



INVERELL
SHIRE COUNCIL

2016-2017

General Purpose Financial Statements

Special Purpose Financial Statements and

Special Schedules



Inverell Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017



Inverell 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 operations for Inverell Shire Council.
 - (ii) Inverell Shire Council constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

 Inverell Shire Council
 Administrative Building
 144 Otho Street
 INVERELL NSW 2360
 - (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 26 October 2017. Council has the power to amend and reissue these financial statements.
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Inverell Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

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

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

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


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

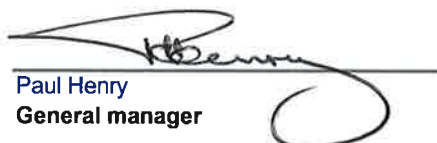
- present fairly the Council's operating result and financial position for the year, and
- accord with Council's accounting and other records.


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

Signed in accordance with a resolution of Council made on 25 October 2017.



Paul Harmon
Mayor

Anthony Michael
Councillor

Paul Henry
General manager

Paul Pay
Responsible accounting officer

Inverell Shire Council

Income Statement

for the year ended 30 June 2017

Budget ¹ 2017 \$ '000		Notes	Actual 2017	Actual 2016
Income from continuing operations				
Revenue:				
17,724	Rates and annual charges	3a	17,395	16,640
3,371	User charges and fees	3b	5,340	5,254
1,027	Interest and investment revenue	3c	1,598	2,639
427	Other revenues	3d	810	1,028
11,837	Grants and contributions provided for operating purposes	3e,f	14,246	12,827
962	Grants and contributions provided for capital purposes	3e,f	1,620	1,841
Other income:				
403	Net gains from the disposal of assets	5	—	150
—	Net share of interests in joint ventures and associates using the equity method	19	—	—
35,751	Total income from continuing operations		41,009	40,379
Expenses from continuing operations				
12,670	Employee benefits and on-costs	4a	12,446	12,073
209	Borrowing costs	4b	301	270
4,898	Materials and contracts	4c	7,628	7,133
8,219	Depreciation and amortisation	4d	7,694	7,593
—	Impairment	4d	—	—
4,287	Other expenses	4e	3,275	3,212
—	Net losses from the disposal of assets	5	1,359	—
30,283	Total expenses from continuing operations		32,703	30,281
5,468	Operating result from continuing operations		8,306	10,098
Discontinued operations				
—	Net profit/(loss) from discontinued operations	24	—	—
5,468	Net operating result for the year		8,306	10,098
5,468	Net operating result attributable to Council		8,306	10,098
—	Net operating result attributable to non-controlling interests		—	—
4,506	Net operating result for the year before grants and contributions provided for capital purposes		6,686	8,257

¹ Original budget as approved by Council – refer Note 16

Inverell 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)		8,306	10,098
Other comprehensive income:			
<i>Amounts which will not be reclassified subsequently to the operating result</i>			
Gain (loss) on revaluation of I,PP&E	20b (ii)	4,120	1,740
Total items which will not be reclassified subsequently to the operating result		4,120	1,740
<i>Amounts which will be reclassified subsequently to the operating result when specific conditions are met</i>			
Nil			
Total other comprehensive income for the year		4,120	1,740
Total comprehensive income for the year		12,426	11,838
Total comprehensive income attributable to Council		12,426	11,838
Total comprehensive income attributable to non-controlling interests		—	—

Inverell 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	3,174	3,824
Investments	6b	53,000	43,010
Receivables	7	3,348	4,785
Inventories	8	509	605
Other	8	194	83
Non-current assets classified as 'held for sale'	22	481	481
Total current assets		60,706	52,788
Non-current assets			
Investments	6b	1,000	5,000
Receivables	7	309	250
Inventories	8	—	—
Infrastructure, property, plant and equipment	9	623,321	615,575
Investments accounted for using the equity method	19	—	—
Investment property	14	2,725	2,725
Intangible assets	25	—	—
Total non-current assets		627,355	623,550
TOTAL ASSETS		688,061	676,338
LIABILITIES			
Current liabilities			
Payables	10	1,904	2,488
Income received in advance	10	584	481
Borrowings	10	552	529
Provisions	10	4,234	4,024
Total current liabilities		7,274	7,522
Non-current liabilities			
Payables	10	—	—
Borrowings	10	4,140	4,692
Provisions	10	1,801	1,704
Total non-current liabilities		5,941	6,396
TOTAL LIABILITIES		13,215	13,918
Net assets		674,846	662,420
EQUITY			
Retained earnings	20	510,384	502,078
Revaluation reserves	20	164,462	160,342
Other reserves	20	—	—
Council equity interest		674,846	662,420
Non-controlling equity interests		—	—
Total equity		674,846	662,420

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

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Inverell 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	Non-controlling interest	Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest
						Total equity					Total equity
Opening balance (as per last year's audited accounts)		502,078	160,342	—	662,420	—	491,980	158,602	—	650,582	—
a. Correction of prior period errors	20 (c)	—	—	—	—	—	—	—	—	—	—
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—	—	—	—	—	—
Revised opening balance		502,078	160,342	—	662,420	—	491,980	158,602	—	650,582	—
c. Net operating result for the year		8,306	—	—	8,306	—	10,098	—	—	10,098	—
d. Other comprehensive income											
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	4,120	—	4,120	—	—	1,740	—	1,740	—
Other comprehensive income		—	4,120	—	4,120	—	—	1,740	—	1,740	—
Total comprehensive income (c&d)		8,306	4,120	—	12,426	—	10,098	1,740	—	11,838	—
e. Distributions to/(contributions from) non-controlling interests		—	—	—	—	—	—	—	—	—	—
f. Transfers between equity		—	—	—	—	—	—	—	—	—	—
Equity – Closing balance		510,384	164,462	—	674,846	—	502,078	160,342	—	662,420	—

Inverell 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:				
17,724	Rates and annual charges		17,379	16,751
3,371	User charges and fees		5,945	4,930
1,027	Investment revenue and interest		1,450	1,865
12,798	Grants and contributions		16,181	15,560
–	Bonds, deposits and retention amounts received		637	715
427	Other		3,583	1,535
Payments:				
(12,670)	Employee benefits and on-costs		(12,197)	(11,851)
(4,887)	Materials and contracts		(9,439)	(9,647)
(209)	Borrowing costs		(201)	(175)
–	Bonds, deposits and retention amounts refunded		(1,274)	–
(4,286)	Other		(3,653)	(3,096)
13,295	Net cash provided from (or used in) operating activities	11b	18,411	16,587
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		12,000	16,052
–	Sale of real estate assets		54	–
690	Sale of infrastructure, property, plant and equipment		534	861
Payments:				
–	Purchase of investment securities		(17,958)	(19,500)
(13,435)	Purchase of infrastructure, property, plant and equipment		(13,162)	(14,860)
–	Deferred debtors and advances made		–	(2)
(12,745)	Net cash provided from (or used in) investing activities		(18,532)	(17,449)
Cash flows from financing activities				
Receipts:				
–	Borrowings and advances		–	2,000
Payments:				
(528)	Borrowings and advances		(529)	(337)
(528)	Net cash flow provided from (used in) financing activities		(529)	1,663
22	Net increase/(decrease) in cash and cash equivalents		(650)	801
3,824	Cash and cash equivalents – beginning of year	11a	3,824	3,023
3,846	Cash and cash equivalents – end of the year	11a	3,174	3,824
Additional Information:				
plus:	Investments on hand – end of year	6b	54,000	48,010
Total cash, cash equivalents and investments			57,174	51,834

Please refer to Note 11 for additional cash flow information

Inverell Shire Council

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

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n/a – not applicable

Inverell 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, this standard had no impact on reporting financial position or performance..

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11] 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 tip remediation provisions.

Significant judgements in applying the Council's accounting policies

- (i) Impairment of Receivables

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

(b) Revenue recognition

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(i) Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

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

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

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

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

(ii) User charges and fees

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

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

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

(iv) Interest

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

(v) Rent

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

(vi) Dividend income

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

(vii) Other income

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

(c) Principles of consolidation

(i) The Consolidated Fund

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

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

- General Purpose Operations
- Water Supply
- Sewerage Service
- Main Street Program
- Mayor's Drug Advisory Committee
- Youth Indent Committee

(ii) The Trust Fund

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

(iii) County Councils

Council is not a member of any county councils.

(iv) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

Council has no interest in any joint arrangements.

Subsidiaries, Joint Arrangements and Associates not recognised

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

- Northern New England Equestrian Council
- Sapphire City Floral Festival
- Great Inland Fishing Competition
- Inverell Sport Council
- Delungra District Development Council

Information relating to these entities can be found at Note 19 (e).

(d) Leases

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

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

periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

(e) Impairment of assets

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(f) Cash and cash equivalents

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

(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.

(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.

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

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

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

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

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

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

(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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

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

(ii) Loans and receivables

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

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

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

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

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

(iv) Available-for-sale financial assets

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

management intends to dispose of the investment within 12 months of the reporting date.

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

Recognition and de-recognition

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

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

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

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

Subsequent measurement

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

Investment Policy

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

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

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

(j) Fair value estimation – financial instruments

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

flows at the current market interest rate that is available to the Council for similar financial instruments.

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

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

Externally valued:

- Operational land
- Community land
- Buildings – specialised/non-specialised
- Other structures
- Swimming pools
- Other open space/recreational assets
- Other infrastructure

Internally valued:

- Roads assets including roads, bridges and footpaths
- Bulk earthworks
- Stormwater drainage
- Water and sewerage networks

As approximated by depreciated historical cost:

- Plant and equipment
- Land improvements
- Other structures
- 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.

Water and sewerage network assets are indexed annually between full revaluations in accordance with the latest indices provided in the NSW Office of Water Rates Reference Manual. The Indexation of water and sewerage network assets as at 30th June 2017 did not take place as a full revaluation of water and sewerage infrastructure occurred.

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:

Plant and Equipment

- Office Equipment	5 to 10 years
- Office furniture	5 to 10 years
- Vehicles	5 to 6 years
- Heavy Plant/Road Making equip.	5 to 6 years
- Other plant and equipment	5 to 10 years

Other Equipment

- Playground equipment	5 to 15 years
- Benches, seats etc	10 to 20 years

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Buildings	
- Buildings	50 years

Other Structures	
- Other Structures	25 to 50 years

Water Assets	
- Dams	100 years
- Bores	50 years
- Building / Civil Structures	100 years
- Reservoir Walls	100 years
- Reservoir Roofs	55 years
- Motors & Electrical Equipment	35 years
- Pumps & Mechanical Equipment	35 years
- Mains	100 years
- Water Meters	10 to 15 years

Sewer Assets	
- Pump Wells	70 years
- Motors & Electrical Equipment	30 years
- Pumps & Mechanical Equipment	30 years
- Effluent, Oxidation & Maturation Ponds	Infinite
- Sludge Lagoons	100 years
- Treatment Plant Siteworks	50 years
- Aeration Tank Structural	50 years
- Aeration Tanks Electrical	45 years
- Aeration Tank Mechanical	45 years
- Pipes – Long Life Component	160 years
- Pipes – Short Life Component	80 years

Stormwater Assets	
- Drainage assets	80 to 100 years

Transportation Assets	
- Sealed Roads: Surface	25 years
- Sealed Roads: Structure	75 years
- Unsealed roads	50 years
- Culverts / Causeways	100 years
- Roundabouts	40 years
- Kerb and Gutter	70 years
- Bridge: Concrete	100 years
- Bridge: Steel	100 years
- Bridge: Timber	100 years
- Carparks: Sealed	75 years
- Carparks: Unsealed	100 years
- Footpaths	100 years
- Cycleways	100 years

Other Infrastructure Assets	
- Bulk earthworks	Infinite

- Swimming Pools	10-100 years
- Other Open Space/ Recreational Assets	5-100 years
- Other Infrastructure	25-50 years

Remediation Assets	
- Tip: Inverell	50 years
- Tip: Villages	10 to 25 years
- Quarry/Gravel Pits	5 to 30 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.

(I) Investment property

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(n) Borrowings

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

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

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

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

(o) Borrowing costs

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

(p) Provisions

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

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

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

(q) Employee benefits

(i) Short-term obligations

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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.

(r) Land under roads

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

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

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

(s) Self-insurance

Council does not self-insure.

(t) Intangible assets

Council does not have any as intangible assets.

(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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(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.

As at the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

Effective for annual reporting periods beginning on or after 1 January 2017

- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15
- AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

- AASB 2016-7 Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities

Effective for annual reporting periods beginning on or after 13 February 2017

AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014- 16 Cycle

Effective for annual reporting periods beginning on or after 13 December 2017

AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

Effective for annual reporting periods beginning on or after 1 January 2018

AASB 9 Financial Instruments (December 2009)

- AASB 15 Revenue from Contracts with Customers
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)
- AASB 2014-1 Amendments to Australian Accounting Standards (Part E)
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) AASB 1057 Application of Australian Accounting Standards
- AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts

Effective for annual reporting periods beginning on or after 1 January 2019

AASB 16 Leases
AASB 16 Leases (Appendix D)

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities

AASB 1058 Income of Not-for-Profit Entities

AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

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

(y) Rounding of amounts

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

(z) Comparative figures

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

(aa) Disclaimer

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

Inverell 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 or activities. Details of these functions or 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	–	–	–	–	1,618	1,561	–	(1,618)	(1,561)	–	–	–	–
Administration	441	330	419	4,659	886	1,275	(4,218)	(556)	(856)	74	4	63,368	59,899
Public order and safety	559	73	423	1,208	1,177	982	(649)	(1,104)	(559)	21	329	4,386	4,553
Health	21	53	24	(186)	(305)	(231)	207	358	255	–	–	640	644
Environment	3,273	3,604	3,652	3,457	4,859	3,612	(184)	(1,255)	40	247	677	28,580	28,733
Community services and education	1	296	796	114	352	860	(113)	(56)	(64)	268	690	1,784	1,819
Housing and community amenities	268	286	326	1,024	1,067	1,046	(756)	(781)	(720)	15	57	2,005	1,914
Water supplies	4,520	4,772	5,160	4,326	5,507	3,767	194	(735)	1,393	121	131	93,489	85,864
Sewerage services	2,635	2,772	3,281	2,525	2,521	2,382	110	251	899	107	115	49,680	54,049
Recreation and culture	175	619	741	2,755	2,952	3,009	(2,580)	(2,333)	(2,268)	369	633	38,476	37,358
Mining, manufacturing and construction	178	147	130	363	206	255	(185)	(59)	(125)	–	–	2,231	2,240
Transport and communication	6,536	7,842	7,992	8,620	10,646	10,358	(2,084)	(2,804)	(2,366)	2,653	3,162	393,426	388,793
Economic affairs	308	507	677	1,418	1,217	1,405	(1,110)	(710)	(728)	32	–	9,996	10,472
Total functions and activities	18,915	21,301	23,621	30,283	32,703	30,281	(11,368)	(11,402)	(6,660)	3,907	5,798	688,061	676,338
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income ¹	16,836	19,708	16,758	–	–	–	16,836	19,708	16,758	8,309	5,554	–	–
Operating result from continuing operations	35,751	41,009	40,379	30,283	32,703	30,281	5,468	8,306	10,098	12,216	11,352	688,061	676,338

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

Inverell 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, beach control, enforcement of regulations and animal control.

HEALTH

Includes immunisation, food control, health centres 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; social protection (welfare); 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.

WATER SUPPLIES

SEWERAGE SERVICES

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, mineral resources, and abattoirs.

TRANSPORT AND COMMUNICATION

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

ECONOMIC AFFAIRS

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

Inverell 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		4,811	4,704
Farmland		3,470	3,381
Business		1,889	1,836
Total ordinary rates		10,170	9,921
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		1,994	1,836
Stormwater management services		140	131
Water supply services		2,049	1,927
Sewerage services		2,413	2,276
Waste management services (non-domestic)		629	549
Total annual charges		7,225	6,719
TOTAL RATES AND ANNUAL CHARGES		17,395	16,640

Council has used 2013 year valuations provided by the NSW Valuer General in calculating its rates.

Inverell 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		9	–
Water supply services		1,974	2,299
Waste management services (non-domestic)		537	394
Other		11	12
Total user charges		2,531	2,705
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building services – other		114	91
Inspection services		4	1
Planning and building regulation		145	124
Private works – section 67		239	313
Registration fees		24	26
Section 149 certificates (EPA Act)		38	34
Section 603 certificates		32	33
Total fees and charges – statutory/regulatory		596	622
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome		–	1
Caravan park		58	37
Quarry revenues		20	32
RMS (formerly RTA) charges (state roads not controlled by Council)		2,087	1,802
Town hall		21	20
Sportsgrounds		27	35
Total fees and charges – other		2,213	1,927
TOTAL USER CHARGES AND FEES		5,340	5,254

Inverell 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)		56	58
– Interest earned on investments (interest and coupon payment income)		1,505	1,540
– Interest on deferred debtors		5	(3)
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		32	1,044
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>1,598</u>	<u>2,639</u>
(d) Other revenues			
Fair value increments – investment properties	14	–	58
Rental income – investment properties	14	8	8
Rental income – other council properties		148	180
Fines		14	18
Legal fees recovery – rates and charges (extra charges)		20	23
Aged disabled and youth and other community services		19	114
Bushfire / SES sundry income		10	2
Cemetery		129	112
Chemical waste clean up		–	6
Commissions and agency fees		2	2
'Holding its own' book sales		–	2
Insurance claim recoveries		67	89
Insurance / workers compensation premium adjustment		106	100
Library		23	24
Parental leave reimbursement		47	31
Rural addressing		1	1
Sale of dogs / microchipping		3	3
Sale of old materials		36	10
Sulo bin sales		13	42
Sundry health services		14	10
Tourism		93	146
Other		57	47
<u>TOTAL OTHER REVENUE</u>		<u>810</u>	<u>1,028</u>

Inverell 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	3,453	3,462	–	–
Financial assistance – local roads component	1,916	1,918	–	–
Financial assistance – general component	1,789	–	–	–
Financial assistance – local roads component	983	–	–	–
Pensioners' rates subsidies – general component	168	174	–	–
Total general purpose	8,309	5,554	–	–
Note: Council received 50% of its 2017/18 Financial Assistance Grant in Advance totalling \$2,771,587.00				
Specific purpose (tied)				
Pensioners' rates subsidies:				
– Water	67	69	–	–
– Sewerage	56	58	–	–
– Domestic waste management	59	59	–	–
Aged, disabled, youth and other community services	268	680	–	10
Black spot program	–	–	–	155
Bushfire and emergency services	(19)	232	40	82
CEEP-Northern Light Project	–	44	–	–
Economic Development - Energise Enterprise Fund	16	–	–	–
Employment and training programs	–	4	–	–
Employment schemes / apprentice subsidy	2	–	–	–
Environmental protection	41	515	19	6
Heritage and cultural	14	9	–	30
Library	32	32	26	26
LIRS subsidy	105	119	–	–
Noxious weeds	128	97	–	–
Ross Hill Reserve	44	–	–	–
PAMP program	–	(2)	–	–
Recreation and culture	–	–	11	6
Responsible pet ownership	–	15	–	–
RMS-Connecting Centres for Cycling Infrastructure	–	–	–	236
RMS-Walking Communities Infrastructure Program	–	–	9	20
Safety around schools program	–	–	29	–
Sport and recreation	6	37	250	449
Street lighting	58	57	–	–
Transport - Bike Week	2	–	–	–
Transport (3x3, roads to recovery, flood etc.)	2,343	2,753	–	–
OLG Grant - Fire & Emergency Services Levy	72	–	–	–
Mental Health Association - Prenatal Week	1	–	–	–
Transport-RESTART Grant-Fixing Country Roads	80	–	23	–
Economic Development-Foundation for Rural & Regional Renewal	11	–	–	–
Economic Development - Back to Business Week	5	–	–	–
Transport-Timber Bridges Program	–	–	109	–
Total specific purpose	3,391	4,778	516	1,020
Total grants	11,700	10,332	516	1,020

(continued on the next page...)

Inverell 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 (continued)				
Comprising				
– Commonwealth funding	10,324	7,973	–	–
– State funding	1,365	2,359	516	978
– Other funding	11	–	–	42
	11,700	10,332	516	1,020
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94 – contributions towards amenities/services	–	–	103	64
S 64 – water supply contributions	–	–	354	227
S 64 – sewerage service contributions	–	–	52	57
Total developer contributions	–	–	509	348
Other contributions:				
Heritage/cultural	–	2	–	–
Roads and bridges	11	11	49	–
RMS contributions (regional roads, block grant)	2,461	2,413	471	473
Sport and recreation	74	69	75	–
Total other contributions	2,546	2,495	595	473
Total contributions	2,546	2,495	1,104	821
TOTAL GRANTS AND CONTRIBUTIONS	14,246	12,827	1,620	1,841

\$ '000	Actual 2017	Actual 2016
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(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	2,863	2,157
Add: grants and contributions recognised in the current period but not yet spent:	5,287	2,494
Less: grants and contributions recognised in a previous reporting period now spent:	(2,224)	(1,788)

Net increase (decrease) in restricted assets during the period	3,063	706
Unexpended and held as restricted assets	5,926	2,863

Comprising:

– Specific purpose unexpended grants	5,178	2,103
– Developer contributions	478	369
– Other contributions	270	391
	5,926	2,863

Inverell 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		10,914	10,533
Travel expenses		248	200
Employee leave entitlements (ELE)		1,817	1,914
Superannuation		1,330	1,370
Workers' compensation insurance		260	240
Fringe benefit tax (FBT)		157	139
Payroll tax		76	92
Training costs (other than salaries and wages)		209	174
Protective clothing		27	29
Employment costs		39	37
Total employee costs		15,077	14,728
Less: capitalised costs		(2,631)	(2,655)
TOTAL EMPLOYEE COSTS EXPENSED		12,446	12,073
Number of 'full-time equivalent' employees (FTE) at year end		192	199
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		201	175
Total interest bearing liability costs expensed		201	175
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	100	95
Total other borrowing costs		100	95
TOTAL BORROWING COSTS EXPENSED		301	270

Inverell 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		6,688	5,440
Contractor and consultancy costs		855	1,589
Auditors remuneration ⁽¹⁾		44	48
Legal expenses:			
– Legal expenses: planning and development		4	4
– Legal expenses: debt recovery		22	23
– Legal expenses: other		15	28
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		–	1
TOTAL MATERIALS AND CONTRACTS		7,628	7,133
1. Auditor remuneration			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
<i>Audit and review of financial statements: Council's Auditor \$44K</i>			
<i>Refer to section below - Audit and other assurance services</i>			
b. During the year, the following fees were incurred for services provided by the other Council's Auditors:			
Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		44	32
– Other audit and assurance services		–	16
Remuneration for audit and other assurance services		44	48
Total remuneration of other Council's Auditors		44	48
Total Auditor remuneration		44	48
2. Operating lease payments are attributable to:			
Computers		–	1
		–	1

Inverell 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		1,555	1,652
Office equipment		207	182
Furniture and fittings		33	36
Infrastructure:			
– Buildings – non-specialised		192	186
– Buildings – specialised		127	125
– Other structures		205	184
– Roads		2,259	2,200
– Bridges		1,187	1,182
– Footpaths		71	65
– Stormwater drainage		307	306
– Water supply network		850	833
– Sewerage network		681	705
– Swimming pools		81	81
– Other open space/recreational assets		221	176
Other assets			
– Library books		105	107
– Other		7	7
Asset reinstatement costs	9 & 26	28	33
Total gross depreciation and amortisation costs		8,116	8,060
Less: capitalised costs		(422)	(467)
Total depreciation and amortisation costs		7,694	7,593
Impairment			
Nil			
<u>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</u>		<u>7,694</u>	<u>7,593</u>

Inverell 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		100	190
Bad and doubtful debts		12	13
Bank charges		48	45
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		334	304
– Other contributions/levies		77	105
Councillor expenses – mayoral fee		25	24
Councillor expenses – councillors' fees		105	102
Councillors' expenses (incl. mayor) – other (excluding fees above)		43	20
Donations, contributions and assistance to other organisations (Section 356)		110	83
Election expenses		102	–
Electricity and heating		980	1,018
Insurance		683	675
Postage		77	57
Printing and stationery		79	73
Street lighting		168	191
Subscriptions and publications		16	18
Telephone and communications		212	190
Valuation fees		61	53
Other		43	51
<u>TOTAL OTHER EXPENSES</u>		<u>3,275</u>	<u>3,212</u>

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2017	Actual 2016
Property (excl. investment property)			
Proceeds from disposal – property		2	300
Less: carrying amount of property assets sold/written off		–	(420)
Net gain/(loss) on disposal		2	(120)
Plant and equipment			
Proceeds from disposal – plant and equipment		532	561
Less: carrying amount of plant and equipment assets sold/written off		(327)	(192)
Net gain/(loss) on disposal		205	369
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(1,515)	(99)
Net gain/(loss) on disposal		(1,515)	(99)
Real estate assets held for sale			
Proceeds from disposal – real estate assets		54	–
Less: carrying amount of real estate assets sold/written off		(105)	–
Net gain/(loss) on disposal		(51)	–
Financial assets *			
Proceeds from disposal/redemptions/maturities – financial assets		12,000	16,052
Less: carrying amount of financial assets sold/redeemed/matured		(12,000)	(16,052)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,359)	150

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 6a. – Cash and cash equivalents and Note 6b. – Investments

		2017	2017	2016	2016
		Actual	Actual	Actual	Actual
\$ '000	Notes	Current	Non-current	Current	Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		2,174	–	2,824	–
Cash-equivalent assets ¹					
– Deposits at call		1,000	–	1,000	–
Total cash and cash equivalents		3,174	–	3,824	–
Investments (Note 6b)					
– Long term deposits		53,000	1,000	43,000	5,000
– CDO's		–	–	10	–
Total investments		53,000	1,000	43,010	5,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		56,174	1,000	46,834	5,000

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

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

Cash and cash equivalents

a. 'At fair value through the profit and loss'	3,174	–	3,824	–
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Investments

a. 'At fair value through the profit and loss'				
– 'Held for trading'	–	–	10	–
b. 'Held to maturity'	53,000	1,000	43,000	5,000
Investments	53,000	1,000	43,010	5,000

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

Inverell Shire Council

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

Note 6c. Restricted cash, cash equivalents and investments

	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
\$ '000				
Total cash, cash equivalents and investments	56,174	1,000	46,834	5,000
attributable to:				
External restrictions (refer below)	19,869	1,000	16,908	–
Internal restrictions (refer below)	22,374	–	17,071	–
Unrestricted	13,931	–	12,855	5,000
	56,174	1,000	46,834	5,000

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

External restrictions – included in liabilities

Specific purpose unexpended loans – sewer (A)	1,802	–	(1,167)	635
Bonds and deposits	748	160	(797)	111
External restrictions – included in liabilities	2,550	160	(1,964)	746

External restrictions – other

Developer contributions – general (D)	369	518	(409)	478
RMS (formerly RTA) contributions (E)	391	5,584	(5,705)	270
Specific purpose unexpended grants (F)	2,086	3,092	–	5,178
Specific purpose unexpended grants-water fund (F)	14	–	(14)	–
Specific purpose unexpended grants-sewer fund (F)	3	–	(3)	–
Water supplies (G)	5,668	2,009	–	7,677
Sewerage services (G)	5,827	693	–	6,520
External restrictions – other	14,358	11,896	(6,131)	20,123
Total external restrictions	16,908	12,056	(8,095)	20,869

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Employees leave entitlement	1,011	326	—	1,337
Administration building	1,821	337	—	2,158
Aerodrome	134	172	—	306
Baths improvement	2,200	390	—	2,590
Computer	1,007	100	—	1,107
Connections plant and equipment	42	30	—	72
Copeton northern foreshores	49	—	—	49
Equipment upgrade / emergency management	211	—	—	211
Future capital works / land purchase	650	—	—	650
Garbage depot	169	—	—	169
Garbage degradation / rehab.	938	—	(493)	445
Gravel pit restoration	147	44	—	191
Gravel pit roadworks	85	43	—	128
Industrial development	669	480	—	1,149
Industrial / tourism promotion	12	82	—	94
Insurance excess reserve	162	48	—	210
Library	202	—	—	202
Plant replacement	3,310	1,481	(545)	4,246
Residential development	7	—	—	7
Road resumptions	20	—	—	20
SES plant replacement	67	37	—	104
Special capital projects	5	—	—	5
Sports ground – hockey facility	400	50	—	450
Strategic development fund	690	—	(200)	490
Town hall upgrade	100	—	—	100
Waste – externally sustainability	177	—	—	177
Waste infrastructure	2,213	291	—	2,504
Workers compensation insurance	573	130	—	703
Economic Development / Growth Assets	—	2,500	—	2,500
Total internal restrictions	17,071	6,541	(1,238)	22,374
TOTAL RESTRICTIONS	33,979	18,597	(9,333)	43,243

Inverell 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 ⁽ⁱ⁾		1,016	–	878	–
Interest and extra charges		111	–	97	–
User charges and fees		602	309	1,023	250
Private works		1	–	–	–
Accrued revenues					
– Interest on investments		641	–	539	–
– Other income accruals		461	–	1,534	–
Deferred debtors		6	–	6	–
Government grants and subsidies		366	–	538	–
Net GST receivable		201	–	216	–
Total		3,405	309	4,831	250
Less: provision for impairment ⁽ⁱⁱ⁾					
Rates and annual charges		(51)	–	(35)	–
User charges and fees		(6)	–	(11)	–
Total provision for impairment – receivables		(57)	–	(46)	–
<u>TOTAL NET RECEIVABLES</u>		<u>3,348</u>	<u>309</u>	<u>4,785</u>	<u>250</u>
Externally restricted receivables					
Water supply					
– Specific purpose grants		–	–	14	–
– Rates and availability charges		117	–	97	–
– Other		571	–	1,525	–
Sewerage services					
– Specific purpose grants		–	–	3	–
– Rates and availability charges		135	–	113	–
– Other		74	–	53	–
Domestic waste management		141	–	117	–
Total external restrictions		1,038	–	1,922	–
Internally restricted receivables					
Nil					
Unrestricted receivables		2,310	309	2,863	250
TOTAL NET RECEIVABLES		3,348	309	4,785	250

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.

Inverell 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 (a) below)		54	–	159	–
Stores and materials		455	–	446	–
Total inventories at cost		509	–	605	–
(ii) Inventories at net realisable value (NRV)					
Nil					
<u>TOTAL INVENTORIES</u>		<u>509</u>	<u>–</u>	<u>605</u>	<u>–</u>
(b) Other assets					
Prepayments		194	–	83	–
<u>TOTAL OTHER ASSETS</u>		<u>194</u>	<u>–</u>	<u>83</u>	<u>–</u>
Externally restricted assets					
Water					
Stores and materials		116	–	109	–
Total water		116	–	109	–
Sewerage					
Stores and materials		18	–	10	–
Total sewerage		18	–	10	–
Domestic waste management					
Nil					
Other					
Nil					
Total externally restricted assets		134	–	119	–
Total internally restricted assets		–	–	–	–
Total unrestricted assets		569	–	569	–
TOTAL INVENTORIES AND OTHER ASSETS		703	–	688	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 8. Inventories and other assets (continued)

\$ '000	2017		2016	
	Current	Non-current	Current	Non-current
Other disclosures				
(a) Details for real estate development				
Residential	54	—	159	—
Total real estate for resale	54	—	159	—
(Valued at the lower of cost and net realisable value)				
Represented by:				
Development costs	—	—	103	—
Other properties – book value	54	—	56	—
Total costs	54	—	159	—
Total real estate for resale	54	—	159	—
Movements:				
Real estate assets at beginning of the year	159	—	159	—
– WDV of sales (expense) 5	(105)	—	—	—
Total real estate for resale	54	—	159	—

(b) Current assets not anticipated to be settled within the next 12 months

The following inventories and other assets, even though classified as current are not expected to be recovered in the next 12 months;

	2017	2016
Real estate for resale	54	159
	54	159

(c) 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.

Inverell Shire Council

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

Note 9a. Infrastructure, property, plant and equipment

Asset class	as at 30/6/2016			Movements during the reporting period						as at 30/6/2017		
				Additions renewals	Additions new assets	Carrying value of disposals	Depreciation and Impairment	WIP transfers	Revaluation increments / (decrements)			
\$ '000	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount							Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	7,242	–	7,242	4,945	359	–	–	(6,577)	–	5,969	–	5,969
Plant and equipment	23,920	14,247	9,673	1,046	167	(327)	(1,555)	–	–	23,760	14,756	9,004
Office equipment	1,646	819	827	220	89	–	(207)	–	–	1,894	965	929
Furniture and fittings	705	539	166	–	–	–	(33)	–	–	706	573	133
Land:												
– Operational land	12,604	–	12,604	–	42	–	–	–	–	12,646	–	12,646
– Community land	9,559	–	9,559	–	–	–	–	–	–	9,559	–	9,559
Infrastructure:												
– Buildings – non-specialised	22,174	1,827	20,347	37	117	–	(192)	–	–	22,327	2,018	20,309
– Buildings – specialised	11,218	1,293	9,925	29	–	–	(127)	–	–	11,248	1,421	9,827
– Other structures	13,532	1,277	12,255	15	279	(23)	(205)	545	–	14,326	1,460	12,866
– Roads	212,455	42,489	169,966	4,727	22	–	(2,259)	434	–	217,639	44,749	172,890
– Bridges	124,233	28,591	95,642	150	–	–	(1,187)	153	–	124,536	29,778	94,758
– Footpaths	6,374	1,349	5,025	5	121	–	(71)	5	–	6,506	1,421	5,085
– Bulk earthworks (non-depreciable)	105,803	–	105,803	27	–	–	–	213	–	106,043	–	106,043
– Stormwater drainage	30,710	8,021	22,689	–	–	–	(307)	–	–	30,710	8,328	22,382
– Water supply network	97,418	24,724	72,694	275	–	(1,474)	(850)	4,806	8,583	114,249	30,215	84,034
– Sewerage network	64,191	18,668	45,523	10	–	–	(681)	–	(4,463)	66,359	25,970	40,389
– Swimming pools	3,947	865	3,082	–	–	–	(81)	–	–	3,947	946	3,001
– Other open space/recreational assets	12,610	1,397	11,213	395	368	(18)	(221)	421	–	13,771	1,613	12,158
Other assets:												
– Heritage collections	84	–	84	–	1	–	–	–	–	85	–	85
– Library books	1,075	751	324	–	138	–	(105)	–	–	1,213	856	357
– Other	86	38	48	–	–	–	(7)	–	–	86	45	41
Reinstatement, rehabilitation and restoration assets (refer Note 26):												
– Tip assets	863	118	745	–	–	–	(20)	–	–	863	138	725
– Quarry assets	334	195	139	–	–	–	(8)	–	–	334	203	131
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	762,783	147,208	615,575	11,881	1,703	(1,842)	(8,116)	–	4,120	788,776	165,455	623,321

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.

Inverell Shire Council

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

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

\$ '000 Class of asset	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	26	—	26	4,806	—	4,806
Plant and equipment	84	66	18	69	63	6
Office equipment	13	13	—	13	13	—
Land						
– Operational land	500	—	500	500	—	500
– Community land	240	—	240	240	—	240
Buildings	190	—	190	190	—	190
Infrastructure	114,249	30,215	84,034	97,418	24,723	72,695
Total water supply	115,302	30,294	85,008	103,236	24,799	78,437
Sewerage services						
WIP	1,391	—	1,391	198	—	198
Plant and equipment	157	157	—	157	156	1
Land						
– Operational land	516	—	516	516	—	516
Infrastructure	66,360	25,969	40,391	64,191	18,668	45,523
Total sewerage services	68,424	26,126	42,298	65,062	18,824	46,238
Domestic waste management						
Plant and equipment	462	66	396	235	41	194
Land						
– Operational land	884	—	884	884	—	884
Buildings	1,059	90	969	758	82	676
Other structures	1,326	114	1,212	1,036	85	951
Total DWM	3,731	270	3,461	2,913	208	2,705
TOTAL RESTRICTED I,PP&E	187,457	56,690	130,767	171,211	43,831	127,380

Inverell 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		1,556	–	1,571	–
Accrued expenses:					
– Salaries and wages		237	–	169	–
Security bonds, deposits and retentions		111	–	748	–
Total payables		1,904	–	2,488	–
Income received in advance					
Payments received in advance		584	–	481	–
Total income received in advance		584	–	481	–
Borrowings					
Loans – secured ¹		552	4,140	529	4,692
Total borrowings		552	4,140	529	4,692
Provisions					
Employee benefits:					
Annual leave		1,494	–	1,368	–
Sick leave		–	135	–	132
Long service leave		2,634	–	2,556	–
Sub-total – aggregate employee benefits		4,128	135	3,924	132
Asset remediation/restoration (future works)	26	106	1,666	100	1,572
Total provisions		4,234	1,801	4,024	1,704
<u>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</u>					
		7,274	5,941	7,522	6,396
(i) Liabilities relating to restricted assets					
		2017		2016	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		514	1,083	589	1,279
Sewer		316	1,410	326	1,588
Other		111	–	748	–
Liabilities relating to externally restricted assets		941	2,493	1,663	2,867
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		941	2,493	1,663	2,867
Total liabilities relating to unrestricted assets		6,333	3,448	5,859	3,529
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		7,274	5,941	7,522	6,396

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.

Inverell Shire Council

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

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

	Actual 2017	Actual 2016
\$ '000		

(ii) Current liabilities not expected 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	3,030	2,855
	3,030	2,855

Note 10b. Description of and movements in provisions

Class of provision	2016	2017				
	Opening balance as at 1/7/16	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	Closing balance as at 30/6/17
Annual leave	1,368	915	(789)	–	–	1,494
Sick leave	132	3	–	–	–	135
Long service leave	2,556	437	(359)	–	–	2,634
Asset remediation	1,672	100	–	–	–	1,772
TOTAL	5,728	1,455	(1,148)	–	–	6,035

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

Inverell 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	3,174	3,824
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		3,174	3,824
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		8,306	10,098
Adjust for non-cash items:			
Depreciation and amortisation		7,694	7,593
Net losses/(gains) on disposal of assets		1,359	(150)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(32)	(1,044)
– Investment properties		–	(58)
Unwinding of discount rates on reinstatement provisions		100	95
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		1,367	(712)
Increase/(decrease) in provision for doubtful debts		11	6
Decrease/(increase) in inventories		(9)	(11)
Decrease/(increase) in other assets		(111)	419
Increase/(decrease) in payables		(15)	(686)
Increase/(decrease) in other accrued expenses payable		68	136
Increase/(decrease) in other liabilities		(534)	769
Increase/(decrease) in employee leave entitlements		207	132
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		18,411	16,587
(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⁾		200	200
Credit cards/purchase cards		75	73
Total financing arrangements		275	273

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) Bank guarantees/ loan guarantees

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

Inverell Shire Council

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

Note 12. Commitments

\$ '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			
Buildings		210	277
Plant and equipment		1,108	322
Sewerage Treatment plant		790	–
Bridges		407	–
Other Structures		60	–
Total commitments		2,575	599
These expenditures are payable as follows:			
Within the next year		2,575	599
Total payable		2,575	599
Sources for funding of capital commitments:			
Unrestricted general funds		117	599
Future grants and contributions		560	–
Externally restricted reserves		155	–
Internally restricted reserves		1,108	–
Unexpended loans		635	–
Total sources of funding		2,575	599

Details of capital commitments

Storage Sheds at Airport & Sports Complex & Yetman Hall Development \$210K; Graders x 2 & Trailer \$1,108K
Sewerage Treatment Plant \$790K; Tin Tot Bridge Replacement \$407K; Electrical Substation \$60K

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

Nil

(d) Repairs and maintenance: Investment property

Nil

Inverell Shire Council

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

Note 13a(i). Statement of performance measurement - consolidation results

\$ '000	Amounts 2017	Indicator 2017	Prior periods 2016 2015		Benchmark
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	8,013	20.36%	18.79%	6.83%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	39,357				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	25,111	61.28%	62.51%	62.83%	>60.00%
Total continuing operating revenue ⁽¹⁾	40,977				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	39,611	11.99x	11.21x	7.68x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	3,303				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	16,008	19.29x	24.49x	25.28x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	830				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,076	5.84%	5.31%	5.89%	< 5% Metro <10% Rural
Rates, annual and extra charges collectible	18,411				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	57,174	25.14 mths	24.8 mths	20.7 mths	> 3 mths
Payments from cash flow of operating and financing activities	2,274				

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.

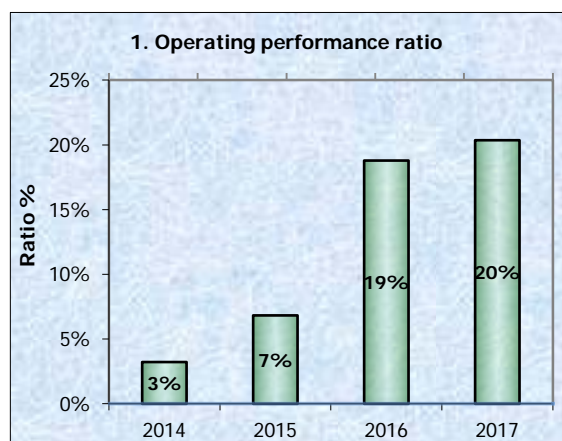
⁽³⁾ Refer to Note 10(a).

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

Inverell Shire Council

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

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

Benchmark: — Minimum $\geq 0.00\%$

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

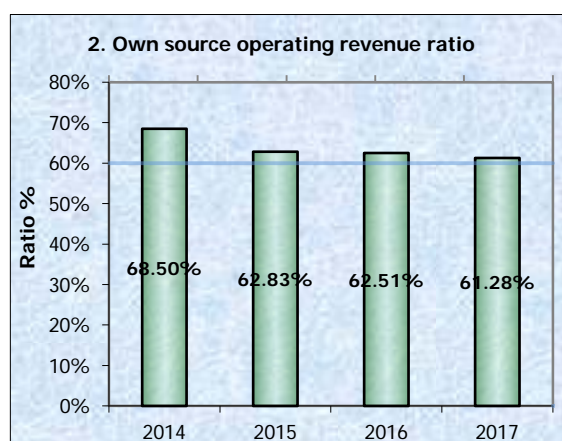
Purpose of operating performance ratio

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

Commentary on 2016/17 result**2016/17 ratio 20.36%**

This ratio indicates that Council's operating revenue, excluding capital grants and contributions are sufficient to cover operating expenditures. The Tcorp benchmark for this ratio is to have a result of better than -4% each year. The "Fit for Future" benchmark is break even or better over a three year period which Council has achieved for the Combined Fund. It is noted that if you remove the 2017-2018 advance payment of the Financial Assistances Grant the Ratio decrease to 14%

Ratio achieves benchmark
 Ratio is outside benchmark

Benchmark: — Minimum $\geq 60.00\%$

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

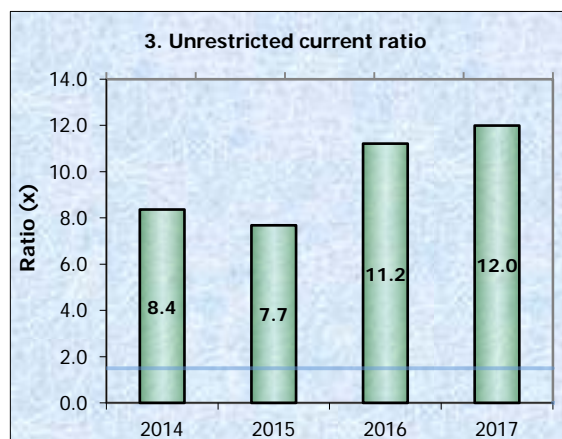
Purpose of own source operating revenue ratio

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

Commentary on 2016/17 result**2016/17 ratio 61.28%**

Council's Own Source Operating Revenue Ratio has remained above the Tcorp benchmark of greater than 60% over the last three years. The "Fit for Future" benchmark is that Councils should have Own Source Operating Revenue of greater than 60% over a three year average which Council has achieved for the Combined Fund.

Ratio achieves benchmark
 Ratio is outside benchmark

Benchmark: — Minimum ≥ 1.50

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

Purpose of unrestricted current ratio

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

Commentary on 2016/17 result**2016/17 ratio 11.99x**

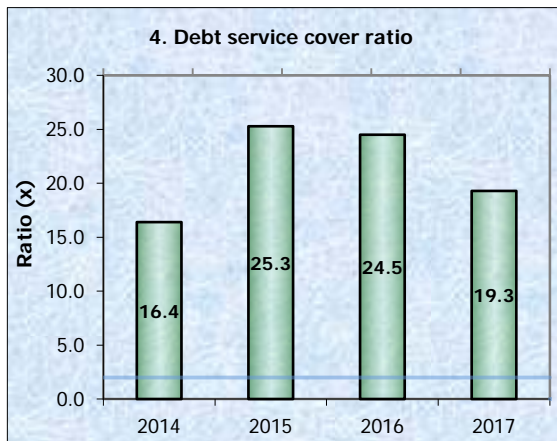
This ratio indicates that Council currently project to have \$11.99 (excluding externally restricted funds) available to service every \$1.00 of debt as it falls due. 11.99:1 is above benchmark and demonstrates Council's ability to satisfy short term obligations. The Tcorp benchmark is 1.5:1

Ratio achieves benchmark
 Ratio is outside benchmark

Inverell Shire Council

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

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

Benchmark: — Minimum ≥ 2.00

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

Purpose of debt service cover ratio

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

Commentary on 2016/17 result**2016/17 ratio 19.29x**

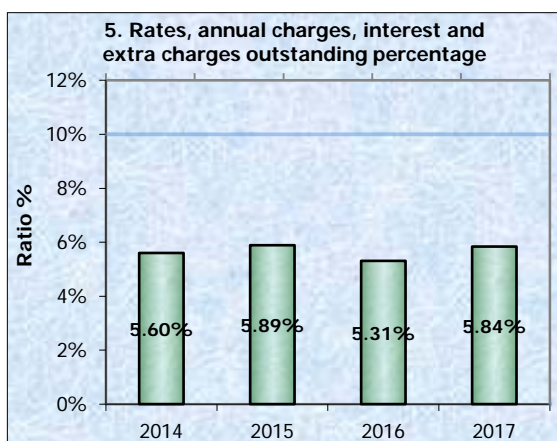
The debt service cover ratio of 19.29 times indicates that Council has \$19.29 before interest and depreciation to pay each \$1.00 of interest and principal repayments on current borrowings. Council's ability to generate sufficient cash to cover its debt payment is sound and in excess of the Tcorp benchmark of 2.0 times



Ratio achieves benchmark



Ratio is outside benchmark

Benchmark: — Maximum $< 10.00\%$

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

Purpose of rates and annual charges outstanding ratio

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

Commentary on 2016/17 result**2016/17 ratio 5.84%**

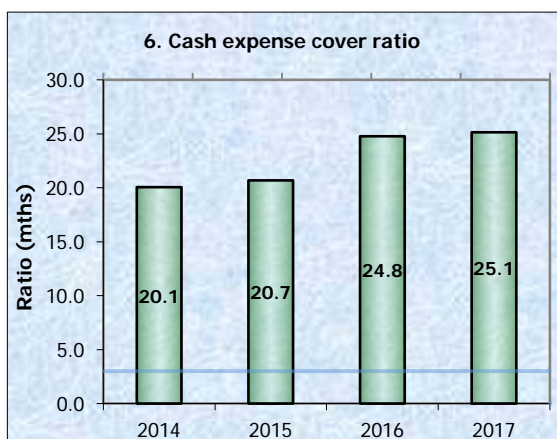
This ratio indicates the percentage of Rates and Annual Charges outstanding at the end of the financial year and is a measure of how well Council is managing debt recovery. Councils ratio of 5.84% is satisfactory and is better than the Tcorp benchmark of 10%



Ratio is within Benchmark



Ratio is outside Benchmark

Benchmark: — Minimum ≥ 3.00

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

Purpose of cash expense cover ratio

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

Commentary on 2016/17 result**2016/17 ratio 25.14 mths**

As indicated with a ratio of 25.14 months Councils ability to continue paying for its immediate expenses without additional cash inflow is sound and exceeds the Tcorp benchmark of 2 months.

Excluding the advance payment It is noted that if you remove the 2017-2018 advance payment of the Financial Assistances Grant from investments the Ratio decrease to 23.9 mths



Ratio achieves benchmark



Ratio is outside benchmark

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 13b. Statement of performance measures by fund

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
less operating expenses							
<hr/>							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	22.01%	19.16%	15.76%	20.81%	9.61%	10.92%	>0.00%
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
<hr/>							
Total continuing operating revenue ⁽¹⁾	54.28%	55.13%	90.20%	92.76%	94.30%	93.57%	>60.00%
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾							
<hr/>							
Current liabilities less specific purpose liabilities ^(3, 4)	11.00x	10.09x	26.59x	21.30x	31.68x	25.78x	>1.5x

Notes

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

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 13b. Statement of performance measures by fund (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	40.09x	109.84x	6.55x	7.49x	4.21x	4.44x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	6.03%	5.53%	5.34%	4.67%	5.28%	4.64%	< 5% Metro <10% Rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	23.26	23.10	26.77	20.93	42.70	49.77	> 3 months
Payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

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

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 14. Investment properties

\$ '000	Notes	Actual 2017	Actual 2016
(a) Investment properties at fair value			
<u>Investment properties on hand</u>		<u>2,725</u>	<u>2,725</u>
Reconciliation of annual movement:			
Opening balance		2,725	2,667
– Net gain/(loss) from fair value adjustments		–	58
CLOSING BALANCE – INVESTMENT PROPERTIES		<u>2,725</u>	<u>2,725</u>

(b) Valuation basis

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

The 2017 revaluations were based on independent assessments made by:
APV Valuers and Asset Management in their valuation dated 30/6/2016

(c) Contractual obligations at reporting date

Refer to Note 12 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

Details of leased investment properties are as follows;

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	8	7
Later than 1 year but less than 5 years	24	19
Later than 5 years	169	171
Total minimum lease payments receivable	<u>201</u>	<u>197</u>

(e) Investment property income and expenditure – summary

Rental income from investment properties:

– Minimum lease payments	8	8
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Direct operating expenses on investment properties:

– that generated rental income	(33)	(34)
– that did not generate rental income	(8)	(6)

Net revenue contribution from investment properties	<u>(33)</u>	<u>(32)</u>
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plus:

Fair value movement for year	<u>–</u>	<u>58</u>
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Total income attributable to investment properties	<u>(33)</u>	<u>26</u>
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Refer to Note 27. Fair value measurement for information regarding the fair value of investment properties held.

Inverell Shire Council

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

Note 15. Financial risk management

\$ '000

Risk management

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

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

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

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

Council held the following financial instruments at reporting date:

	Carrying value		Fair value	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	3,174	3,824	3,174	3,824
Investments				
– 'Held for trading'	–	10	–	10
– 'Held to maturity'	54,000	48,000	54,000	48,000
Receivables	3,657	5,035	3,657	5,035
Total financial assets	60,831	56,869	60,831	56,869
Financial liabilities				
Payables	1,904	2,488	1,904	2,488
Borrowings	4,692	5,221	4,692	5,221
Total financial liabilities	6,596	7,709	6,596	7,709

Inverell 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 area manages the cash and Investments portfolio with the assistance of independent advisors.

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

The risks associated with the investments held are:

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

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2017				
Possible impact of a 10% movement in market values	–	–	–	–
Possible impact of a 1% movement in interest rates	550	550	(550)	(550)
2016				
Possible impact of a 10% movement in market values	1	1	(1)	(1)
Possible impact of a 1% movement in interest rates	490	490	(490)	(490)

Inverell 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 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		0%	72%	0%	78%
Overdue		100%	28%	100%	22%
		100%	100%	100%	100%
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables	Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	–	1,937	–	3,266
< 1 year overdue	0 – 30 days overdue	401	290	–	392
1 – 2 years overdue	31 – 60 days overdue	237	2	551	1
2 – 5 years overdue	61 – 90 days overdue	216	167	164	107
> 5 years overdue	> 91 days overdue	162	302	163	437
		1,016	2,698	878	4,203
(iii) Movement in provision for impairment of receivables					
				2017	2016
Balance at the beginning of the year				46	40
+ new provisions recognised during the year				11	6
Balance at the end of the year				57	46

Inverell 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	111	1,793	–	–	–	–	–	1,904	1,904
Borrowings	–	734	734	734	734	734	1,789	5,459	4,692
Total financial liabilities	111	2,527	734	734	734	734	1,789	7,363	6,596
2016									
Trade/other payables	748	1,740	–	–	–	–	–	2,488	2,488
Borrowings	–	734	734	734	734	734	2,523	6,193	5,221
Total financial liabilities	748	2,474	734	734	734	734	2,523	8,681	7,709

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	1,904	0.00%	2,488	0.00%
Loans and advances – fixed interest rate	4,692	4.19%	5,221	4.19%
	<u>6,596</u>		<u>7,709</u>	

Inverell 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 22 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	17,724	17,395	(329)	(2%) U
User charges and fees	3,371	5,340	1,969	58% F
This favourable variance is mainly associated with extra funding becoming available during the year from RMS for maintenance and construction works on State Highway 12, \$1.571M, additional Waste Management fees \$220K and other minor increases in, Development Applications, Construction Certificate revenue and Caravan Park Fees				
Interest and investment revenue	1,027	1,598	571	56% F
The actual amount of interest received on an accrual basis was over budget by \$571K. This favourable increase was the result of reducing the original budget to reflect anticipated downward movement in interest rates. Council also invested unexpended loan funds for Sewer and Waste Functions generated additional unexpected returns				
Other revenues	427	810	383	90% F
This favourable variance is due to higher income in a range of areas including, OSSM-Approvals (\$14K) insurance proceeds (\$52K), rental income (\$K), interest on outstanding rates (\$20K), LTC sundry income (\$12K), workers comp reimbursements (\$121K), Paid Parental Leave (\$47K), waste income (\$33K), tourism sales (\$23K), and other minor increase across a range of Council revenue streams				
Operating grants and contributions	11,837	14,246	2,409	20% F
This favourable variance is due to higher income in a range of areas including, Block Grant (\$48K) Weeds Programs (\$55K), Youth Services (\$264K), Transport Grant (\$80K), Advance payment of Financial Assistance Grants (\$2772K) Unfavourable - Roads to Recovery (-\$827K) - deferred to 2017/2018 financial year				
Capital grants and contributions	962	1,620	658	68% F
This favourable variance is due to higher income in a range of areas including, Contribution to Works (\$75K) Section 94 Contributions (\$64K), Water Contributions (\$202K), Sewer Contributions (\$36K), Club NSW Grants (\$250K), Schools facilities Grant (\$28K)				
Net gains from disposal of assets	403	–	(403)	(100%) U
Council only budgets for a gain on the sale of Plant & Equipment. During 2016-2017 a gain of \$171K was realised on the sale of Plant & Equipment. This amount is lower than budgeted due to a number of fleet items not being delivered by June 2017. This gain was offset by the abnormal disposal of the Ashford Water Treatment. (refer to Net losses from disposal of assets below)				

Inverell 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	12,670	12,446	224	2% F
Borrowing costs	209	301	(92)	(44%) U
The variation of \$92K resulted from Council underestimating its borrowing costs in relation to amortisation of discounts and premiums for 2017				
Materials and contracts	4,898	7,628	(2,730)	(56%) U
This unfavourable variance is primarily a result of additional costs associated with community services and costs associated with extra grant funds for maintenance, repairs and construction works on Council Assets.				
Depreciation and amortisation	8,219	7,694	525	6% F
Other expenses	4,287	3,275	1,012	24% F
This favourable variance is due primarily to Council's ongoing energy efficiency program reducing electricity cost (General Fund \$26K, Water Fund \$210K, Sewer Fund \$32K), reduced insurance premiums (\$36K), reduced street lighting costs (\$82K), reduced Bulk Water purchases (\$18K), and a range of other smaller savings (<\$10K each) across Council's entire budget.				
Net losses from disposal of assets	–	1,359	(1,359)	0% U
Council does not budget for losses on disposal of assets. This unfavourable variance primarily relates to the disposal of the old Ashford Water Treatment Plant. (\$1474K)				

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

Cash flows from operating activities	13,295	18,411	5,116	38.5% F
This variation relates to the following favourable (F) and unfavourable (U) variances in income and expenditure; rates and annual charges \$451K (U), user charges and fees \$2680K (F), interest revenue \$455K (F) grants and contributions \$3383K (F), other revenue \$3156K (F), employee costs \$473K (F), borrowing costs \$8K (F) materials and contracts \$4552 (U), Bonds and deposits \$637K (U), other expenses \$633K (F)				
Cash flows from investing activities	(12,745)	(18,532)	(5,787)	45.4% U
The unfavourable variation relates to an increase in investments \$5990K (U) as a result of the 2017-2018 advance payment of the financial assistance grants and other incomplete projects. This is offset by non-completion of some capital works projects as at 30 June 2017 \$273K (F) and reduction in the sale of IPP&E \$102K(U)				
Cash flows from financing activities	(528)	(529)	(1)	0.2% U

Inverell 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					
Drainage	26	3	–	1	–	–	30	–
Roads	343	97	–	8	–	–	448	–
Community facilities	–	2	–	–	(2)	–	–	–
S94 contributions – under a plan	369	102	–	9	(2)	–	478	–
Total S94 revenue under plans	369	102	–	9	(2)	–	478	–
S64 contributions	–	407	–	–	(407)	–	–	–
Total contributions	369	509	–	9	(409)	–	478	–

Inverell 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 - Shire of Inverell

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					
Drainage	26	3	–	1	–	–	30	–
Roads	343	97	–	8	–	–	448	–
Community facilities	–	2	–	–	(2)	–	–	–
Total	369	102	–	9	(2)	–	478	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 18. Contingencies and other assets/liabilities not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position but knowledge of those items is considered relevant to users of the financial reports in making and evaluating decisions about the allocation of scarce resources.

HIH Insurance

During the periods 1988-1990, 1991-1993 and 1995-1997 a portion of Councils public Liability cover was insured or reinsured with a member of the HIH insurance group which has collapsed. Council may have to defend Public Liability claims made during these periods and satisfy any judgements.

Council are unaware of any such claims as at reporting date.

Local Government Superannuation Scheme

"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 purposes of AASB 119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all Councils.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30th June 2017 was \$256,890.92. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 2nd December 2016 and covers the period ended 30th June 2016.

However this position is monitored annually and the actuary has estimated that as at 30th 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 amount of additional contributions included in the total employer contribution advised above is \$135,999.96.

Council's expected contributions to the plan for the next annual reporting period is \$293,013.92

The share of this deficit, that is broadly attributed to Council is estimated to be in the order of \$132,000 as at 30th June 2017.

These additional Contributions are estimated to remain in place until 30th June 2020 (ie \$438,000 additional contribution remaining). The Trustee has extended the additional contribution period in order to build up a satisfactory surplus to allow the fund to transition to a less risky investment portfolio. This results in a lower assumed long term investment return. It is estimated that Inverell Shire Council participation in the scheme compared with other participating entities is approximately 0.33%.

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

For this reason, no liability for the deficiency has been recognised in Councils accounts. Council has however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

Clean Air Legislation

The passage of the Clean Air Legislation (Clean Energy Act 2011 and supporting legislation) will have an impact on Council's operating results going forward. Council expects to pay more for its energy usage including electricity, gas, water and fuel but will be compensated to some extent through additional rate revenue and domestic management charges that it proposes to raise. The operation of Council's landfill site could be expected to result in Council being liable for a carbon tax on gas emissions but it is proposed to increase tipping fees to cover this additional cost.

Council also expects construction materials such as concrete, bitumen and asphalt to increase in price but is unable to quantify the effect of these increases at the present time.

The financial effects of the Clean Air Legislation have not been brought to account at 30th June 2017.

Inverell 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)

Inverell 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 no interest in any joint ventures or associates.

(c) Joint operations

Council has no interest in any joint operations.

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

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

Name of entity/operation	Principal activity/type of entity
Inverell Sport Council	Advisory committee on Inverell sporting fields and facilities section 355 advisory committee
Inverell Sapphire Floral Festival	Co-ordinate annual Inverell festival section 355 specific event comm
Great Inland Fishing Festival	Co-ordinate annual fishing festival section 355 specific event comm
Equestrian Council	Management of Equestrain centre section 355 management comm
Delungra District Development Council	Co-ordinate events in Delungra section 355 specific event comm

***The above committees have minimal bank account balances and do not own or control any other assets
All other assets are held by Council and included in these financial statements***

Inverell Shire Council

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

Note 19. Interests in other entities (continued)

\$ '000

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

Bonshaw Hall	Management of respective halls
Delungra Hall	Section 355 Management Comm
Graman Hall	
Mt Russell Hall	
Yetman Hall	
Bukkulla Recreation Ground	Management of respective
Graman Recreation Reserve	sporting facilities
Oakwood Recreation Area	Section 355 Management Comm
Sporting Areas on Part Res 1571	
Tennis Courts on Section 19	
Yetman Tennis Club	

Reasons for non-recognition

The above section 355 committee's have not been recognised because it is considered that there transactions are immaterial either by amount or nature (Where actual figures are not known, best estimates have been applied)

Section 355 of the Local Government Act 1993, allows a Council to exercise it's functions through the establishment of a committee. The committee is then delegated specific responsibilities under Section 377 of the Local Government Act. A number of different types of committees can be established including:

Management Committees - are primarily responsible for the care, control and management of community facilities

Advisory Committees - are responsible for providing advice to Council on specific issues outlined in the Committee's objectives

Specific Event Committees - are responsible for the organising and conducting a specific event.

Inverell Shire Council

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

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

\$ '000	Notes	Actual 2017	Actual 2016
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		502,078	491,980
a. Net operating result for the year		8,306	10,098
Balance at end of the reporting period		<u>510,384</u>	<u>502,078</u>
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		164,462	160,342
Total		<u>164,462</u>	<u>160,342</u>
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		160,342	158,602
– Revaluations for the year	9(a)	4,120	1,740
– Balance at end of year		<u>164,462</u>	<u>160,342</u>
TOTAL VALUE OF RESERVES		<u>164,462</u>	<u>160,342</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) Changes in accounting policies

Council made changes in any accounting policies during the year.

(e) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

Inverell Shire Council

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

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2017	Actual 2017	Actual 2017
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	2,096	2,445	12,854
User charges and fees	2,121	9	3,210
Interest and investment revenue	184	176	1,238
Other revenues	17	14	779
Grants and contributions provided for operating purposes	124	107	14,015
Grants and contributions provided for capital purposes	354	52	1,214
Other income			
Net gains from disposal of assets	–	–	115
Share of interests in joint ventures and associates using the equity method	–	–	–
Total income from continuing operations	4,896	2,803	33,425
Expenses from continuing operations			
Employee benefits and on-costs	1,143	526	10,777
Borrowing costs	73	70	158
Materials and contracts	706	384	6,538
Depreciation and amortisation	853	680	6,161
Impairment	–	–	–
Other expenses	1,334	861	1,080
Net losses from the disposal of assets	1,474	–	–
Total expenses from continuing operations	5,583	2,521	24,714
Operating result from continuing operations	(687)	282	8,711
Discontinued operations			
Net profit/(loss) from discontinued operations	–	–	–
Net operating result for the year	(687)	282	8,711
Net operating result attributable to each council fund	(687)	282	8,711
Net operating result attributable to non-controlling interests	–	–	–
Net operating result for the year before grants and contributions provided for capital purposes	(1,041)	230	7,497

¹ General fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

Inverell Shire Council

Notes to the Financial Statements
as at 30 June 2017

Note 21. Financial result and financial position by fund (continued)

Statement of Financial Position by fund \$ '000	Actual 2017	Actual 2017	Actual 2017
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	677	1,155	1,342
Investments	7,000	6,000	40,000
Receivables	688	209	2,451
Inventories	116	18	375
Other	–	–	194
Non-current assets classified as 'held for sale'	–	–	481
Total current assets	8,481	7,382	44,843
Non-current assets			
Investments	–	–	1,000
Receivables	–	–	309
Inventories	–	–	–
Infrastructure, property, plant and equipment	85,008	42,298	496,015
Investments accounted for using the equity method	–	–	–
Investment property	–	–	2,725
Total non-current assets	85,008	42,298	500,049
TOTAL ASSETS	93,489	49,680	544,892
LIABILITIES			
Current liabilities			
Payables	44	7	1,853
Income received in advance	–	–	584
Borrowings	195	178	179
Provisions	275	131	3,828
Total current liabilities	514	316	6,444
Non-current liabilities			
Payables	–	–	–
Borrowings	1,083	1,410	1,647
Provisions	–	–	1,801
Total non-current liabilities	1,083	1,410	3,448
TOTAL LIABILITIES	1,597	1,726	9,892
Net assets	91,892	47,954	535,000
EQUITY			
Retained earnings	20,757	18,055	471,572
Revaluation reserves	71,135	29,899	63,428
Total equity	91,892	47,954	535,000

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

NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 22. Non-current assets classified as held for sale

\$ '000	2017 Current	2017 Non-current	2016 Current	2016 Non-current
Non-current assets 'held for sale'				
Vacant land – Brissett Street Inverell	34	–	34	–
Vacant land – Rosenstein estate Inverell	245	–	245	–
Vacant land – Corner Evans and Otho Street Inverell	202	–	202	–
Total non-current assets 'held for sale'	481	–	481	–
Disposal group assets 'held for sale'				
None				
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	<u>481</u>	<u>–</u>	<u>481</u>	<u>–</u>

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 Auditors' Report as the applicable 'authorised for issue' date relating to these General Purpose Financial Statements.

Accordingly, the 'authorised for issue' date is 26/10/17.

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

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

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

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

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

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

Note 24. Discontinued operations

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

Inverell 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

Asset remediation

Assets/operation	Estimated year of restoration	NPV of provision	
		2017	2016
Tips		1,298	1,225
Quarry/gravel pits		474	447
Balance at end of the reporting period	10(a)	<u>1,772</u>	<u>1,672</u>

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	1,672	1,577
Amounts capitalised to new or existing assets:		
Amortisation of discount (expensed to borrowing costs)	100	95
Total – reinstatement, rehabilitation and restoration provision	<u>1,772</u>	<u>1,672</u>

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 26. Reinstatement, rehabilitation and restoration liabilities (continued)

\$ '000

Provisions for close down and restoration and for environmental clean up costs – tips and quarries

Restoration

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals

Close down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

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

Rehabilitation

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

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

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

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Inverell 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
- Investment property
- Financial assets and liabilities

During the reporting period, Council will measure non-current assets classified as "Held for Sale at fair value on a non recurring basis if their carrying amount is higher than their value and therefore the asset needs to be written down to fair value. They are measured at the lower of their carrying amount and fair value less costs to sell. During the current reporting period, there were no assets measured at fair value on a non-recurring basis.

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 the assigned level of each assets and liabilities that have been measured and recognised at fair values: (continued)

2017	Date of latest valuation	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					
Investment properties					
Commerical offices and vacant land	30/06/17	–	2,725	–	2,725
Total investment properties		–	2,725	–	2,725

Inverell 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 the assigned level of each assets and liabilities that have been measured and recognised at fair values: (continued)

		Fair value measurement hierarchy			
2017		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/17	—	—	9,004	9,004
Office equipment	30/06/17	—	—	929	929
Furniture and fittings	30/06/17	—	—	133	133
Operational land	30/06/17	—	12,646	—	12,646
Community land	30/06/17	—	9,559	—	9,559
Buildings – non-specialised	30/06/17	—	—	20,309	20,309
Buildings – specialised	30/06/17	—	—	9,827	9,827
Other structures	30/06/17	—	—	12,866	12,866
Roads	30/06/17	—	—	173,108	173,108
Bridges	30/06/17	—	—	94,758	94,758
Footpaths	30/06/17	—	—	5,085	5,085
Bulk earthworks (non-depreciable)	30/06/17	—	—	105,825	105,825
Stormwater drainage	30/06/17	—	—	22,382	22,382
Water supply network	30/06/17	—	—	84,034	84,034
Sewerage network	30/06/17	—	—	40,389	40,389
Swimming pools	30/06/17	—	—	3,001	3,001
Other open space/recreational assets	30/06/17	—	—	12,158	12,158
Heritage collections	30/06/17	—	—	85	85
Library books	30/06/17	—	—	357	357
Other assets	30/06/17	—	—	41	41
Tip assets	30/06/17	—	—	725	725
Quarry assets	30/06/17	—	—	131	131
Capital Works in progress	30/06/17	—	—	5,969	5,969
Total infrastructure, property, plant and equipment		—	22,205	601,116	623,321
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Vacant Land		—	481	—	481
Total NCA’s classified as ‘held for sale’		—	481	—	481
2016					
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Designated at fair value on initial recognition’	30/06/16	—	—	10	10
Total financial assets		—	—	10	10
Investment properties					
Commerical offices and vacant land	30/06/16	—	2,725	—	2,725
Total investment properties		—	2,725	—	2,725

Inverell 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 the assigned level of each assets and liabilities that have been measured and recognised at fair values: (continued)

		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	—	—	9,673	9,673
Office equipment	30/06/16	—	—	827	827
Furniture and fittings	30/06/16	—	—	166	166
Operational land	30/06/16	—	12,604	—	12,604
Community land	30/06/16	—	9,559	—	9,559
Buildings – non-specialised	30/06/16	—	—	20,347	20,347
Buildings – specialised	30/06/16	—	—	9,925	9,925
Other structures	30/06/16	—	—	12,255	12,255
Roads	30/06/16	—	—	169,966	169,966
Bridges	30/06/16	—	—	95,642	95,642
Footpaths	30/06/16	—	—	5,025	5,025
Bulk earthworks (non-depreciable)	30/06/16	—	—	105,803	105,803
Stormwater drainage	30/06/16	—	—	22,689	22,689
Water supply network	30/06/16	—	—	72,694	72,694
Sewerage network	30/06/16	—	—	45,523	45,523
Swimming pools	30/06/16	—	—	3,082	3,082
Other open space/recreational assets	30/06/16	—	—	11,213	11,213
Heritage collections	30/06/16	—	—	84	84
Library books	30/06/16	—	—	324	324
Other assets	30/06/16	—	—	48	48
Tip assets	30/06/16	—	—	745	745
Quarry assets	30/06/16	—	—	139	139
Capital Works in progress	30/06/16	—	—	7,242	7,242
Total infrastructure, property, plant and equipment		—	22,163	593,412	615,575
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Vacant Land		—	481	—	481
Total NCA’s classified as ‘held for sale’		—	481	—	481

(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.

Inverell 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

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

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

Investment properties

Council's portfolio of investment properties includes two commercial buildings and a collection of vacant land held for commercial development. Both land and buildings were last valued by APV Valuers and Asset Management (APV Valuers) in June 2016.

Land has been valued using Level 2 inputs. Sales prices of comparable land sites in close proximity are adjusted for difference in key attributes such as property size. The most significant inputs into this valuation approach are price per square meter.

Fair value of Commercial Building has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square meter.

There has been no change to the valuation process during the reporting period.

Infrastructure, property, plant and equipment

Plant and equipment, office equipment, furniture and fittings and other assets

Plant & Equipment, Office Equipment, Furniture & Fittings, Other Assets are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets with these classes are as follows:

Plant and equipment	Trucks, rollers, earthmoving equipment, motor vehicles, Chainsaws, brush cutters, mowers
Office equipment	Computers, monitors, projectors
Furniture and fittings	Desk, chairs, display systems
Library books	Books, publications, reference materials, CD & DVD
Heritage collection	Paintings, sculptures

The key unobservable inputs to the valuation are the remaining useful life, and residual value. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the asset condition, pattern of consumption, estimated remaining useful lives and the residual value.

There has been no change to the valuation process during the reporting period.

Operational and community land

Councils "operational" Land by definition has no special restrictions other than those that may apply to any piece of land.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

Councils "Community" land (including owned by Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under section 94 of the Environment Planning and Assessment Act 1979). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land.

Level 2 valuation inputs were used to value land in freehold title (investment and non-investment) as well as land used for special purposes which is restricted in use under current zoning rules. Sale prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

There has been no change to the valuation process during the reporting period.

Buildings (specialised and non-specialised)

Councils buildings incorporate, Administrative buildings, libraries, sporting club houses and canteens, public amenities, depot buildings and workshops, rural fire service sheds, community centres, community halls etc.

Buildings were valued by APV Valuers in June 2013 using the cost approach. The approach estimated the replacement cost for each building by componentising the building into significant parts with different useful lives and taking into account a range of factors such as asset condition, pattern of consumption, estimated remaining useful lives and the residual value. While all buildings were physically inspected, inputs such as estimated residual values and pattern of consumption required extensive professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Other structures

This asset class comprises playgrounds, floodlighting systems, irrigation systems, shelters, picnic tables, fences, BBQs, aerodrome runway etc.

Council engaged APV Valuers to value all other structures in 2013. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Roads (including bulk earthworks)

This asset class includes the road pavement and road seal, along with other road assets including kerb and guttering, guardrail and roadside furniture including signs and other traffic management devices. The full revaluation of road assets is undertaken every five years and the last valuation was performed in-house by Councils Financial and Engineering staff as at 30 June 2015 using the cost approach. No market based evidence (level 2) inputs are available therefore Level 3 valuation inputs were used for the asset class. Some of the significant inputs considered in the valuation of these assets are remaining useful life, pattern of consumption, asset condition, dimensions.

There has been no change to the valuation process during the reporting period.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

Bridges

Bridges were valued in-house by Councils Financial and Engineering staff in June 2015. The approach estimated the replacement cost for each bridge by componentising the bridges into significant parts with different useful lives and taking into account a range of factors. Inputs such as estimates asset condition and pattern of consumption required extensive professional judgement and accordingly impact on the final determination of fair value.

There has been no change to the valuation process during the reporting period.

Footpaths

Footpaths were valued in-house by Councils Financial and Engineering staff in June 2015 using the cost approach. Footpaths are segmented to match the adjacent road segment and no further componentisation was undertaken. Condition information is updated as changes in the network are observed. Some of the significant inputs considered in the valuation of these assets are remaining useful life, pattern of consumption, asset condition, dimensions.

This asset class is categorised as Level 3 as some of the above mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable

There has been no change to the valuation process during the reporting period.

Stormwater drainage

Stormwater Drainage refers to the system for the collection, storage and removal of stormwater. These assets include pipelines, pits, headwalls and other drainage structures. The full revaluation of Stormwater Drainage assets is undertaken every 5 years and the last valuation was completed in June 2015 by Councils Financial and Engineering staff using the cost approach.

The Cost Approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per unit or similar may be supported from market evidence (Level 2) such as the NSW Reference Rates Manual, Valuation of water supply, sewerage and stormwater assets, as published by the NSW Office of Water, other inputs (such as estimates of pattern of consumption, asset condition and useful life) require significant professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Water supply network

Councils Water Supply Network assets include water meters, water mains & pipelines, pump stations, treatment plants, reservoirs and connections. The full revaluation of Water Supply assets is undertaken every 5 years and the last valuation was completed in June 2017 by Councils Financial and Engineering staff using the cost approach.

The Cost Approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per unit or similar may be supported from market evidence (Level 2) such as the NSW Reference Rates Manual, Valuation of water supply, sewerage and stormwater assets, as published by the NSW Office of Water, other inputs (such as estimates of pattern of consumption, residual values, asset condition and useful life) require significant professional judgement and

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

Council indexes Water Supply assets each year in line with the NSW Water Supply & Sewerage Construction Cost Indices as published by NSW Office of Water.

There has been no change to the valuation process during the reporting period.

Sewerage network

Councils Sewerage Network assets include sewer mains, pump stations and treatment plants. The full revaluation of Sewerage Network assets is undertaken every 5 years and the last valuation was completed in June 2017 by Councils Financial and Engineering staff using the cost approach.

The Cost Approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per unit or similar may be supported from market evidence (Level 2) such as the NSW Reference Rates Manual, Valuation of water supply, sewerage and stormwater assets, as published by the NSW Office of Water, other inputs (such as estimates of pattern of consumption, residual values, asset condition and useful life) require significant professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

Council indexes Sewerage Network assets each year in line with the NSW Water Supply & Sewerage Construction Cost Indices as published by NSW Office of Water.

There has been no change to the valuation process during the reporting period.

Swimming pools

The swimming pool assets include all assets located within the swimming facilities at Inverell and Ashford. These assets were valued by APV Valuers in June 2013. The valuation methodology used by APV for these valuations are the same as that used by APV for Specialised buildings and Other Structures. Inputs such as estimates of the pattern of consumption, residual values, asset condition and useful life require significant professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Other open spaces and recreational assets

Councils Open Space & Recreational Assets include all assets within our sporting field and park locations. This includes but not limited to, ovals, playing courts, playgrounds, fences and shelters. These assets were valued by APV Valuers in June 2013. The valuation methodology used by APV for these valuations are the same as that used by APV Valuers for Specialised buildings and Other Structures. Inputs such as estimates of the pattern of consumption, residual values, asset condition and useful life require significant professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

Tip and quarry assets

The Inverell Landfill and Materials Recovery Facility is located on Burtenshaw's Road Inverell. This facility encompasses a landfill operation as well as a wide range of waste disposal services, resource recovery services, recycled and reclaimed products.

Council also operates rural landfills at Elsmore, Gum Flat, Nullamanna, cherry Tree Hill, Bukkulla, Wallangra, Bannockburn, Delungra, Bonshaw, Yetman, Graman and Ashford.

Council utilise and maintain approximately sixty seven quarries (gravel pits) within the Shire.

It has been recognised that there will be significant costs associated with the closure and post closure management of these landfills and quarries.

Closure of these landfill sites and quarries will involve a wide range of activities and may include preparation of a Site Closure and Management Plan, final capping of the landfill waste and site re-vegetation, installation of a final gas management system, revision of the surface water management system and leachate management infrastructure to suit post closure operations, decommissioning and removing infrastructure and equipment that will not be required post-closure, and fencing sensitive infrastructure.

An evaluation of costs for site closure and post closure management has been undertaken by Councils Financial and Engineering Staff each year. The key unobservable inputs are the discount rate, estimated costs, actual timing of costs and future environment management requirements. These inputs require significant professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Inverell Shire Council

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

Note 27. Fair value measurement (continued)

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

- a. The following table presents a reconciliation of the movements in recurring fair value measurement allocated to Level of the hierarchy

	<u>2017</u>	<u>2016</u>
	\$000	\$000
<u>Opening Balance 30/6/2016</u>	615,575	607,279
Adoption of AASB 13		
Transfers from/(to) Level 1 FV hierarchy	-	-
Transfers from/(to) Level 2 FV hierarchy	-	-
Transfers from/(to) another asset class	-	-
Purchases (GBV)	13,584	15,327
Disposals (WDV)	(1,842)	(711)
Depreciation & Impairment	(8,116)	(8,060)
Revaluation Decrements to Equity	-	-
Revaluation Increments to Equity	4,120	1,740
<u>Closing Balance - 30/6/17</u>	<u>623,321</u>	<u>615,575</u>

- b. Information relating to the transfers into and out of the Level 3 fair Valuation Hierarchy (as disclosed in the Table above includes:

No transfers were made on or out of level Fair Value Hierarchy

c. **The Valuation Process for Level 3 Fair Value Measurements**

Level 3 valuations process for some asset classes where the basis was Cost Approach, the inputs used were:

- Pattern of consumption
- Componentisation
- Asset Condition
- Unit Rates
- Useful Life

(5). Highest and best use

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

Inverell 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 2017
Compensation:	
Short-term benefits	873,196
Post-employment benefits	64,639
Other long-term benefits	—
Termination benefits	—
Total	937,835

b. Other transactions with KMP and their related parties

Council has no other transactions with KMP and their related parties

c. Other related party transactions

Council has no other related party transactions

Inverell Shire Council

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

Note 29. Council information and contact details

Principal place of business:

144 Otho Street
Inverell NSW 2360

Contact details

Mailing address:

PO Box 138
Inverell NSW 2360

Opening hours:

8:30am to 4:30pm

Telephone: 02 67288288

Facsimile: 02 67288277

Internet: www.inverell.nsw.gov.au

Email: council@inverell.nsw.gov.au

Officers

GENERAL MANAGER

Paul Henry

RESPONSIBLE ACCOUNTING OFFICER

Paul Pay

PUBLIC OFFICER

Sharon Stafford

AUDITORS

Audit Office of NSW
Level 15
1 Margaret Street
SYDNEY

Elected members

MAYOR

Paul Harmon

COUNCILLORS

Di Baker
Anthony Michael
Kate Dight
Mal Peters
Neil McCosker
Stewart Berryman
Jacqueline Watts
Paul King

Other information

ABN: 72695204530



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

I have audited the accompanying financial statements of Inverell 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 those financial statements on 21 October 2016.

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

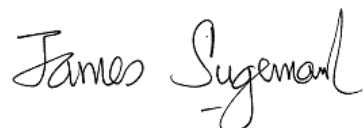
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. 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, reading "James Sugumar". The signature is written in a cursive, flowing style.

James Sugumar
Director, Financial Audit Services

26 October 2017
SYDNEY

Mayor Paul Harmon
Inverell Shire Council
PO Box 138
INVERELL NSW 2360

Contact: James Sugumar
Phone no: 02 9275 7100
Our ref: D1727333/1744

26 October 2017

Dear Mayor Harmon

Report on the Conduct of the Audit
Audit for the year ended 30 June 2017
Inverell Shire Council

I have audited the general purpose financial statements of Inverell Shire Council (the Council) for the year ended 30 June 2017 as required by section 415 of the *Local Government Act 1993* (the Act).

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

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

INCOME STATEMENT

Operating result

	2017	2016	Variation
	\$m	\$m	%
Rates and annual charges revenue	17.4	16.6	4.8 ↑
Grants and contributions revenue	15.9	14.7	8.2 ↑
Total expenses	32.7	30.3	7.9 ↑
Operating result for the year	8.3	10.1	(17.8) ↓

The increase in Rates and Annual Charges was largely due to the 1.8 per cent general rate rise and Council approved increases in annual charges amounting to 7.5 per cent.

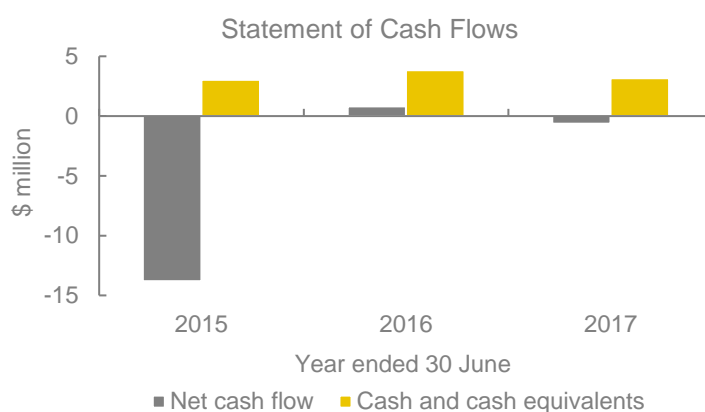
Early receipt of \$2.8 million of the 2017-18 Financial Assistance Grant in June 2017 largely contributed to the rise in Grants and Contributions revenue.

The reduced operating result for the year by \$1.8 million was mainly attributable to lower investment income and larger loss on disposal of assets.

STATEMENT OF CASH FLOWS

Net cash flows decreased by \$1.5 million from the previous year in line with the decreased operating result by \$1.8 million.

The large net cash outflows in 2015 represented Council's acquisition of long-term investments.



FINANCIAL POSITION

Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	20.9	16.9	<ul style="list-style-type: none"> Cash and investments increased by \$5.4 million, mainly due to greater receipts from rates and annual charges, user charges, and grants and contributions including early receipt of the 2017-18 Financial Assistance Grant.
Internal restrictions	22.4	17.0	
Unrestricted	13.9	17.9	
Total cash and investments	57.2	51.8	<ul style="list-style-type: none"> The ratio of restricted cash and investments increased from 65.4 per cent to 75.7 per cent mainly due to the majority of grants received having external restrictions. Externally restricted funds include: <ul style="list-style-type: none"> specific purpose grants of \$5.2 million water and sewer special rate variation of \$14.2 million. Internally restricted funds include: <ul style="list-style-type: none"> plant replacement of \$4.2 million pool redevelopment of \$2.6 million waste infrastructure of \$2.5 million Economic Development / Growth Assets of \$2.5 million.

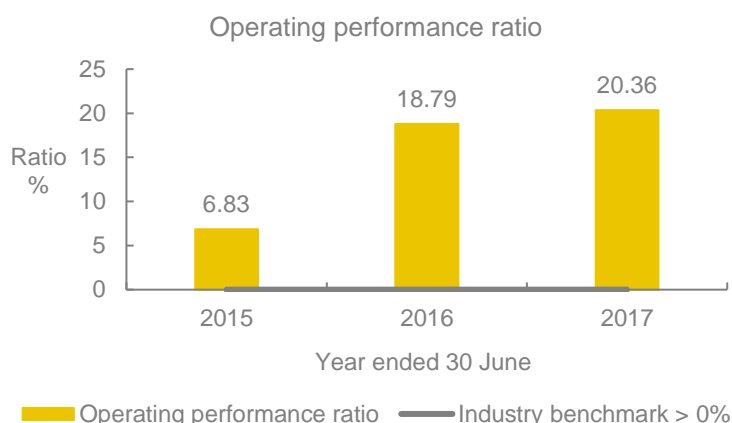
PERFORMANCE RATIOS

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

Operating performance ratio

- Council exceeded the benchmark of greater than zero per cent.
- The ratio increased by 1.6 per cent compared to the prior year due to receipt of additional Financial Assistance Grant.

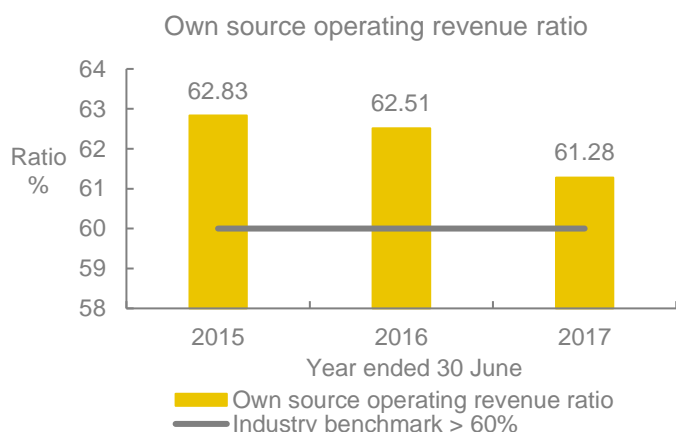
The 'operating performance ratio' measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

- Council exceeded the benchmark of greater than 60 per cent.
- The ratio decreased in 2017 due to receipt of additional Financial Assistance Grant.

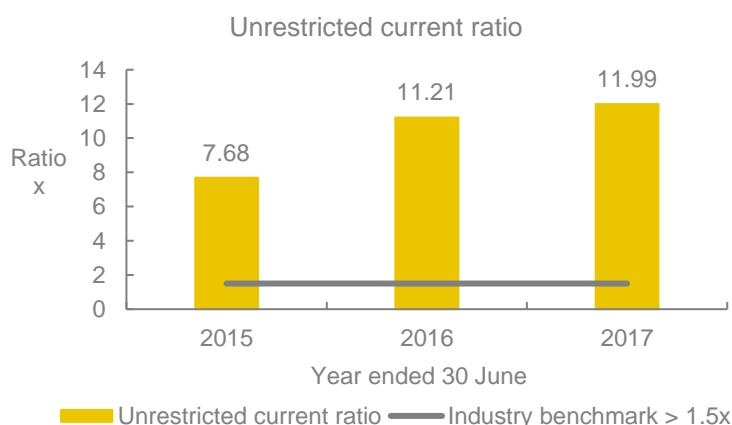
The 'own source operating revenue ratio' measures Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

- Council exceeded the benchmark of 1.5 times.
- Council has sufficient liquid assets to meet its liabilities as and when they fall due.

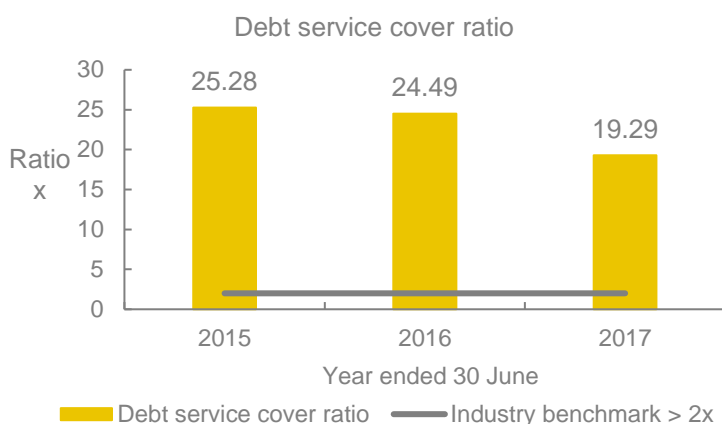
The 'unrestricted current ratio' is specific to local government and represents Council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

- Council exceeded the benchmark of greater than two times.
- The decrease of 5.2 times was due to higher debt repayments in 2017 for the additional loan received in 2016.

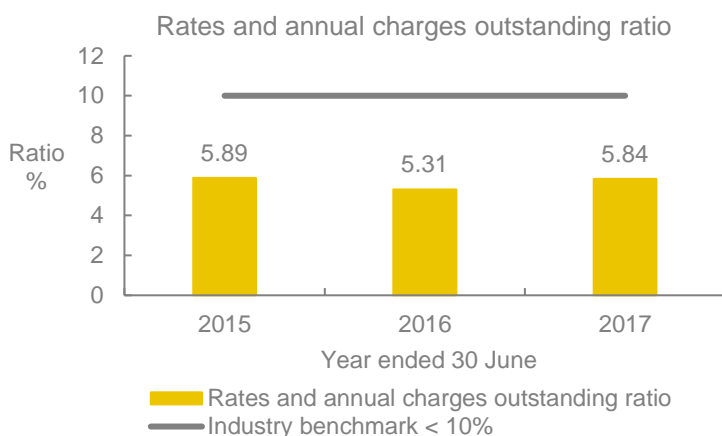
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

- Council continues to achieve the benchmark for outstanding rates and annual charges. The ratio remains steady over the past three years.

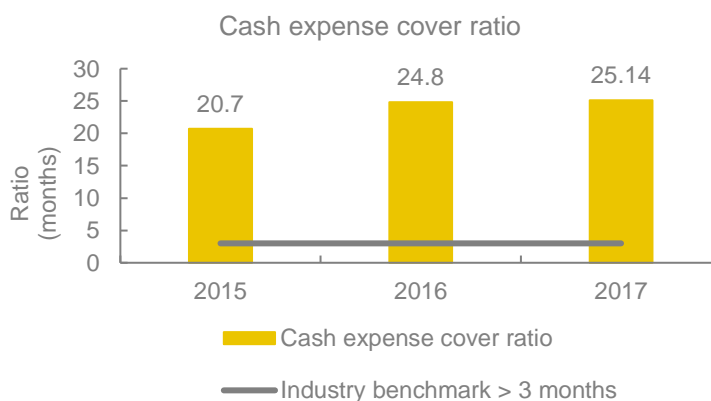
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.



Cash expense cover ratio

- Council exceeded the benchmark of greater than three months.
- This has been consistent in the past three years.

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

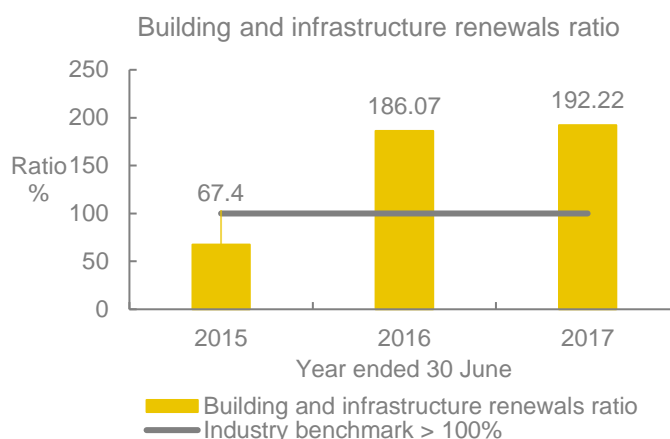


Building and infrastructure renewals ratio

- Council exceeded the benchmark of greater than 100 per cent.
- The ratio has improved from the previous year due to \$0.6 million in asset renewals as part of the implementation of Council's adopted Fit for the Future Road Backlog Program.

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

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



OTHER MATTERS

Council Entities

I did not audit the following council entities:

- Inverell Sport Council (disclosed in Note 19)
- Inverell Sapphire Floral Festival (disclosed in Note 19)
- Great Inland Fishing Festival (disclosed in Note 19)
- Equestrian Council (disclosed in Note 19)
- Delungra District Development Council (disclosed in Note 19).

The arrangements for the audit of the above entities will be explored as part of the Audit Office's transition strategy to deliver our new mandate.

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

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

- compensation paid to their key management personnel
- nil other related party transactions or balances.

Legislative compliance

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

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



James Sugumar
Director, Financial Audit Services

cc: Mr Paul Henry, General Manager
Mr Paul Pay, Manager Financial Services
Mr Tim Hurst, Acting Chief Executive of the Office of Local Government

Inverell Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017



Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

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Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
 - (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Inverell Shire Council

Special Purpose Financial Statements for the year ended 30 June 2017

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 25 October 2017.



Paul Harmon
Mayor



Anthony Michael
Councillor



Paul Henry
General manager



Paul Pay
Responsible accounting officer

Inverell Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	2,096	1,971
User charges	2,121	2,456
Fees	—	—
Interest	184	534
Grants and contributions provided for non-capital purposes	124	131
Other income	17	34
Total income from continuing operations	4,542	5,126
Expenses from continuing operations		
Employee benefits and on-costs	1,143	966
Borrowing costs	73	84
Materials and contracts	706	525
Depreciation, amortisation and impairment	853	835
Water purchase charges	77	104
Loss on sale of assets	1,474	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	6	7
Other expenses	1,257	1,402
Total expenses from continuing operations	5,589	3,923
Surplus (deficit) from continuing operations before capital amounts	(1,047)	1,203
Grants and contributions provided for capital purposes	354	227
Surplus (deficit) from continuing operations after capital amounts	(693)	1,430
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	(693)	1,430
Less: corporate taxation equivalent (30%) [based on result before capital]	—	(361)
SURPLUS (DEFICIT) AFTER TAX	(693)	1,069
Plus opening retained profits	21,444	20,007
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	6	7
– Corporate taxation equivalent	—	361
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	20,757	21,444
Return on capital %	-1.1%	1.6%
Subsidy from Council	2,997	274
Calculation of dividend payable:		
Surplus (deficit) after tax	(693)	1,069
Less: capital grants and contributions (excluding developer contributions)	—	—
Surplus for dividend calculation purposes	—	1,069
Potential dividend calculated from surplus	—	535

Inverell Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	2,445	2,306
User charges	9	—
Liquid trade waste charges	—	—
Fees	—	—
Interest	176	814
Grants and contributions provided for non-capital purposes	107	115
Other income	14	18
Total income from continuing operations	2,751	3,253
Expenses from continuing operations		
Employee benefits and on-costs	526	495
Borrowing costs	70	77
Materials and contracts	384	299
Depreciation, amortisation and impairment	680	705
Loss on sale of assets	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	8	9
Other expenses	861	806
Total expenses from continuing operations	2,529	2,391
Surplus (deficit) from continuing operations before capital amounts	222	862
Grants and contributions provided for capital purposes	52	57
Surplus (deficit) from continuing operations after capital amounts	274	919
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	274	919
Less: corporate taxation equivalent (30%) [based on result before capital]	(67)	(259)
SURPLUS (DEFICIT) AFTER TAX	207	660
Plus opening retained profits	17,773	16,845
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	8	9
– Corporate taxation equivalent	67	259
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	18,055	17,773
Return on capital %	0.7%	2.0%
Subsidy from Council	715	—
Calculation of dividend payable:		
Surplus (deficit) after tax	207	660
Less: capital grants and contributions (excluding developer contributions)	—	—
Surplus for dividend calculation purposes	207	660
Potential dividend calculated from surplus	104	330

Inverell Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	677	672
Investments	7,000	5,010
Receivables	688	1,636
Inventories	116	109
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	8,481	7,427
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	85,008	78,437
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Total non-current assets	85,008	78,437
TOTAL ASSETS	93,489	85,864
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	44	72
Income received in advance	–	–
Borrowings	195	185
Provisions	275	332
Total current liabilities	514	589
Non-current liabilities		
Payables	–	–
Borrowings	1,083	1,279
Provisions	–	–
Total non-current liabilities	1,083	1,279
TOTAL LIABILITIES	1,597	1,868
NET ASSETS	91,892	83,996
EQUITY		
Retained earnings	20,757	21,444
Revaluation reserves	71,135	62,552
Other reserves	–	–
Council equity interest	91,892	83,996
Non-controlling equity interest	–	–
TOTAL EQUITY	91,892	83,996

Inverell Shire Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	1,155	1,632
Investments	6,000	6,000
Receivables	209	169
Inventories	18	10
Other	–	–
Non-current assets classified as held for sale	–	–
Total current Assets	7,382	7,811
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	42,298	46,238
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Total non-current assets	42,298	46,238
TOTAL ASSETS	49,680	54,049
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	7	33
Income received in advance	–	–
Borrowings	178	170
Provisions	131	123
Total current liabilities	316	326
Non-current liabilities		
Payables	–	–
Borrowings	1,410	1,588
Provisions	–	–
Total non-current liabilities	1,410	1,588
TOTAL LIABILITIES	1,726	1,914
NET ASSETS	47,954	52,135
EQUITY		
Retained earnings	18,055	17,773
Revaluation reserves	29,899	34,362
Other reserves	–	–
Council equity interest	47,954	52,135
Non-controlling equity interest	–	–
TOTAL EQUITY	47,954	52,135

Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Contents of the notes accompanying the financial statements

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2	Water Supply Business Best-Practice Management disclosure requirements	11
3	Sewerage Business Best-Practice Management disclosure requirements	13

Inverell Shire Council

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

Note 1. Significant accounting policies

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

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

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

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

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

National Competition Policy

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

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

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

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

activities and provide a standard for disclosure requirements.

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

Declared business activities

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

Category 1

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

a. Water Supply

Water Supply Activities

b. Waste Water/Sewerage

Waste Water/Sewerage Activities

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(i) Taxation-equivalent charges

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

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

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

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

Notional rate applied (%)

Corporate income tax rate – 30%

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

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

In accordance with the Department of Primary Industries Water (DPIW), a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the NSW Office of Water Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the NSW Office of Water Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

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

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

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

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

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

Audit Report are required to be submitted to the DPIW.

(iii) Return on investments (rate of return)

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

For the year ended 30/6/2017 Council has not met the conditions of the Best Practice Management Guide and accordingly no dividend has been declared.

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2017 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the DPIW guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	6,000
(ii)	Number of assessments multiplied by \$3/assessment	18,177
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	6,000
(iv)	Amounts actually paid for tax equivalents	–

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	–
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	175,770
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	920,200

2017 Surplus	(693,000)	2016 Surplus	1,069,100	2015 Surplus	544,100
		2016 Dividend	–	2015 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	–
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	NO
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	NO
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	NO
(iii)	Sound water conservation and demand management implemented	NO
(iv)	Sound drought management implemented	NO
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	NO
	b. Complete and implement integrated water cycle management strategy	NO

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	4,712
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	42.64%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	84,990
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	2,285
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	5,095
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	1.85%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	8,000
(ii)	Number of assessments multiplied by \$3/assessment	14,892
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	8,000
(iv)	Amounts actually paid for tax equivalents	–

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	103,700
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	140,920
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	949,800

2017 Surplus	207,400	2016 Surplus	660,400	2015 Surplus	82,000
		2016 Dividend	–	2015 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	103,700
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	NO
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges (a) Residential [item 2 (c) in table 1]	YES
	(b) Non-residential [item 2 (c) in table 1]	NO
	(c) Trade waste [item 2 (d) in table 1]	NO
	DSP with commercial developer charges [item 2 (e) in table 1]	YES
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	NO
	b. Complete and implement integrated water cycle management strategy	NO

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	2,627
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	42,297
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	1,541
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	1,401
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	0.96%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	5,865
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	2.10%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	6,496
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	1.56%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage)	%	-8.56%
	Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]		
NWI F23	Interest cover (water and sewerage)		> 100
	Earnings before interest and tax (EBIT) divided by net interest		
	Earnings before interest and tax (EBIT):		1,980
	Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c)		
	Net interest:		- 217
	Interest expense (w4a + s4a) – interest income (w9 + s10)		
NWI F24	Net profit after tax (water and sewerage)	\$'000	(405)
	Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))		
NWI F25	Community service obligations (water and sewerage)	\$'000	123
	Grants for pensioner rebates (w11b + s12b)		

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity.

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

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's 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.

Emphasis of Matter – Basis of Accounting

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

Other Matter

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

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

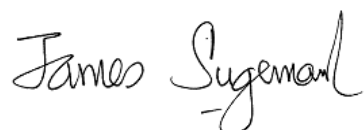
A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

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 best practice management disclosures in Notes 2 and 3 of the financial statements
- 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, reading "James Sugumar". The signature is written in a cursive style with a large, stylized 'S'.

James Sugumar
Director, Financial Audit Services

26 October 2017
SYDNEY

Inverell Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2017



Inverell Shire Council

Special Schedules for the year ended 30 June 2017

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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.

Inverell 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	1,618	–	–	(1,618)
Administration	886	330	–	(556)
Public order and safety				
Fire service levy, fire protection, emergency services	951	(9)	40	(920)
Beach control	–	–	–	–
Enforcement of local government regulations	3	7	–	4
Animal control	223	35	–	(188)
Other	–	–	–	–
Total public order and safety	1,177	33	40	(1,104)
Health	(305)	53	–	358
Environment				
Noxious plants and insect/vermin control	245	131	–	(114)
Other environmental protection	44	17	–	(27)
Solid waste management	3,660	3,306	19	(335)
Street cleaning	446	(9)	–	(455)
Drainage	–	–	–	–
Stormwater management	464	140	–	(324)
Total environment	4,859	3,585	19	(1,255)
Community services and education				
Administration and education	24	–	–	(24)
Social protection (welfare)	1	1	–	–
Aged persons and disabled	20	–	–	(20)
Children's services	307	295	–	(12)
Total community services and education	352	296	–	(56)
Housing and community amenities				
Public cemeteries	156	131	–	(25)
Public conveniences	217	–	–	(217)
Street lighting	179	–	–	(179)
Town planning	470	155	–	(315)
Other community amenities	45	–	–	(45)
Total housing and community amenities	1,067	286	–	(781)
Water supplies	5,507	4,418	354	(735)
Sewerage services	2,521	2,720	52	251

Inverell 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	975	54	26	(895)
Museums	–	–	–	–
Art galleries	67	–	–	(67)
Community centres and halls	251	21	–	(230)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	95	5	–	(90)
Sporting grounds and venues	449	44	325	(80)
Swimming pools	352	10	–	(342)
Parks and gardens (lakes)	682	44	11	(627)
Other sport and recreation	81	79	–	(2)
Total recreation and culture	2,952	257	362	(2,333)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	264	127	–	(137)
Other mining, manufacturing and construction	(58)	20	–	78
Total mining, manufacturing and const.	206	147	–	(59)
Transport and communication				
Urban roads (UR) – local	1,383	–	38	(1,345)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	1,413	10	–	(1,403)
Sealed rural roads (SRR) – regional	1,633	2,541	–	908
Unsealed rural roads (URR) – local	2,332	160	–	(2,172)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	15	–	–	(15)
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	1,218	–	132	(1,086)
Bridges on regional roads	1	–	–	(1)
Parking areas	89	–	–	(89)
Footpaths	255	–	–	(255)
Aerodromes	218	–	–	(218)
Other transport and communication	2,089	4,338	623	2,872
Total transport and communication	10,646	7,049	793	(2,804)
Economic affairs				
Camping areas and caravan parks	69	58	–	(11)
Other economic affairs	1,148	449	–	(699)
Total economic affairs	1,217	507	–	(710)
Totals – functions	32,703	19,681	1,620	(11,402)
General purpose revenues ⁽¹⁾		19,708		19,708
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	32,703	39,389	1,620	8,306

(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

Inverell 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	174	1,826	2,000	–	174	–	–	58	179	1,647	1,826
Other State Government	–	–	–	–						–	–
Public subscription	–	–	–	–						–	–
Financial institutions	355	2,866	3,221	–	355	–	–	143	373	2,493	2,866
Other	–	–	–	–						–	–
Total loans	529	4,692	5,221	–	529	–	–	201	552	4,140	4,692
Other long term debt											
Ratepayers advances	–	–	–							–	–
Government advances	–	–	–							–	–
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
Total long term debt	–	–	–	–	–	–	–	–	–	–	–
Total debt	529	4,692	5,221	–	529	–	–	201	552	4,140	4,692

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).

Inverell Shire Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income Expenses		
1. Management expenses		
a. Administration	235	244
b. Engineering and supervision	119	76
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	–
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	–	–
d. Maintenance expenses	426	367
– Reservoirs		
e. Operation expenses	–	–
f. Maintenance expenses	92	42
– Pumping stations		
g. Operation expenses (excluding energy costs)	–	–
h. Energy costs	–	–
i. Maintenance expenses	617	673
– Treatment		
j. Operation expenses (excluding chemical costs)	719	652
k. Chemical costs	–	–
l. Maintenance expenses	–	–
– Other		
m. Operation expenses	–	–
n. Maintenance expenses	–	–
o. Purchase of water	77	104
3. Depreciation expenses		
a. System assets	853	834
b. Plant and equipment	–	–
4. Miscellaneous expenses		
a. Interest expenses	73	84
b. Revaluation decrements	–	–
c. Other expenses	898	840
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	4,109	3,916

Inverell Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges		
a. Access (including rates)	2,096	1,971
b. Usage charges	1,558	1,829
7. Non-residential charges		
a. Access (including rates)	—	—
b. Usage charges	488	605
8. Extra charges	—	—
9. Interest income	184	534
10. Other income	92	56
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	67	69
c. Other grants	57	62
12. Contributions		
a. Developer charges	—	—
b. Developer provided assets	—	—
c. Other contributions	354	227
13. Total income	4,896	5,353
14. Gain (or loss) on disposal of assets	(1,474)	—
15. Operating result	(687)	1,437
15a. Operating result (less grants for acquisition of assets)	(687)	1,437

Inverell Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	4,870	63
c. Renewals	211	964
d. Plant and equipment	14	–
17. Repayment of debt	185	175
18. Totals	5,280	1,202
Non-operating funds employed		
19. Proceeds from disposal of assets	–	–
20. Borrowing utilised	–	–
21. Totals	–	–
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	5,253	5,206
b. Residential (unoccupied, ie. vacant lot)	149	149
c. Non-residential (occupied)	558	558
d. Non-residential (unoccupied, ie. vacant lot)	99	100
23. Number of ETs for which developer charges were received	31 ET	16 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 122,029	\$ 125,004

Inverell Shire Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	275	–	275
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	7,402	–	7,402
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	117	–	117
c. User charges	67	–	67
d. Other	504	–	504
27. Inventories	116	–	116
28. Property, plant and equipment			
a. System assets	–	84,990	84,990
b. Plant and equipment	–	18	18
29. Other assets	–	–	–
30. Total assets	8,481	85,008	93,489
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	44	–	44
33. Borrowings	195	1,083	1,278
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	275	–	275
35. Total liabilities	514	1,083	1,597
36. NET ASSETS COMMITTED	7,967	83,925	91,892
EQUITY			
37. Accumulated surplus			20,757
38. Asset revaluation reserve			71,135
39. Other reserves			–
40. TOTAL EQUITY			91,892
Note to system assets:			
41. Current replacement cost of system assets			115,205
42. Accumulated current cost depreciation of system assets			(30,215)
43. Written down current cost of system assets			84,990

Inverell Shire Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income Expenses		
1. Management expenses		
a. Administration	180	65
b. Engineering and supervision	297	338
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	374	289
– Pumping stations		
c. Operation expenses (excluding energy costs)	153	152
d. Energy costs	69	65
e. Maintenance expenses	–	–
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	399	379
g. Chemical costs	–	–
h. Energy costs	69	69
i. Effluent management	–	–
j. Biosolids management	–	–
k. Maintenance expenses	–	–
– Other		
l. Operation expenses	–	–
m. Maintenance expenses	–	–
3. Depreciation expenses		
a. System assets	680	705
b. Plant and equipment	–	–
4. Miscellaneous expenses		
a. Interest expenses	70	77
b. Revaluation decrements	–	–
c. Other expenses	230	243
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	2,521	2,382

Inverell Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges (including rates)	2,237	2,109
7. Non-residential charges		
a. Access (including rates)	143	135
b. Usage charges	65	62
8. Trade waste charges		
a. Annual fees	—	—
b. Usage charges	—	—
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	—	—
10. Interest income	176	814
11. Other income	23	18
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	56	58
c. Other grants	51	57
13. Contributions		
a. Developer charges	—	—
b. Developer provided assets	—	—
c. Other contributions	52	57
14. Total income	2,803	3,310
15. Gain (or loss) on disposal of assets	—	—
16. Operating result	282	928
16a. Operating result (less grants for acquisition of assets)	282	928

Inverell Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	—	96
c. Renewals	1,401	182
d. Plant and equipment	—	—
18. Repayment of debt	170	163
19. Totals	1,571	441
Non-operating funds employed		
20. Proceeds from disposal of assets	—	—
21. Borrowing utilised	—	—
22. Totals	—	—
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	4,580	4,567
b. Residential (unoccupied, ie. vacant lot)	149	149
c. Non-residential (occupied)	136	136
d. Non-residential (unoccupied, ie. vacant lot)	99	100
24. Number of ETs for which developer charges were received	14 ET	20 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 102,123	\$ 104,978

Inverell Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	131	–	131
d. Unexpended loans	635	–	635
e. Sinking fund	–	–	–
f. Other	6,389	–	6,389
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	135	–	135
c. User charges	–	–	–
d. Other	74	–	74
28. Inventories	18	–	18
29. Property, plant and equipment			
a. System assets	–	42,297	42,297
b. Plant and equipment	–	1	1
30. Other assets	–	–	–
31. Total assets	7,382	42,298	49,680
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	7	–	7
34. Borrowings	178	1,410	1,588
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	131	–	131
36. Total liabilities	316	1,410	1,726
37. NET ASSETS COMMITTED	7,066	40,888	47,954
EQUITY			
38. Accumulated surplus			18,055
39. Asset revaluation reserve			29,899
40. Other reserves			–
41. TOTAL EQUITY			47,954
Note to system assets:			
42. Current replacement cost of system assets			68,424
43. Accumulated current cost depreciation of system assets			(26,127)
44. Written down current cost of system assets			42,297

Inverell Shire Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2017

Administration ⁽¹⁾

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Other technical and supervision staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.

Operational expenses (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

Maintenance expenses (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

Other expenses (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

Impairment losses (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

Aboriginal Communities Water and Sewerage Program (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

Residential charges ⁽²⁾ (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

Non-residential charges ⁽²⁾ (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

Other income (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

Other contributions (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*.

Notes:

⁽¹⁾ Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

⁽²⁾ To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

Inverell 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 – non-specialised			249	337	20,309	22,327	62%	38%			0%
	Buildings – specialised			59	52	9,827	11,248		100%			0%
	Sub-total	–	–	308	389	30,136	33,575	41.2%	58.8%	0.0%	0.0%	0.0%
Other structures	Other structures			954	1,358	12,866	14,326	6%	94%			0%
	Sub-total	–	–	954	1,358	12,866	14,326	6.0%	94.0%	0.0%	0.0%	0.0%
Roads	Sealed roads	5,097	5,097	2,840	2,717	131,041	170,640	20%	70%	8%	2%	0%
	Unsealed roads			1,573	1,492	41,849	46,998	46%	49%	5%	0%	0%
	Bridges/Culverts/Causeways			325	319	94,758	124,537	19%	72%	9%		0%
	Footpaths			185	183	5,085	6,506	22%	76%	1%		0%
	Bulk earthworks					106,043	106,043	100%				0%
	Sub-total	5,097	5,097	4,923	4,711	378,776	454,724	41.2%	52.0%	6.1%	0.8%	0.0%

Inverell 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
Water supply network	Water supply network			979	1,010	84,034	114,249	21%	67%	13%		0%
	Sub-total	–	–	979	1,010	84,034	114,249	20.7%	66.9%	12.8%	0.0%	-0.3%
Sewerage network	Sewerage network	160	950	695	808	40,389	66,360	20%	35%	44%	1%	0%
	Sub-total	160	950	695	808	40,389	66,360	20.1%	34.5%	43.9%	1.1%	0.3%
Stormwater drainage	Stormwater drainage			155	155	22,382	30,710	1%	98%	1%		0%
	Sub-total	–	–	155	155	22,382	30,710	1.0%	98.0%	1.0%	0.0%	0.0%
Open space/recreational assets	Swimming pools			802	928	3,001	3,947		100%			0%
	Other Open Space/Recreational Assets					12,158	13,771		100%			0%
	Sub-total	–	–	802	928	15,159	17,718	0.0%	100.0%	0.0%	0.0%	0.0%
	TOTAL – ALL ASSETS	5,257	6,047	8,816	9,359	583,742	731,662	32.7%	56.9%	9.8%	0.6%	0.0%

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

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2017

\$ '000	Amounts 2017	Indicator 2017	Benchmark	Prior periods 20162015	
Infrastructure asset performance indicators * consolidated					
1. Infrastructure renewals ratio					
Asset renewals ⁽¹⁾	11,881	192.22%	>= 100%	186.07%	67.40%
Depreciation, amortisation and impairment	6,181				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	5,257	1.10%	< 2%	1.09%	1.10%
Net carrying amount of infrastructure assets	477,699				
3. Asset maintenance ratio					
Actual asset maintenance	9,359	1.06	> 1.00	1.03	1.01
Required asset maintenance	8,816				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	6,047	0.83%		0.72%	0.74%
Gross replacement cost	731,662				

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.

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2017

<p>1. Infrastructure renewals ratio</p> <p>Benchmark: 100.00% Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p>Purpose of asset renewals ratio</p> <p>To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.</p>	<p>Commentary on 2016/17 result</p> <p>2016/17 Ratio 192.22%</p> <p>Council has achieved this "fit for the future" benchmark of greater than 100% average over three years. Council "fit for the future" Roadmap has allocated a Special Road Renewal Funding in 2015-2017 of \$6M to increase asset renewals and to reduce Councils Infrastructure Backlog.</p>
<p>2. Infrastructure backlog ratio</p> <p>Benchmark: 2.00% Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p>Purpose of infrastructure backlog ratio</p> <p>This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.</p>	<p>Commentary on 2016/17 result</p> <p>2016/17 Ratio 1.10%</p> <p>Council completed an independent review of its Road Infrastructure Asset Class in 2015. The results of this review have been utilised to determine Council's actual Infrastructure Backlog and to inform Council's "fit for the future roadmap". The "fit for the future" benchmark is less 2%</p>
<p>3. Asset maintenance ratio</p> <p>Benchmark: 1.00 Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p>Purpose of asset maintenance ratio</p> <p>Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.</p>	<p>Commentary on 2016/17 result</p> <p>2016/17 Ratio 1.06 x</p> <p>Council's Asset Maintenance Ratio of 1.06 x is marginally higher than the "fit for the future" benchmark of greater than 1.00x, which indicates that the level of expenditure on the maintenance of infrastructure is sufficient to prevent the infrastructure backlog from growing</p>
<p>4. Cost to bring assets to agreed service level</p> <p>Benchmark: 2% Source for benchmark: Code of Accounting Practice and Financial Reporting #25</p>	<p>Purpose of agreed service level ratio</p> <p>This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.</p>	<p>Commentary on 2016/17 result</p> <p>2016/17 Ratio 0.83%</p> <p>At 0.83% Council meets the benchmark for this newly introduced ratio which is lower than the "Fit for the future" benchmark of less than 2%</p> <p>This ratio is considered to be more reflective of Council's infrastructure 'backlog', particularly due to the use of gross replacement cost in calculation</p>

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2017

\$ '000	Benchmark	Water 2017	Sewer 2017	General ⁽¹⁾ 2017
Infrastructure asset performance indicators by fund				
1. Infrastructure renewals ratio				
Asset renewals ⁽²⁾		35.41%	176.65%	223.16%
Depreciation, amortisation and impairment	>= 100%			
	prior period:	31.93%	1.70%	243.42%
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard		0.00%	0.40%	1.44%
Net carrying amount of infrastructure assets	< 2%			
	prior period:	0.00%	0.00%	1.46%
3. Asset maintenance ratio				
Actual asset maintenance		1.03	1.16	1.06
Required asset maintenance	> 1.00			
	prior period:	1.00	1.01	1.04
4. Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed service level set by Council		0.00%	1.43%	0.92%
Gross replacement cost				
	prior period:	0.00%	0.00%	0.94%

Notes

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

(2) 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.

Inverell 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	10,532	10,736
Plus or minus adjustments ⁽²⁾	b	15	44
Notional general income	$c = (a + b)$	10,547	10,780
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	6.25%
Or rate peg percentage	e	1.80%	0.00%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	—	—
Plus special variation amount	$h = d \times (c - g)$	—	674
Or plus rate peg amount	$i = c \times e$	190	—
Or plus Crown land adjustment and rate peg amount	$j = c \times f$	—	—
Sub-total	$k = (c + g + h + i + j)$	10,737	11,454
Plus (or minus) last year's carry forward total	l	1	1
Less valuation objections claimed in the previous year	m	(1)	—
Sub-total	$n = (l + m)$	0	1
Total permissible income	$o = k + n$	10,737	11,455
Less notional general income yield	p	10,736	11,450
Catch-up or (excess) result	$q = o - p$	1	5
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	1
Less unused catch-up ⁽⁵⁾	s	—	—
Carry forward to next year	$t = q + r - s$	1	6

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

Inverell Shire Council

To the Councillors of Inverell 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 Inverell Shire Council (the Council) for the year ending 30 June 2018.

In my opinion, Special Schedule No. 8 of Inverell 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.

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:

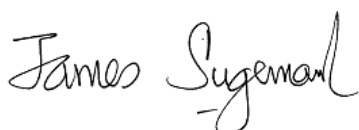
- obtain reasonable assurance whether Special Schedule No. 8 as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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.



James Sugumar
Director, Financial Audit Services

26 October 2017
SYDNEY