

Dungog Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

*“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 2017

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Overview

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

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

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

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

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

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

(iv) These financial statements were authorised for issue by the Council on 28 February 2018. Council has the power to amend and reissue these financial statements.

Dungog Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

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 2017.

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

About the Councillor/Management Statement

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

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

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

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

Council's annual financial statements are required to be audited by the Audit Office of NSW.

In NSW the Auditor-General 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 2017

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.

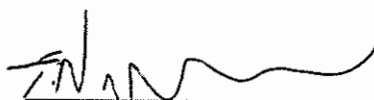
To the best of our knowledge and belief, these Financial Statements:

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 20 December 2017.



Cr Tracy Norman
MAYOR



Cr Digby Rayward
COUNCILLOR



Shaun Chandler
ACTING GENERAL MANAGER



Shaun Chandler
RESPONSIBLE ACCOUNTING OFFICER

Dungog Shire Council

Income Statement

for the year ended 30 June 2017

Budget ¹			Actual	Actual
2017	\$ '000	Notes	2017	2016
Income from continuing operations				
<i>Revenue:</i>				
6,733	Rates and annual charges	3a	6,812	6,525
1,098	User charges and fees	3b	1,078	1,066
437	Interest and investment revenue	3c	488	433
788	Other revenues	3d	750	828
3,333	Grants and contributions provided for operating purposes	3e,f	7,271	6,464
5,468	Grants and contributions provided for capital purposes	3e,f	6,145	6,502
<i>Other income:</i>				
78	Net gains from the disposal of assets	5	–	–
–	Net share of interests in joint ventures and associates using the equity method	19	8	15
17,935	Total income from continuing operations		22,552	21,833
Expenses from continuing operations				
4,611	Employee benefits and on-costs	4a	4,426	4,454
155	Borrowing costs	4b	155	152
5,758	Materials and contracts	4c	6,578	4,678
7,019	Depreciation and amortisation	4d	6,164	6,040
1,834	Other expenses	4e	1,947	1,535
–	Net losses from the disposal of assets	5	1,150	2,415
19,377	Total expenses from continuing operations		20,420	19,274
(1,442)	Operating result from continuing operations		2,132	2,559
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
(1,442)	Net operating result for the year		2,132	2,559
(1,442)	Net operating result attributable to Council		2,132	2,559
(6,910)	Net operating result for the year before grants and contributions provided for capital purposes		(4,013)	(3,943)

¹ Original budget as approved by Council – refer Note 16

Dungog Shire Council

Statement of Comprehensive Income

for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
Net operating result for the year (as per Income Statement)		2,132	2,559
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	–	(750)
Other comprehensive income – joint ventures and associates	19b	–	(11)
Total items which will not be reclassified subsequently to the operating result		–	(761)
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		–	(761)
Total comprehensive income for the year		2,132	1,798
Total comprehensive income attributable to Council		2,132	1,798

Dungog Shire Council

Statement of Financial Position

as at 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
ASSETS			
Current assets			
Cash and cash equivalents	6a	9,414	8,569
Investments	6b	4,750	5,000
Receivables	7	1,812	2,097
Inventories	8	536	979
Other	8	55	22
Total current assets		16,567	16,667
Non-current assets			
Receivables	7	56	63
Inventories	8	26	26
Infrastructure, property, plant and equipment	9	302,126	300,672
Investments accounted for using the equity method	19	71	63
Total non-current assets		302,279	300,824
TOTAL ASSETS		318,846	317,491
LIABILITIES			
Current liabilities			
Payables	10	881	1,445
Income received in advance	10	24	28
Borrowings	10	144	144
Provisions	10	2,084	2,220
Total current liabilities		3,133	3,837
Non-current liabilities			
Borrowings	10	1,254	1,398
Provisions	10	2,881	2,810
Total non-current liabilities		4,135	4,208
TOTAL LIABILITIES		7,268	8,045
Net assets		311,578	309,446
EQUITY			
Retained earnings	20	130,698	128,566
Revaluation reserves	20	180,880	180,880
Council equity interest		311,578	309,446
Total equity		311,578	309,446

Dungog Shire Council

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

\$ '000	Notes	2017				2016					
		Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Total equity	Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Total equity
Opening balance (as per last year's audited accounts)		128,566	180,880	–	309,446	309,446	126,018	181,630	–	307,648	307,648
Net operating result for the year		2,132	–	–	2,132	2,132	2,559	–	–	2,559	2,559
Other comprehensive income											
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	–	–	–	–	–	(750)	–	(750)	(750)
– Other reserves movements (JV's & Assoc)	20b (ii)	–	–	–	–	–	(11)	–	–	(11)	(11)
Other comprehensive income		–	–	–	–	–	(11)	(750)	–	(761)	(761)
Total comprehensive income (c&d)		2,132	–	–	2,132	2,132	2,548	(750)	–	1,798	1,798
Equity – balance at end of the reporting period		130,698	180,880	–	311,578	311,578	128,566	180,880	–	309,446	309,446

Dungog Shire Council

Statement of Cash Flows

for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
Cash flows from operating activities				
Receipts:				
6,733	Rates and annual charges		6,629	6,559
1,098	User charges and fees		1,077	1,044
437	Investment and interest revenue received		488	433
8,801	Grants and contributions		13,766	12,992
–	Bonds, deposits and retention amounts received		33	–
866	Other		865	1,790
Payments:				
(4,611)	Employee benefits and on-costs		(4,562)	(4,253)
(5,758)	Materials and contracts		(6,830)	(4,801)
(155)	Borrowing costs		(84)	(54)
–	Bonds, deposits and retention amounts refunded		–	(23)
(1,834)	Other		(1,981)	(1,651)
5,577	Net cash provided (or used in) operating activities	11b	9,401	12,036
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		250	–
200	Sale of real estate assets		94	94
–	Sale of infrastructure, property, plant and equipment		268	386
5	Deferred debtors receipts		7	3
–	Distributions received from joint ventures and associates		–	12
Payments:				
(6,674)	Purchase of infrastructure, property, plant and equipment		(9,031)	(12,772)
–	Purchase of real estate assets		–	(3)
(6,469)	Net cash provided (or used in) investing activities		(8,412)	(12,280)
Cash flows from financing activities				
Receipts:				
–	Proceeds from borrowings and advances		–	1,000
Payments:				
(149)	Repayment of borrowings and advances		(144)	(166)
–	Distributions to non-controlling interests		–	(11)
(149)	Net cash flow provided (used in) financing activities		(144)	823
(1,041)	Net increase/(decrease) in cash and cash equivalents		845	579
–	Plus: cash and cash equivalents – beginning of year	11a	8,569	7,990
(1,041)	Cash and cash equivalents – end of the year	11a	9,414	8,569
Additional Information:				
	plus: Investments on hand – end of year	6b	4,750	5,000
Total cash, cash equivalents and investments			14,164	13,569

Please refer to Note 11 for additional cash flow information.

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) New and amended standards adopted by Council

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

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]. The adoption of this standard has had no impact on reporting financial position or performance.

(ii) Early adoption of standards

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

(iii) Historical cost convention

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

(iv) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

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

Significant judgements in applying the Council's accounting policies

- (i) Impairment of receivables

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

(b) Revenue recognition

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

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

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

(i) Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

revenue when the Council obtains control over the assets comprising these receipts. 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.

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

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

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

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

(ii) User charges and fees

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

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

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

(iv) Interest

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

(v) Rent

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

(vi) Dividend income

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

(vii) Other income

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

(c) Principles of consolidation

(i) The Consolidated Fund

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

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

- 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 were as follows:

Total income	
from continuing operations	\$84,585
Total expenditure	
from continuing operations	\$83,526

Note:

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(ii) The Trust Fund

In accordance with the provisions of Section 411 of the Local Government Act 1993 (NSW) (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the Council in trust which must be applied only for the purposes of, or in accordance with the trusts relating to those monies. Any Trust monies and property subject to Council's control have been included in these reports.

(iii) County Councils

Council is not a member of any county councils.

(iv) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

The Council has determined that it has a joint venture.

Joint ventures

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

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

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

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

(d) Leases

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

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

(e) Impairment of assets

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

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

higher of an asset's fair value less costs to sell and value in use.

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

(f) Cash and cash equivalents

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

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

(g) Inventories

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

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

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

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

(ii) Inventory held for distribution

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

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

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

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

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

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

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

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

(i) Investments and other financial assets

Classification

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

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

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

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

(ii) Loans and receivables

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

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

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

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

Recognition and de-recognition

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

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

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

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

Subsequent measurement

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

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

Impairment

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

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

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(i) Assets carried at amortised cost

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

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

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

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

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

Investment Policy

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

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

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

(j) Fair value estimation – financial instruments

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

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

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

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

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

Externally valued:

- Operational land
- Community land
- Buildings – specialised/non-specialised

Internally valued:

- Land improvements
- Other structures
- Roads assets including roads, bridges and footpaths
- Bulk earthworks
- Stormwater drainage
- Water and sewerage networks
- Swimming pools
- Other open space/recreational assets
- Other infrastructure

As approximated by depreciated historical cost:

- Plant and equipment
- Other assets

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

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

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss

relating to that asset class, the increase is first recognised as profit or loss.

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

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

Depreciation

Land is not depreciated.

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

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Swimming Pools	80 years
Other Open Space / Recreational Assets	50 years
Other Infrastructure	25 years

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

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

(l) Investment property

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

Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, Council uses alternative valuation methods such as recent prices in less active markets, or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.

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

(m) Payables

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

(n) Borrowings

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

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

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

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

(o) Borrowing costs

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

(p) Provisions

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

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

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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

(ii) Other long-term employee benefit obligations

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

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the

reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

(iii) Retirement benefit obligations

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

Defined Benefit Plans

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

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

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

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.

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(r) Land under roads

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

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

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

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

(s) Self-insurance

Council does not self-insure.

(t) Intangible assets

Council has not classified any assets as intangible.

(u) Crown reserves

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

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

(v) Rural fire service assets

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

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

(w) Goods and Services Tax (GST)

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

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

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

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

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

Council does not consider that these standards are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows;

AASB 15 Revenue from Contracts with Customers which will be effective for annual reporting periods beginning on or after 1 January 2018.

AASB 16 Leases which will be effective for annual reporting periods beginning on or after 1 January 2019.

Dungog Shire Council

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

Note 1. Summary of significant accounting policies (continued)

(y) Rounding of amounts

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

(z) Comparative figures

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

(aa) Disclaimer

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current & non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2017	2017	2016	2017	2017	2016	2017	2017	2016	2017	2016	2017	2016
Governance	25	–	–	1,007	1,053	1,022	(982)	(1,053)	(1,022)	–	–	–	–
Administration	145	912	855	1,803	1,497	1,261	(1,658)	(585)	(406)	–	–	10,364	10,082
Public order and safety	171	65	47	796	683	670	(624)	(618)	(623)	–	–	2,719	2,924
Health	67	9	10	163	25	26	(96)	(16)	(16)	–	–	18	18
Environment	2,460	2,142	2,358	2,557	2,068	1,724	(96)	74	634	368	303	3,577	3,284
Community services and education	111	112	19	241	172	145	(130)	(60)	(126)	1	1	2,290	2,375
Housing and community amenities	193	776	246	943	1,897	1,235	(750)	(1,121)	(989)	–	–	4,866	4,758
Recreation and culture	82	89	96	1,371	1,574	1,524	(1,289)	(1,485)	(1,428)	49	53	9,882	9,773
Mining, manufacturing and construction	89	195	172	421	492	498	(332)	(297)	(326)	–	–	620	619
Transport and communication	6,164	8,663	9,899	9,613	10,530	10,729	(3,449)	(1,867)	(830)	3,922	4,941	281,927	281,048
Economic affairs	166	257	220	463	429	440	(297)	(172)	(220)	–	–	2,512	2,547
Total functions and activities	9,675	13,220	13,922	19,377	20,420	19,274	(9,703)	(7,200)	(5,352)	4,340	5,298	318,775	317,428
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	8	15	–	–	–	–	8	15	–	–	71	63
General purpose income ¹	8,260	9,324	7,896	–	–	–	8,260	9,324	7,896	3,618	2,350	–	–
Operating result from continuing operations	17,935	22,552	21,833	19,377	20,420	19,274	(1,443)	2,132	2,559	7,958	7,648	318,846	317,491

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 2017

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

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

GOVERNANCE

Includes costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy-making committees, public disclosure (e.g. GIPA), and legislative compliance.

ADMINISTRATION

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

PUBLIC ORDER AND SAFETY

Includes Council's fire and emergency services levy, fire protection, emergency services, enforcement of regulations and animal control.

HEALTH

Includes health administration, food control, etc.

ENVIRONMENT

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

COMMUNITY SERVICES AND EDUCATION

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

HOUSING AND COMMUNITY AMENITIES

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

RECREATION AND CULTURE

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

MINING, MANUFACTURING AND CONSTRUCTION

Includes building control, quarries and pits and mineral resources.

TRANSPORT AND COMMUNICATION

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

ECONOMIC AFFAIRS

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

Dungog Shire Council

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

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Rates and annual charges			
Ordinary rates			
Residential		2,897	2,768
Farmland		2,083	2,110
Business		323	318
Total ordinary rates		5,303	5,196
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		1,314	1,152
Sanitary		18	11
Stormwater management services		41	41
Waste management services (non-domestic)		135	124
Section 611 charges		1	1
Total annual charges		1,509	1,329
TOTAL RATES AND ANNUAL CHARGES		6,812	6,525

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 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(b) User charges and fees			
Specific user charges (per s.502 – specific 'actual use' charges)			
Domestic waste management services		194	245
Total user charges		194	245
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building control		64	46
Inspection services		10	–
Planning and building regulation		265	224
Private works – section 67		18	23
Section 603 certificates		1	–
Septic tank applications		19	15
Town planning		47	36
Other		19	28
Total fees and charges – statutory/regulatory		443	372
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Caravan park		164	175
Cemeteries		36	39
Onsite sewerage management services		193	176
Tourism		2	3
Inspections and construction certificates – roads		45	56
Total fees and charges – other		441	449
TOTAL USER CHARGES AND FEES		1,078	1,066

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		26	26
– Interest earned on investments (interest and coupon payment income)		462	407
TOTAL INTEREST AND INVESTMENT REVENUE		488	433
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		26	26
General Council cash and investments		377	324
Restricted investments/funds – external:			
Development contributions			
– Section 94		85	83
Total interest and investment revenue recognised		488	433
(d) Other revenues			
Rental income – other council properties		151	71
Fines – other		18	33
Legal fees recovery – other		1	3
Commissions and agency fees		105	113
Insurance claim recoveries		–	248
Landfill recycling stations sales		78	52
Sales – general		2	–
Section 88 fee collected		277	222
Workers compensation and insurance rebates		36	31
Other		82	55
TOTAL OTHER REVENUE		750	828

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(e) Grants				
General purpose (untied)				
Financial assistance – general component	2,265	1,433	–	–
Financial assistance – local roads component	1,287	848	–	–
Pensioners' rates subsidies – general component	66	69	–	–
Total general purpose	3,618	2,350	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Domestic waste management	32	31	–	–
Community care	1	3	–	–
Economic development	50	–	–	–
Environmental protection	96	80	–	125
Flood restoration	178	2	–	–
Heritage and cultural	6	3	–	–
Library	31	31	–	6
Library – special projects	–	–	12	–
Noxious weeds	58	57	4	–
Street lighting	20	19	–	–
Transport (roads to recovery)	923	1,147	–	–
Transport (other roads and bridges funding)	729	1,067	2,200	2,727
Total specific purpose	2,124	2,440	2,216	2,858
Total grants	5,742	4,790	2,216	2,858
Grant revenue is attributable to:				
– Commonwealth funding	4,475	2,351	–	–
– State funding	1,267	2,439	2,216	2,858
	5,742	4,790	2,216	2,858

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94 – contributions towards amenities/services	–	–	741	312
Total developer contributions	17 –	–	741	312
Other contributions:				
Bushfire services	33	–	–	–
Business development	5	10	–	–
Kerb and gutter	–	–	9	–
Recreation and culture	–	–	9	14
Roads and bridges	–	–	64	399
RMS contributions (regional roads, block grant)	1,405	1,621	3,106	2,919
Tourism	2	3	–	–
Water supplies (excl. section 64 contributions)	3	–	–	–
Branding Project	10	–	–	–
Emergency Services Levy	67	–	–	–
Other	4	40	–	–
Total other contributions	1,529	1,674	3,188	3,332
Total contributions	1,529	1,674	3,929	3,644
TOTAL GRANTS AND CONTRIBUTIONS	7,271	6,464	6,145	6,502

\$ '000	Actual 2017	Actual 2016
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Unexpended at the close of the previous reporting period	4,683	4,412
Add: grants and contributions recognised in the current period but not yet spent:	4,119	344
Less: grants and contributions recognised in a previous reporting period now spent:	(3,570)	(73)
Net increase (decrease) in restricted assets during the period	549	271
Unexpended and held as restricted assets	5,232	4,683
Comprising:		
– Specific purpose unexpended grants	144	422
– Developer contributions	5,088	4,261
	5,232	4,683

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Employee benefits and on-costs			
Salaries and wages		4,205	4,247
Employee leave entitlements (ELE)		375	579
Superannuation – defined contribution plans		230	153
Superannuation – defined benefit plans		319	370
Workers' compensation insurance		105	87
Fringe benefit tax (FBT)		65	64
Training costs (other than salaries and wages)		43	57
Other		13	11
Total employee costs		5,355	5,568
Less: capitalised costs		(929)	(1,114)
TOTAL EMPLOYEE COSTS EXPENSED		4,426	4,454
Number of 'full-time equivalent' employees (FTE) at year end		66	67
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		74	53
Interest on advances		–	1
Total interest bearing liability costs expensed		74	54
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	81	98
Total other borrowing costs		81	98
TOTAL BORROWING COSTS EXPENSED		155	152

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Materials and contracts			
Raw materials and consumables		6,293	4,910
Contractor and consultancy costs		79	123
Auditors remuneration ⁽¹⁾		38	38
Legal expenses:			
– Legal expenses: planning and development		683	195
– Legal expenses: other		5	9
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		39	41
Total materials and contracts		7,137	5,316
Less: capitalised costs		(559)	(638)
TOTAL MATERIALS AND CONTRACTS		6,578	4,678
1. Auditor remuneration			
a. During the year, the following fees were incurred for services provided by the Auditor-General: \$38,000.			
b. During the year, the following fees were incurred for services provided by the Council's Auditors (and the Auditors of other consolidated entities):			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor (Forsyths)		–	28
– Audit and review of financial statements: Auditor General		38	–
– Other audit and assurance services – asset management analysis		–	10
Remuneration for audit and other assurance services		38	38
Total remuneration of other Council's Auditors		38	38
Total Auditor remuneration		38	38
2. Operating lease payments are attributable to:			
Computers		39	41
		39	41

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(d) Depreciation, amortisation and impairment			
Plant and equipment		534	482
Office equipment		3	3
Furniture and fittings		10	23
Infrastructure:			
– Buildings – specialised		491	469
– Other structures		92	81
– Roads		3,318	3,312
– Bridges		709	669
– Footpaths		11	14
– Stormwater drainage		436	432
– Swimming pools		69	73
– Other open space/recreational assets		300	309
Other assets			
– Library books		34	36
Asset reinstatement costs	9 & 26	157	137
Total gross depreciation and amortisation costs		6,164	6,040
Less: capitalised costs		–	–
Total depreciation and amortisation costs		6,164	6,040
Impairment			
Nil			
<u>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</u>		6,164	6,040

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(e) Other expenses			
Advertising		39	46
Agency collection costs – Australia post		20	19
Bank charges		–	11
Commissions		75	88
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		–	11
– NSW RB		32	19
– NSW rural fire service levy		288	259
– Waste levy		289	222
Councillor expenses – mayoral fee		14	14
Councillor expenses – councillors' fees		77	82
Councillors' expenses (incl. mayor) – other (excluding fees above)		6	7
Donations, contributions and assistance to other organisations (Section 356)		2	6
Electricity and heating		99	92
Fees and charges		12	4
Insurance		390	385
Newcastle regional library		16	26
Postage		26	21
Printing and stationery		31	26
Street lighting		103	81
Subscriptions and publications		13	8
Telephone and communications		39	52
Valuation fees		1	37
Weight of loads co-operative		15	15
Other		360	4
<u>TOTAL OTHER EXPENSES</u>		<u>1,947</u>	<u>1,535</u>

Note 5. Gains or losses from the disposal of assets

Plant and equipment			
Proceeds from disposal – plant and equipment		268	386
Less: carrying amount of plant and equipment assets sold/written off		(240)	(311)
Net gain/(loss) on disposal		28	75
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(1,174)	(2,486)
Net gain/(loss) on disposal		(1,174)	(2,486)
Real estate assets held for sale			
Proceeds from disposal – real estate assets		94	94
Less: carrying amount of real estate assets sold/written off		(98)	(98)
Net gain/(loss) on disposal		(4)	(4)
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(1,150)</u>	<u>(2,415)</u>

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		363	–	224	–
Cash-equivalent assets ¹					
– Deposits at call		551	–	1,245	–
– Short-term deposits		8,500	–	7,100	–
Total cash and cash equivalents		9,414	–	8,569	–
Investments (Note 6b)					
– NCD's, FRN's (with maturities > 3 months)		4,750	–	5,000	–
Total investments		4,750	–	5,000	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		14,164	–	13,569	–

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

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

Cash and cash equivalents

a. 'At cost'	9,414	–	8,569	–
---------------------	--------------	----------	--------------	----------

Investments

b. 'At fair value through the profit and loss'	4,750	–	5,000	–
Investments	4,750	–	5,000	–

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 2017

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

\$ '000	2017	2017	2016	2016
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	14,164	–	13,569	–
attributable to:				
External restrictions (refer below)	6,587	–	6,063	–
Internal restrictions (refer below)	7,324	–	7,466	–
Unrestricted	252	–	40	–
	14,164	–	13,569	–

2017 \$ '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)	545	–	(194)	351
External restrictions – included in liabilities	545	–	(194)	351

External restrictions – other

Developer contributions – general (B)	4,261	827	–	5,088
Specific purpose unexpended grants (C)	422	21	(299)	144
Domestic waste management (D)	565	136	–	701
Bike path (D)	8	–	–	8
Deposits and retentions (D)	158	109	(75)	192
Kerb and gutter (D)	10	–	–	10
Pavement (D)	54	–	–	54
Rail services australia (D)	39	–	–	39
RLCIP infrastructure funding (D)	1	–	–	1
External restrictions – other	5,518	1,092	(374)	6,236
Total external restrictions	6,063	1,092	(568)	6,587

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

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

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Plant and vehicle replacement	664	1,591	(596)	1,659
Employees leave entitlement	966	76	–	1,042
Buildings and grounds	449	18	(51)	416
Discontinued funds transfer	749	–	–	749
Financial assistance grant	1,011	–	(1,011)	–
Insurance equalisation	277	–	(9)	268
Other waste management	451	47	(165)	333
RB unexpended	977	119	(228)	868
Settlement for the aged	120	42	–	162
Shire properties	302	6	(89)	220
Special projects	1,383	374	(262)	1,495
Town funds	112	–	–	112
Other	5	–	(5)	–
Total internal restrictions	7,466	2,273	(2,415)	7,324
TOTAL RESTRICTIONS	13,529	3,365	(2,983)	13,912

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 7. Receivables

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		427	–	244	–
User charges and fees		9	–	8	–
Private works		8	–	12	–
Accrued revenues					
– Other income accruals		116	–	49	–
Deferred debtors		2	56	2	63
Government grants and subsidies		–	–	350	–
Net GST receivable		60	–	–	–
Kerb and guttering		26	–	44	–
Rates legal costs recovery		12	–	14	–
RMS (formerly RTA)		811	–	1,007	–
Statewide mutual – insurance claim		–	–	245	–
Hunter Water Corp - water main relocation		200	–	–	–
Other debtors		141	–	122	–
Total		1,812	56	2,097	63
Less: provision for impairment					
Nil					
TOTAL NET RECEIVABLES		1,812	56	2,097	63

Externally restricted receivables

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% (2016 8.50%).
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 8. Inventories and other assets

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Real estate for resale (refer below)		54	26	153	26
Stores and materials		482	–	826	–
Total inventories at cost		536	26	979	26
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		536	26	979	26
(b) Other assets					
Prepayments		55	–	22	–
TOTAL OTHER ASSETS		55	–	22	–
Externally restricted assets					
There are no restrictions applicable to the above assets.					
Other disclosures					
(a) Details for real estate development					
Residential		54	26	153	26
Total real estate for resale		54	26	153	26
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		54	26	153	26
Total costs		54	26	153	26
Total real estate for resale		54	26	153	26
Movements:					
Real estate assets at beginning of the year		153	26	248	26
– Purchases and other costs		(1)	–	3	–
– WDV of sales (expense)	5	(98)	–	(98)	–
Total real estate for resale		54	26	153	26

(b) Inventory write downs

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

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

Dungog Shire Council

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

Note 9a. Infrastructure, property, plant and equipment

Asset class \$ '000	as at 30/6/2016			Asset movements during the reporting period					as at 30/6/2017		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	425	–	425	1,483	749	–	–	(425)	2,237	–	2,237
Plant and equipment	9,060	5,263	3,797	594	–	(240)	(534)	–	9,249	5,632	3,617
Office equipment	625	612	13	–	–	–	(3)	–	625	616	9
Furniture and fittings	250	244	6	4	–	–	(10)	–	252	252	–
Land:											
– Operational land	6,363	–	6,363	3	276	–	–	–	6,643	–	6,643
– Community land	3,760	–	3,760	–	–	–	–	–	3,760	–	3,760
Infrastructure:											
– Buildings – specialised	30,111	22,443	7,668	90	–	–	(491)	–	30,201	22,937	7,264
– Other structures	1,407	655	752	54	237	–	(92)	–	1,647	691	956
– Roads	211,293	74,441	136,852	3,312	–	(1,173)	(3,318)	45	213,379	77,661	135,718
– Bridges	54,454	32,242	22,212	792	–	(1)	(709)	380	55,625	32,951	22,674
– Footpaths	1,242	217	1,025	–	–	–	(11)	–	1,242	230	1,012
– Bulk earthworks (non-depreciable)	89,762	–	89,762	15	579	–	–	–	90,356	–	90,356
– Stormwater drainage	33,428	9,992	23,436	225	–	–	(436)	–	33,653	10,428	23,225
– Swimming pools	1,719	1,211	508	–	–	–	(69)	–	1,719	1,283	436
– Other open space/recreational assets	4,938	2,670	2,268	563	17	–	(300)	–	5,535	2,983	2,552
Other assets:											
– Library books	719	581	138	34	–	–	(34)	–	753	616	137
Reinstatement, rehabilitation and restoration assets (refer Note 26):											
– Tip & quarry assets	2,381	694	1,687	–	–	–	(157)	–	2,381	851	1,530
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	451,937	151,265	300,672	7,169	1,859	(1,414)	(6,164)	–	459,257	157,131	302,126

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 2017

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

\$ '000	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Domestic waste management						
Plant and equipment	138	67	71	163	58	105
Buildings	183	26	157	135	24	111
Other structures	2	2	–	2	2	–
Other assets	128	58	70	68	48	20
Total DWM	451	153	298	368	132	236
Other restricted assets						
– Stormwater drainage	34,475	10,428	24,047	33,427	9,992	23,435
Total other restrictions	34,475	10,428	24,047	33,427	9,992	23,435
TOTAL RESTRICTED I,PP&E	34,926	10,581	24,345	33,795	10,124	23,671

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

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		687	–	1,283	–
Accrued expenses:					
– Other expenditure accruals		3	–	4	–
Security bonds, deposits and retentions		191	–	158	–
Total payables		881	–	1,445	–
Income received in advance					
Payments received in advance		24	–	28	–
Total income received in advance		24	–	28	–
Borrowings					
Loans – secured ¹		142	1,251	142	1,393
Government advances		2	3	2	5
Total borrowings		144	1,254	144	1,398
Provisions					
Employee benefits:					
Annual leave		599	–	590	–
Sick leave		8	–	8	–
Long service leave		1,364	94	1,509	94
Sub-total – aggregate employee benefits		1,971	94	2,107	94
Asset remediation/restoration (future works)	26	–	2,787	–	2,716
Provision for impairment – aged units		113	–	113	–
Total provisions		2,084	2,881	2,220	2,810
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		3,133	4,135	3,837	4,208

(i) Liabilities relating to restricted assets

Cash assets of \$351k are restricted due to unexpended loans.

(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	1,922	1,885
	1,922	1,885

¹ Loans are secured over the general rating income of Council

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	9,414	8,569
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		9,414	8,569
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		2,132	2,559
Adjust for non-cash items:			
Depreciation and amortisation		6,164	6,040
Net losses/(gains) on disposal of assets		1,150	2,415
Unwinding of discount rates on reinstatement provisions		71	98
Share of net (profits) or losses of associates/joint ventures		(8)	(15)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		285	1,037
Decrease/(increase) in inventories		344	(1)
Decrease/(increase) in other assets		(33)	4
Increase/(decrease) in payables		(596)	(122)
Increase/(decrease) in other accrued expenses payable		(1)	(2)
Increase/(decrease) in other liabilities		29	(155)
Increase/(decrease) in employee leave entitlements		(136)	201
Increase/(decrease) in other provisions		–	(23)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		9,401	12,036
(c) Non-cash investing and financing activities			
Nil			
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		300	300
Credit cards/purchase cards		30	25
Total financing arrangements		330	325
Amounts utilised as at balance date:			
– Credit cards/purchase cards		4	1
Total financing arrangements utilised		4	1

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 2017

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2017	Actual 2016
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, plant and equipment			
Plant and equipment		51	–
Total commitments		51	–
These expenditures are payable as follows:			
Within the next year		51	–
Total payable		51	–
Sources for funding of capital commitments:			
Unrestricted general funds		51	–
Total sources of funding		51	–

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:

Within the next year	13	41
Later than one year and not later than 5 years	4	10
Total non-cancellable operating lease commitments	17	51

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

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Amounts 2017	Indicator 2017	Prior periods		Benchmark
			2016	2015	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>(2,871)</u>	-17.51%	-10.07%	-28.79%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>16,399</u>				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>9,128</u>	40.49%	40.57%	36.00%	>60.00%
Total continuing operating revenue ⁽¹⁾	<u>22,544</u>				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>9,980</u>	8.24x	5.43x	4.77x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>1,211</u>				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>3,448</u>	11.53x	14.62x	9.19x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>299</u>				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>427</u>	6.03%	3.57%	4.24%	<10% Rural
Rates, annual and extra charges collectable	<u>7,082</u>				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>9,414</u>	8.31 mths	9.4 mths	9.9 mths	> 3 mths
Payments from cash flow of operating and financing activities	<u>1,133</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.

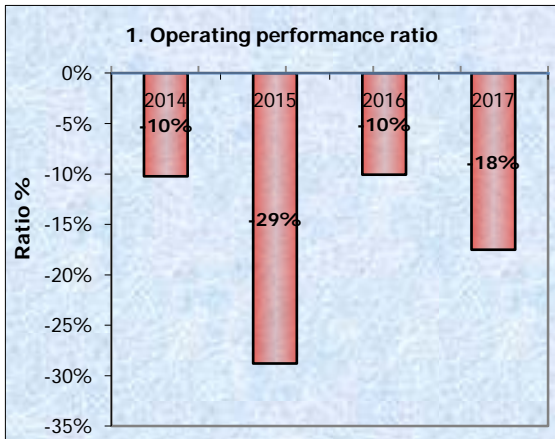
(3) Refer to Note 10(a).

(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 2017

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



Purpose of operating performance ratio

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

Commentary on 2016/17 result

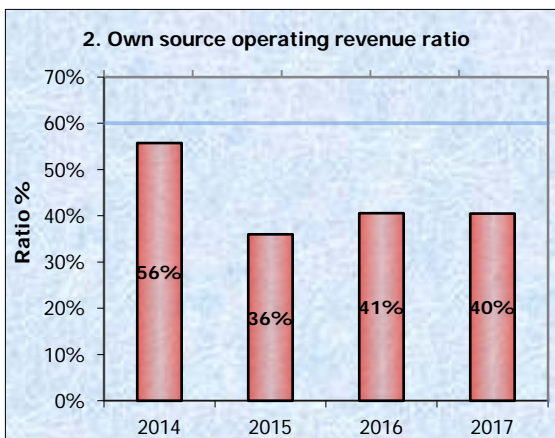
2016/17 ratio -17.51%

Council's operating performance ratio decreased due to higher operating expenditure associated with road maintenance activity following natural disasters in 2015 and 2016. Legal expenses associated with ongoing court action were also a significant influencing factor.

Benchmark: Minimum $\geq 0.00\%$

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of own source operating revenue ratio

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

Commentary on 2016/17 result

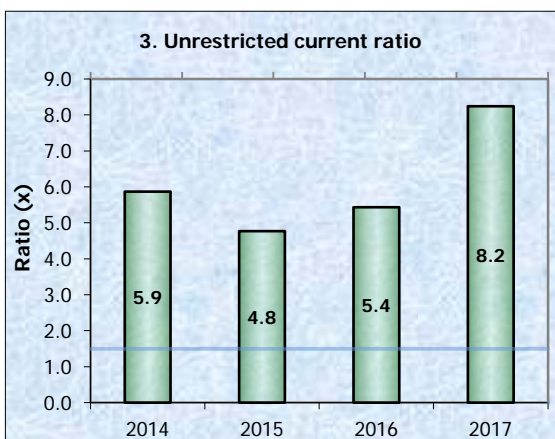
2016/17 ratio 40.49%

Own source operating revenue has remained at a similar level to prior years. Impact of natural disaster grant funding associated with storm/flood events remains an influencing factor.

Benchmark: Minimum $\geq 60.00\%$

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of unrestricted current ratio

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

Commentary on 2016/17 result

2016/17 ratio 8.24x

A significant reduction in goods and services payables has improved Council's ability to satisfactorily meet its short term obligations as they fall due.

Benchmark: Minimum ≥ 1.50

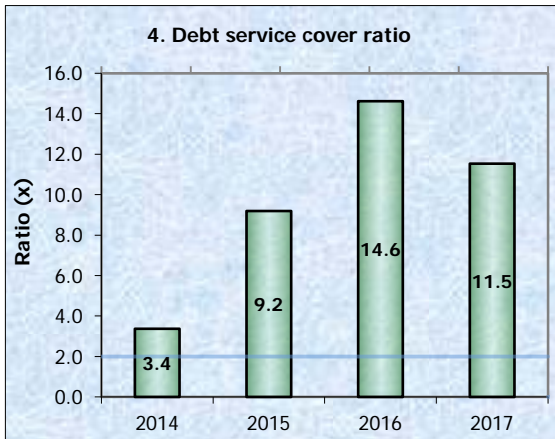
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves benchmark
 Ratio is outside benchmark

Dungog Shire Council

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

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 2016/17 result

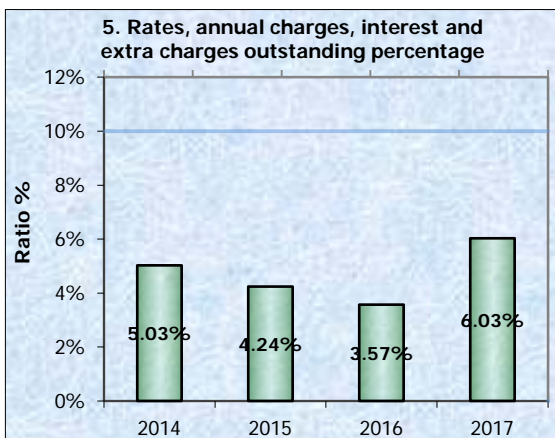
2016/17 ratio 11.53x

Council continues to maintain its high capacity to service its debt. The reduction in the debt service coverage ratio is due to a lower operating result and higher capital revenues.

Benchmark: ——— Minimum ≥ 2.00

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

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 2016/17 result

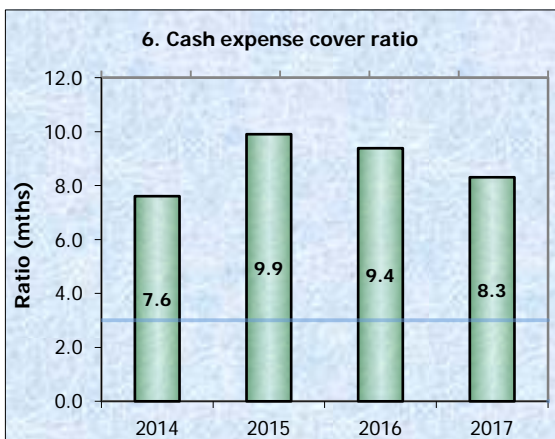
2016/17 ratio 6.03%

The level of outstanding property debts remains at a reasonably low level, despite a significant increase from the previous year.

Benchmark: ——— Maximum $< 10.00\%$

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

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 2016/17 result

2016/17 ratio 8.31 mths

Council remains able to pay its immediate expenses without additional cash flow, for a period of over 8 months.

Benchmark: ——— Minimum ≥ 3.00

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

Ratio achieves benchmark
 Ratio is outside benchmark

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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.

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

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

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	9,414	8,569	9,414	8,569
Investments				
– 'At fair value through the profit and loss'	4,750	5,000	4,750	5,000
Receivables	1,868	2,160	1,868	2,160
Total financial assets	16,032	15,729	16,032	15,729
Financial liabilities				
Payables	881	1,445	881	1,435
Loans/advances	1,398	1,542	1,398	1,542
Total financial liabilities	2,279	2,987	2,279	2,977

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 2017

Note 15. Financial risk management (continued)

\$ '000

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

Council's finance section 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 advisors 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
2017				
Possible impact of a 1% movement in interest rates	140	140	(140)	(140)
2016				
Possible impact of a 1% movement in interest rates	130	130	(130)	(130)

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

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

	2017	2017	2016	2016
	Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	95%	0%	95%
Overdue	100%	5%	100%	5%
	100%	100%	100%	100%
(ii) Ageing of receivables – value				
Rates and annual charges	Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	Current	Current	Current
	427	1,441	244	1,916
	427	1,441	244	1,916

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2017									
Trade/other payables	191	706	–	–	–	–	–	897	881
Loans and advances	–	145	216	141	131	131	724	1,488	1,398
Total financial liabilities	191	851	216	141	131	131	724	2,385	2,279
2016									
Trade/other payables	158	1,305	–	–	–	–	–	1,463	1,445
Loans and advances	–	144	164	164	164	90	896	1,622	1,542
Total financial liabilities	158	1,449	164	164	164	90	896	3,085	2,987

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

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

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	881	0.00%	1,445	0.00%
Loans and advances – fixed interest rate	1,398	4.93%	1,542	6.23%
	<u>2,279</u>		<u>2,987</u>	

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 24 June 2016.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----		
REVENUES					
Rates and annual charges	6,733	6,812	79	1%	F
User charges and fees	1,098	1,078	(20)	(2%)	U
Interest and investment revenue	437	488	51	12%	F
Higher than budget due to Council maintaining higher than expected level of investments during the year.					
Other revenues	788	750	(38)	(5%)	U
Operating grants and contributions	3,333	7,271	3,938	118%	F
Early payment of first two 2018 quarters Financial Assistance Grants (\$1.209m).					
Capital grants and contributions	5,468	6,145	677	12%	F
Higher than budget due to significant level of reimbursable work undertaken on road network due to 2015 natural disaster event.					
Net gains from disposal of assets	78	–	(78)	(100%)	U
Overall loss on disposal of assets recorded during the year.					
Joint ventures and associates - net profits	–	8	8	0%	F
Unbudgeted joint venture earnings.					

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----		
EXPENSES					
Employee benefits and on-costs	4,611	4,426	185	4%	F
Borrowing costs	155	155	-	0%	F
Materials and contracts	5,758	6,578	(820)	(14%)	U
Higher than budgeted road maintenance following natural disaster events in 2015 and 2016. Legal expenses associated with ongoing court action also significantly higher than budget.					
Depreciation and amortisation	7,019	6,164	855	12%	F
Lower than budgeted depreciation due to asset renewals and adjusted depreciation rate.					
Other expenses	1,834	1,947	(113)	(6%)	U
Net losses from disposal of assets	-	1,150	(1,150)	0%	U
Loss due to write-off of road assets resulting from capital renewals undertaken during the year.					

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

Cash flows from operating activities	5,577	9,401	3,824	68.6%	F
Higher than budgeted cash flow from rates and charges revenue, grants & contributions.					
Cash flows from investing activities	(6,469)	(8,412)	(1,943)	30.0%	U
Cash flows from financing activities	(149)	(144)	5	(3.6%)	F

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 17. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	361	–	–	6	–	–	367	–
Traffic facilities	7	–	–	–	–	–	7	–
Open space	3,700	741	–	76	–	–	4,517	–
Community facilities	129	–	–	3	–	–	132	–
Bushfire	51	–	–	1	–	–	52	–
Other	2	–	–	–	–	–	2	–
S94 contributions – under a plan	4,250	741	–	86	–	–	5,077	–
Total S94 revenue under plans	4,250	741	–	86	–	–	5,077	–
S94 not under plans	11	–	–	–	–	–	11	–
Total contributions	4,261	741	–	86	–	–	5,088	–

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN NUMBER 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	11	–	–	–	–	–	11	–
Traffic facilities	7	–	–	–	–	–	7	–
Open space	17	–	–	1	–	–	18	–
Community facilities	31	–	–	1	–	–	32	–
Bushfire	22	–	–	–	–	–	22	–
Total	88	–	–	2	–	–	90	–

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	350	–	–	6	–	–	356	–
Open space	28	–	–	1	–	–	29	–
Community facilities	98	–	–	2	–	–	100	–
Bushfire	29	–	–	1	–	–	30	–
Other	2	–	–	–	–	–	2	–
Total	507	–	–	10	–	–	517	–

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN NUMBER 4

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Sports fields	1,125	244	–	22	–	–	1,391	–
Parklands	59	10	–	1	–	–	70	–
Swimming pools	315	53	–	6	–	–	374	–
Indoor sports	326	56	–	6	–	–	388	–
Local community centre	115	19	–	2	–	–	136	–
District community centre	79	13	–	2	–	–	94	–
Youth venue	60	11	–	1	–	–	72	–
Arts and crafts centre	17	3	–	0	–	–	21	–
Aged facilities	56	10	–	1	–	–	67	–
Library	174	29	–	4	–	–	207	–
Pre school	210	38	–	4	–	–	252	–
Rural sub-arterial roads	206	28	–	4	–	–	239	–
Rural local roads	207	87	–	4	–	–	298	–
Traffic management	30	1	–	1	–	–	32	–
Bikeways facilities	66	11	–	1	–	–	78	–
Fire service	335	58	–	7	–	–	399	–
Section 94 administration	111	41	–	2	–	–	154	–
Unsealed roads and bridges	3	–	–	0	–	–	3	–
Other	161	29	–	4	–	–	194	–
Total	3,655	741	–	74	–	–	4,470	–

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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	
Total	11	-	-	-	-	-	11	-

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

The Local Government Superannuation Scheme – Pool B (the Scheme) is a defined benefit plan that has been deemed to be a “multi-employer fund” for the purposes of AASB119.

Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets of the Scheme are pooled together for all employers.

The amount of employer's contributions to the defined section of the Scheme and recognised as an expense for the year ending 30 June 2017 was \$164,278.

The last valuation of the Scheme was performed by Mr. Richard Boyfield FIAA, on 2 December 2016. However the position is monitored annually and the Actuary has estimated that as at 30 June 2017, a deficit still exists.

Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit. The annual amount of additional contributions payable until the deficit is extinguished is \$93,000 (until June 2020). Council's expected contributions to the plan for the next annual reporting period is \$152,300.

The share of this deficit that is broadly attributed to Council is estimated to be in the order 0.20% as at 30 June 2017.

(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 2017

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

\$ '000

LIABILITIES NOT RECOGNISED (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 developments across the Council area through the required contributions plans.

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

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

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

ASSETS NOT RECOGNISED:

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

(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 18 of the 20 units. Council has made application for funding through the Natural Disaster Relief and Recovery Arrangements, which was successful. Funds of between \$600,000 to \$900,000 are expected to be received in early 2018.

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities

\$ '000

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

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

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

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

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

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

	Council's share of net income		Council's share of net assets	
	Actual 2017	Actual 2016	Actual 2017	Actual 2016
Joint ventures	8	15	71	63
Associates	—	—	—	—
Total	8	15	71	63

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

\$ '000

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

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

(b) Joint ventures and associates

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

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2017	2016
Strategic Services Australia Limited	Joint venture	Accrual	71	62
Total carrying amounts – material joint ventures and associates			71	62

(b) Details

Name of entity	Principal activity
Strategic Services Australia Limited	To improve quality and efficiency of local government services in the Hunter region.

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2017	2016	2017	2016	2017	2016	2017	2016
Strategic Services Australia Limited	n/a	n/a	2.88%	2.88%	2.88%	2.88%	7.69%	7.69%

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates (continued)

(d) Summarised financial information for joint ventures and associates

	Strategic Services Australia Limited	
	2017	2016
Statement of financial position		
Current assets		
Cash and cash equivalents	217	209
Other current assets	1,393	1,043
Non-current assets	4,128	4,868
Current liabilities		
Current financial liabilities (excluding trade and other payables and provisions)	2,575	1,912
Other current liabilities	477	1,668
Non-current liabilities		
Non-current financial liabilities (excluding trade and other payables and provisions)	219	348
Net assets	2,467	2,192
Reconciliation of the carrying amount		
Opening net assets (1 July)	2,139	2,051
Profit/(loss) for the period	308	522
Other adjustments to equity	–	(434)
Closing net assets	2,447	2,139
Council's share of net assets (%)	2.876%	2.876%
Council's share of net assets (\$)	71	63
Statement of comprehensive income		
Income	6,555	6,919
Interest income	–	626
Depreciation and amortisation	(221)	(1,252)
Interest expense	(97)	–
Income tax expense	–	(138)
Other expenses	(5,929)	(5,633)
Total comprehensive income	308	522
Share of income – Council (%)	2.876%	2.876%
Profit/(loss) – Council (\$)	9	15
Total comprehensive income – Council (\$)	9	15

(c) Joint operations

Council has no interest in any joint operations.

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

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

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

\$ '000	Notes	Actual 2017	Actual 2016
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		128,566	126,018
a. Other comprehensive income (excl. direct to reserves transactions)		–	(11)
b. Net operating result for the year		2,132	2,559
Balance at end of the reporting period		<u>130,698</u>	<u>128,566</u>
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		180,880	180,880
Total		<u>180,880</u>	<u>180,880</u>
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		180,880	181,630
– Revaluations for the year	9(a)	–	(750)
– Balance at end of year		<u>180,880</u>	<u>180,880</u>
TOTAL VALUE OF RESERVES		<u>180,880</u>	<u>180,880</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.

Dungog Shire Council

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

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 2017) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

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

Accordingly, the 'authorised for issue' date is 28/02/18.

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'.

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 25. Intangible assets

\$ '000

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.

Note 26. Reinstatement, rehabilitation and restoration liabilities

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

Asset/operation	Estimated year of restoration	NPV of provision	
		2017	2016
Tips – Dungog shire	2031	1,199	1,176
Quarries – Dungog shire	various	1,588	1,540
Balance at end of the reporting period	10(a)	2,787	2,716

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	2,716	2,414
Amounts capitalised to new or existing assets:		
– Clarence town quarry	–	204
Amortisation of discount (expensed to borrowing costs)	71	98
Total – reinstatement, rehabilitation and restoration provision	2,787	2,716

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 2017

Note 27. Fair value measurement

\$ '000

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

– Infrastructure, property, plant and equipment

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:

2017	Fair value measurement hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements				
Infrastructure, property, plant and equipment				
Operational land	–	6,643	–	6,643
Community land	–	3,760	–	3,760
Buildings	–	–	7,264	7,264
Other structures	–	–	3,944	3,944
Roads	–	–	135,718	135,718
Bridges	–	–	22,674	22,674
Footpaths	–	–	1,012	1,012
Bulk earthworks	–	–	90,356	90,356
Stormwater drainage	–	–	23,225	23,225
Other assets	–	–	137	137
Restoration assets	–	–	1,530	1,530
Total infrastructure, property, plant and equipment	–	10,403	285,860	296,263

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

2016	Fair value measurement hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements				
Infrastructure, property, plant and equipment				
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
Total infrastructure, property, plant and equipment	–	10,123	286,308	296,431

(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 2017

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 (i.e. Level 1 inputs), Council instead utilises a spread of both observable inputs (Level 2 inputs) and unobservable inputs (Level 3 inputs).

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

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 2017

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 classified into Regional, Rural Local Sealed, Rural Local Unsealed, Urban Local Sealed and Urban Local Unsealed Roads categories 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 - road assets have 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 2017

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 2017

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 2017

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 - timber bridge assets have 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 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 2017

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 - non-timber bridge assets have 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 2017

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 2017

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 2017

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 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 2017

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 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 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 2017

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 quarries, 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 2017

Note 27. Fair value measurement (continued)

\$ '000

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

	Buildings specialised	Other structures	Roads	Bridges	Total
Opening balance – 1/7/15	6,979	3,628	133,535	20,747	164,889
Purchases (Cost)	1,158	363	8,803	2,143	12,467
Disposals (WDV)	–	–	(2,174)	(9)	(2,183)
Depreciation and impairment	(469)	(463)	(3,312)	(669)	(4,913)
Closing balance – 30/6/16	7,668	3,528	136,852	22,212	170,260
Purchases (Cost)	87	836	3,357	1,172	5,452
Disposals (WDV)	–	–	(1,173)	(1)	(1,174)
Depreciation and impairment	(491)	(461)	(3,318)	(709)	(4,979)
Closing balance – 30/6/17	7,264	3,903	135,718	22,674	169,558
	Bulk earthworks	Footpaths	Stormwater drainage	Other assets	Total
Opening balance – 1/7/15	88,864	1,039	23,219	137	113,259
Purchases (Cost)	1,202	–	649	37	1,888
Disposals (WDV)	(304)	–	–	–	(304)
Depreciation and impairment	–	(14)	(432)	(36)	(482)
Closing balance – 30/6/16	89,762	1,025	23,436	138	114,361
Purchases (Cost)	594	–	225	34	853
Depreciation and impairment	–	(13)	(436)	(34)	(483)
Closing balance – 30/6/17	90,356	1,012	23,225	137	114,730
				Restoration assets	Total
Opening balance – 1/7/15				1,824	1,824
Depreciation and impairment				(137)	(137)
Closing balance – 30/6/16				1,687	1,687
Depreciation and impairment				(157)	(157)
Closing balance – 30/6/17				1,530	1,530

Dungog Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 28. Related party disclosures

\$ '000

a. Key management personnel

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

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

	Actual
Compensation:	2017
Short-term benefits	807
Post-employment benefits	93
Total	900

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) are not required to be disclosed. There were no other transactions between Council and other related parties requiring disclosure.

c. Other related party transactions

Nil



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial statements
Dungog Shire Council

To the Councillors of the Dungog Shire Council

Opinion

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

In my opinion,

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Matter

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 21 October 2016.

Other Information

The Councillors of the Council are responsible for the Other Information, which comprises the information in the Council's annual report for the year ended 30 June 2017, other than the financial report and my Independent Auditor's Report thereon.

My opinion on the financial report does not cover the Other Information. Accordingly, I do not express any form of assurance conclusion on the Other Information. However, I must read the Other Information and consider whether it is materially inconsistent with the financial report, the knowledge I obtained during the audit, or appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement in the Other Information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

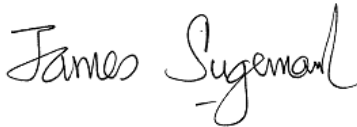
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does *not* provide assurance:

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

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive style with a long, sweeping underline.

James Sugumar
Director, Financial Audit Services

28 February 2018
SYDNEY

Dungog Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

*“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 2017

Council has no material Business Activities

Dungog Shire Council

SPECIAL SCHEDULES

for the year ended 30 June 2017

*“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 2017

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Special Schedules¹

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

¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

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

Dungog Shire Council

Special Schedule 1 – Net Cost of Services
for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,053	–	–	(1,053)
Administration	1,497	884	28	(585)
Public order and safety				
Fire service levy, fire protection, emergency services	609	38	–	(571)
Beach control	–	–	–	–
Enforcement of local government regulations	40	11	–	(29)
Animal control	34	16	–	(18)
Other	–	–	–	–
Total public order and safety	683	65	–	(618)
Health	25	9	–	(16)
Environment				
Noxious plants and insect/vermin control	130	63	–	(67)
Other environmental protection	187	77	–	(110)
Solid waste management	1,646	1,783	–	137
Street cleaning	39	–	–	(39)
Drainage	–	–	–	–
Stormwater management	66	219	–	153
Total environment	2,068	2,142	–	74
Community services and education				
Administration and education	43	5	–	(38)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	120	106	–	(14)
Children's services	9	1	–	(8)
Total community services and education	172	112	–	(60)
Housing and community amenities				
Public cemeteries	47	37	–	(10)
Public conveniences	121	–	–	(121)
Street lighting	113	20	–	(93)
Town planning	1,492	303	–	(1,189)
Other community amenities	124	416	–	292
Total housing and community amenities	1,897	776	–	(1,121)
Water supplies	–	–	–	–
Sewerage services	–	–	–	–

Dungog Shire Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	218	38	13	(167)
Museums	57	–	–	(57)
Art galleries	–	–	–	–
Community centres and halls	258	10	5	(243)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	–	–	–	–
Sporting grounds and venues	349	16	3	(330)
Swimming pools	350	1	1	(348)
Parks and gardens (lakes)	341	2	–	(339)
Other sport and recreation	1	–	–	(1)
Total recreation and culture	1,574	67	22	(1,485)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	293	132	–	(161)
Other mining, manufacturing and construction	199	63	–	(136)
Total mining, manufacturing and const.	492	195	–	(297)
Transport and communication				
Urban roads (UR) – local	1,147	2	–	(1,145)
Urban roads – regional	68	–	–	(68)
Sealed rural roads (SRR) – local	3,902	–	5,338	1,436
Sealed rural roads (SRR) – regional	2,718	2,716	607	605
Unsealed rural roads (URR) – local	1,261	–	–	(1,261)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	13	–	–	(13)
Bridges on SRR – local	1,131	–	–	(1,131)
Bridges on URR – local	93	–	–	(93)
Bridges on regional roads	143	–	–	(143)
Parking areas	–	–	–	–
Footpaths	36	–	–	(36)
Aerodromes	–	–	–	–
Other transport and communication	18	–	–	(18)
Total transport and communication	10,530	2,718	5,945	(1,867)
Economic affairs				
Camping areas and caravan parks	149	164	–	15
Other economic affairs	280	93	–	(187)
Total economic affairs	429	257	–	(172)
Totals – functions	20,420	7,225	5,995	(7,200)
General purpose revenues ⁽¹⁾		9,324		9,324
Share of interests – joint ventures and associates using the equity method	–	8		8
NET OPERATING RESULT ⁽²⁾	20,420	16,557	5,995	2,132

(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 2017

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
Loans (by source)											
Commonwealth Government	–	–	–							–	–
NSW Treasury Corporation	–	–	–							–	–
Other State Government	–	–	–							–	–
Public subscription	–	–	–							–	–
Financial institutions	143	1,393	1,536	–	143	–	–	63	142	1,251	1,393
Other	–	–	–							–	–
Total loans	143	1,393	1,536	–	143	–	–	63	142	1,251	1,393
Other long term debt											
Ratepayers advances	–	–	–							–	–
Government advances	1	5	6	–	1	–	–	–	2	3	5
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
Total long term debt	1	5	6	–	1	–	–	–	2	3	5
Total debt	144	1,398	1,542	–	144	–	–	63	144	1,254	1,398

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 2017

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings	529	3,020	450	197	7,264	30,201		59%	31%	10%	0%
	Sub-total	529	3,020	450	197	7,264	30,201	0.0%	59.0%	31.0%	10.0%	0.0%
Other structures	Other structures	136	132	20	–	956	1,647	14%	22%	35%	21%	8%
	Sub-total	136	132	20	–	956	1,647	14.0%	22.0%	35.0%	21.0%	8.0%
Roads	Sealed roads	9,610	26,723	3,190	2,219	131,961	196,729	13%	43%	32%	7%	5%
	Unsealed roads	–	–	–	523	3,757	16,650	0%	19%	81%	0%	0%
	Bridges	1,766	5,006	560	316	22,674	55,625	11%	11%	69%	5%	4%
	Footpaths	28	144	20	24	1,012	1,242	30%	21%	37%	11%	1%
	Bulk earthworks	–	–	–	–	90,356	90,356	100%				0%
	Sub-total	11,404	31,873	3,770	3,082	249,760	360,602	33.9%	26.1%	32.0%	4.6%	3.3%

Dungog Shire Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	766	4,375	170	5	23,225	33,653	9%	67%	11%	13%	0%
	Sub-total	766	4,375	170	5	23,225	33,653	9.0%	67.0%	11.0%	13.0%	0.0%
Open space/recreational assets	Swimming pools	181	1,031	30	30	436	1,719	0%	40%	0%	60%	0%
	Other	581	3,321	280	100	2,552	5,535	0%	40%	0%	60%	0%
	Sub-total	762	4,352	310	130	2,988	7,254	0.0%	40.0%	0.0%	60.0%	0.0%
	TOTAL – ALL ASSETS	13,597	43,752	4,720	3,414	284,193	433,357	29.0%	31.8%	29.7%	6.6%	2.8%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Dungog Shire Council

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

\$ '000	Amounts	Indicator	Benchmark	Prior periods	
	2017	2017		2016	2015
Infrastructure asset performance indicators * consolidated					
1. Infrastructure renewals ratio					
Asset renewals ⁽¹⁾	<u>5,012</u>	92.37%	>= 100%	216.31%	175.89%
Depreciation, amortisation and impairment	<u>5,426</u>				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	<u>13,597</u>	7.01%	< 2%	11.91%	12.53%
Net carrying amount of infrastructure assets	<u>193,837</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>3,414</u>	0.72	> 1.00	0.60	0.50
Required asset maintenance	<u>4,720</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>43,752</u>	10.10%		0.00%	
Gross replacement cost	<u>433,357</u>				

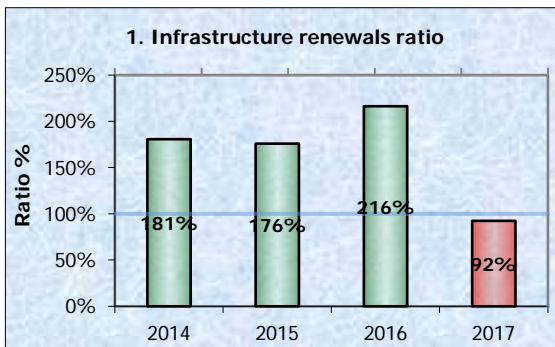
Notes

* 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 2017



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.

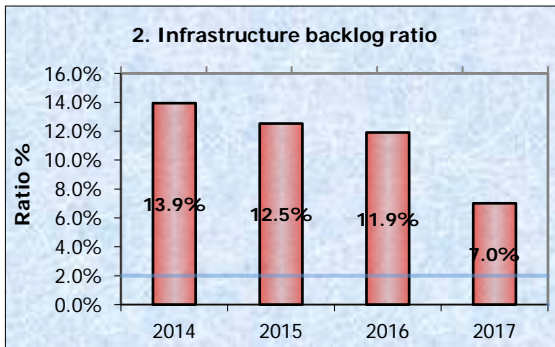
Commentary on 2016/17 result

2016/17 Ratio 92.37%

Asset renewals expenditure was considerably lower than in prior years.

Benchmark: 100.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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.

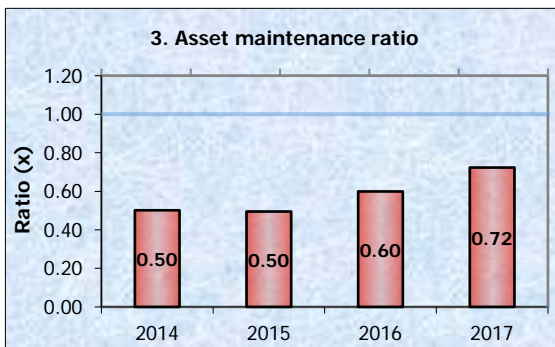
Commentary on 2016/17 result

2016/17 Ratio 7.01%

The fall in the infrastructure backlog ratio reflects Council's continued focus on renewing its asset base.

Benchmark: 2.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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.

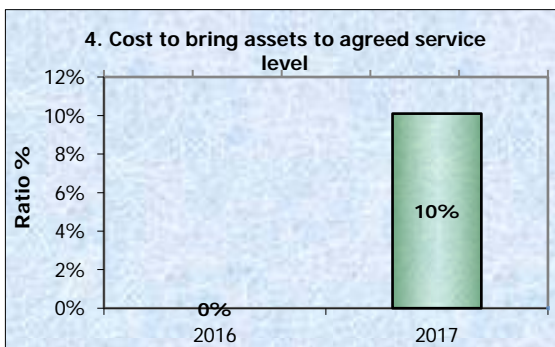
Commentary on 2016/17 result

2016/17 Ratio 0.72 x

Council's recent focus on asset renewals has resulted in lower maintenance expenditure in recent years.

Benchmark: 1.00
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves benchmark
Ratio is outside benchmark



Purpose of agreed service level ratio

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on 2016/17 result

2016/17 Ratio 10.10%

Whilst Council has invested significantly in asset renewal in recent years, further investment is required to raise asset conditions to agreed service levels.

Dungog Shire Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2018

\$'000		Calculation 2016/17	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	5,302	5,430
Plus or minus adjustments ⁽²⁾	b	32	13
Notional general income	c = (a + b)	5,334	5,443
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	1.80%	1.50%
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	96	82
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
Sub-total	k = (c + g + h + i + j)	5,430	5,524
Plus (or minus) last year's carry forward total	l	–	0
Less valuation objections claimed in the previous year	m	–	–
Sub-total	n = (l + m)	–	0
Total permissible income	o = k + n	5,430	5,524
Less notional general income yield	p	5,430	5,525
Catch-up or (excess) result	q = o – p	0	(1)
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	–	17
Less unused catch-up ⁽⁵⁾	s	–	–
Carry forward to next year	t = q + r – s	0	16

Notes

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule No. 8

Dungog Shire Council

To the Councillors of Dungog Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Matter

Special Schedule No.8 of the Council for the year ended 30 June 2017 was audited by another auditor who expressed an unmodified opinion on Special Schedule No. 8 on 21 October 2016.

Other Information

The Councillors of the Council are responsible for the Other Information, which comprises information in the Council's annual report for the year ended 30 June 2017, other than Special Schedule No.8 and my Independent Auditor's Report thereon.

My opinion on Special Schedule No.8 does not cover the Other Information. Accordingly, I do not express any form of assurance conclusion on the Other Information. However, I must read the Other Information and consider whether it is materially inconsistent with Special Schedule No.8, the knowledge I obtained during the audit, or appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement in the Other Information, I must report that fact.

I have nothing to report in this regard.

Councillors' Responsibility for Special Schedule No. 8

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

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

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

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive style with a large initial 'J' and a long, sweeping underline.

James Sugumar
Director, Financial Audit Services

28 February 2018
SYDNEY