal of existing assets.

Commentary on 2013/14 Result	
2013/14 Ratio	1.39 x
Capital expenditure ratio continues to be relatively high due to the additional expenditure on Roads Assets as a result of the availability of grant funding.	

Dungog Shire Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued)
for the financial year ended 30 June 2014

\$ '000	Water 2014	Sewer 2014	General ⁽¹⁾ 2014
Infrastructure Asset Performance Indicators By Fund			
1. Building and Infrastructure Renewals Ratio			
Asset Renewals (Building and Infrastructure) ⁽¹⁾	n/a	n/a	181.96%
Depreciation, Amortisation & Impairment			
prior period:	0.00%	0.00%	213.70%
2. Infrastructure Backlog Ratio			
Estimated Cost to bring Assets to a Satisfactory Condition	n/a	n/a	0.14
Total value ⁽³⁾ of Infrastructure, Building, Other Structures & Depreciable Land Improvement Assets			
prior period:	0.00	0.00	0.41
3. Asset Maintenance Ratio			
Actual Asset Maintenance	n/a	n/a	0.50
Required Asset Maintenance			
prior period:	0.00	0.00	1.11
4. Capital Expenditure Ratio			
Annual Capital Expenditure	n/a	n/a	1.39
Annual Depreciation			
prior period:	0.00	0.00	1.87

Notes

⁽¹⁾ General Fund refers to all of Council's activities except for its Water & Sewer activities which are listed separately.

⁽²⁾ Asset Renewals represent the replacement &/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. Asset Renewals include building and infrastructure assets only.

⁽³⁾ Written down value

Dungog Shire Council

Special Schedule No. 8 - Financial Projections

as at 30 June 2014

\$'000	Actual ⁽¹⁾ 13/14	Forecast ⁽³⁾ 14/15	Forecast ⁽³⁾ 15/16	Forecast ⁽³⁾ 16/17	Forecast ⁽³⁾ 17/18	Forecast ⁽³⁾ 18/19	Forecast ⁽³⁾ 19/20	Forecast ⁽³⁾ 20/21	Forecast ⁽³⁾ 21/22	Forecast ⁽³⁾ 22/23	Forecast ⁽³⁾ 23/24
(i) OPERATING BUDGET											
Income from continuing operations	15,000	11,727	11,082	11,357	11,622	11,972	12,334	12,708	13,039	13,379	13,730
Expenses from continuing operations	14,223	14,133	14,372	14,722	14,917	14,453	14,825	15,062	15,383	15,708	16,059
Operating Result from Continuing Operations	777	(2,406)	(3,290)	(3,365)	(3,295)	(2,481)	(2,491)	(2,354)	(2,344)	(2,329)	(2,329)
(ii) CAPITAL BUDGET											
New Capital Works ⁽²⁾	180	-	-	-	-	-	-	-	-	-	-
Replacement/Refurbishment of Existing Assets	5,397	6,977	1,883	1,893	1,901	774	774	774	774	774	774
Total Capital Budget	5,577	6,977	1,883	1,893	1,901	774	774	774	774	774	774
Funded by:											
- Loans	-	-	-	-	-	-	-	-	-	-	-
- Asset sales	-	-	-	-	-	-	-	-	-	-	-
- Reserves	10	-	-	-	-	-	-	-	-	-	-
- Grants/Contributions	5,535	6,977	1,883	1,893	1,901	774	774	774	774	774	774
- Recurrent revenue	-	-	-	-	-	-	-	-	-	-	-
- Other	32	-	-	-	-	-	-	-	-	-	-
	5,577	6,977	1,883	1,893	1,901	774	774	774	774	774	774

Notes:

(1) From 13/14 Income Statement.

(2) New Capital Works are major non-recurrent projects, eg new Leisure Centre, new Library, new Swimming pool etc.

(3) Financial projections should be in accordance with Council's Integrated Planning and Reporting framework.

Dungog Shire Council

Special Schedule No. 9 - Permissible Income Calculation

for the financial year ended 30 June 2015

\$'000		Calculation 2013/14	Calculation 2014/15
Notional General Income Calculation ⁽¹⁾			
Last Year Notional General Income Yield	a	4,777	4,981
Plus or minus Adjustments ⁽²⁾	b	40	53
Notional General Income	c	4,817	5,034
Permissible Income Calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
or Rate peg percentage	e	3.40%	2.30%
or Crown land adjustment incl. rate peg percentage	f	0.00%	0.00%
less expiring Special variation amount	g	-	-
plus Special variation amount	h = c x d	-	-
or plus Rate peg amount	i = c x e	164	116
or plus Crown land adjustment and rate peg amount	j = c x f	-	-
sub-total	k = (c+g+h+i+j)	4,981	5,150
plus (or minus) last year's Carry Forward Total	l	-	(0)
less Valuation Objections claimed in the previous year	m	-	-
sub-total	n = (l + m)	-	(0)
Total Permissible income	o = k + n	4,981	5,150
less Notional General Income Yield	p	4,981	5,150
Catch-up or (excess) result	q = o - p	(0)	(0)
plus Income lost due to valuation objections claimed ⁽⁴⁾	r	-	-
less Unused catch-up ⁽⁵⁾	s	-	-
Carry forward to next year	t = q + r - s	(0)	(0)

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.

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DUNGOG SHIRE COUNCIL INDEPENDENT AUDITORS' REPORT - SPECIAL SCHEDULE No. 9

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 9) of Dungog Shire Council for the year ending 30 June 2015.

Responsibility of Council for Special Schedule No. 9

The Council is responsible for preparation and fair presentation of Special No. 9 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 22. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant preparation and fair presentation of Special Schedule No. 9 that is free from material mistreatment, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

Our responsibility is to express an opinion on Special Schedule No. 9 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit Standard require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 9 and is free from material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in Special Schedule No. 9. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement on Special Schedule No. 9, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 9.

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

ARMIDALE | COONABARABRAN | GUNNEDAH | TAMWORTH

Dungog Shire Council

INDEPENDENT AUDITORS' REPORT - SPECIAL SCHEDULE No. 9

Because of the inherent limitation of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 9 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of the expressing an opinion on the effectiveness of the entity's internal control.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In our opinion Special Schedule No. 9 of Dungog Shire Council for the year ending 30 June 2015 is properly drawn up in all material respects, in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

Basis of Accounting

Without modifying our opinion, we advise that the Special Schedule No. 9 has been prepared for distribution to the Office of Local Government for the purposes of confirming the Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the Special Schedule No. 9 may not be suitable for another purpose.

Forsyths

FORYSTHS BUSINESS SERVICES PTY LTD

P.R. Cornall

**Paul Cornall
Principal**

Dated at Armidale this 24 November 2014