

# Dungog Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016

---

*“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 year ended 30 June 2016

Contents	Page
<b>1. Understanding Council's Financial Statements</b>	2
<b>2. Statement by Councillors and Management</b>	3
<b>3. Primary Financial Statements:</b>	
– Income Statement	4
– Statement of Comprehensive Income	5
– Statement of Financial Position	6
– Statement of Changes in Equity	7
– Statement of Cash Flows	8
<b>4. Notes to the Financial Statements</b>	9
<b>5. Independent Auditor's Reports:</b>	
– On the Financial Statements (Sect 417 [2])	84
– On the Conduct of the Audit (Sect 417 [3])	86

---

### Overview

- (i) These financial statements are General Purpose Financial Statements and cover the 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 1993* (LGA).

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

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

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

- (iii) All figures presented in these financial statements are presented in Australian currency.
- (iv) These financial statements were authorised for issue by the Council on 21 October 2016. Council has the power to amend and reissue these financial statements.
-

## Dungog Shire Council

### General Purpose Financial Statements for the year ended 30 June 2016

#### Understanding Council's financial statements

---

##### Introduction

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

##### What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2016.

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

##### About the Councillor/Management Statement

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

##### About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

##### 1. The Income Statement

This statement summarises Council's financial performance for the year, listing all income and expenses.

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

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

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

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

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

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

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

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

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

##### About the Notes to the Financial Statements

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

##### About the Auditor's Reports

Council's financial statements are required to be audited by external accountants (that generally specialise in local government). In NSW, the auditor provides 2 audit reports:

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

##### Who uses the financial statements?

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

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

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

# Dungog Shire Council

## General Purpose Financial Statements

for the financial year ended 30 June 2016

### 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.

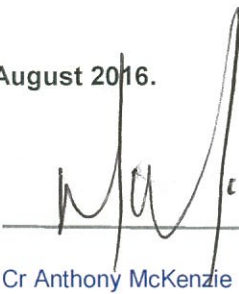
**We are not aware of any matter that would render the Reports false or misleading in any way.**

Signed in accordance with a resolution of Council made on 16 August 2016.



---

Cr Harold Johnson  
MAYOR



---

Cr Anthony McKenzie  
COUNCILLOR



---

Craig Deasey  
GENERAL MANAGER



---

Shaun Chandler  
RESPONSIBLE ACCOUNTING OFFICER

# Dungog Shire Council

## Income Statement

for the year ended 30 June 2016

Budget <sup>1</sup>			Actual	Actual
2016	\$ '000	Notes	2016	2015
<b>Income from continuing operations</b>				
<i>Revenue:</i>				
6,478	Rates and annual charges	3a	6,525	6,217
940	User charges and fees	3b	1,066	954
327	Interest and investment revenue	3c	433	465
251	Other revenues	3d	828	638
3,093	Grants and contributions provided for operating purposes	3e,f	6,464	4,870
2,618	Grants and contributions provided for capital purposes	3e,f	6,502	9,837
<i>Other income:</i>				
56	Net gains from the disposal of assets	5	–	–
–	Net share of interests in joint ventures and associates using the equity method	19	15	11
<b>13,763</b>	<b>Total income from continuing operations</b>		<b>21,833</b>	<b>22,992</b>
<b>Expenses from continuing operations</b>				
4,710	Employee benefits and on-costs	4a	4,454	4,034
112	Borrowing costs	4b	152	136
5,243	Materials and contracts	4c	4,678	4,734
7,105	Depreciation and amortisation	4d	6,040	6,470
–	Impairment	4d	–	110
1,643	Other expenses	4e	1,535	1,444
–	Net losses from the disposal of assets	5	2,415	2,528
<b>18,813</b>	<b>Total expenses from continuing operations</b>		<b>19,274</b>	<b>19,456</b>
<b>(5,050)</b>	<b>Operating result from continuing operations</b>		<b>2,559</b>	<b>3,536</b>
<b>Discontinued operations</b>				
–	Net profit/(loss) from discontinued operations	24	–	–
<b>(5,050)</b>	<b>Net operating result for the year</b>		<b>2,559</b>	<b>3,536</b>
(5,050)	Net operating result attributable to Council		2,544	3,519
–	Net operating result attributable to non-controlling interests		15	17
<b>(7,668)</b>	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		<b>(3,943)</b>	<b>(6,301)</b>

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

## Dungog Shire Council

## Statement of Comprehensive Income

for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
<b>Net operating result for the year</b> (as per Income Statement)		<b>2,559</b>	<b>3,536</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	(750)	–
Impairment (loss) reversal relating to I,PP&E	20b (ii)	–	(170)
Other comprehensive income – joint ventures and associates	19b	(12)	–
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>(762)</b>	<b>(170)</b>
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
<b>Total other comprehensive income for the year</b>		<b>(750)</b>	<b>(170)</b>
<b>Total comprehensive income for the year</b>		<b>1,809</b>	<b>3,366</b>
<b>Total comprehensive income attributable to Council</b>		<b>1,794</b>	<b>3,349</b>
<b>Total comprehensive income attributable to non-controlling interests</b>		<b>15</b>	<b>17</b>

## Dungog Shire Council

## Statement of Financial Position

as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6a	8,569	7,990
Investments	6b	5,000	5,000
Receivables	7	2,097	3,134
Inventories	8	979	1,073
Other	8	22	26
Non-current assets classified as 'held for sale'	22	–	–
<b>Total current assets</b>		<b>16,667</b>	<b>17,223</b>
<b>Non-current assets</b>			
Investments	6b	–	–
Receivables	7	63	66
Inventories	8	26	26
Infrastructure, property, plant and equipment	9	300,672	297,487
Investments accounted for using the equity method	19	63	60
Investment property	14	–	–
Intangible assets	25	–	–
<b>Total non-current assets</b>		<b>300,824</b>	<b>297,639</b>
<b>TOTAL ASSETS</b>		<b>317,491</b>	<b>314,862</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	10	1,473	1,657
Borrowings	10	144	155
Provisions	10	2,220	2,242
<b>Total current liabilities</b>		<b>3,837</b>	<b>4,054</b>
<b>Non-current liabilities</b>			
Payables	10	–	95
Borrowings	10	1,398	553
Provisions	10	2,810	2,512
<b>Total non-current liabilities</b>		<b>4,208</b>	<b>3,160</b>
<b>TOTAL LIABILITIES</b>		<b>8,045</b>	<b>7,214</b>
<b>Net assets</b>		<b>309,446</b>	<b>307,648</b>
<b>EQUITY</b>			
Retained earnings	20	128,503	125,959
Revaluation reserves	20	180,880	181,630
<b>Council equity interest</b>		<b>309,383</b>	<b>307,589</b>
<b>Non-controlling equity interests</b>		<b>63</b>	<b>59</b>
<b>Total equity</b>		<b>309,446</b>	<b>307,648</b>

## Dungog Shire Council

## Statement of Changes in Equity

for the year ended 30 June 2016

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total equity
<b>2016</b>						
<b>Opening balance</b> (as per last year's audited accounts)		125,959	181,630	<b>307,589</b>	59	<b>307,648</b>
a. Correction of prior period errors	20 (c)	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
<b>Revised opening balance (as at 1/7/15)</b>		<b>125,959</b>	<b>181,630</b>	<b>307,589</b>	<b>59</b>	<b>307,648</b>
<b>c. Net operating result for the year</b>		<b>2,544</b>	–	<b>2,544</b>	15	<b>2,559</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsv	20b (ii)	–	(750)	<b>(750)</b>	–	<b>(750)</b>
– Revaluations: other reserves	20b (ii)	–	–	–	–	–
– Transfers to Income Statement	20b (ii)	–	–	–	–	–
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	–	–	–	–	–
– Joint ventures and associates	19b	–	–	–	–	–
<b>Other comprehensive income</b>		<b>–</b>	<b>(750)</b>	<b>(750)</b>	<b>–</b>	<b>(750)</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>2,544</b>	<b>(750)</b>	<b>1,794</b>	<b>15</b>	<b>1,809</b>
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	(11)	<b>(11)</b>
f. Transfers between equity		–	–	–	–	–
<b>Equity – balance at end of the reporting period</b>		<b>128,503</b>	<b>180,880</b>	<b>309,383</b>	<b>63</b>	<b>309,446</b>

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total Equity
<b>2015</b>						
<b>Opening balance</b> (as per last year's audited accounts)		122,440	181,800	<b>304,240</b>	39	<b>304,279</b>
a. Correction of prior period errors	20 (c)	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
<b>Revised opening balance (as at 1/7/14)</b>		<b>122,440</b>	<b>181,800</b>	<b>304,240</b>	<b>39</b>	<b>304,279</b>
<b>c. Net operating result for the year</b>		<b>3,519</b>	–	<b>3,519</b>	17	<b>3,536</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsv	20b (ii)	–	–	–	–	–
– Revaluations: other reserves	20b (ii)	–	–	–	–	–
– Transfers to Income Statement	20b (ii)	–	–	–	–	–
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	–	(170)	<b>(170)</b>	–	<b>(170)</b>
– Joint ventures and associates	19b	–	–	–	–	–
<b>Other comprehensive income</b>		<b>–</b>	<b>(170)</b>	<b>(170)</b>	<b>–</b>	<b>(170)</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>3,519</b>	<b>(170)</b>	<b>3,349</b>	<b>17</b>	<b>3,366</b>
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	3	<b>3</b>
f. Transfers between equity		–	–	–	–	–
<b>Equity – balance at end of the reporting period</b>		<b>125,959</b>	<b>181,630</b>	<b>307,589</b>	<b>59</b>	<b>307,648</b>

This statement should be read in conjunction with the accompanying notes.



## Dungog Shire Council

## Statement of Cash Flows

for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
6,478	Rates and annual charges		6,559	6,254
940	User charges and fees		1,044	987
327	Investment and interest revenue received		433	468
5,471	Grants and contributions		12,992	14,488
307	Other		1,790	228
<b>Payments:</b>				
(4,710)	Employee benefits and on-costs		(4,253)	(3,858)
(5,243)	Materials and contracts		(4,801)	(4,529)
(111)	Borrowing costs		(54)	(54)
–	Bonds, deposits and retention amounts refunded		(23)	(20)
(1,644)	Other		(1,651)	(1,039)
<b>1,815</b>	<b>Net cash provided (or used in) operating activities</b>	11b	<b>12,036</b>	<b>12,925</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
201	Sale of real estate assets		94	692
–	Sale of infrastructure, property, plant and equipment		386	217
6	Deferred debtors receipts		3	5
–	Distributions received from joint ventures and associates		12	3
<b>Payments:</b>				
–	Purchase of investment securities		–	(1,500)
(4,631)	Purchase of infrastructure, property, plant and equipment		(12,772)	(11,079)
–	Purchase of real estate assets		(3)	(22)
–	Contributions paid to joint ventures and associates		–	(10)
<b>(4,424)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(12,280)</b>	<b>(11,694)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
1,005	Proceeds from borrowings and advances		1,000	–
<b>Payments:</b>				
(246)	Repayment of borrowings and advances		(166)	(183)
–	Distributions to non-controlling interests		(11)	–
<b>759</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>823</b>	<b>(183)</b>
<b>(1,850)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>579</b>	<b>1,048</b>
–	Plus: cash and cash equivalents – beginning of year	11a	7,990	6,942
<b>(1,850)</b>	<b>Cash and cash equivalents – end of the year</b>	11a	<b>8,569</b>	<b>7,990</b>
Additional Information:				
plus:	Investments on hand – end of year	6b	5,000	5,000
	<b>Total cash, cash equivalents and investments</b>		<b>13,569</b>	<b>12,990</b>

Please refer to Note 11 for additional cash flow information.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

### Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	10
2(a)	Council functions/activities – financial information	25
2(b)	Council functions/activities – component descriptions	26
3	Income from continuing operations	27
4	Expenses from continuing operations	32
5	Gains or losses from the disposal of assets	35
6(a)	Cash and cash equivalent assets	36
6(b)	Investments	36
6(c)	Restricted cash, cash equivalents and investments – details	37
7	Receivables	39
8	Inventories and other assets	40
9(a)	Infrastructure, property, plant and equipment	41
9(b)	Externally restricted infrastructure, property, plant and equipment	42
9(c)	Infrastructure, property, plant and equipment – current year impairments	42 n/a
10(a)	Payables, borrowings and provisions	43
10(b)	Description of (and movements in) provisions	44
11	Statement of cash flows – additional information	45
12	Commitments for expenditure	46
13	Statement of performance measures:	
	13a (i) Local government industry indicators (consolidated)	47
	13a (ii) Local government industry graphs (consolidated)	48
14	Investment properties	50 n/a
15	Financial risk management	50
16	Material budget variations	54
17	Statement of developer contributions	56
18	Contingencies and other liabilities/assets not recognised	60
19	Interests in other entities	63
20	Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	66
21	Financial result and financial position by fund	67 n/a
22	'Held for sale' non-current assets and disposal groups	67 n/a
23	Events occurring after the reporting date	67 n/a
24	Discontinued operations	67 n/a
25	Intangible assets	67 n/a
26	Reinstatement, rehabilitation and restoration liabilities	68
27	Fair value measurement	69

n/a – not applicable

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies

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

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

##### (a) Basis of preparation

###### (i) Background

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

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

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

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

Because AASBs are sector neutral, some standards either:

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

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

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

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

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

###### (iv) Early adoption of accounting standards

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

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

###### (v) Basis of accounting

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

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

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

###### (vi) Changes in accounting policies

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

##### **(vii) Critical accounting estimates**

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

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

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

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

Council makes estimates and assumptions concerning the future.

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

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

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

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

##### **(b) Revenue recognition**

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

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

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

Revenue is measured on major income categories as follows:

##### **Rates, Annual Charges, Grants and Contributions**

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

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

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

Control over granted assets 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.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

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

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

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

#### User charges, fees and other income

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

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

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

#### Sale of infrastructure, property, plant and equipment

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

#### Interest and rents

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

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

#### Other Income

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

#### (c) Principles of consolidation

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

#### (i) The Consolidated Fund

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

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

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

- Clarence Town School Arts
- Dungog Showground Management Committee
- 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)** net assets held by these excluded committees and operations is as follows:

<b>Total income from continuing operations</b>	\$56,362
<b>Total expenditure from continuing operations</b>	\$80,361
<b>Total net assets held (i.e. equity)</b>	\$-21,998

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

##### 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 that must be applied only for the purposes of or in accordance with the trusts relating to those monies.

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

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

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

##### (iii) Interests in other entities

###### Subsidiaries

Council has no interest in any subsidiaries.

###### Joint arrangements

###### Joint ventures

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

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

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

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

###### Associates

Council has no interest in any associates.

##### County councils

Council is not a member of any county councils.

##### Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

##### (d) Leases

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

###### Finance leases

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

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

##### (e) Cash and Cash Equivalents

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

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

##### (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:

- **loans and receivables,**
- **held-to-maturity investments,** and

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

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

##### (i) 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.

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

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

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

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

##### Financial assets – reclassification

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

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

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

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

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

##### General accounting and measurement of financial instruments:

##### (i) Initial recognition

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

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

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

##### 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.

##### (iii) Types of investments

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

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

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

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

##### (g) Receivables

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

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

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

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

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

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

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

##### (h) Inventories

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

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

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

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

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

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



## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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.

#### (i) 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 asset's cost is measured at its fair value, plus all expenditure that is directly attributable to the acquisition.

Where settlement of any part of an asset's cash consideration is deferred, the amounts payable in the future are discounted to their present value as at

the date of recognition (i.e. date of exchange) of the asset to arrive at fair value.

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

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

##### Subsequent costs

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

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

##### Asset revaluations (including indexation)

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

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

For all other assets, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

##### Other Infrastructure Assets

Swimming Pools	> \$10,000
Other Open Space/Recreational Assets	> \$10,000

Other Infrastructure	> \$10,000
----------------------	------------

#### Depreciation

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

Land is not depreciated.

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

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
Flood control structures	80 – 100 yrs
Buildings – Masonry	50 – 100 yrs
Sealed roads	Surface 15 yrs
	Other 30 – 60 yrs
	Structure 60 yrs
Playground equipment	5 – 15 yrs
Unsealed roads	20 yrs
Benches, seats etc	10 – 20 yrs
Bridge – Concrete	100 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	80 yrs

Swimming Pools	80 years
----------------	----------

Other Open Space / Recreational Assets	50 years
---	----------

Other Infrastructure	25 years
----------------------	----------

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated

## Dungog Shire Council

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

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

recoverable amount – refer Note 1 (s) on asset impairment.

#### Disposal and derecognition

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

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

#### (j) 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).

#### (k) 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.

#### (l) Intangible assets

Council has not classified any assets as intangible.

#### (m) Crown reserves

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

While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance

and use in accordance with the specific purposes to which the reserves are dedicated.

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

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

#### (n) Rural fire service assets

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

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

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

#### (o) Investment property

Council does not currently have any investment properties.

#### (p) 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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

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

Costs are estimated on the basis of a closure plan.

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

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

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

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

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

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

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

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

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

These costs are charged to the Income Statement.

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

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

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

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

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

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

#### (q) 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.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

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

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

#### (r) Payables

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

#### (s) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

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

#### (t) Borrowing costs

Borrowing costs are expensed.

#### (u) 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.

#### (v) Employee benefits

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

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

Leave liabilities are recognised in the provision for employee benefits in respect of employees' services up to the reporting date with other short term

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

employee benefit obligations disclosed under payables.

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

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

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

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

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

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

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

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

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

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

#### (iii) Retirement benefit obligations

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

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

#### Defined benefit plans

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

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

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

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

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

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

The last valuation of the scheme was performed by Mr Richard Boyfield, FIAA on 24/02/16 and covers the period ended 30/6/16.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

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

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$ 152,256.45.

The share of the deficit that can be broadly attributed to Council is estimated to be in the order of \$172,620.83 as at 30 June 2016.

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

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

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

#### Defined contribution plans

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

#### (iv) Employee benefit on-costs

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

These amounts include superannuation and workers compensation expenses which will be payable upon the future payment of certain leave liabilities accrued as at 30/06/16.

#### (w) Self-insurance

Council does not self-insure.

#### (x) Allocation between current and non-current assets and liabilities

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

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

#### Exceptions

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

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

#### (y) Taxes

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

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

#### Goods and Services Tax (GST)

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

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

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

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

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

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

#### **(z) New accounting standards and Interpretations issued (not yet effective)**

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

Council has not adopted any of these standards early.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **AASB ED 260 Income of Not-for-Profit Entities**

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

The exposure draft proposed specific not-for-profit entity requirements and guidance when applying the



## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

principles of AASB 15 to income from certain transactions.

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

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

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

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

#### **AASB16 – Leases**

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

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

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

Council is yet to undertake a detailed assessment of the accounting impacts from AASB 16. However, based on preliminary assessments, impacts from the first time adoption of the standard are likely to include:

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

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

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

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

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

#### **(aa) Rounding of amounts**

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

#### **(ab) 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.

#### **(ac) 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 year ended 30 June 2016

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current & non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2016	2016	2015	2016	2016	2015	2016	2016	2015	2016	2015	2016	2015
Governance	–	–	–	452	1,022	748	(452)	(1,022)	(748)	–	–	–	–
Administration	155	855	484	1,555	1,261	1,575	(1,400)	(406)	(1,091)	–	–	10,082	10,742
Public order and safety	123	47	157	695	670	487	(572)	(623)	(330)	–	122	2,924	3,152
Health	61	10	5	146	26	28	(85)	(16)	(23)	–	–	18	3
Environment	1,973	2,358	2,029	1,856	1,724	1,856	117	634	173	303	144	3,284	4,038
Community services and education	111	19	100	205	145	278	(94)	(126)	(178)	1	1	2,375	1,717
Housing and community amenities	277	246	281	1,472	1,235	1,265	(1,195)	(989)	(984)	–	42	4,758	3,139
Recreation and culture	82	96	152	1,530	1,524	1,526	(1,448)	(1,428)	(1,374)	53	69	9,773	16,346
Mining, manufacturing and construction	89	172	91	630	498	297	(541)	(326)	(206)	–	–	619	2,437
Transport and communication	3,734	9,899	11,646	9,807	10,729	10,932	(6,073)	(830)	714	4,941	1,517	281,048	270,646
Economic affairs	199	220	278	465	440	464	(266)	(220)	(186)	–	–	2,547	2,582
<b>Total functions and activities</b>	<b>6,804</b>	<b>13,922</b>	<b>15,223</b>	<b>18,813</b>	<b>19,274</b>	<b>19,456</b>	<b>(12,009)</b>	<b>(5,352)</b>	<b>(4,233)</b>	<b>5,298</b>	<b>1,895</b>	<b>317,428</b>	<b>314,802</b>
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	15	11	–	–	–	–	15	11	–	–	63	60
General purpose income <sup>1</sup>	6,959	7,896	7,758	–	–	–	6,959	7,896	7,758	2,350	2,351	–	–
<b>Operating result from continuing operations</b>	<b>13,763</b>	<b>21,833</b>	<b>22,992</b>	<b>18,813</b>	<b>19,274</b>	<b>19,456</b>	<b>(5,050)</b>	<b>2,559</b>	<b>3,536</b>	<b>7,648</b>	<b>4,246</b>	<b>317,491</b>	<b>314,862</b>

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

##### **GOVERNANCE**

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

##### **ADMINISTRATION**

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

##### **PUBLIC ORDER AND SAFETY**

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

##### **HEALTH**

Inspection, 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 AND EDUCATION**

Administration and other community services.

##### **HOUSING AND COMMUNITY AMENITIES**

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

##### **WATER SUPPLIES**

##### **SEWERAGE SERVICES**

##### **RECREATION AND CULTURE**

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

##### **MINING, MANUFACTURING AND CONSTRUCTION**

Building control, quarries & pits, other.

##### **TRANSPORT AND 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 year ended 30 June 2016

#### Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Rates and annual charges</b>			
<b>Ordinary rates</b>			
Residential		2,768	2,645
Farmland		2,110	2,064
Business		318	313
<b>Total ordinary rates</b>		<b>5,196</b>	<b>5,022</b>
<b>Special rates</b>			
Nil			
<b>Annual charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		1,152	1,031
Sanitary		11	12
Stormwater management services		41	41
Waste management services (non-domestic)		124	110
Section 611 charges		1	1
<b>Total annual charges</b>		<b>1,329</b>	<b>1,195</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>6,525</b>	<b>6,217</b>

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

## Dungog Shire Council

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

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(b) User charges and fees</b>			
<b>Specific user charges</b> (per s.502 – specific 'actual use' charges)			
Domestic waste management services		245	158
<b>Total user charges</b>		<b>245</b>	<b>158</b>
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Building control		46	42
Planning and building regulation		224	214
Private works – section 67		23	31
Septic tank applications		15	17
Town planning		36	47
Other		28	21
<b>Total fees and charges – statutory/regulatory</b>		<b>372</b>	<b>372</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Caravan park		175	185
Cemeteries		39	40
Inspections and construction certificates – roads		56	37
Onsite sewerage management services		176	160
Tourism		3	2
<b>Total fees and charges – other</b>		<b>449</b>	<b>424</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>1,066</b>	<b>954</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Interest and investment revenue (including losses)</b>			
<b>Interest</b>			
– Interest on overdue rates and annual charges (incl. special purpose rates)		26	26
– Interest earned on investments (interest and coupon payment income)		407	439
<b>TOTAL INTEREST AND INVESTMENT REVENUE</b>		<b>433</b>	<b>465</b>
<b>Interest revenue is attributable to:</b>			
<b>Unrestricted investments/financial assets:</b>			
Overdue rates and annual charges (general fund)		26	26
General Council cash and investments		324	359
<b>Restricted investments/funds – external:</b>			
Development contributions			
– Section 94		83	80
<b>Total interest and investment revenue recognised</b>		<b>433</b>	<b>465</b>
<b>(d) Other revenues</b>			
Rental income – other council properties		71	124
Fines – other		33	20
Legal fees recovery – other		3	8
Commissions and agency fees		113	110
Insurance claim recoveries		248	19
Landfill recycling stations sales		52	107
Section 88 fee collected		222	171
Workers compensation and insurance rebates		31	49
Other		55	30
<b>TOTAL OTHER REVENUE</b>		<b>828</b>	<b>638</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
Financial assistance – general component	1,433	1,429	–	–
Financial assistance – local roads component	848	851	–	–
Pensioners' rates subsidies – general component	69	71	–	–
<b>Total general purpose</b>	<b>2,350</b>	<b>2,351</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Domestic waste management	31	30	–	–
Community care	3	1	–	–
Environmental protection	80	67	125	–
Flood restoration	2	–	–	–
Heritage and cultural	3	3	–	–
Library	31	30	6	6
Noxious weeds	57	47	–	–
NSW rural fire services	–	122	–	–
Public amenities	–	–	–	20
Public halls	–	8	–	–
Recreation and culture	–	–	–	25
Street lighting	19	19	–	–
Transport (roads to recovery)	1,147	–	–	–
Transport (other roads and bridges funding)	1,067	629	2,727	888
<b>Total specific purpose</b>	<b>2,440</b>	<b>956</b>	<b>2,858</b>	<b>939</b>
<b>Total grants</b>	<b>4,790</b>	<b>3,307</b>	<b>2,858</b>	<b>939</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	2,351	2,351	–	–
– State funding	2,439	956	2,858	939
	<b>4,790</b>	<b>3,307</b>	<b>2,858</b>	<b>939</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
<b>(f) Contributions</b>				
<b>Developer contributions:</b>				
<b>(s93 &amp; s94 – EP&amp;A Act, s64 of the LGA):</b>				
S 94 – contributions towards amenities/services	–	–	312	603
<b>Total developer contributions</b>	17 –	–	<b>312</b>	<b>603</b>
<b>Other contributions:</b>				
Business development	10	–	–	–
Recreation and culture	–	–	14	51
Roads and bridges	–	34	399	–
RMS contributions (regional roads, block grant)	1,621	1,486	2,919	8,244
Tourism	3	2	–	–
Other	40	41	–	–
<b>Total other contributions</b>	<b>1,674</b>	<b>1,563</b>	<b>3,332</b>	<b>8,295</b>
<b>Total contributions</b>	<b>1,674</b>	<b>1,563</b>	<b>3,644</b>	<b>8,898</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>6,464</b>	<b>4,870</b>	<b>6,502</b>	<b>9,837</b>

\$ '000	Actual 2016	Actual 2015
<b>(g) Restrictions relating to grants and contributions</b>		
<b>Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:</b>		
Unexpended at the close of the previous reporting period	4,412	3,910
<b>Add:</b> grants and contributions recognised in the current period but not yet spent:	344	664
<b>Less:</b> grants and contributions recognised in a previous reporting period now spent:	(73)	(162)
<b>Net increase (decrease) in restricted assets during the period</b>	<b>271</b>	<b>502</b>
<b>Unexpended and held as restricted assets</b>	<b>4,683</b>	<b>4,412</b>
<b>Comprising:</b>		
– Specific purpose unexpended grants	422	200
– Developer contributions	4,261	4,212
	<b>4,683</b>	<b>4,412</b>



## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Employee benefits and on-costs</b>			
Salaries and wages		4,247	3,874
Employee leave entitlements (ELE)		579	545
Superannuation – defined contribution plans		153	145
Superannuation – defined benefit plans		370	337
Workers' compensation insurance		87	92
Fringe benefit tax (FBT)		64	67
Training costs (other than salaries and wages)		57	57
Other		11	17
<b>Total employee costs</b>		<b>5,568</b>	<b>5,134</b>
Less: capitalised costs		(1,114)	(1,100)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>4,454</b>	<b>4,034</b>
Number of 'full-time equivalent' employees (FTE) at year end		67	65
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on loans		53	53
Interest on advances		1	1
<b>Total interest bearing liability costs expensed</b>		<b>54</b>	<b>54</b>
<b>(ii) Other borrowing costs</b>			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	98	82
<b>Total other borrowing costs</b>		<b>98</b>	<b>82</b>
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>152</b>	<b>136</b>
<b>(c) Materials and contracts</b>			
Raw materials and consumables		4,910	4,978
Contractor and consultancy costs		123	148
Auditors remuneration <sup>(1)</sup>		38	25
Legal expenses:			
– Legal expenses: planning and development		195	98
– Legal expenses: other		9	35
Operating leases:			
– Operating lease rentals: minimum lease payments <sup>(2)</sup>		41	40
<b>Total materials and contracts</b>		<b>5,316</b>	<b>5,324</b>
Less: capitalised costs		(638)	(590)
<b>TOTAL MATERIALS AND CONTRACTS</b>		<b>4,678</b>	<b>4,734</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Materials and contracts (continued)</b>			
<b>1. Auditor remuneration</b>			
During the year, the following fees were incurred for services provided by the Council's Auditor:			
<b>Audit and other assurance services</b>			
– Audit and review of financial statements: Council's Auditor		28	25
– Other audit and assurance services - Asset Management Analysis		10	–
<b>Remuneration for audit and other assurance services</b>		<b>38</b>	<b>25</b>
<b>Total Auditor remuneration</b>		<b>38</b>	<b>25</b>
<b>2. Operating lease payments are attributable to:</b>			
Computers		41	40
		<b>41</b>	<b>40</b>

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
<b>(d) Depreciation, amortisation and impairment</b>					
Plant and equipment		–	–	482	621
Office equipment		–	–	3	6
Furniture and fittings		–	–	23	4
Infrastructure:					
– Buildings – specialised		–	340	469	466
– Other structures		–	–	81	62
– Roads		–	–	3,312	3,614
– Bridges		–	–	669	671
– Footpaths		–	–	14	14
– Stormwater drainage		–	–	432	432
– Swimming pools		–	–	73	80
– Other open space/recreational assets		–	–	309	356
Other assets					
– Library books		–	–	36	36
Asset reinstatement costs	9 & 26	–	–	137	108
<b>Total depreciation and impairment costs</b>		<b>–</b>	<b>340</b>	<b>6,040</b>	<b>6,470</b>
Less: IPP&E impairments (to)/from equity	9a	–	(230)	–	–
<b>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</b>		<b>–</b>	<b>110</b>	<b>6,040</b>	<b>6,470</b>

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(e) Other expenses</b>			
Advertising		46	49
Agency collection costs – Australia post		19	19
Bad and doubtful debts		–	4
Bank charges		11	12
Commissions		88	87
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		11	13
– NSW RB		19	15
– NSW rural fire service levy		259	139
– Waste levy		222	182
Councillor expenses – mayoral fee		14	14
Councillor expenses – councillors' fees		82	78
Councillors' expenses (incl. mayor) – other (excluding fees above)		7	14
Donations, contributions and assistance to other organisations (Section 356)		6	9
Electricity and heating		92	113
Fees and charges		4	4
Insurance		385	399
Newcastle regional library		26	28
Postage		21	21
Printing and stationery		26	26
Street lighting		81	84
Subscriptions and publications		8	8
Telephone and communications		52	43
Valuation fees		37	49
Weight of loads co-operative		15	14
Other		4	20
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>1,535</u></b>	<b><u>1,444</u></b>

## Dungog Shire Council

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

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>Plant and equipment</b>			
Proceeds from disposal – plant and equipment		386	217
Less: carrying amount of plant and equipment assets sold/written off		(311)	(228)
<b>Net gain/(loss) on disposal</b>		<b>75</b>	<b>(11)</b>
<b>Infrastructure</b>			
Less: carrying amount of infrastructure assets sold/written off		(2,486)	(2,569)
<b>Net gain/(loss) on disposal</b>		<b>(2,486)</b>	<b>(2,569)</b>
<b>Real estate assets held for sale</b>			
Proceeds from disposal – real estate assets		94	692
Less: carrying amount of real estate assets sold/written off		(98)	(640)
<b>Net gain/(loss) on disposal</b>		<b>(4)</b>	<b>52</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(2,415)</b>	<b>(2,528)</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
<b>Cash and cash equivalents (Note 6a)</b>					
Cash on hand and at bank		224	–	390	–
Cash-equivalent assets <sup>1</sup>					
– Deposits at call		1,245	–	350	–
– Short-term deposits		7,100	–	7,250	–
<b>Total cash and cash equivalents</b>		<b>8,569</b>	<b>–</b>	<b>7,990</b>	<b>–</b>
<b>Investments (Note 6b)</b>					
– Floating rate deposits (with maturities > 3 months)		5,000	–	5,000	–
<b>Total investments</b>		<b>5,000</b>	<b>–</b>	<b>5,000</b>	<b>–</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>		<b>13,569</b>	<b>–</b>	<b>12,990</b>	<b>–</b>

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

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

**Cash and cash equivalents**

a. Cash and cash equivalents		<b>8,569</b>	<b>–</b>	<b>7,990</b>	<b>–</b>
------------------------------	--	--------------	----------	--------------	----------

**Investments**

b. 'Held to maturity' Investments	6(b-ii)	5,000	–	5,000	–
		<b>5,000</b>	<b>–</b>	<b>5,000</b>	<b>–</b>

**Note 6(b-i)**

**Reconciliation of investments classified as 'held to maturity'**

Balance at the beginning of the year		5,000	–	3,500	–
Additions		–	–	1,500	–
<b>Balance at end of year</b>		<b>5,000</b>	<b>–</b>	<b>5,000</b>	<b>–</b>

**Comprising:**

– Floating rate deposits (with maturities > 3 months)		5,000	–	5,000	–
<b>Total</b>		<b>5,000</b>	<b>–</b>	<b>5,000</b>	<b>–</b>

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

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	2016	2016	2015	2015
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	13,569	–	12,990	–
<b>attributable to:</b>				
External restrictions (refer below)	6,063	–	5,327	–
Internal restrictions (refer below)	7,466	–	7,624	–
Unrestricted	40	–	39	–
	<b>13,569</b>	<b>–</b>	<b>12,990</b>	<b>–</b>

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

## Details of restrictions

**External restrictions – included in liabilities**

Specific purpose unexpended loans – general (A)	–	1,000	(455)	545
<b>External restrictions – included in liabilities</b>	<b>–</b>	<b>1,000</b>	<b>(455)</b>	<b>545</b>

**External restrictions – other**

Developer contributions – general (D)	4,212	395	(346)	4,261
Specific purpose unexpended grants (F)	200	295	(73)	422
Domestic waste management (G)	527	38	–	565
Aged care residential loans (G)	95	–	(95)	–
Bike path (G)	8	–	–	8
Deposits and retentions (G)	181	16	(39)	158
Kerb and gutter (G)	10	–	–	10
Pavement (G)	54	–	–	54
Rail services Australia (G)	39	–	–	39
RLCIP infrastructure funding (G)	1	–	–	1
<b>External restrictions – other</b>	<b>5,327</b>	<b>744</b>	<b>(553)</b>	<b>5,518</b>
<b>Total external restrictions</b>	<b>5,327</b>	<b>1,744</b>	<b>(1,008)</b>	<b>6,063</b>

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

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

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

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

## Dungog Shire Council

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

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

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
<b>Internal restrictions</b>				
Plant and vehicle replacement	1,581	1,167	(2,084)	664
Employees leave entitlement	891	75	–	966
Buildings and grounds	320	129	–	449
Discontinued funds transfer	772	–	(23)	749
Financial assistance grant	351	1,454	(794)	1,011
Insurance equalisation	277	–	–	277
Other waste management	372	79	–	451
RB unexpended	912	242	(177)	977
Settlement for the aged	140	–	(20)	120
Shire properties	250	52	–	302
Special projects	1,633	519	(769)	1,383
Town funds	120	–	(8)	112
Other	5	–	–	5
<b>Total internal restrictions</b>	<b>7,624</b>	<b>3,717</b>	<b>(3,875)</b>	<b>7,466</b>
<b>TOTAL RESTRICTIONS</b>	<b>12,951</b>	<b>5,461</b>	<b>(4,883)</b>	<b>13,529</b>

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>Purpose</b>					
Rates and annual charges		244	–	278	–
User charges and fees		8	–	8	–
Private works		12	–	27	–
Accrued revenues					
– Other income accruals		49	–	43	–
Deferred debtors		2	63	2	66
Government grants and subsidies		350	–	376	–
Kerb and guttering		44	–	8	–
Rates legal costs recovery		14	–	18	–
RMS (formerly RTA)		1,007	–	2,243	–
Statewide Mutual - Insurance Claim		245	–	–	–
Department of Justice - NDRRA		–	–	–	–
Other debtors		122	–	131	–
<b>Total</b>		<b>2,097</b>	<b>63</b>	<b>3,134</b>	<b>66</b>
<b>Less: provision for impairment</b>					
Nil					
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>2,097</u></b>	<b><u>63</u></b>	<b><u>3,134</u></b>	<b><u>66</u></b>

There are no restrictions applicable to the above assets.

#### Notes on debtors above:

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



## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>(a) Inventories</b>					
<b>(i) Inventories at cost</b>					
Real estate for resale (refer below)		153	26	248	26
Stores and materials		826	–	825	–
<b>Total inventories at cost</b>		<b>979</b>	<b>26</b>	<b>1,073</b>	<b>26</b>
<b>(ii) Inventories at net realisable value (NRV)</b>					
Nil					
<b>TOTAL INVENTORIES</b>		<b>979</b>	<b>26</b>	<b>1,073</b>	<b>26</b>
<b>(b) Other assets</b>					
Prepayments		22	–	26	–
<b>TOTAL OTHER ASSETS</b>		<b>22</b>	<b>–</b>	<b>26</b>	<b>–</b>
<b>Externally restricted assets</b>					
There are no restrictions applicable to the above assets.					
<b>(i) Other disclosures</b>					
<b>(a) Details for real estate development</b>					
Residential		153	26	248	–
Industrial/commercial		–	–	–	26
<b>Total real estate for resale</b>		<b>153</b>	<b>26</b>	<b>248</b>	<b>26</b>
(Valued at the lower of cost and net realisable value)					
<b>Represented by:</b>					
Acquisition costs		153	26	–	26
Development costs		–	–	248	–
<b>Total costs</b>		<b>153</b>	<b>26</b>	<b>248</b>	<b>26</b>
<b>Total real estate for resale</b>		<b>153</b>	<b>26</b>	<b>248</b>	<b>26</b>
<b>Movements:</b>					
Real estate assets at beginning of the year		248	26	866	26
– Purchases and other costs		3	–	22	–
– WDV of sales (expense)	5	(98)	–	(640)	–
<b>Total real estate for resale</b>		<b>153</b>	<b>26</b>	<b>248</b>	<b>26</b>
<b>(b) Inventory write downs</b>					
There were no amounts recognised as an expense relating to the write down of inventory balances held during the year.					

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

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	as at 30/6/2015					Asset movements during the reporting period							as at 30/6/2016					
	At	At	Accumulated		Carrying	Additions renewals	Additions new assets	Reinstatement costs for impaired assets	Carrying value of disposals	Depreciation expense	WIP transfers	Revaluation decrements to equity (ARR)	At	At	Accumulated		Carrying	
	cost	fair value	depreciation	impairment	value								cost	fair value	depreciation	impairment	value	
Capital work in progress	3,242	–	–	–	3,242	425	–	–	–	–	(3,242)	–	425	–	–	–	–	425
Plant and equipment	–	8,472	5,103	–	3,369	1,221	–	–	(311)	(482)	–	–	–	9,060	5,263	–	–	3,797
Office equipment	–	625	609	–	16	–	–	–	–	(3)	–	–	–	625	612	–	–	13
Furniture and fittings	–	183	154	–	29	–	–	–	–	(23)	–	–	–	250	244	–	–	6
<b>Land:</b>																		
– Operational land	–	6,349	–	–	6,349	14	–	–	–	–	–	–	–	6,363	–	–	–	6,363
– Community land	–	4,510	–	–	4,510	–	–	–	–	–	–	(750)	–	3,760	–	–	–	3,760
<b>Infrastructure:</b>																		
– Buildings – specialised	–	29,512	22,193	340	6,979	38	148	972	–	(469)	–	–	–	30,111	22,330	113	–	7,668
– Other structures	–	1,316	585	–	731	102	–	–	–	(81)	–	–	–	1,407	655	–	–	752
– Roads	–	206,759	73,224	–	133,535	5,250	311	–	(2,174)	(3,312)	3,242	–	–	211,293	74,441	–	–	136,852
– Bridges	–	52,380	31,633	–	20,747	2,143	–	–	(9)	(669)	–	–	–	54,454	32,242	–	–	22,212
– Footpaths	–	1,242	203	–	1,039	–	–	–	–	(14)	–	–	–	1,242	217	–	–	1,025
– Bulk earthworks (non-depreciable)	–	88,864	–	–	88,864	480	722	–	(304)	–	–	–	–	89,762	–	–	–	89,762
– Stormwater drainage	–	32,779	9,560	–	23,219	649	–	–	–	(432)	–	–	–	33,428	9,992	–	–	23,436
– Swimming pools	–	1,719	1,138	–	581	–	–	–	–	(73)	–	–	–	1,719	1,211	–	–	508
– Other open space/recreational assets	–	4,699	2,383	–	2,316	261	–	–	–	(309)	–	–	–	4,938	2,670	–	–	2,268
<b>Other assets:</b>																		
– Library books	–	683	546	–	137	37	–	–	–	(36)	–	–	–	719	581	–	–	138
<b>Reinstatement, rehabilitation and restoration assets</b> (refer Note 26):																		
– Tip and quarry assets	–	2,381	557	–	1,824	–	–	–	–	(137)	–	–	–	2,381	694	–	–	1,687
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.</b>	<b>3,242</b>	<b>442,473</b>	<b>147,888</b>	<b>340</b>	<b>297,487</b>	<b>10,620</b>	<b>1,181</b>	<b>972</b>	<b>(2,798)</b>	<b>(6,040)</b>	<b>–</b>	<b>(750)</b>	<b>425</b>	<b>451,512</b>	<b>151,152</b>	<b>113</b>	<b>–</b>	<b>300,672</b>

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

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

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Actual 2016				Actual 2015			
	At cost	At fair value	A/Dep & impairm't	Carrying value	At cost	At fair value	A/Dep & impairm't	Carrying value
<b>Domestic waste management</b>								
Plant and equipment	–	163	58	<b>105</b>	–	163	12	<b>151</b>
Buildings	–	135	24	<b>111</b>	–	46	24	<b>22</b>
Other structures	–	2	2	–	–	2	1	<b>1</b>
Other assets	–	68	48	<b>20</b>	–	104	68	<b>36</b>
<b>Total DWM</b>	<b>–</b>	<b>368</b>	<b>132</b>	<b>236</b>	<b>–</b>	<b>315</b>	<b>105</b>	<b>210</b>
<b>Other restricted assets</b>								
– Stormwater drainage	–	33,427	9,992	<b>23,435</b>	–	32,779	9,560	<b>23,219</b>
<b>Total other restrictions</b>	<b>–</b>	<b>33,427</b>	<b>9,992</b>	<b>23,435</b>	<b>–</b>	<b>32,779</b>	<b>9,560</b>	<b>23,219</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>–</b>	<b>33,795</b>	<b>10,124</b>	<b>23,671</b>	<b>–</b>	<b>33,094</b>	<b>9,665</b>	<b>23,429</b>

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

\$ '000	Notes	Actual 2016	Actual 2015
(i) Impairment losses recognised in the Income Statement:			
– Impairment of Alison Court aged units		–	(110)
<b>Total impairment losses</b>		<b>–</b>	<b>(110)</b>
<b>IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L</b>	4(d)	<b>–</b>	<b>(110)</b>
(ii) Impairment losses recognised direct to equity (ARR):			
– Impairment of Alison Court aged units		–	(230)
<b>Total impairment losses</b>		<b>–</b>	<b>(230)</b>
(iii) Reversals of impairment losses previously recognised direct to equity (ARR):			
– Reversal of Cross Keys bridge impairment		–	60
<b>Total impairment reversals</b>		<b>–</b>	<b>60</b>
<b>IMPAIRMENT OF ASSETS – DIRECT to EQUITY (ARR)</b>	20 (ii)	<b>–</b>	<b>(170)</b>

Refer to Note 9(a) for Impairment Restoration Works totalling \$972K undertaken this year relating to current year or prior year Impairments.

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>Payables</b>					
Goods and services – operating expenditure		1,283	–	1,405	–
Payments received in advance		28	–	65	–
Accrued expenses:					
– Other expenditure accruals		4	–	6	–
Alison Court – aged care advances		–	–	–	95
Security bonds, deposits and retentions		158	–	181	–
<b>Total payables</b>		<b>1,473</b>	<b>–</b>	<b>1,657</b>	<b>95</b>
<b>Borrowings</b>					
Loans – secured <sup>1</sup>		142	1,393	153	546
Government advances		2	5	2	7
<b>Total borrowings</b>		<b>144</b>	<b>1,398</b>	<b>155</b>	<b>553</b>
<b>Provisions</b>					
<b>Employee benefits:</b>					
Annual leave		590	–	542	–
Sick leave		8	–	8	–
Long service leave		1,509	94	1,352	98
<b>Sub-total – aggregate employee benefits</b>		<b>2,107</b>	<b>94</b>	<b>1,902</b>	<b>98</b>
Asset remediation/restoration (future works)	26	–	2,716	–	2,414
Provision for impairment – Aged units		113	–	340	–
<b>Total provisions</b>		<b>2,220</b>	<b>2,810</b>	<b>2,242</b>	<b>2,512</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>3,837</b>	<b>4,208</b>	<b>4,054</b>	<b>3,160</b>

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

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

<sup>1</sup> Loans are secured over the general rating income of Council

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

##### (ii) Current liabilities not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	1,885	1,559
	<u>1,885</u>	<u>1,559</u>

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

Class of provision	2015		2016			
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	Closing balance as at 30/6/16
Annual leave	542	348	(300)	–	–	590
Sick leave	8	–	–	–	–	8
Long service leave	1,450	211	(58)	–	–	1,603
Asset remediation	2,414	302	–	–	–	2,716
Other	340	(227)	–	–	–	113
<b>TOTAL</b>	<b>4,754</b>	<b>634</b>	<b>(358)</b>	<b>–</b>	<b>–</b>	<b>5,030</b>

- a. Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- b. Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6a	8,569	7,990
Less bank overdraft	10	–	–
<b>Balance as per the Statement of Cash Flows</b>		<b>8,569</b>	<b>7,990</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		<b>2,559</b>	<b>3,536</b>
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		6,040	6,470
Net losses/(gains) on disposal of assets		2,415	2,528
Impairment losses recognition – I,PP&E		–	110
Unwinding of discount rates on reinstatement provisions		98	82
Share of net (profits) or losses of associates/joint ventures		(15)	(11)
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		1,037	(599)
Decrease/(increase) in inventories		(1)	(435)
Decrease/(increase) in other assets		4	(10)
Increase/(decrease) in payables		(122)	640
Increase/(decrease) in other accrued expenses payable		(2)	(5)
Increase/(decrease) in other liabilities		(155)	22
Increase/(decrease) in employee leave entitlements		201	176
Increase/(decrease) in other provisions		(23)	421
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>12,036</b>	<b>12,925</b>
<b>(c) Non-cash investing and financing activities</b>			
Nil			
<b>(d) Financing arrangements</b>			
<b>(i) Unrestricted access was available at balance date to the following lines of credit:</b>			
Bank overdraft facilities <sup>(1)</sup>		300	300
Credit cards/purchase cards		25	25
<b>Total financing arrangements</b>		<b>325</b>	<b>325</b>
<b>Amounts utilised as at balance date:</b>			
– Credit cards/purchase cards		1	–
<b>Total financing arrangements utilised</b>		<b>1</b>	<b>–</b>

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice. Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

**(ii) Secured loan liabilities**

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Capital commitments (exclusive of GST)</b>			
Nil			
<b>(b) Finance lease commitments</b>			
Nil			
<b>(c) Operating lease commitments (non-cancellable)</b>			
<b>a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:</b>			
Within the next year		41	16
Later than one year and not later than 5 years		10	10
Later than 5 years		–	–
<b>Total non-cancellable operating lease commitments</b>		<b>51</b>	<b>26</b>

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

Computer and other plant/equipment

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

**Conditions relating to operating leases:**

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

**(d) Investment property commitments**

Nil

**(e) Investment in joint operations – commitments**

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

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
<b>Local government industry indicators – consolidated</b>				
<b>1. Operating performance ratio</b>				
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses	<u>(1,543)</u>	<b>-10.07%</b>	-28.79%	-10.23%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	<u>15,316</u>			
<b>2. Own source operating revenue ratio</b>				
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	<u>8,852</u>	<b>40.57%</b>	36.00%	55.74%
Total continuing operating revenue <sup>(1)</sup>	<u>21,818</u>			
<b>3. Unrestricted current ratio</b>				
Current assets less all external restrictions <sup>(2)</sup>	<u>10,604</u>	<b>5.43x</b>	4.77x	5.87x
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	<u>1,952</u>			
<b>4. Debt service cover ratio</b>				
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	<u>4,649</u>	<b>14.62x</b>	9.19x	3.37x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>318</u>			
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>				
Rates, annual and extra charges outstanding	<u>244</u>	<b>3.57%</b>	4.24%	5.03%
Rates, annual and extra charges collectible	<u>6,829</u>			
<b>6. Cash expense cover ratio</b>				
Current year's cash and cash equivalents plus all term deposits	<u>8,569</u>	<b>9.38 mths</b>	9.9 mths	7.6 mths
Payments from cash flow of operating and financing activities	<u>913</u>			

## Notes

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

(2) Refer Notes 6-8 inclusive.

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

(3) Refer to Note 10(a).

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



# Dungog Shire Council

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

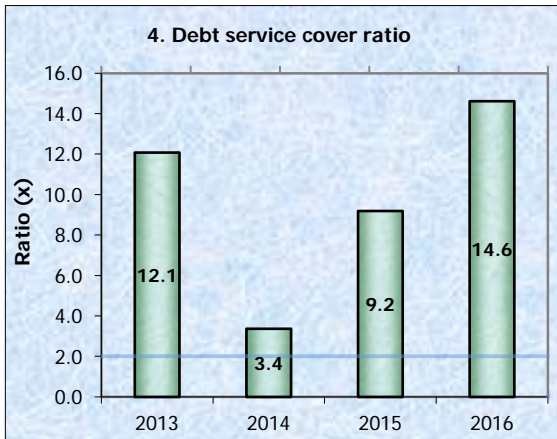
### Note 13a(ii). Local government industry indicators – graphs (consolidated)

<p><b>1. Operating performance ratio</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>4%</td> </tr> <tr> <td>2014</td> <td>-10%</td> </tr> <tr> <td>2015</td> <td>-29%</td> </tr> <tr> <td>2016</td> <td>-10%</td> </tr> </tbody> </table> <p>Benchmark: — Minimum <math>\geq 0.00\%</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	Year	Ratio %	2013	4%	2014	-10%	2015	-29%	2016	-10%	<p><b>Purpose of operating performance ratio</b></p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio -10.07%</b></p> <p>Council had considerable write off of Assets and Infrastructure due to the Natural Disaster of April 2015, as work continued on the restoration of assets impacted.</p>
Year	Ratio %											
2013	4%											
2014	-10%											
2015	-29%											
2016	-10%											
<p><b>2. Own source operating revenue ratio</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>50%</td> </tr> <tr> <td>2014</td> <td>56%</td> </tr> <tr> <td>2015</td> <td>36%</td> </tr> <tr> <td>2016</td> <td>41%</td> </tr> </tbody> </table> <p>Benchmark: — Minimum <math>\geq 60.00\%</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	Year	Ratio %	2013	50%	2014	56%	2015	36%	2016	41%	<p><b>Purpose of own source operating revenue ratio</b></p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 40.57%</b></p> <p>Results continue to be impacted by the Natural Disaster Funding together with the finalisation of MR301 grant funding, which was a one off grant.</p>
Year	Ratio %											
2013	50%											
2014	56%											
2015	36%											
2016	41%											
<p><b>3. Unrestricted current ratio</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>5.1</td> </tr> <tr> <td>2014</td> <td>5.9</td> </tr> <tr> <td>2015</td> <td>4.8</td> </tr> <tr> <td>2016</td> <td>5.4</td> </tr> </tbody> </table> <p>Benchmark: — Minimum <math>\geq 1.50</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	Year	Ratio (x)	2013	5.1	2014	5.9	2015	4.8	2016	5.4	<p><b>Purpose of unrestricted current ratio</b></p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 5.43x</b></p> <p>Unrestricted ratio continues to highlight Council's ability to satisfactorily meet short term obligations as they fall due. Council's position remains solid.</p>
Year	Ratio (x)											
2013	5.1											
2014	5.9											
2015	4.8											
2016	5.4											

# Dungog Shire Council

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

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



**Purpose of debt service cover ratio**

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

**Commentary on 2015/16 result**

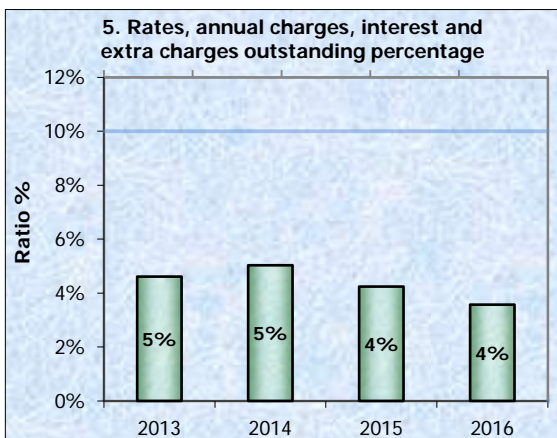
**2015/16 ratio 14.62x**

Council continues to hold sufficient funds to service existing debt levels.

Benchmark: ——— Minimum  $\geq 2.00$

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

Ratio achieves benchmark  
 Ratio is outside benchmark



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

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

**Commentary on 2015/16 result**

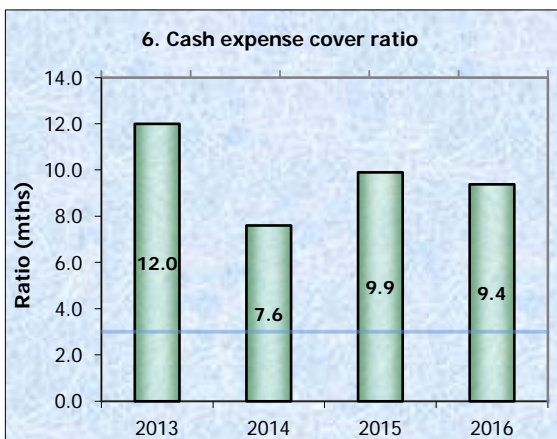
**2015/16 ratio 3.57%**

Rates and charges outstanding remains at 4% which is well below the benchmark of 10%. This is indicative of Council's strong and effective rates recovery efforts.

Benchmark: ——— Maximum  $< 10.00\%$

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

Ratio is within Benchmark  
 Ratio is outside Benchmark



**Purpose of cash expense cover ratio**

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

**Commentary on 2015/16 result**

**2015/16 ratio 9.38 mths**

Council is able to pay immediate expenses without additional cashflow for a period of 9 months.

Benchmark: ——— Minimum  $\geq 3.00$

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

Ratio achieves benchmark  
 Ratio is outside benchmark

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### 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 and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial assets</b>				
Cash and cash equivalents	8,569	7,990	8,569	7,990
Investments				
– 'Held to maturity'	5,000	5,000	5,000	5,000
Receivables	2,160	3,200	3,185	3,200
<b>Total financial assets</b>	<b>15,729</b>	<b>16,190</b>	<b>16,754</b>	<b>16,190</b>
<b>Financial liabilities</b>				
Payables	1,445	1,687	1,435	1,687
Loans/advances	1,542	708	1,542	708
<b>Total financial liabilities</b>	<b>2,987</b>	<b>2,395</b>	<b>2,977</b>	<b>2,395</b>

Fair value is determined as follows:

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

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

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

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

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

The risks associated with the investments held are:

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

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
<b>2016</b>				
Possible impact of a 1% movement in interest rates	130	130	(130)	(130)
<b>2015</b>				
Possible impact of a 1% movement in interest rates	140	140	(140)	(140)

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

##### (b) Credit risk

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

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

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

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

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

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

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

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

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

		2016	2016	2015	2015
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
<b>(i) Ageing of receivables – %</b>					
Current (not yet overdue)		0%	95%	0%	95%
Overdue		100%	5%	100%	5%
		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>(ii) Ageing of receivables – value</b>					
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	244	1,916	–	2,748
< 1 year overdue	0 – 30 days overdue	–	–	220	149
> 5 years overdue	> 90 days overdue	–	–	58	25
		<b>244</b>	<b>1,916</b>	<b>278</b>	<b>2,922</b>

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

##### (c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
<b>2016</b>									
Trade/other payables	158	1,305	–	–	–	–	–	1,463	1,445
Loans and advances	–	144	164	164	164	90	896	1,622	1,542
<b>Total financial liabilities</b>	<b>158</b>	<b>1,449</b>	<b>164</b>	<b>164</b>	<b>164</b>	<b>90</b>	<b>896</b>	<b>3,085</b>	<b>2,987</b>
<b>2015</b>									
Trade/other payables	181	1,506	–	–	–	–	–	1,687	1,687
Loans and advances	–	169	124	124	124	124	208	873	708
<b>Total financial liabilities</b>	<b>181</b>	<b>1,675</b>	<b>124</b>	<b>124</b>	<b>124</b>	<b>124</b>	<b>208</b>	<b>2,560</b>	<b>2,395</b>

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

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

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	1,445	0.00%	1,687	0.00%
Loans and advances – fixed interest rate	1,542	6.23%	708	6.60%
	<u>2,987</u>		<u>2,395</u>	

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 29 June 2015.

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

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

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

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

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

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----		
<b>REVENUES</b>					
Rates and annual charges	6,478	6,525	47	1%	<b>F</b>
User charges and fees	940	1,066	126	13%	<b>F</b>
Higher than budgeted Waste Management Income and Williams River Caravan Park Income					
Interest and investment revenue	327	433	106	32%	<b>F</b>
Higher than budgeted investment income due to timing of works resulting in funds invested for longer than expected.					
Other revenues	251	828	577	230%	<b>F</b>
Insurance Claim - Bennett Park Tennis Courts					
Operating grants and contributions	3,093	6,464	3,371	109%	<b>F</b>
Higher than budgeted due to Natural Disaster Funding from the April 2015 storm event.					
Capital grants and contributions	2,618	6,502	3,884	148%	<b>F</b>
Additional grant funding obtained through Roads to Recovery, carry over of MR301 funding due to timing of works and capital funding for Torryburn Bridge Replacement.					
Net gains from disposal of assets	56	-	(56)	(100%)	<b>U</b>
Higher than budgeted due to sale of additional vehicles.					
Joint ventures and associates - net profits	-	15	15	0%	<b>F</b>
Unbudgeted Joint Venture					

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----		
<b>EXPENSES</b>					
<b>Employee benefits and on-costs</b>	4,710	4,454	256	5%	<b>F</b>
<b>Borrowing costs</b>	112	152	(40)	(36%)	<b>U</b>
Higher than budgeted borrowing costs due to the unbudgeted inclusion of Clarence Town Quarry Remediation being recognised as borrowing cost unwound.					
<b>Materials and contracts</b>	5,243	4,678	565	11%	<b>F</b>
Lower than budgeted due to timing of operational works					
<b>Depreciation and amortisation</b>	7,105	6,040	1,065	15%	<b>F</b>
Lower than budgeted depreciation due to asset renewal and adjusted depreciation rate.					
<b>Other expenses</b>	1,643	1,535	108	7%	<b>F</b>
<b>Net losses from disposal of assets</b>	-	2,415	(2,415)	0%	<b>U</b>
Write off of assets resulting from renewal capital works undertaken.					
<b>Budget variations relating to Council's Cash Flow Statement include:</b>					
<b>Cash flows from operating activities</b>	1,815	12,036	10,221	563.1%	<b>F</b>
Higher than budgeted grant funding due to receipt of Natural Disaster Funding					
<b>Cash flows from investing activities</b>	(4,424)	(12,280)	(7,856)	177.6%	<b>U</b>
Higher than budgeted due to carry over of capital works.					
<b>Cash flows from financing activities</b>	759	823	64	8.4%	<b>F</b>



## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 17. Statement of developer contributions

\$ '000

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

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

## SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	983	–	–	6	(21)	–	968	–
Traffic facilities	32	–	–	–	–	–	32	–
Open space	1,606	312	–	72	(325)	–	1,665	–
Community facilities	1,105	–	–	3	–	–	1,108	–
Bushfire	296	–	–	2	–	–	298	–
Other	179	–	–	–	–	–	179	–
<b>S94 contributions – under a plan</b>	<b>4,201</b>	<b>312</b>	<b>–</b>	<b>83</b>	<b>(346)</b>	<b>–</b>	<b>4,250</b>	<b>–</b>
<b>Total S94 revenue under plans</b>	<b>4,201</b>	<b>312</b>	<b>–</b>	<b>83</b>	<b>(346)</b>	<b>–</b>	<b>4,250</b>	<b>–</b>
S94 not under plans	11	–	–	–	–	–	11	–
<b>Total contributions</b>	<b>4,212</b>	<b>312</b>	<b>–</b>	<b>83</b>	<b>(346)</b>	<b>–</b>	<b>4,261</b>	<b>–</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

## S94 CONTRIBUTIONS – UNDER A PLAN

## CONTRIBUTION PLAN NUMBER 2

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	32	–	–	–	(21)	–	11	–
Traffic facilities	7	–	–	–	–	–	7	–
Open space	17	–	–	–	–	–	17	–
Community facilities	30	–	–	1	–	–	31	–
Bushfire	21	–	–	1	–	–	22	–
<b>Total</b>	<b>107</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>(21)</b>	<b>–</b>	<b>88</b>	<b>–</b>

## CONTRIBUTION PLAN NUMBER 3

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	344	–	–	6	–	–	350	–
Open space	52	–	–	1	(25)	–	28	–
Community facilities	96	–	–	2	–	–	98	–
Bushfire	28	–	–	1	–	–	29	–
Other	2	–	–	–	–	–	2	–
<b>Total</b>	<b>522</b>	<b>–</b>	<b>–</b>	<b>10</b>	<b>(25)</b>	<b>–</b>	<b>507</b>	<b>–</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

## S94 CONTRIBUTIONS – UNDER A PLAN

## CONTRIBUTION PLAN NUMBER 4

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Sports fields	1,001	104	–	20	–	–	1,125	–
Parklands	54	4	–	1	–	–	59	–
Swimming pools	288	22	–	5	–	–	315	–
Indoor sports	297	23	–	6	–	–	326	–
Local community centre	105	8	–	2	–	–	115	–
District community centre	72	6	–	1	–	–	79	–
Youth venue	55	4	–	1	–	–	60	–
Arts and crafts centre	15	2	–	–	–	–	17	–
Aged facilities	51	4	–	1	–	–	56	–
Library	158	12	–	4	–	–	174	–
Pre school	190	16	–	4	–	–	210	–
Rural sub-arterial roads	191	11	–	4	–	–	206	–
Rural local roads	464	34	–	9	(300)	–	207	–
Traffic management	28	1	–	1	–	–	30	–
Bikeways facilities	59	6	–	1	–	–	66	–
Fire service	303	26	–	6	–	–	335	–
Section 94 administration	92	17	–	2	–	–	111	–
Unsealed roads and bridges	3	–	–	–	–	–	3	–
Other	146	12	–	3	–	–	161	–
<b>Total</b>	<b>3,572</b>	<b>312</b>	<b>–</b>	<b>71</b>	<b>(300)</b>	<b>–</b>	<b>3,655</b>	<b>–</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## 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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	2	-	-	-	-	-	2	-
Open space	9	-	-	-	-	-	9	-
<b>Total</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

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

#### LIABILITIES NOT RECOGNISED:

##### 1. Guarantees

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

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

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

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

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

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

###### (ii) Statewide Limited

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

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 year ended 30 June 2016

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

\$ '000

##### LIABILITIES NOT RECOGNISED (continued):

###### 1. Guarantees (continued)

###### (iv) Strategic Services Australia Limited (previously Hunter Councils Limited)

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.

continued on next page

## Dungog Shire Council

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

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

---

\$ '000

---

##### **ASSETS NOT RECOGNISED:**

##### **(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.

##### **(iv) Natural Disaster Relief and Recovery Arrangements claim**

The Council owned Alison Court Aged Accommodation complex sustained significant damage during the Natural Disaster Event of April 2015 to eighteen of the 20 units. Council has made application for funding through the Natural Disaster Relief and Recovery Arrangements, the outcome of which is currently unknown.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 19. Interests in other entities

\$ '000

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

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

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

##### Controlled entities (subsidiaries)

**Note 19(a)**

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

##### Joint ventures and associates

**Note 19(b)**

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

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

##### Joint operations

**Note 19(c)**

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

##### Unconsolidated structured entities

**Note 19(d)**

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

##### Subsidiaries, joint arrangements and associates not recognised

**Note 19(e)**

#### Accounting recognition:

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

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

	Council's share of net income		Council's share of net assets	
	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Joint ventures	15	11	63	60
Associates	—	—	—	—
<b>Total</b>	<b>15</b>	<b>11</b>	<b>63</b>	<b>60</b>



## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

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

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

##### (b) Joint ventures and associates

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

##### (a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2016	2015
Strategic Services Australia Limited (previously Hunter Councils Limited)	Joint venture		63	60
<b>Total carrying amounts – material joint ventures and associates</b>			<b>63</b>	<b>60</b>

##### (b) Details

Name of entity	Principal activity
Strategic Services Australia Limited (previously Hunter Councils Limited)	To improve quality and efficiency of local govt services in the Hunter

##### (c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2016	2015	2016	2015	2016	2015	2016	2015
Strategic Services Australia Limited (previously Hunter Councils Limited)	n/a	n/a	3%	3%	3%	3%	3%	8%

##### (d) Summarised financial information for joint ventures and associates

	Strategic Services Australia Limited (previously Hunter Councils Limited)	
Statement of financial position	2016	2015
<b>Current assets</b>		
Cash and cash equivalents	6	3
Other current assets	30	15
<b>Total current assets</b>	<b>36</b>	<b>18</b>
<b>Non-current assets</b>	<b>140</b>	<b>131</b>
<b>Current liabilities</b>		
Financial liabilities (excl. accounts payable)	55	29
Other current liabilities	48	11
<b>Total current liabilities</b>	<b>103</b>	<b>40</b>
<b>Non-current liabilities</b>	<b>10</b>	<b>49</b>
<b>Net assets</b>	<b>63</b>	<b>60</b>

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

#### (b) Joint ventures and associates

#### (d) Summarised financial information for joint ventures and associates cont'd

	<b>Strategic Services Australia Limited (previously Hunter Councils Limited)</b>	
	<b>2016</b>	<b>2015</b>
<b>Reconciliation of the carrying amount</b>		
Opening net assets (1 July)	59	39
Profit/(loss) for the period	15	11
Other adjustments to equity	(11)	9
<b>Closing net assets</b>	<b>63</b>	<b>59</b>
<b>Council's share of net assets (%)</b>	<b>2.8%</b>	<b>2.9%</b>
<b>Council's share of net assets (\$)</b>	<b>63</b>	<b>60</b>
<b>Statement of comprehensive income</b>		
Income	199	65
Interest income	18	3
Depreciation and amortisation	(36)	(4)
Income tax expense	(4)	(5)
Other expenses	(162)	(48)
<b>Profit/(loss) from continuing operations</b>	<b>15</b>	<b>11</b>
<b>Profit/(loss) for period</b>	<b>15</b>	<b>11</b>
<b>Total comprehensive income</b>	<b>15</b>	<b>11</b>
<b>Share of income – Council (%)</b>	<b>2.8%</b>	<b>2.8%</b>
<b>Profit/(loss) – Council (\$)</b>	<b>15</b>	<b>11</b>
<b>Total comprehensive income – Council (\$)</b>	<b>15</b>	<b>11</b>

#### (c) Joint operations

Council has no interest in any joint operations.

#### (d) Unconsolidated structured entities

Council has no unconsolidated structured entities

#### (e) Subsidiaries, joint arrangements and associates not recognised

The following subsidiaries, joint arrangements and associates have not been recognised in this financial report.

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Retained earnings</b>			
<b>Movements in retained earnings were as follows:</b>			
Balance at beginning of year (from previous years audited accounts)		125,959	122,440
a. Net operating result for the year		2,544	3,519
Balance at end of the reporting period		<u>128,503</u>	<u>125,959</u>
<b>(b) Revaluation reserves</b>			
<b>(i) Reserves are represented by:</b>			
– Infrastructure, property, plant and equipment revaluation reserve		180,880	181,630
<b>Total</b>		<u>180,880</u>	<u>181,630</u>
<b>(ii) Reconciliation of movements in reserves:</b>			
<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– Opening balance		181,630	181,800
– Revaluations for the year	9(a)	(750)	–
– (Impairment of revalued assets)/impairment reversals	9(a),(c)	–	(170)
– <b>Balance at end of year</b>		<u>180,880</u>	<u>181,630</u>
<b>TOTAL VALUE OF RESERVES</b>		<u>180,880</u>	<u>181,630</u>

**(iii) Nature and purpose of reserves****Infrastructure, property, plant and equipment revaluation reserve**

– The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrements of non-current asset values due to their revaluation.

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

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

**(d) Voluntary changes in accounting policies**

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

**(e) Changes in accounting estimates**

Council made no changes in accounting estimates during the year.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 21. Financial result and financial position by fund

---

\$ '000

---

Council utilises only a general fund for its operations.

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

---

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 (30 June 2016) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

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

Accordingly, the 'authorised for issue' date is 21/10/16.

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

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

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

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

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

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

#### Note 24. Discontinued operations

---

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

#### Note 25. Intangible assets

---

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

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

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

Asset/operation	Estimated year of restoration	NPV of provision	
		2016	2015
Tips – Dungog shire	2031	1,176	1,154
Quarries – Dungog shire	various	1,540	1,260
<b>Balance at end of the reporting period</b>	10(a)	<b>2,716</b>	<b>2,414</b>

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

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

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

#### Reconciliation of movement in provision for year:

Balance at beginning of year	2,414	2,191
Amounts capitalised to new or existing assets:		
– Clarence town quarry	204	141
Amortisation of discount (expensed to borrowing costs)	98	82
<b>Total – reinstatement, rehabilitation and restoration provision</b>	<b>2,716</b>	<b>2,414</b>

#### Amount of expected reimbursements

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

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 27. Fair value measurement

\$ '000

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

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

2016	Fair value measurement hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements</b>				
<b>Infrastructure, property, plant and equipment</b>				
Plant and equipment	–	–	3,797	3,797
Office equipment	–	–	13	13
Furniture and fittings	–	–	6	6
Operational land	–	–	6,363	6,363
Community land	–	–	3,760	3,760
Buildings	–	–	7,668	7,668
Other structures	–	–	3,528	3,528
Roads	–	–	136,852	136,852
Bridges	–	–	22,212	22,212
Footpaths	–	–	1,025	1,025
Bulk earthworks	–	–	89,762	89,762
Stormwater drainage	–	–	23,436	23,436
Other assets	–	–	138	138
Restoration assets	–	–	1,687	1,687
<b>Total infrastructure, property, plant and equipment</b>	<b>–</b>	<b>–</b>	<b>300,247</b>	<b>300,247</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 27. Fair value measurement (continued)

\$ '000

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

2015	Fair value measurement hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements</b>				
<b>Infrastructure, property, plant and equipment</b>				
Plant and equipment	—	—	3,369	3,369
Office equipment	—	—	16	16
Furniture and fittings	—	—	29	29
Operational land	—	—	6,349	6,349
Community land	—	—	4,510	4,510
Buildings	—	—	6,979	6,979
Other structures	—	—	3,628	3,628
Roads	—	—	133,535	133,535
Bridges	—	—	20,747	20,747
Footpaths	—	—	1,039	1,039
Bulk earthworks	—	—	88,864	88,864
Stormwater drainage	—	—	23,219	23,219
Other assets	—	—	137	137
Restoration assets	—	—	1,824	1,824
<b>Total infrastructure, property, plant and equipment</b>	<b>—</b>	<b>—</b>	<b>294,245</b>	<b>294,245</b>

## (2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

## Dungog Shire Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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

###### 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 2015 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

#### 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 year ended 30 June 2016

## Note 27. Fair value measurement (continued)

\$ '000

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

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

	Plant and equipment	Office equipment	Furniture and fittings	Operational land	Total
<b>Opening balance – 1/7/14</b>	3,839	20	35	6,349	10,243
Purchases (GBV)	378	2	18	–	398
Disposals (WDV)	(227)	–	(20)	–	(247)
Depreciation and impairment	(621)	(6)	(4)	–	(631)
<b>Closing balance – 30/6/15</b>	<b>3,369</b>	<b>16</b>	<b>29</b>	<b>6,349</b>	<b>9,763</b>
Purchases (GBV)	1,221	–	–	14	1,235
Disposals (WDV)	(311)	–	–	–	(311)
Depreciation and impairment	(482)	(3)	(23)	–	(508)
<b>Closing balance – 30/6/16</b>	<b>3,797</b>	<b>13</b>	<b>6</b>	<b>6,363</b>	<b>10,179</b>

	Community land	Buildings specialised	Other structures	Roads	Total
<b>Opening balance – 1/7/14</b>	4,510	7,656	4,130	131,437	147,733
Purchases (GBV)	–	144	120	7,609	7,873
Disposals (WDV)	–	(15)	(124)	(1,897)	(2,036)
Depreciation and impairment	–	(806)	(498)	(3,614)	(4,918)
<b>Closing balance – 30/6/15</b>	<b>4,510</b>	<b>6,979</b>	<b>3,628</b>	<b>133,535</b>	<b>148,652</b>
Purchases (GBV)	–	1,158	363	8,803	10,324
Disposals (WDV)	–	–	–	(2,174)	(2,174)
Depreciation and impairment	–	(469)	(463)	(3,312)	(4,244)
Revaluation	(750)	–	–	–	(750)
<b>Closing balance – 30/6/16</b>	<b>3,760</b>	<b>7,668</b>	<b>3,528</b>	<b>136,852</b>	<b>151,808</b>

## Dungog Shire Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 27. Fair value measurement (continued)

\$ '000

**(4). Fair value measurements using significant unobservable inputs (level 3)** (continued)**a. The following tables present the changes in level 3 fair value asset classes.** (continued)

	Bridges	Bulk earthworks	Footpaths	Stormwater drainage	Total
<b>Opening balance – 1/7/14</b>	21,798	87,307	1,053	23,582	133,740
Purchases (GBV)	134	1,557	–	69	1,760
Disposals (WDV)	(514)	–	–	–	(514)
Depreciation and impairment	(671)	–	(14)	(432)	(1,117)
<b>Closing balance – 30/6/15</b>	<b>20,747</b>	<b>88,864</b>	<b>1,039</b>	<b>23,219</b>	<b>133,869</b>
Purchases (GBV)	2,143	1,202	–	649	3,994
Disposals (WDV)	(9)	(304)	–	–	(313)
Depreciation and impairment	(669)	–	(14)	(432)	(1,115)
<b>Closing balance – 30/6/16</b>	<b>22,212</b>	<b>89,762</b>	<b>1,025</b>	<b>23,436</b>	<b>136,435</b>

	Other assets	Restoration assets	Total
<b>Opening balance – 1/7/14</b>	131	1,791	1,922
Purchases (GBV)	42	141	183
Depreciation and impairment	(36)	(108)	(144)
<b>Closing balance – 30/6/15</b>	<b>137</b>	<b>1,824</b>	<b>1,961</b>
Purchases (GBV)	37	–	37
Depreciation and impairment	(36)	(137)	(173)
<b>Closing balance – 30/6/16</b>	<b>138</b>	<b>1,687</b>	<b>1,825</b>

## **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 30<sup>th</sup> June 2016.

### ***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.

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 30<sup>th</sup> June 2016 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

21<sup>st</sup> October 2016

92 Rusden Street Armidale

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

21 October 2016

The Mayor  
Dungog Shire Council  
PO Box 95  
DUNGOG NSW 2420

**Armidale**

92 Rusden Street  
PO Box 114  
Armidale NSW 2350

*p* +61 2 6773 8400

*f* +61 2 6772 9957

*e* [armidale@forsyths.com.au](mailto:armidale@forsyths.com.au)

Forsyths Business Services Pty Ltd  
ABN 66 182 781 401

Dear Sir,

**AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

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 2016 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.



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 2016 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.

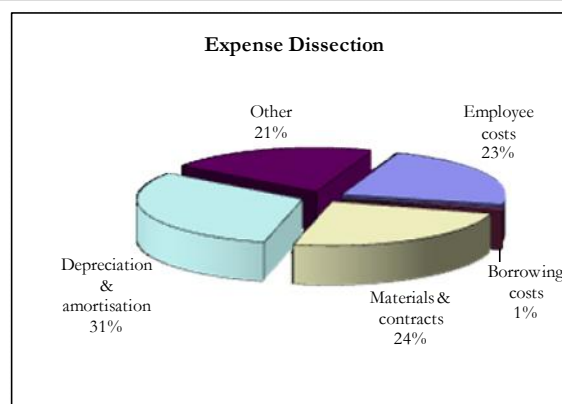
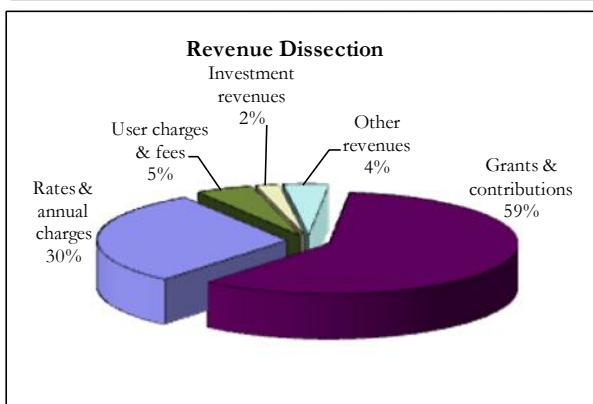


**Additional Reporting Requirements**

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 30<sup>th</sup> June 2016 discloses the following result:

INCOME STATEMENT	Budget	Actual	Actual	Variance	
	2016	2016	2015	Actual	Budget
	\$'000	\$'000	\$'000	%	%
<b>INCOME FROM CONTINUING OPERATIONS</b>					
Rates & annual charges	6,478	6,525	6,217	5.0%	0.7%
User charges & fees	940	1,066	954	11.7%	13.4%
Investment revenues	327	433	465	-6.9%	32.4%
Other revenues from ordinary activities	251	828	638	29.8%	229.9%
Grants & contributions for operating purposes	3,093	6,464	4,870	32.7%	109.0%
Grants & contributions for capital purposes	2,618	6,502	9,837	-33.9%	148.4%
Gain from interests in joint ventures & associates	56	15	11	36.4%	0.0%
<b>Total income from continuing operations</b>	<b>13,763</b>	<b>21,833</b>	<b>22,992</b>	<b>-5.0%</b>	<b>58.6%</b>
<b>EXPENSES FROM CONTINUING OPERATIONS</b>					
Employee benefits & oncosts	4,710	4,454	4,034	10.4%	-5.4%
Borrowing costs	112	152	136	11.8%	35.7%
Materials and contracts	5,243	4,678	4,734	-1.2%	-10.8%
Depreciation, amortisation and impairment	7,105	6,040	6,580	6.3%	-15.0%
Other expenses from ordinary activities	1,643	1,535	1,444	-8.2%	-6.6%
Loss from disposal of assets	0	2,415	2,528	-4.5%	100.0%
<b>Total expenses from continuing operations</b>	<b>18,813</b>	<b>19,274</b>	<b>19,456</b>	<b>-0.9%</b>	<b>2.5%</b>
<b>OPERATING RESULT FROM CONTINUING OPERATIONS</b>	<b>(5,050)</b>	<b>2,559</b>	<b>3,536</b>	<b>-27.6%</b>	<b>-150.7%</b>
<b>NET OPERATING RESULT BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>(7,668)</b>	<b>(3,943)</b>	<b>(6,301)</b>	<b>-100.0%</b>	<b>-48.6%</b>



Council has reported a surplus from continuing activities of \$2.6m for 2016 compared with a surplus of \$3.5m in 2015. This result includes grants for capital purposes of \$6.5m. The expenditure of these grants is not recorded in this statement but in the Statement of Financial Position. Excluding the capital grants and contributions, Council recorded a loss of \$3.9m (2015: loss \$6.3m).



Revenues from continuing activities decreased by \$1.2m or 5% compared to 2015 due mainly to decrease in grants & contributions for capital purposes of \$3.3m which was partially offset by an increase in grants & contributions for operating purposes of \$1.6m, rates and annual charges of \$0.3m and user charges and fees of \$0.1m.

Grants & contributions for capital purposes decreased due to lower RMS contributions in relation to the upgrade of Clarence Town road and the significant contributions for major flood damage experienced in the prior year, especially the emergency access roads built to temporarily replace bridges destroyed by the flood event. This was partially offset by an increase in other transport grants (not related to RMS) for completion of flood damaged roads and bridges along with higher black spot grants.

Grants for operating purposes increased due to Roads to Recovery funding and road maintenance grants. Rates and annual charges increased due to rate pegging allowances. Finally, user charges and fees increased due to increased waste management facility fees.

Expenditure from continuing activities has decreased by \$0.2m or 0.9% compared to 2015 as a result of higher employee benefit costs partially offset by lower depreciation, amortisation and impairment. Employee benefit costs increased due to award pay increases and an increase in staff numbers. Depreciation, amortisation and impairment decreased as the 2015 figures included an impairment of buildings as a result of flood damage and lower depreciation charges on plant and equipment as well as roads.

#### *Comparison of actual to budget performance*

The budget amounts shown in the Income Statement 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 \$2.6m compares with the original budget deficit of \$5.0m.

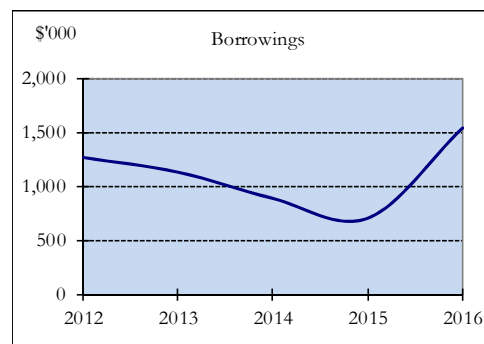
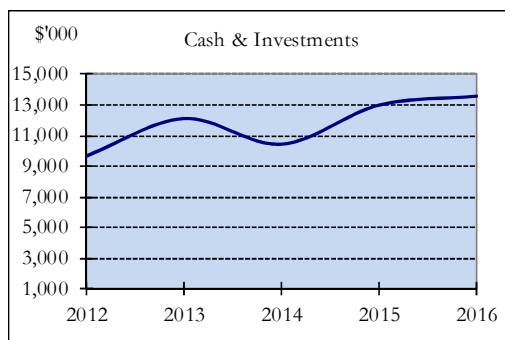
The \$7.6m variation between the actual results and the original budget was principally due to the following:

- Other revenues (favourable to budget \$0.6m) – Council received insurance proceeds on the Bennett Park tennis courts along with higher than budgeted revenues from various sources.
- Capital Grants and contributions income (favourable to budget \$3.9m) – There were delays in completion of works in the 2015 year for the Regional Roads project (mainly Clarence Town Road) leading to deferral in grant funding to the 2016 year as well as grants for the Torryburn bridge replacement (flood damaged) not included in the original budget.
- Operating grants and contributions income (favourable to budget \$3.4m) - Due to additional grants in relation to the major flood damage that occurred in the prior year and additional roads to recovery funding.
- Materials and contracts (favourable to budget \$0.6m) – Actual expenditure was lower than budget due to deferral of maintenance works as a result of the need to complete renewal works arising from flood damaged or deferred capital projects.
- Depreciation and amortisation (favourable to budget \$1.1m) – The original budget anticipated a higher level of depreciation on assets in the 2016 year however following the revaluation of roads, bridges and footpaths in the 2014 year depreciation was lower than budgeted.
- Net loss from disposal of assets (unfavourable to budget \$2.4m) – The budget did not contemplate the write off of assets replaced as part of the Clarence Town road renewal or the impact of the major flood event that occurred in 2015.



The following schedule of assets and liabilities has been extracted from the Statement of Financial Position as at 30<sup>th</sup> June 2016. This schedule discloses the consolidated assets and liabilities of all functions.

<b>SCHEDULE OF ASSETS &amp; LIABILITIES</b>	<b>2016</b>	<b>2015</b>	<b>Variance</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8,569	7,990	7.2%
Investments	5,000	5,000	0.0%
Receivables	2,097	3,134	-33.1%
Inventories	979	1,073	-8.8%
Other	22	26	-15.4%
<b>TOTAL CURRENT ASSETS</b>	<b>16,667</b>	<b>17,223</b>	<b>-3.2%</b>
<b>CURRENT LIABILITIES</b>			
Payables	1,473	1,657	-11.1%
Borrowings	144	155	-7.1%
Provisions	2,220	2,242	-1.0%
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,837</b>	<b>4,054</b>	<b>-5.4%</b>
<b>NET CURRENT ASSETS</b>	<b>12,830</b>	<b>13,169</b>	<b>-2.6%</b>
<b>NON-CURRENT ASSETS</b>			
Inventory	26	26	0.0%
Receivables	63	66	-4.5%
Other	63	60	5.0%
Infrastructure, Property Plant & Equipment	300,672	297,487	1.1%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>300,824</b>	<b>297,639</b>	<b>1.1%</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	-	95	0.0%
Provisions	2,810	2,512	11.9%
Borrowings	1,398	553	152.8%
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>4,208</b>	<b>3,160</b>	<b>33.2%</b>
<b>NET ASSETS</b>	<b>309,446</b>	<b>307,648</b>	<b>0.6%</b>



Cash and investments increased by \$0.6m from 2015 due to continued strong cash flows from operations arising from the significant grants obtained for flood damage works and for road renewal and maintenance as well as net new borrowings to fund asset replacements being mostly offset by infrastructure renewal expenditure.



Loans increased by \$0.8m due to new borrowings to fund infrastructure renewal which were partially offset by scheduled repayments.

Infrastructure property, plant and equipment increased by \$3.2m mainly due to asset additions and renewals, including Clarence Town Road upgrades and renewal of flood damaged buildings, roads and bridge replacements of \$12.8m, partially offset by depreciation of \$6.0m, reduction in value of community land following a revaluation in the current year of \$0.8m and the write off of assets replaced of \$2.8m.

Other major balance sheet movements include:

- Receivables – decreased as there was lower levels of unpaid grant and contribution debtors at the end of 2016;
- Payables – decreased as there were lower accrued costs on projects as at 30 June 2016; and
- Provisions – increased as there were additional Clarence Town quarry remediation provisions.

**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:

	Dom Waste \$'000	General \$'000	Total \$'000
Current Assets	565	16,102	16,667
Current Liabilities	-	3,837	3,837
<b>Net Current Assets</b>	<b>565</b>	<b>12,265</b>	<b>12,830</b>
<b>Plus: Employee Provisions &gt;12mths</b>	<b>-</b>	<b>1,885</b>	<b>1,885</b>
<b>Total Funds Before Restrictions</b>	<b>565</b>	<b>14,150</b>	<b>14,715</b>
<b>LESS: Restricted Cash &amp; Investments</b> (Included in Revenue)			
Developer Contributions	-	4,261	4,261
Specific Purpose Grants & Contributions	-	422	422
Deposits and Retentions	-	158	158
Other External Restrictions	-	112	112
	-	4,953	4,683
<b>NET FUNDS AVAILABLE</b>	<b>565</b>	<b>9,197</b>	<b>10,032</b>
<b>LESS Internal Restrictions</b>	<b>-</b>	<b>7,466</b>	<b>7,466</b>
<b>Net Funds After All Restrictions</b>	<b>565</b>	<b>1,731</b>	<b>2,566</b>

INTERNAL RESTRICTIONS	Opening \$'000	Transfer to \$'000	Transfer from \$'000	Closing \$'000
Employee leave entitlements	891	75	-	966
Plant replacement	1,581	1,167	2,084	664
Shire properties	250	52	-	302
Special projects	1,633	519	769	1,383
Town funds	120	-	8	112
Financial assistance grant	351	1,454	794	1,011
Settlement for the aged	140	-	20	120
Other waste management	372	79	-	451
Insurance equalisation	277	-	-	277
RBF unexpended	912	242	177	977
Other	1,097	129	23	1,203
	7,624	3,717	3,875	7,466



After funding all restrictions, Council’s general fund has reserves of \$1.7m, which is considered satisfactory to fund short to medium term needs.

The internal restriction for employee leave entitlements represents 44% of total leave liability. The level of employee leave funding is considered satisfactory based on Council’s employee age profile and that the 2016 budget includes expected leave payments for that period.

**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	2016	2015	2014	2013	2012	Benchmarks
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating reveune.	-10.8%	-28.8%	-10.2%	3.8%	6.2%	>0%
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	40.6%	36.0%	55.7%	49.7%	48.4%	>60%
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	5.43	4.77	5.87	5.11	5.07	>1.5
DEBT SERVICE COVER RATIO	To assess the availability of operating cash to service debt including interest, principle and lease payments.	14.62	9.19	3.37	12.08	0.15	>2 & <20
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	3.6%	4.2%	5.0%	4.6%	4.6%	<10%
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	9.4	9.9	7.6	12.0	10.9	>3

*Operating performance*

An operating performance deficit of 10.8% indicates that Councils operating revenue, excluding capital grants and contributions, is insufficient to cover operating expenditure, especially depreciation of infrastructure assets. This compares to the State average deficit of 0.6% and the Group 10 average deficit of 2.7% for 2015. The improvement in this ratio for 2016 is due to increases in operating grants and contributions and lower expenses, especially adjustments to depreciation expenditure on



plant and equipment and road asset categories and the impact of asset impairments in the 2015 year due to flood damage in that year. The benchmark is that councils should average breakeven or better over a three year period.

#### *Owned source operating revenue*

A ratio of 40.6% for the 2016 year highlights that Council has a higher dependence on grants and contributions compared to the State average of 67.0% and the Group 10 average of 58.7% for 2015. The benchmark for sustainability is to have a ratio of greater than 60%. The ratio has been significantly affected by high levels of roads to recovery grants, flood damage funding and grants for the Clarence Town road upgrade.

#### *Unrestricted Ratio*

The unrestricted ratio excludes all current assets and liabilities that are restricted to specific purposes such as the domestic waste management function 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 in relation to the general function. The ratio of 5.43 as at 30 June 2016 indicates that there is \$5.43 of unrestricted current assets for every \$1.00 of current liabilities. Councils ratio of 5.43 compares to the State average of 3.92 and the Group 10 average of 3.92 for 2015. The ratio is above the benchmark of greater than 1.5.

#### *Debt service cover ratio*

The debt service cover ratio of 14.62 times indicates that council has \$14.62 before interest and depreciation to pay interest and principal repayments on current borrowings. This compares to the State average of 104.1 and the Group 10 average of 27.7 for 2015. The benchmark for sustainability is to have a ratio of greater than 2.0 and less than 20.0. The increase in this ratio for 2016 is due to the impacts of higher revenues including operating and capital grants.

#### *Outstanding rate ratio*

The outstanding rates and charges ratio of 3.6% is at the lowest level for the past five years. Council's outstanding rates ratio is lower than the State average of 5.85% and the Group 10 average of 6.74% for 2015. The 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 9.4 months of its expenses without additional cash inflows. This compares to the State average of 11.4 and the Group 10 average of 11.4 for 2015. The 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	2016	2015	2014	2013	2012	Benchmarks
BUILDING AND INFRASTRUCTURE RENEWALS RATIO	To assess the proportion spent on infrastructure renewals vs infrastructure deterioration.	216.3%	175.9%	180.7%	213.7%	104.0%	>100%
INFRASTRUCTURE BACKLOG RATIO	To assess the infrastructure backlog against the total value of councils infrastructure.	11.9%	13.0%	14.0%	41.0%	40.0%	<2%
ASSET MAINTENANCE RATIO	To assess the actual vs required annual maintenance expenditure.	60.0%	50.0%	50.0%	111.0%	108.0%	>100%
CAPITAL EXPENDITURE RATIO	To assess the extent to which council is forecasting to expand its asset base with capital expenditure.	1.7	1.3	1.4	1.9	1.3	>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 2016 Council spent \$2.16 for every \$1 in estimated asset deterioration. The State average for the asset renewal ratio was \$0.92 and the Group 10 average was \$1.00 for the 2015 year. The 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 five years and therefore, based on this ratio, Council’s expenditure on infrastructure has resulted in an improvement in infrastructure assets. It should be noted most of the renewal works have 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 \$23.1m.

Council should continue to seek and obtain grant funding to maintain the current level of infrastructure spending to improve infrastructure asset condition.

*Infrastructure backlog ratio*

An infrastructure backlog ratio of 11.9% indicates that the infrastructure backlog represents 11.9% of the value of Councils infrastructure and compares to the State average of 4.7% and the Group 10 average of 7.4% for 2015. The benchmark is a ratio less than 2%, which Council is yet to achieve.

*Asset maintenance ratio*

The Asset Maintenance ratio of 60% indicates that Council has undertaken insufficient maintenance to keep pace with required maintenance as determined by Council's engineers and maintenance staff. This compares negatively to the State average of 101% and Group 10 average of 98% for 2015. A ratio of greater than 1.0 is considered acceptable benchmark. The ratio has been affected by the significant level of resources directed to infrastructure renewal works over the past three years.

*Capital expenditure ratio*

The capital expenditure ratio of 1.7 indicates that Council has expended \$1.70 on capital expenditure for every dollar of depreciation. The benchmark is for a Council to have a capital expenditure ratio of greater than 1.1.

The increase 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 2016	Actual 2015	Variance
	\$'000	\$'000	%
<b>CASH INFLOWS</b>			
Operating Receipts	22,818	22,425	1.8%
Proceeds from Assets Sales	480	909	-47.2%
Repayment from Deferred Debtors	3	5	-40.0%
Proceeds from Borrowings	1,000	0	100.0%
Other	12	3	300.0%
<b>TOTAL RECEIPTS</b>	<b>24,313</b>	<b>23,342</b>	<b>4.2%</b>
<b>CASH OUTFLOWS</b>			
Operating Payments	10,782	9,500	13.5%
Purchase of Investments	0	1,500	0.0%
Purchase of Assets	12,775	11,101	15.1%
Repayment of Loans	166	183	-9.3%
Other	11	10	10.0%
<b>TOTAL PAYMENTS</b>	<b>23,734</b>	<b>22,294</b>	<b>6.5%</b>
<b>TOTAL CASH MOVEMENT</b>	<b>579</b>	<b>1,048</b>	<b>-44.8%</b>
<b>Total Cash &amp; Investments on Hand</b>	<b>13,569</b>	<b>12,990</b>	<b>4.5%</b>

Cash and investments increased due to continued strong cash flows from operations arising from the significant grants obtained for flood damage works and for road renewal and maintenance as well as net new borrowings to fund asset replacements being mostly offset by infrastructure renewal expenditure.

Cash outflows for Purchase of Assets of \$12.8m includes road and bridge construction totalling \$7.7m. This compares to the \$3.3m annual rate of depreciation of these assets. The remaining asset purchases included plant and equipment of \$1.2m, bulk earthworks of \$1.2m, stormwater drainage of \$0.6m and various other asset purchases of \$2.1m.





GENERAL

***Reporting obligations under the Local Government Act***

We note that, Council's core accounting systems and records are satisfactory and the audited financial statements will be submitted to the Office of Local Government within the legislated deadline of 31 October 2016.

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**

A handwritten signature in blue ink, appearing to read 'P.R. Cornall'.

**Paul R Cornall**

Principal

# Dungog Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016

---

*“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 year ended 30 June 2016

Council has no material Business Activities

# Dungog Shire Council

SPECIAL SCHEDULES

for the year ended 30 June 2016

---

*“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 year ended 30 June 2016

Contents		Page
<b>Special Schedules<sup>1</sup></b>		
<b>Special Schedule 1</b>	Net Cost of Services	2
<b>Special Schedule 2(a)</b>	Statement of Long Term Debt (all purposes)	4
<b>Special Schedule 2(b)</b>	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
<b>Special Schedule 3</b>	Water Supply Operations – incl. Income Statement	n/a
<b>Special Schedule 4</b>	Water Supply – Statement of Financial Position	n/a
<b>Special Schedule 5</b>	Sewerage Service Operations – incl. Income Statement	n/a
<b>Special Schedule 6</b>	Sewerage Service – Statement of Financial Position	n/a
<b>Notes to Special Schedules 3 and 5</b>		n/a
<b>Special Schedule 7</b>	Report on Infrastructure Assets	5
<b>Special Schedule 8</b>	Permissible Income Calculation	9

<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 8).

---

### Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
  - the Australian Bureau of Statistics (ABS),
  - the NSW Office of Water (NOW), and
  - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
  - the incorporation of Local Government financial figures in national statistics,
  - the monitoring of loan approvals,
  - the allocation of borrowing rights, and
  - the monitoring of the financial activities of specific services.

## Dungog Shire Council

Special Schedule 1 – Net Cost of Services  
for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>1,022</b>	–	–	<b>(1,022)</b>
<b>Administration</b>	<b>1,261</b>	<b>780</b>	<b>75</b>	<b>(406)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	595	–	–	<b>(595)</b>
Beach control	–	–	–	–
Enforcement of local government regulations	43	29	–	<b>(14)</b>
Animal control	32	18	–	<b>(14)</b>
Other	–	–	–	–
<b>Total public order and safety</b>	<b>670</b>	<b>47</b>	–	<b>(623)</b>
<b>Health</b>	<b>26</b>	<b>10</b>	–	<b>(16)</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	135	59	–	<b>(76)</b>
Other environmental protection	141	275	–	<b>134</b>
Solid waste management	1,407	1,975	–	<b>568</b>
Street cleaning	41	–	–	<b>(41)</b>
Drainage	–	–	–	–
Stormwater management	–	49	–	<b>49</b>
<b>Total environment</b>	<b>1,724</b>	<b>2,358</b>	–	<b>634</b>
<b>Community services and education</b>				
Administration and education	43	1	–	<b>(42)</b>
Social protection (welfare)	–	–	–	–
Aged persons and disabled	102	18	–	<b>(84)</b>
Children's services	–	–	–	–
<b>Total community services and education</b>	<b>145</b>	<b>19</b>	–	<b>(126)</b>
<b>Housing and community amenities</b>				
Public cemeteries	50	39	–	<b>(11)</b>
Public conveniences	131	–	–	<b>(131)</b>
Street lighting	90	19	–	<b>(71)</b>
Town planning	944	184	–	<b>(760)</b>
Other community amenities	20	4	–	<b>(16)</b>
<b>Total housing and community amenities</b>	<b>1,235</b>	<b>246</b>	–	<b>(989)</b>
<b>Water supplies</b>	–	–	–	–
<b>Sewerage services</b>	–	–	–	–

## Dungog Shire Council

Special Schedule 1 – Net Cost of Services (continued)  
for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Recreation and culture</b>				
Public libraries	198	33	6	(159)
Museums	57	–	14	(43)
Art galleries	–	–	–	–
Community centres and halls	210	3	2	(205)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	–	7	–	7
Sporting grounds and venues	356	17	5	(334)
Swimming pools	345	1	2	(342)
Parks and gardens (lakes)	357	6	–	(351)
Other sport and recreation	1	–	–	(1)
<b>Total recreation and culture</b>	<b>1,524</b>	<b>67</b>	<b>29</b>	<b>(1,428)</b>
<b>Fuel and energy</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Agriculture</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Mining, manufacturing and construction</b>				
Building control	291	96	–	(195)
Other mining, manufacturing and construction	207	76	–	(131)
<b>Total mining, manufacturing and const.</b>	<b>498</b>	<b>172</b>	<b>–</b>	<b>(326)</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	809	1	–	(808)
Urban roads – regional	61	–	–	(61)
Sealed rural roads (SRR) – local	5,168	277	4,995	104
Sealed rural roads (SRR) – regional	2,047	2,951	1,350	2,254
Unsealed rural roads (URR) – local	1,614	–	–	(1,614)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	1	–	–	(1)
Bridges on SRR – local	777	–	325	(452)
Bridges on URR – local	30	–	–	(30)
Bridges on regional roads	144	–	–	(144)
Parking areas	–	–	–	–
Footpaths	63	–	–	(63)
Aerodromes	–	–	–	–
Other transport and communication	15	–	–	(15)
<b>Total transport and communication</b>	<b>10,729</b>	<b>3,229</b>	<b>6,670</b>	<b>(830)</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	162	175	–	13
Other economic affairs	278	45	–	(233)
<b>Total economic affairs</b>	<b>440</b>	<b>220</b>	<b>–</b>	<b>(220)</b>
<b>Totals – functions</b>	<b>19,274</b>	<b>7,148</b>	<b>6,774</b>	<b>(5,352)</b>
<b>General purpose revenues</b> <sup>(1)</sup>		<b>7,896</b>		<b>7,896</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	<b>–</b>	<b>15</b>		<b>15</b>
<b>NET OPERATING RESULT</b> <sup>(2)</sup>	<b>19,274</b>	<b>15,059</b>	<b>6,774</b>	<b>2,559</b>

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

## Dungog Shire Council

## Special Schedule 2(a) – Statement of Long Term Debt (all purpose)

for the year ended 30 June 2016

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
<b>Loans (by source)</b>											
Commonwealth government	–	–	–							–	–
Treasury corporation	–	–	–							–	–
Other state government	–	–	–							–	–
Public subscription	–	–	–							–	–
Financial institutions	153	548	701	1,000	165	–	–	54	143	1,393	1,536
Other	–	–	–							–	–
<b>Total loans</b>	<b>153</b>	<b>548</b>	<b>701</b>	<b>1,000</b>	<b>165</b>	<b>–</b>	<b>–</b>	<b>54</b>	<b>143</b>	<b>1,393</b>	<b>1,536</b>
<b>Other long term debt</b>											
Ratepayers advances	–	–	–							–	–
Government advances	2	5	7	–	1	–	–	–	1	5	6
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
<b>Total long term debt</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>5</b>	<b>6</b>
<b>Total debt</b>	<b>155</b>	<b>553</b>	<b>708</b>	<b>1,000</b>	<b>166</b>	<b>–</b>	<b>–</b>	<b>54</b>	<b>144</b>	<b>1,398</b>	<b>1,542</b>

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).



## Dungog Shire Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016

as at 30 June 2016

**\$'000**

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance <sup>a</sup>	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
<b>Buildings</b>	Buildings – specialised	1,259	1,259	269	146	7,668	29,465	0%	59%	31%	10%	0%
	<b>Sub-total</b>	<b>1,259</b>	<b>1,259</b>	<b>269</b>	<b>146</b>	<b>7,668</b>	<b>29,465</b>	<b>0.0%</b>	<b>59.0%</b>	<b>31.0%</b>	<b>10.0%</b>	<b>0.0%</b>
<b>Other structures</b>	Other structures	–	–	20	–	752	1,151	14%	30%	35%	21%	0%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>20</b>	<b>–</b>	<b>752</b>	<b>1,151</b>	<b>14.0%</b>	<b>22.0%</b>	<b>35.0%</b>	<b>21.0%</b>	<b>0.0%</b>
<b>Roads</b>	Sealed roads	12,311	12,311	3,708	2,382	132,705	185,355	15%	48%	30%	7%	0%
	Unsealed roads	3,371	3,371	1,229	578	4,145	16,623	0%	19%	81%	0%	0%
	Bridges	5,796	5,796	356	187	22,214	52,019	11%	15%	69%	5%	0%
	Footpaths	35	35	35	52	1,025	1,242	31%	21%	37%	11%	0%
	Bulk earthworks					89,762	89,762	100%				0%
	<b>Sub-total</b>	<b>21,513</b>	<b>21,513</b>	<b>5,328</b>	<b>3,199</b>	<b>249,851</b>	<b>345,001</b>	<b>14.0%</b>	<b>26.0%</b>	<b>54.0%</b>	<b>6.0%</b>	<b>0.0%</b>

## Dungog Shire Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)

as at 30 June 2016

**\$'000**

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance <sup>a</sup>	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	269	269	69	38	23,436	25,310	9%	67%	11%	13%	0%
	<b>Sub-total</b>	<b>269</b>	<b>269</b>	<b>69</b>	<b>38</b>	<b>23,436</b>	<b>25,310</b>	<b>9.0%</b>	<b>67.0%</b>	<b>11.0%</b>	<b>13.0%</b>	<b>0.0%</b>
Open space/recreational assets	Swimming pools	81	81	30	38	508	1,561	0%	40%	0%	60%	0%
	Other	69	69	10	10	2,268	2,795	0%	40%	0%	60%	0%
	<b>Sub-total</b>	<b>150</b>	<b>150</b>	<b>40</b>	<b>48</b>	<b>2,776</b>	<b>4,356</b>	<b>0.0%</b>	<b>40.0%</b>	<b>0.0%</b>	<b>60.0%</b>	<b>0.0%</b>
	<b>TOTAL – ALL ASSETS</b>	<b>23,191</b>	<b>23,191</b>	<b>5,726</b>	<b>3,431</b>	<b>284,483</b>	<b>405,283</b>	<b>31.1%</b>	<b>33.6%</b>	<b>29.1%</b>	<b>2.0%</b>	<b>0.0%</b>

**Notes:**

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

**Infrastructure asset condition assessment 'key'**

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

## Dungog Shire Council

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

\$ '000	Amounts	Indicator	Prior periods	
	2016	2016	2015	2014
<b>Infrastructure asset performance indicators * consolidated</b>				
<b>1. Infrastructure renewals ratio</b>				
Asset renewals <sup>(1)</sup>	<u>11,592</u>	<b>216.31%</b>	175.89%	180.67%
Depreciation, amortisation and impairment	<u>5,359</u>			
<b>2. Infrastructure backlog ratio</b>				
Estimated cost to bring assets to a satisfactory standard	<u>23,191</u>	<b>11.91%</b>	12.53%	13.94%
Carrying value of infrastructure assets	<u>194,721</u>			
<b>3. Asset maintenance ratio</b>				
Actual asset maintenance	<u>3,431</u>	<b>0.60</b>	0.50	0.50
Required asset maintenance	<u>5,726</u>			
<b>4. Capital expenditure ratio</b>				
Annual capital expenditure	<u>9,975</u>	<b>1.65</b>	1.28	1.39
Annual depreciation	<u>6,040</u>			

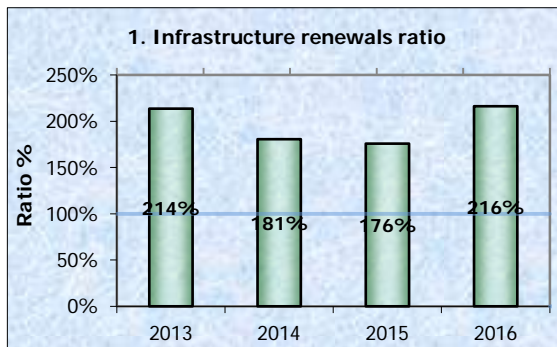
## Notes

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

(1) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

# Dungog Shire Council

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



**Purpose of asset renewals ratio**

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

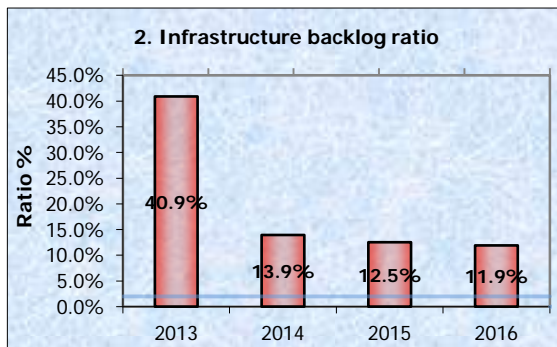
**Commentary on 2015/16 result**

**2015/16 Ratio 216.31%**

Building and Infrastructure ratio continues to exceed benchmark due to current capital expenditure on MR101 and replacement of Woerdens Road Bridge and Torryburn Bridge

Benchmark: —— Minimum  $\geq 100.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



**Purpose of infrastructure backlog ratio**

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

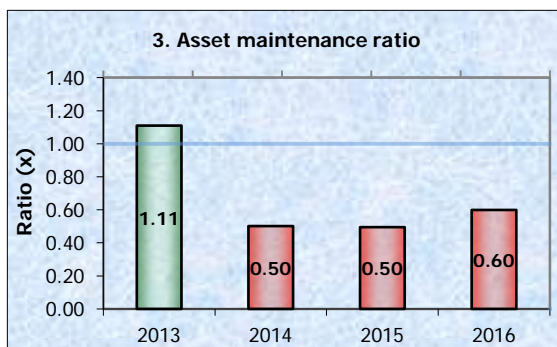
**Commentary on 2015/16 result**

**2015/16 Ratio 11.91%**

Council's Capital Works program continues to see a decline in Councils Infrastructure backlog.

Benchmark: —— Maximum  $< 2.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



**Purpose of asset maintenance ratio**

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

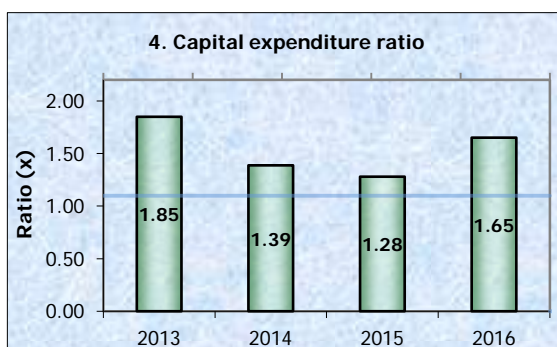
**Commentary on 2015/16 result**

**2015/16 Ratio 0.60 x**

Timing of Capital works programs within the roads and bridges network has resulted in a lower than budgeted expenditure on maintenance.

Benchmark: —— Minimum  $> 1.00$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



**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 2015/16 result**

**2015/16 Ratio 1.65 x**

Capital expenditure ratio continues to be relatively high due to the continued expenditure on roads an bridges replacement/

Benchmark: —— Minimum  $> 1.10$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark

## Dungog Shire Council

## Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
<b>Notional general income calculation <sup>(1)</sup></b>			
Last year notional general income yield	a	5,149	5,302
Plus or minus adjustments <sup>(2)</sup>	b	29	32
<b>Notional general income</b>	c = (a + b)	<b>5,178</b>	<b>5,334</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	–	–
Or plus rate peg amount	i = c x e	124	96
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>5,302</b>	<b>5,430</b>
Plus (or minus) last year's carry forward total	l	(0)	(0)
Less valuation objections claimed in the previous year	m	–	–
<b>Sub-total</b>	n = (l + m)	<b>(0)</b>	<b>(0)</b>
<b>Total permissible income</b>	o = k + n	<b>5,302</b>	<b>5,430</b>
Less notional general income yield	p	5,302	5,430
<b>Catch-up or (excess) result</b>	q = o – p	<b>(0)</b>	<b>(0)</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	–	–
Less unused catch-up <sup>(5)</sup>	s	–	–
<b>Carry forward to next year</b>	t = q + r – s	<b>(0)</b>	<b>(0)</b>

**Notes**

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

**Armidale**

92 Rusden Street  
PO Box 114  
Armidale NSW 2350

*p* +61 2 6773 8400

*f* +61 2 6772 9957

*e* [armidale@forsyths.com.au](mailto:armidale@forsyths.com.au)

Forsyths Business Services Pty Ltd  
ABN 66 182 781 401

**DUNGOG SHIRE COUNCIL  
INDEPENDENT AUDITORS' REPORT - SPECIAL SCHEDULE No. 8**

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Dungog Shire Council for the year ending 30 June 2017.

**Responsibility of Council for Special Schedule No. 8**

The Council is responsible for preparation and fair presentation of Special No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 23. 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. 8 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. 8 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. 8 and is free from material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement on Special Schedule No. 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 8.

**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. 8**

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. 8 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. 8 of Dungog Shire Council for the year ending 30 June 2017 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. 8 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. 8 may not be suitable for another purpose.

*Forsyths*

**FORYSTHS BUSINESS SERVICES PTY LTD**

*P.R. Cornall*

**Paul Cornall  
Principal**

Dated at Armidale this 21<sup>st</sup> October 2016