



INVERELL
SHIRE COUNCIL

2015 - 2016

General Purpose Financial Statements, Special Purpose Financial Statements and Special Schedules



A Community for Everyone

Inverell Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016



Inverell Shire Council

General Purpose Financial Statements

for the year ended 30 June 2016

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

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

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

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

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

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

Understanding Council's financial statements

Overview

These financial statements are the General Purpose Financial Statements for 2015/2016 and cover the consolidated operations for Inverell Shire Council.

Council is constituted as a Local Government area by proclamation and is duly empowered by the Local Government Act (LGA) 1993 of NSW. Council's Statutory Charter is detailed in Paragraph 8 of the LGA and includes giving Council;

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

A description of the nature of Council's operations and its principal activities are provided in Note 2(b). All figures presented in these financial statements are presented in Australian Dollars, rounded to the nearest one thousand dollars.

These financial statements were authorised by the Council on 28th September 2016. Council has the power to amend and reissue these financial statements. Council's Auditor will be in attendance at Council's Ordinary Meeting on 23rd November 2016 to present their 2015/2016 Independent Audit Report on these Financial Statements.

Understanding Council's Financial Statements

Each year Council is required to prepare and present a complete set of audited Financial Statements to their Council & Community. The Financial Statements set out the financial performance, financial position & cash flows of Council for the financial year ended 30 June 2015.

The format of the Financial Statements is standardised across all NSW Councils and complies with both the accounting & reporting requirements of Australian Accounting Standards and requirements as set down by the NSW Office of Local Government. The Financial Statements must be certified by the Mayor, one other Councillor, the General Manager and Council's Responsible Accounting Officer, as "presenting fairly" the

Council's financial results for the year, and are required to be adopted by Council.

The financial statements include five primary Financial Statements including the following:

- **Income Statement**
Summarises Council's financial performance for the year, listing all income & expenses. This statement also displays Council's original adopted budget, to provide a comparison between what was projected and what actually occurred during the year;
- **Statement of Comprehensive Income**
Primarily records changes in the fair values of Council's Infrastructure, Property, Plant & Equipment for the year;
- **Statement of Financial Position**
This is a year end snapshot of Council's financial position indicating its Assets, Liabilities & Equity;
- **Statement of Changes in Equity**
Shows the overall change for the year (in Australian dollars) of Council's Equity; and
- **Statement of Cash Flows**
This statement Indicates where Council's cash came from and where it was spent during the year. This statement also displays Council's original adopted budget, to provide a comparison between what was projected and what actually occurred during the year.

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

The Financial Statements also include a range of Financial Performance Indicators at Note 13a, Note 13b and Special Schedule No. 7.

A commentary is provided in respect of Council's financial performance for 2015/2016 and its performance against the industry in the Independent Auditors Report which is included in the Financial Statements.

About the Notes to the Financial Statements

The Notes to the financial statements provide greater detail and additional information on the 5 primary financial statements.

Inverell Shire Council

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

Understanding Council's financial statements (continued)

Independent External Audit

Council's Financial Statements are required to be independently audited by an External Auditor. Council's current External Auditor is Forsyths Business Services Pty Ltd of Armidale. Forsyths have extensive experience in the conduct of Local Government Audits.

The Auditor provides two Audit Reports:

- An opinion on whether the Financial Statements present fairly the Council's financial performance & position and
- Their observations on the conduct of the Audit including commentary on the Council's financial performance & financial position.

Presentation of the Audited Financial Statements

The financial statements are a publicly available document & must be presented at a Council meeting between 1 week & 5 weeks after the date of the Auditors Report. Submissions from the public can be made to Council up to 7 days prior to the public presentation of the Financial Statements to Council by the Auditor.

Council is required to forward a copy of the audited Financial Statements to the Office of Local Government by 31 October 2016. Council has met this deadline.

Inverell Shire Council

General Purpose Financial Statements for the year ended 30 June 2016

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 28 September 2016.



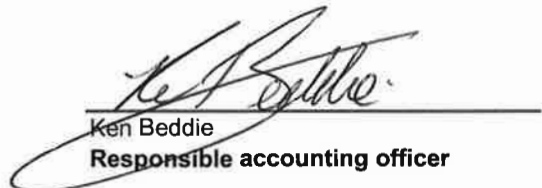
Paul Harmon
Mayor



Anthony Michael
Councillor



Paul Henry
General Manager



Ken Beddie
Responsible accounting officer

Inverell Shire Council

Income Statement

for the year ended 30 June 2016

Budget ¹ 2016 \$ '000		Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
16,944	Rates and annual charges	3a	16,640	15,843
3,385	User charges and fees	3b	5,254	5,909
1,087	Interest and investment revenue	3c	2,639	1,508
441	Other revenues	3d	1,028	1,367
11,796	Grants and contributions provided for operating purposes	3e,f	12,827	11,486
2,018	Grants and contributions provided for capital purposes	3e,f	1,841	3,155
Other income:				
160	Net gains from the disposal of assets	5	150	–
35,831	Total income from continuing operations		40,379	39,268
Expenses from continuing operations				
12,961	Employee benefits and on-costs	4a	12,073	12,881
251	Borrowing costs	4b	270	226
6,202	Materials and contracts	4c	7,133	8,071
8,208	Depreciation and amortisation	4d	7,593	9,232
–	Impairment	4d	–	–
4,211	Other expenses	4e	3,212	3,347
–	Net losses from the disposal of assets	5	–	33
31,833	Total expenses from continuing operations		30,281	33,790
3,998	Operating result from continuing operations		10,098	5,478
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
3,998	Net operating result for the year		10,098	5,478
3,998	Net operating result attributable to Council		10,098	5,478
–	Net operating result attributable to non-controlling interests		–	–
1,980	Net operating result for the year before grants and contributions provided for capital purposes		8,257	2,323

¹ Original budget as approved by Council – refer Note 16

Inverell Shire Council

Statement of Comprehensive Income

for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
Net operating result for the year (as per Income Statement)		10,098	5,478
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	1,740	(31,913)
Adjustment to correct prior period errors		—	109,992
Total items which will not be reclassified subsequently to the operating result		1,740	78,079
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		1,740	78,079
Total comprehensive income for the year		11,838	83,557
Total comprehensive income attributable to Council		11,838	83,557
Total comprehensive income attributable to non-controlling interests		—	—

Inverell Shire Council

Statement of Financial Position
as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
ASSETS			
Current assets			
Cash and cash equivalents	6a	3,824	3,023
Investments	6b	43,010	35,518
Receivables	7	4,785	4,132
Inventories	8	605	594
Other	8	83	502
Non-current assets classified as 'held for sale'	22	481	481
Total current assets		52,788	44,250
Non-current assets			
Investments	6b	5,000	8,000
Receivables	7	250	195
Inventories	8	—	—
Infrastructure, property, plant and equipment	9	615,575	607,279
Investments accounted for using the equity method	19	—	—
Investment property	14	2,725	2,667
Intangible assets	25	—	—
Total non-current assets		623,550	618,141
TOTAL ASSETS		676,338	662,391
LIABILITIES			
Current liabilities			
Payables	10	2,969	2,750
Borrowings	10	529	337
Provisions	10	4,024	3,893
Total current liabilities		7,522	6,980
Non-current liabilities			
Payables	10	—	—
Borrowings	10	4,692	3,221
Provisions	10	1,704	1,608
Total non-current liabilities		6,396	4,829
TOTAL LIABILITIES		13,918	11,809
Net assets		662,420	650,582
EQUITY			
Retained earnings	20	502,078	491,980
Revaluation reserves	20	160,342	158,602
Council equity interest		662,420	650,582
Non-controlling equity interests		—	—
Total equity		662,420	650,582

Inverell Shire Council

Statement of Changes in Equity
for the year ended 30 June 2016

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total equity
2016						
Opening balance (as per last year's audited accounts)		491,980	158,602	650,582	—	650,582
a. Correction of prior period errors	20 (c)	—	—	—	—	—
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—
Revised opening balance (as at 1/7/15)		491,980	158,602	650,582	—	650,582
c. Net operating result for the year		10,098	—	10,098	—	10,098
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	1,740	1,740	—	1,740
Other comprehensive income		—	1,740	1,740	—	1,740
Total comprehensive income (c&d)		10,098	1,740	11,838	—	11,838
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
Equity – balance at end of the reporting period		502,078	160,342	662,420	—	662,420

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total Equity
2015						
Opening balance (as per last year's audited accounts)		376,510	190,515	567,025	—	567,025
a. Correction of prior period errors	20 (c)	109,992	—	109,992	—	109,992
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—
Revised opening balance (as at 1/7/14)		486,502	190,515	677,017	—	677,017
c. Net operating result for the year		5,478	—	5,478	—	5,478
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	(31,913)	(31,913)	—	(31,913)
Other comprehensive income		—	(31,913)	(31,913)	—	(31,913)
Total comprehensive income (c&d)		5,478	(31,913)	(26,435)	—	(26,435)
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
Equity – balance at end of the reporting period		491,980	158,602	650,582	—	650,582

Inverell Shire Council

Statement of Cash Flows
for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
Cash flows from operating activities				
Receipts:				
16,944	Rates and annual charges		16,751	15,815
3,385	User charges and fees		4,930	8,045
1,087	Investment and interest revenue received		1,865	1,525
13,814	Grants and contributions		15,560	14,592
–	Bonds, deposits and retention amounts received		715	8
441	Other		1,535	3,136
Payments:				
(12,961)	Employee benefits and on-costs		(11,851)	(12,871)
(6,202)	Materials and contracts		(9,647)	(9,901)
(251)	Borrowing costs		(175)	(137)
(4,211)	Other		(3,096)	(3,839)
12,046	Net cash provided (or used in) operating activities	11b	16,587	16,373
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		16,052	7,032
245	Sale of infrastructure, property, plant and equipment		861	1,082
–	Deferred debtors receipts		–	4
Payments:				
–	Purchase of investment securities		(19,500)	(27,000)
(17,335)	Purchase of infrastructure, property, plant and equipment		(14,860)	(13,063)
–	Deferred debtors and advances made		(2)	–
(17,090)	Net cash provided (or used in) investing activities		(17,449)	(31,945)
Cash flows from financing activities				
Receipts:				
2,001	Proceeds from borrowings and advances		2,000	2,000
Payments:				
(500)	Repayment of borrowings and advances		(337)	(246)
1,501	Net cash flow provided (used in) financing activities		1,663	1,754
(3,543)	Net increase/(decrease) in cash and cash equivalents		801	(13,818)
–	Plus: cash and cash equivalents – beginning of year	11a	3,023	16,841
(3,543)	Cash and cash equivalents – end of the year	11a	3,824	3,023
Additional Information:				
plus:	Investments on hand – end of year	6b	48,010	43,518
Total cash, cash equivalents and investments			51,834	46,541

Please refer to Note 11 for additional cash flow information

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies

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

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

(a) Basis of preparation

(i) Background

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

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

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

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

Because AASBs are sector neutral, some standards either:

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

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

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

(iii) New and amended standards adopted by Council

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

(iv) Early adoption of accounting standards

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

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

(v) Basis of accounting

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

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

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

(vi) Changes in accounting policies

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

(vii) Critical accounting estimates

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

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

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

(b) Revenue recognition

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

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

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

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

Control over granted assets/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.

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

User charges, fees and other income

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

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

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

Sale of infrastructure, property, plant and equipment

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

Interest and rents

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

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

Dividend income

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

Other Income

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

(c) Principles of consolidation

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

(i) The Consolidated Fund

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

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

The following entities have been included as part of the consolidated fund:

- General Purpose Operations
- Water Supply
- Sewerage Service
- Connections
- 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* (as amended), a separate and distinct trust fund is maintained to account for all money and property received by the Council in trust that must be applied only for the purposes of or in accordance with the trusts relating to those monies.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

(iii) Interests in other entities

Joint arrangements

Council has no interest in any joint arrangements.

Joint ventures

Council has no interest in joint ventures

Associates

Council has no interest in any associates.

County councils

Council is not a member of any county councils.

Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

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

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

Finance leases

Leases of property, plant and equipment where the Council 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 lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in borrowings.

Each lease payment is allocated between the liability outstanding and the recognition of a finance charge.

The interest element of the finance charge is costed 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.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of each leased asset's useful life and the lease term.

Operating Leases

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

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

(e) Cash and Cash Equivalents

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet but are incorporated into cash and cash equivalents for presentation of the Cash Flow Statement.

(f) Investments and other financial assets

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

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

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

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

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

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

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

Derivatives are classified as held for trading unless they are designated as hedges.

Assets in this category are primarily classified as current assets as they are primarily held for trading and/or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

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

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

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

(iii) Held-to-maturity investments

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

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

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

(iv) Available-for-sale financial assets

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

Financial assets – reclassification

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

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

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

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

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

General accounting and measurement of financial instruments:

(i) Initial recognition

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

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

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

(ii) Subsequent measurement

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

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

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

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

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

Impairment

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

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

If there is evidence of impairment for any of Council's financial assets carried at amortised cost (eg. 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 group may measure impairment on the basis of an instrument's fair value using an observable market price.

(iii) Types of investments

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

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

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

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments that Council holds are no longer

prescribed (eg. managed funds, CDOs, and equity linked notes), however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(g) 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 balance sheet date.

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

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

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(h) Receivables

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

Receivables (excluding rates and annual charges) are generally due for settlement no more than 30 days from the date of recognition.

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

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

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

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

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

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

(i) Inventories

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

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

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

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

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

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

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

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

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

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

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

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

(j) Infrastructure, property, plant and equipment (I,PP&E)

Acquisition of assets

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

At balance date, the following classes of I,PP&E were stated at their fair value:

- **Plant and Equipment**
(as approximated by depreciated historical cost)
- **Operational Land** (External Valuation)
- **Community Land** (External Valuation)

Inverell Shire Council

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

Note 1. Summary of significant accounting policies (continued)

- **Land Improvements**
(as approximated by depreciated historical cost)
- **Buildings – Specialised/Non Specialised**
(External Valuation)
- **Other Structures**
(as approximated by depreciated historical cost and/or External Valuation)
- **Roads Assets incl. roads, bridges & footpaths**
(Internal Valuation)
- **Bulk Earthworks** (/Internal Valuation)
- **Stormwater Drainage** (Internal Valuation)
- **Water and Sewerage Networks**
(Internal Valuation)
- **Swimming Pools** (External Valuation)
- **Other Open Space/Recreational Assets**
(External Valuation)
- **Other Infrastructure** (External Valuation)
- **Other Assets** (as approximated by depreciated historical cost and/or External Valuation)
- **Investment Properties** – refer Note 1(p),

Initial recognition

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

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

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

Where infrastructure, property, plant and equipment assets are acquired for no cost or for an amount other than cost, the assets are recognised in the financial statements at their fair value at acquisition date – being the amount that the asset could have

been exchanged between knowledgeable willing parties in an arm's length transaction.

Subsequent costs

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

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

Asset revaluations (including indexation)

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

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Capitalisation thresholds

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

Land

- Council land	100% capitalised
- Open space	100% capitalised
- Land under roads (purchases after 30/6/08)	100% capitalised

Plant and equipment

Office furniture	> \$1,000
Office equipment	> \$1,000

Other plant and equipment	> \$1,000
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Buildings and land improvements

Park furniture and equipment	> \$2,000
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Building

- Construction/extensions	100% capitalised
- Renovations	> \$10,000

Other structures	> \$2,000
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Water and sewer assets

Reticulation extensions	> \$5,000
Other	> \$5,000

Stormwater assets

Drains and culverts	> \$5,000
Other	> \$5,000

Transport assets

Road construction and reconstruction	> \$10,000
Reseal/re-sheet and major repairs	> \$10,000

Bridge construction and reconstruction	> \$10,000
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Other infrastructure assets

Swimming pools	> \$10,000
Other open space/recreational assets	> \$10,000

Other infrastructure	> \$10,000
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Depreciation

Depreciation on Council's infrastructure, property, plant and equipment assets other than Road pavements (Sealed & Unsealed) is calculated using

the straight-line method in order to allocate an asset's cost (net of residual values) over its estimated useful life. The road pavement (Sealed & Unsealed) are depreciated using the consumption basis.

Land is not depreciated.

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

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

Buildings

- Buildings	100 years
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Other Structures

- Other Structures	25 to 50 years
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Water Assets

- Dams	100 years
- Bores	50 years
- Treatment plant: Structure	70 years
- Treatment plant: Mechanical/Electrical	30 years
- Pumping station: Structure	50 years
- Pumping station: Mechanical/Electrical	25 years
- Mains	80 years
- Reservoir: Structure	100 years
- Reservoir: Roof	40 years
- Meters	10 to 15 years

Sewer Assets

- Treatment plant: Structure	50 to 100 years
- Treatment plant: Mechanical/Electrical	50 years
- Mains	100 years
- Pumping station: Structure	60 years
- Pumping station: Mechanical/Electrical	30 years

Stormwater Assets

- Drainage assets	80 to 100 years
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Transportation Assets

- Sealed Roads: Surface	25 years
- Sealed Roads: Structure	75 years

Inverell Shire Council

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

Note 1. Summary of significant accounting policies (continued)

- 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

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

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

Disposal and derecognition

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

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

(k) Land

Land (other than land under roads) is in accordance with Part 2 of Chapter 6 of the *Local Government Act (1993)* classified as either operational or community.

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

(l) Land under roads

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

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

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

(m) Intangible assets

Council has not classified any assets as intangible.

(n) Crown reserves

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

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

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

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

(o) Rural fire service assets

Under section 119 of the *Rural Fires Act 1997*, 'all fire fighting equipment purchased or constructed

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed'.

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

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

(p) Investment property

Investment property comprises land and/or buildings that are principally held for long-term rental yields, capital gains or both, that is not occupied by Council.

Investment property is carried at fair value, representing open-market value determined by external valuers.

Annual changes in the fair value of investment properties are recorded in the Income Statement as part of 'other income'.

Full revaluations are carried out every five years.

The last full revaluation for Council's investment properties was dated 30th June 2016.

(q) Provisions for close down, restoration and for environmental clean-up costs – including tips and quarries

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

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

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

Costs are estimated on the basis of a closure plan.

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

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

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

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

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

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

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

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

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

These costs are charged to the Income Statement.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

The exception to this is plant and motor vehicles, which are turned over on a regular basis. Plant and motor vehicles are retained in non-current assets under the classification of infrastructure, property, plant and equipment – unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

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

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

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

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

The results of discontinued operations are presented separately on the face of the Income Statement.

(s) Impairment of assets

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

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

(t) Payables

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

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

(u) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

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

(v) Borrowing costs

Borrowing costs are expensed.

(w) Provisions

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

- Council has a present legal or constructive obligation as a result of past events,

- it is more likely than not that an outflow of resources will be required to settle the obligation, and

- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

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

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

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

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

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

(x) Employee benefits

(i) Short-term obligations

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

(ii) Other long-term obligations

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

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

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

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

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

(iii) Retirement benefit obligations

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

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

Defined benefit plans

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

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

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

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

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

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

The last valuation of the scheme was performed by Mr Richard Boyfield, FIAA on 24/02/16 and covers the period ended 30/06/15.

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

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

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$354,585.80.

The amount of additional contributions included in the total employer contribution advised above is \$187,407.96.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$ 255,178.63 as at 30 June 2016.

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

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

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

Defined contribution plans

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

(iv) Employee benefit on-costs

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

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

(y) Self-insurance

Council does not self-insure.

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

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

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

Exceptions

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

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

(aa) Taxes

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

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

Goods and Services Tax (GST)

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

(ab) New accounting standards and Interpretations issued (not yet effective)

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

Council has not adopted any of these standards early.

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

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

AASB 9 – Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

AASB ED 260 Income of Not-for-Profit Entities

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

The exposure draft proposed specific not-for-profit entity requirements and guidance when applying the principles of AASB 15 to income from certain transactions.

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

At this stage there is no specific date of release for a standard nor a date of applicability.

AASB16 – Leases

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

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

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

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

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

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

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

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

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

(ac) Rounding of amounts

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

(ad) Comparative figures

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

(ae) Disclaimer

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current & non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2016	2016	2015	2016	2016	2015	2016	2016	2015	2016	2015	2016	2015
Governance	–	–	–	325	1,561	1,494	(325)	(1,561)	(1,494)	–	–	–	–
Administration	191	419	(497)	4,976	1,275	1,300	(4,785)	(856)	(1,797)	4	–	59,899	55,257
Public order and safety	647	423	1,046	1,219	982	933	(572)	(559)	113	329	952	4,553	4,882
Health	21	24	24	(134)	(231)	(432)	155	255	456	–	–	644	648
Environment	3,027	3,652	3,507	3,316	3,612	3,389	(289)	40	118	677	831	28,733	28,083
Community services and education	1,264	796	2,029	1,396	860	2,232	(132)	(64)	(203)	690	1,712	1,819	1,856
Housing and community amenities	250	326	402	745	1,046	708	(495)	(720)	(306)	57	75	1,914	1,918
Water supplies	4,379	5,160	4,453	4,175	3,767	3,831	204	1,393	622	131	139	85,864	83,488
Sewerage services	2,509	3,281	2,436	2,492	2,382	2,372	17	899	64	115	77	54,049	52,573
Recreation and culture	175	741	733	2,683	3,009	3,409	(2,508)	(2,268)	(2,676)	633	607	37,358	36,060
Mining, manufacturing and construction	178	130	150	456	255	192	(278)	(125)	(42)	–	27	2,240	2,252
Transport and communication	6,339	7,992	7,070	8,801	10,358	13,157	(2,462)	(2,366)	(6,087)	3,162	739	388,793	385,176
Economic affairs	343	677	1,432	1,383	1,405	1,205	(1,040)	(728)	227	–	–	10,472	10,198
Total functions and activities	19,323	23,621	22,785	31,833	30,281	33,790	(12,510)	(6,660)	(11,005)	5,798	5,159	676,338	662,391
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income ¹	16,508	16,758	16,483	–	–	–	16,508	16,758	16,483	5,554	5,526	–	–
Operating result from continuing operations	35,831	40,379	39,268	31,833	30,281	33,790	3,998	10,098	5,478	11,352	10,685	676,338	662,391

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 2016

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

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

GOVERNANCE

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

ADMINISTRATION

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

PUBLIC ORDER AND SAFETY

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

HEALTH

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

ENVIRONMENT

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

COMMUNITY SERVICES AND EDUCATION

Administration, family day care, child care, youth services, other family and children, aged and disabled, migrant services, Aboriginal services, other community services, education.

HOUSING AND COMMUNITY AMENITIES

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

WATER SUPPLIES

SEWERAGE SERVICES

RECREATION AND CULTURE

Public libraries, museums, art galleries, community centres, public halls, other cultural services, swimming pools, sporting grounds, parks and gardens (lakes), other sport and recreation.

MINING, MANUFACTURING AND CONSTRUCTION

Building control, quarries and pits, other.

TRANSPORT AND COMMUNICATION

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

ECONOMIC AFFAIRS

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Rates and annual charges			
Ordinary rates			
Residential		4,704	4,556
Farmland		3,381	3,290
Business		1,836	1,800
Total ordinary rates		9,921	9,646
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		1,836	1,689
Stormwater management services		131	108
Water supply services		1,927	1,817
Sewerage services		2,276	2,153
Waste management services (non-domestic)		549	430
Total annual charges		6,719	6,197
TOTAL RATES AND ANNUAL CHARGES		16,640	15,843

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 2016

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(b) User charges and fees			
Specific user charges (per s.502 – specific ‘actual use’ charges)			
Water supply services		2,299	1,970
Waste management services (non-domestic)		394	415
Other		12	11
Total user charges		2,705	2,396
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building services – other		91	138
Inspection services		1	2
Planning and building regulation		124	122
Private works – section 67		313	250
Registration fees		26	18
Section 149 certificates (EPA Act)		34	34
Section 603 certificates		33	28
Total fees and charges – statutory/regulatory		622	592
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome		1	–
Caravan park		37	35
Quarry revenues		32	6
RMS (formerly RTA) charges (state roads not controlled by Council)		1,802	2,823
Sportsgrounds		35	40
Town hall		20	17
Total fees and charges – other		1,927	2,921
TOTAL USER CHARGES AND FEES		5,254	5,909

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		58	54
– Interest earned on investments (interest and coupon payment income)		1,540	1,572
– Interest on deferred debtors		(3)	–
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		1,044	(118)
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>2,639</u>	<u>1,508</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		58	54
General Council cash and investments		1,225	1,257
Restricted investments/funds – external:			
Development contributions			
– Section 94		8	7
Water fund operations		534	176
Sewerage fund operations		814	14
<u>Total interest and investment revenue recognised</u>		<u>2,639</u>	<u>1,508</u>
(d) Other revenues			
Fair value increments – investment properties	14	58	–
Rental income – investment properties	14	8	7
Rental income – other council properties		180	157
Fines		18	18
Legal fees recovery – rates and charges (extra charges)		23	29
Aged disabled and youth and other community services		114	357
Bushfire / SES sundry income		2	56
Cemetery		112	113
Chemical waste clean up		6	2
Commissions and agency fees		2	2
'Holding its own' book sales		2	–
Insurance claim recoveries		89	232
Insurance / workers compensation premium adjustment		100	146
Library		24	22
Parental leave reimbursement		31	36
Rural addressing		1	1
Sale of dogs / microchipping		3	3
Sale of old materials		10	6
Sulo bin sales		42	20
Sundry administration income		–	1
Sundry health services		10	5
Tourism		146	102
Other		47	52
<u>TOTAL OTHER REVENUE</u>		<u>1,028</u>	<u>1,367</u>

Inverell Shire Council

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

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(e) Grants				
General purpose (untied)				
Financial assistance – general component	3,462	3,428	–	–
Financial assistance – local roads component	1,918	1,919	–	–
Pensioners' rates subsidies – general component	174	179	–	–
Total general purpose	5,554	5,526	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	69	70	–	–
– Sewerage	58	59	–	–
– Domestic waste management	59	59	–	–
Aged, disabled, youth and other community services	680	1,656	10	56
Anti graffiti program	–	11	–	–
Black Spot Program	–	–	155	–
Bushfire and emergency services	232	–	82	–
CEEP-Northern Light Project	44	–	–	–
Country passenger transport infrastructure	–	–	–	53
Electronic housing code and application tracking project	–	27	–	–
Employment and training programs	4	–	–	–
Employment schemes / apprentice subsidy	–	8	–	–
Environmental protection	515	451	6	172
Heritage and cultural	9	7	30	–
Library	32	32	26	26
LIRS subsidy	119	87	–	–
Noxious weeds	97	149	–	–
NSW rural fire services	–	177	–	775
PAMP program	(2)	2	–	–
Recreation and culture	–	–	6	–
Responsible Pet Ownership	15	–	–	–
RMS-Connecting Centres for Cycling Infrastructure	–	–	236	–
RMS-Walking Communities Infrastructure Program	–	–	20	–
Safety around schools program	–	–	–	40
Sport and recreation	37	25	449	517
Street lighting	57	56	–	–
Transport (3x3, roads to recovery, flood etc.)	2,753	644	–	–
Total specific purpose	4,778	3,520	1,020	1,639
Total grants	10,332	9,046	1,020	1,639
Grant revenue is attributable to:				
– Commonwealth funding	7,973	5,763	–	44
– State funding	2,359	3,283	978	1,595
– Other funding	–	–	42	–
	10,332	9,046	1,020	1,639

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94 – contributions towards amenities/services	–	–	64	8
S 64 – water supply contributions	–	–	227	283
S 64 – sewerage service contributions	–	–	57	146
Total developer contributions 17	–	–	348	437
Other contributions:				
Equipment	–	–	–	2
Heritage/cultural	2	–	–	–
Other community services	–	–	–	9
Roads and bridges	11	13	–	200
RMS contributions (regional roads, block grant)	2,413	2,366	473	857
Sport and recreation	69	61	–	11
Total other contributions	2,495	2,440	473	1,079
Total contributions	2,495	2,440	821	1,516
TOTAL GRANTS AND CONTRIBUTIONS	12,827	11,486	1,841	3,155

\$ '000	Actual 2016	Actual 2015
(g) Restrictions relating to 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	2,157	2,052
Add: grants and contributions recognised in the current period but not yet spent:	2,494	1,996
Less: grants and contributions recognised in a previous reporting period now spent:	(1,788)	(1,891)
Net increase (decrease) in restricted assets during the period	706	105
Unexpended and held as restricted assets	2,863	2,157
Comprising:		
– Specific purpose unexpended grants	1,418	1,856
– Developer contributions	369	301
– Other contributions	1,076	–
	2,863	2,157

Inverell Shire Council

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

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Employee benefits and on-costs			
Salaries and wages		10,533	10,867
Travel expenses		200	212
Employee leave entitlements (ELE)		1,914	1,794
Superannuation		1,370	1,445
Workers' compensation insurance		240	266
Fringe benefit tax (FBT)		139	132
Payroll tax		92	72
Training costs (other than salaries and wages)		174	139
Protective clothing		29	19
Employment costs		37	47
Total employee costs		14,728	14,993
Less: capitalised costs		(2,655)	(2,112)
TOTAL EMPLOYEE COSTS EXPENSED		12,073	12,881
Number of 'full-time equivalent' employees (FTE) at year end		199	210
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		175	137
Total interest bearing liability costs expensed		175	137
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	95	89
Total other borrowing costs		95	89
TOTAL BORROWING COSTS EXPENSED		270	226
(c) Materials and contracts			
Raw materials and consumables		5,440	6,656
Contractor and consultancy costs		1,589	1,348
Auditors remuneration ⁽¹⁾		48	27
Legal expenses:			
– Legal expenses: planning and development		4	2
– Legal expenses: debt recovery		23	–
– Legal expenses: other		28	37
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		1	1
TOTAL MATERIALS AND CONTRACTS		7,133	8,071

(continued on the next page...)

Inverell Shire Council

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

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Materials and contracts (continued)			
1. Auditor remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor:			
Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		32	27
– Other audit and assurance services		16	–
Remuneration for audit and other assurance services		48	27
Total Auditor remuneration		48	27
2. Operating lease payments are attributable to:			
Computers		1	1
		1	1

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
Plant and equipment		–	–	1,652	1,674
Office equipment		–	–	182	142
Furniture and fittings		–	–	36	39
Infrastructure:					
– Buildings – non-specialised		–	–	186	173
– Buildings – specialised		–	–	125	123
– Other structures		–	–	184	163
– Roads		–	–	2,200	4,119
– Bridges		–	–	1,182	876
– Footpaths		–	–	65	80
– Stormwater drainage		–	–	306	377
– Water supply network		–	–	833	818
– Sewerage network		–	–	705	703
– Swimming pools		–	–	81	73
– Other open space/recreational assets		–	–	176	155
Other assets					
– Library books		–	–	107	102
– Other		–	–	7	14
Asset reinstatement costs	9 & 26	–	–	33	33
Total depreciation and impairment costs		–	–	8,060	9,664
Less: capitalised costs		–	–	(467)	(432)
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		–	–	7,593	9,232

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(e) Other expenses			
Other expenses for the year include the following:			
Advertising		190	79
Bad and doubtful debts		13	26
Bank charges		45	42
Contributions/levies to other levels of government			
– Emergency Services levy (includes FRNSW, SES, and RFS levies)		304	307
– Other contributions/levies		105	78
Councillor expenses – mayoral fee		24	23
Councillor expenses – councillors' fees		102	97
Councillors' expenses (incl. mayor) – other (excluding fees above)		20	24
Donations, contributions and assistance to other organisations (Section 356)		83	91
Electricity and heating		1,018	1,177
Insurance		675	727
Postage		57	46
Printing and stationery		73	79
Street lighting		191	247
Subscriptions and publications		18	15
Telephone and communications		190	190
Valuation fees		53	60
Other		51	39
<u>TOTAL OTHER EXPENSES</u>		<u>3,212</u>	<u>3,347</u>

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2016	Actual 2015
Property (excl. investment property)			
Proceeds from disposal – property		300	–
Less: carrying amount of property assets sold/written off		(420)	(2)
Net gain/(loss) on disposal		(120)	(2)
Plant and equipment			
Proceeds from disposal – plant and equipment		561	427
Less: carrying amount of plant and equipment assets sold/written off		(192)	(364)
Net gain/(loss) on disposal		369	63
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(99)	(4)
Net gain/(loss) on disposal		(99)	(4)
Financial assets			
Proceeds from disposal/redemptions/maturities – financial assets		16,052	7,032
Less: carrying amount of financial assets sold/redeemed/matured		(16,052)	(7,032)
Net gain/(loss) on disposal		–	–
Non-current assets classified as ‘held for sale’			
Proceeds from disposal – non-current assets ‘held for sale’		–	655
Less: carrying amount of ‘held for sale’ assets sold/written off		–	(745)
Net gain/(loss) on disposal		–	(90)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		150	(33)

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

		2016	2016	2015	2015
		Actual	Actual	Actual	Actual
\$ '000	Notes	Current	Non-current	Current	Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		2,824	–	1,980	–
Cash-equivalent assets ¹					
– Deposits at call		1,000	–	1,043	–
Total cash and cash equivalents		3,824	–	3,023	–
Investments (Note 6b)					
– Long term deposits		43,000	5,000	35,500	8,000
– CDO's		10	–	18	–
Total investments		43,010	5,000	35,518	8,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		46,834	5,000	38,541	8,000

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'		3,824	–	3,023	–
---	--	--------------	----------	--------------	----------

Investments

a. 'At fair value through the profit and loss'					
– 'Held for trading'	6(b-i)	10	–	18	–
b. 'Held to maturity'	6(b-ii)	43,000	5,000	35,500	8,000
Investments		43,010	5,000	35,518	8,000

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 2016

Note 6b. investments (continued)

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
Note 6(b-i)				
Reconciliation of investments classified as 'at fair value through the profit and loss'				
Balance at the beginning of the year	18	–	168	–
Revaluations (through the Income Statement)	1,044	–	(118)	–
Disposals (sales and redemptions)	(1,052)	–	(32)	–
Balance at end of year	10	–	18	–
Comprising:				
– CDO's	10	–	18	–
Total	10	–	18	–
Note 6(b-ii)				
Reconciliation of investments classified as 'held to maturity'				
Balance at the beginning of the year	35,500	8,000	16,500	7,000
Additions	19,500	–	21,000	6,000
Disposals (sales and redemptions)	(15,000)	–	(7,000)	–
Transfers between current/non-current	3,000	(3,000)	5,000	(5,000)
Balance at end of year	43,000	5,000	35,500	8,000
Comprising:				
– Long term deposits	43,000	5,000	35,500	8,000
Total	43,000	5,000	35,500	8,000

Inverell Shire Council

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

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

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
Total cash, cash equivalents and investments	46,834	5,000	38,541	8,000
attributable to:				
External restrictions (refer below)	16,908	–	13,997	–
Internal restrictions (refer below)	17,071	–	19,358	–
Unrestricted	12,855	5,000	5,186	8,000
	46,834	5,000	38,541	8,000

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

Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – sewer (A)	1,973	–	(171)	1,802
Bonds and deposits	33	1,174	(459)	748
External restrictions – included in liabilities	2,006	1,174	(630)	2,550

External restrictions – other

Developer contributions – general (D)	301	356	(288)	369
RMS (formerly RTA) contributions (E)	861	1,063	(848)	1,076
Specific purpose unexpended grants (F)	973	1,075	(652)	1,401
Specific purpose unexpended grants-water fund (F)	17	–	(3)	14
Specific purpose unexpended grants-sewer fund (F)	5	–	(2)	3
Water supplies (G)	5,488	180	–	5,668
Sewerage services (G)	4,346	1,481	–	5,827
External restrictions – other	11,991	4,155	(1,793)	14,358
Total external restrictions	13,997	5,329	(2,423)	16,908

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 2016

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

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Employees leave entitlement	1,011	–	–	1,011
Administration building	2,568	–	(747)	1,821
Aerodrome	134	–	–	134
Baths improvement	2,002	198	–	2,200
Business units	2,139	–	(2,139)	–
Computer	758	300	(51)	1,007
Connections ELE	26	–	(26)	–
Connections plant and equipment	54	–	(12)	42
Copeton Northern Foreshores	49	–	–	49
Equipment upgrade / emergency management	211	–	–	211
Future capital works / land purchase	1,505	–	(855)	650
Garbage depot	169	–	–	169
Garbage degradation / rehab.	938	–	–	938
Gravel pit restoration	119	28	–	147
Gravel pit roadworks	56	29	–	85
Industrial development	669	–	–	669
Industrial / tourism promotion	12	–	–	12
Insurance excess reserve	162	–	–	162
Library	202	–	–	202
Linking together centre ELE	17	–	(17)	–
Plant replacement	3,973	1,650	(2,313)	3,310
Residential development	7	–	–	7
Road resumptions	20	–	–	20
SES plant replacement	67	–	–	67
Special capital projects	5	–	–	5
Sports ground – hockey facility	300	100	–	400
Strategic development fund	1,115	–	(425)	690
Town hall upgrade	100	–	–	100
Waste – externally sustainability	177	–	–	177
Waste infrastructure	354	1,859	–	2,213
Workers compensation insurance	439	134	–	573
Total internal restrictions	19,358	4,298	(6,585)	17,071
TOTAL RESTRICTIONS	33,355	9,627	(9,008)	33,979

Inverell Shire Council

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

Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		878	–	931	–
Interest and extra charges		97	–	89	–
User charges and fees		1,023	250	528	195
Accrued revenues					
– Interest on investments		539	–	817	–
– Other income accruals		1,534	–	434	–
Deferred debtors		6	–	4	–
Government grants and subsidies		538	–	1,178	–
Net GST receivable		216	–	191	–
Total		4,831	250	4,172	195
Less: provision for impairment					
Rates and annual charges		(35)	–	(28)	–
User charges and fees		(11)	–	(12)	–
Total provision for impairment – receivables		(46)	–	(40)	–
<u>TOTAL NET RECEIVABLES</u>		<u>4,785</u>	<u>250</u>	<u>4,132</u>	<u>195</u>
Externally restricted receivables					
Water supply					
– Specific purpose grants		14	–	17	–
– Rates and availability charges		97	–	107	–
– Other		1,525	–	564	–
Sewerage services					
– Specific purpose grants		3	–	5	–
– Rates and availability charges		113	–	127	–
– Other		53	–	110	–
Domestic waste management		117	–	110	–
Total external restrictions		1,922	–	1,040	–
Internally restricted receivables					
Nil					
Unrestricted receivables		2,863	250	3,092	195
TOTAL NET RECEIVABLES		4,785	250	4,132	195

Notes on debtors above:

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

Inverell Shire Council

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

Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Real estate for resale (refer below)		159	–	159	–
Stores and materials		446	–	435	–
Total inventories at cost		605	–	594	–
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		605	–	594	–
(b) Other assets					
Prepayments		83	–	502	–
TOTAL OTHER ASSETS		83	–	502	–
Externally restricted assets					
Water					
Stores and materials		109	–	120	–
Total water		109	–	120	–
Sewerage					
Stores and materials		10	–	13	–
Total sewerage		10	–	13	–
Domestic waste management					
Nil					
Other					
Nil					
Total externally restricted assets		119	–	133	–
Total internally restricted assets		–	–	–	–
Total unrestricted assets		569	–	963	–
TOTAL INVENTORIES AND OTHER ASSETS		688	–	1,096	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 8. Inventories and other assets (continued)

\$ '000	2016		2015	
	Current	Non-current	Current	Non-current
Other disclosures				
(a) Details for real estate development				
Residential	159	—	159	—
Total real estate for resale	159	—	159	—
(Valued at the lower of cost and net realisable value)				
Represented by:				
Development costs	103	—	103	—
Other properties – book value	56	—	56	—
Total costs	159	—	159	—
Total real estate for resale	159	—	159	—
Movements:				
Real estate assets at beginning of the year	159	—	159	—
Total real estate for resale	159	—	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;

	2016	2015
Real estate for resale	159	159
	159	159

(c) Inventory write downs

\$5,030.37 was 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 2016

Note 9a. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2015					Asset movements during the reporting period						as at 30/6/2016				
	At cost	At fair value	Accumulated		Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated		Carrying value
			depreciation	impairment										depreciation	impairment	
Capital work in progress	6,160	–	–	–	6,160	2,153	713	–	–	(1,784)	–	7,242	–	–	–	7,242
Plant and equipment	–	22,535	14,002	–	8,533	2,155	810	(173)	(1,652)	–	–	–	23,920	14,247	–	9,673
Office equipment	–	1,398	676	–	722	106	200	(19)	(182)	–	–	–	1,646	819	–	827
Furniture and fittings	–	706	504	–	202	–	–	–	(36)	–	–	–	705	539	–	166
Land:																
– Operational land	–	12,709	–	–	12,709	–	–	(105)	–	–	–	–	12,604	–	–	12,604
– Community land	–	9,559	–	–	9,559	–	–	–	–	–	–	–	9,559	–	–	9,559
Infrastructure:																
– Buildings – non-specialised	–	22,213	1,641	–	20,572	102	98	(315)	(186)	76	–	–	22,174	1,827	–	20,347
– Buildings – specialised	–	11,146	1,168	–	9,978	–	72	–	(125)	–	–	–	11,218	1,293	–	9,925
– Other structures	–	13,239	1,093	–	12,146	–	288	–	(184)	5	–	–	13,532	1,277	–	12,255
– Roads	–	205,899	40,288	–	165,611	5,183	88	–	(2,200)	1,284	–	–	212,455	42,489	–	169,966
– Bridges	–	123,772	27,410	–	96,362	232	–	–	(1,182)	230	–	–	124,233	28,591	–	95,642
– Footpaths	–	5,584	1,284	–	4,300	–	790	–	(65)	–	–	–	6,374	1,349	–	5,025
– Bulk earthworks (non-depreciable)	–	105,299	–	–	105,299	504	–	–	–	–	–	–	105,803	–	–	105,803
– Stormwater drainage	–	30,575	7,715	–	22,860	73	–	–	(306)	62	–	–	30,710	8,021	–	22,689
– Water supply network	–	95,655	23,526	–	72,129	266	63	–	(833)	–	1,069	–	97,418	24,724	–	72,694
– Sewerage network	–	63,136	17,687	–	45,449	12	96	–	(705)	–	671	–	64,191	18,668	–	45,523
– Swimming pools	–	3,932	784	–	3,148	–	15	–	(81)	–	–	–	3,947	865	–	3,082
– Other open space/recreational assets	–	11,429	1,264	–	10,165	351	845	(99)	(176)	127	–	–	12,610	1,397	–	11,213
Other assets:																
– Heritage collections	–	79	–	–	79	–	5	–	–	–	–	–	84	–	–	84
– Library books	–	968	644	–	324	107	–	–	(107)	–	–	–	1,075	751	–	324
– Other	–	374	319	–	55	–	–	–	(7)	–	–	–	86	38	–	48
Reinstatement, rehabilitation and restoration assets (refer Note 26):																
– Tip assets	–	864	99	–	765	–	–	–	(20)	–	–	–	863	118	–	745
– Quarry assets	–	334	182	–	152	–	–	–	(13)	–	–	–	334	195	–	139
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	6,160	741,405	140,286	–	607,279	11,244	4,083	(711)	(8,060)	–	1,740	7,242	755,541	147,208	–	615,575

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 2016

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

\$ '000 Class of asset	Actual 2016				Actual 2015			
	At cost	At fair value	A/Dep & impairm't	Carrying value	At cost	At fair value	A/Dep & impairm't	Carrying value
Water supply								
WIP	4,806	–	–	4,806	4,108	–	–	4,108
Plant and equipment	–	69	63	6	–	69	61	8
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	–	97,418	24,723	72,695	–	95,654	23,525	72,129
Total water supply	4,806	98,430	24,799	78,437	4,108	96,666	23,599	77,175
Sewerage services								
WIP	198	–	–	198	27	–	–	27
Plant and equipment	–	157	156	1	–	157	156	1
Land								
– Operational land	–	516	–	516	–	516	–	516
Infrastructure	–	64,191	18,668	45,523	–	63,136	17,687	45,449
Total sewerage services	198	64,864	18,824	46,238	27	63,809	17,843	45,993
Domestic waste management								
Plant and equipment	–	235	41	194	–	235	25	210
Land								
– Operational land	–	884	–	884	–	884	–	884
Buildings	–	758	82	676	–	758	76	682
Other structures	–	1,036	85	951	–	987	58	929
Total DWM	–	2,913	208	2,705	–	2,864	159	2,705
TOTAL RESTRICTED I,PP&E	5,004	166,207	43,831	127,380	4,135	163,339	41,601	125,873

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

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

Inverell Shire Council

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

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		1,571	–	2,257	–
Payments received In advance		481	–	427	–
Accrued expenses:					
– Salaries and wages		169	–	33	–
Security bonds, deposits and retentions		748	–	33	–
Total payables		2,969	–	2,750	–
Borrowings					
Loans – secured ¹		529	4,692	337	3,221
Total borrowings		529	4,692	337	3,221
Provisions					
Employee benefits:					
Annual leave		1,368	–	1,381	–
Sick leave		–	132	–	126
Long service leave		2,556	–	2,417	–
Sub-total – aggregate employee benefits		3,924	132	3,798	126
Asset remediation/restoration (future works)	26	100	1,572	95	1,482
Total provisions		4,024	1,704	3,893	1,608
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		7,522	6,396	6,980	4,829
(i) Liabilities relating to restricted assets					
		2016		2015	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		589	1,279	535	1,464
Sewer		326	1,588	279	1,757
Other		748	–	33	–
Liabilities relating to externally restricted assets		1,663	2,867	847	3,221
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		1,663	2,867	847	3,221
Total liabilities relating to unrestricted assets		5,859	3,529	6,133	1,608
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		7,522	6,396	6,980	4,829

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 2016

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

	Actual 2016	Actual 2015
\$ '000		

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

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

Provisions – employees benefits	2,855	2,367
	2,855	2,367

Note 10b. Description of and movements in provisions

Class of provision	2015	2016				Closing balance as at 30/6/16
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Annual leave	1,381	876	(889)	–	–	1,368
Sick leave	126	6	–	–	–	132
Long service leave	2,417	469	(330)	–	–	2,556
Asset remediation	1,577	95	–	–	–	1,672
TOTAL	5,501	1,446	(1,219)	–	–	5,728

- 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.
- 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 2016

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2016	Actual 2015
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	3,824	3,023
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		3,824	3,023
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		10,098	5,478
Adjust for non-cash items:			
Depreciation and amortisation		7,593	9,232
Net losses/(gains) on disposal of assets		(150)	33
Non-cash capital grants and contributions		–	(727)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(1,044)	118
– Investment properties		(58)	–
Unwinding of discount rates on reinstatement provisions		95	89
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(712)	2,225
Increase/(decrease) in provision for doubtful debts		6	24
Decrease/(increase) in inventories		(11)	(18)
Decrease/(increase) in other assets		419	(224)
Increase/(decrease) in payables		(686)	87
Increase/(decrease) in other accrued expenses payable		136	10
Increase/(decrease) in other liabilities		769	19
Increase/(decrease) in employee leave entitlements		132	27
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		16,587	16,373

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Non-cash investing and financing activities			
Bushfire grants		–	727
Total non-cash investing and financing activities		–	727
(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		73	76
Total financing arrangements		273	276

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

(ii) Secured loan liabilities

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
(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		277	40
Plant and equipment		322	–
Water reservoir/treatment plant		–	271
Total commitments		599	311
These expenditures are payable as follows:			
Within the next year		599	311
Total payable		599	311
Sources for funding of capital commitments:			
Unrestricted general funds		599	311
Total sources of funding		599	311

Details of capital commitments

Ashford Sport Ground Amenities Block \$277K
 Prime Mover with Water Tank \$322K

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

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

Within the next year	–	2
Later than one year and not later than 5 years	–	4
Later than 5 years	–	–
Total non-cancellable operating lease commitments	–	6

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

In 2014/15 "Connection Disability Services" Auspiced by Inverell Shire Council Leased two photocopiers
 In 2015/16 "Connection Disability Services" are no longer Auspiced by Inverell Shire Council.

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

Conditions relating to operating leases:

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

Inverell Shire Council

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

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

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	7,005	18.79%	6.83%	3.23%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	37,286			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	24,459	62.51%	62.83%	68.50%
Total continuing operating revenue ⁽¹⁾	39,127			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	33,680	11.21x	7.68x	8.36x
Current liabilities less specific purpose liabilities ^(3, 4)	3,004			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	14,868	24.49x	25.28x	16.40x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	607			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	940	5.31%	5.89%	5.60%
Rates, annual and extra charges collectible	17,713			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	51,824	24.77 mths	20.7 mths	20.1 mths
Payments from cash flow of operating and financing activities	2,092			

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 2016

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

<p>1. Operating performance ratio</p> <p>Benchmark: — Minimum $\geq 0.00\%$ Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of operating performance ratio</p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 ratio 18.79%</p> <p>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 breakeven or better over a three year period which Council has achieved for the Combined Fund. It is noted that if you remove Council's one off special Roads to Recovery Grant allocation the Ratio decrease to 14.95%</p>
<p>2. Own source operating revenue ratio</p> <p>Benchmark: — Minimum $\geq 60.00\%$ Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of own source operating revenue ratio</p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 ratio 62.51%</p> <p>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.</p>
<p>3. Unrestricted current ratio</p> <p>Benchmark: — Minimum ≥ 1.50 Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of unrestricted current ratio</p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 ratio 11.21x</p> <p>This ratio indicates that Council currently project to have \$11.20 (excluding externally restricted funds) available to service every \$1 of debt as it falls due. 11.2:1 is considered sound and clearly demonstrates Council's ability to satisfy short term obligations. The Tcorp benchmark is 1.5:1</p>

Inverell Shire Council

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

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

Benchmark: — Minimum ≥ 2.00

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

Purpose of debt service cover ratio

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

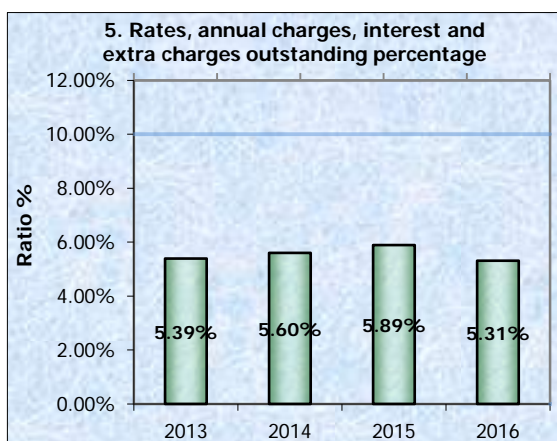
Commentary on 2015/16 result**2015/16 ratio 24.49x**

The debt service cover ratio of 24.5 times indicates that Council has \$24.50 before interest and depreciation to pay each \$1 of interest and principal repayments on current borrowings. Council's ability to generate sufficient cash to cover its debt payments 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 #24

Purpose of rates and annual charges outstanding ratio

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

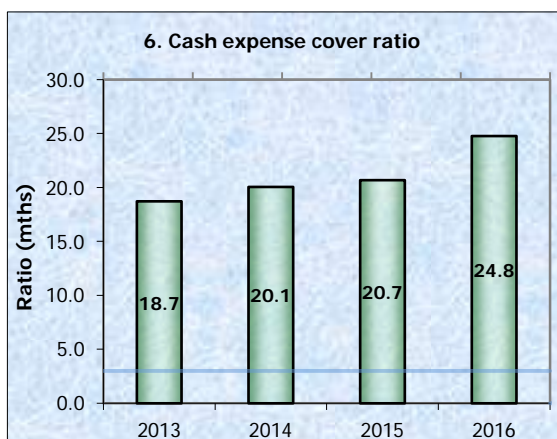
Commentary on 2015/16 result**2015/16 ratio 5.31%**

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. Council's ratio of 5.31% 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 #24

Purpose of cash expense cover ratio

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

Commentary on 2015/16 result**2015/16 ratio 24.77 mths**

As indicated with a ratio of 24.8 months, Council's ability to continue paying for its immediate expenses without additional cash inflow is sound and exceeds the Tcorp benchmark of 2 months



Ratio achieves benchmark

Ratio is outside benchmark

Inverell Shire Council

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

Note 13b. Statement of performance measurement – indicators (by fund)

\$ '000	Water 2016	Sewer 2016	General ⁵ 2016
Local government industry indicators – by fund			
1. Operating performance ratio			
<u>Total continuing operating revenue⁽¹⁾ excluding capital grants and contributions less operating expenses</u>	20.81%	10.92%	19.16%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	prior period: 14.39%	8.20%	5.51%
2. Own source operating revenue ratio			
<u>Total continuing operating revenue⁽¹⁾ excluding all grants and contributions</u>	92.76%	93.57%	55.13%
Total continuing operating revenue ⁽¹⁾	prior period: 90.78%	91.41%	56.54%
3. Unrestricted current ratio			
<u>Current assets less all external restrictions⁽²⁾</u>	21.30x	25.78x	10.09x
Current liabilities less specific purpose liabilities ^(3, 4)	prior period: 21.49x	22.78x	7.08x
4. Debt service cover ratio			
<u>Operating result⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation</u>	7.49x	4.44x	109.84x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	prior period: 6.07x	7.61x	105.78x
5. Rates, annual charges, interest and extra charges outstanding percentage			
<u>Rates, annual and extra charges outstanding</u>	4.67%	4.64%	5.53%
Rates, annual and extra charges collectible	prior period: 5.50%	5.56%	6.01%
6. Cash expense cover ratio			
<u>Current year's cash and cash equivalents plus all term deposits</u> x12	20.93 mths	49.77 mths	23.10 mths
Payments from cash flow of operating and financing activities	prior period: 20.06 mths	43.41 mths	18.96 mths

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 2016

Note 14. Investment properties

\$ '000	Notes	Actual 2016	Actual 2015
(a) Investment properties at fair value			
<u>Investment properties on hand</u>		<u>2,725</u>	<u>2,667</u>
Reconciliation of annual movement:			
Opening balance		2,667	2,667
– Net gain/(loss) from fair value adjustments		58	–
CLOSING BALANCE – INVESTMENT PROPERTIES		<u>2,725</u>	<u>2,667</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 2016 revaluations were based on independent assessments made by:
APV Valuers and Asset Management

(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

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	7	8
Later than 1 year but less than 5 years	19	21
Later than 5 years	171	173
Total minimum lease payments receivable	<u>197</u>	<u>202</u>

(e) Investment property income and expenditure – summary

Rental income from investment properties:		
– Minimum lease payments	8	7
Direct operating expenses on investment properties:		
– that generated rental income	(34)	(33)
– that did not generate rental income	(6)	(6)
Net revenue contribution from investment properties	<u>(32)</u>	<u>(32)</u>
plus:		
Fair value movement for year	<u>58</u>	<u>–</u>
Total income attributable to investment properties	<u>26</u>	<u>(32)</u>

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 2016

Note 15. Financial risk management

\$ '000

Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	3,824	3,023	3,824	3,023
Investments				
– 'Held for trading'	10	18	10	18
– 'Held to maturity'	48,000	43,500	48,000	43,500
Receivables	5,035	4,327	5,035	4,327
Total financial assets	56,869	50,868	56,869	50,868
Financial liabilities				
Payables	2,488	2,323	2,488	2,323
Loans/advances	5,221	3,558	5,221	3,558
Total financial liabilities	7,709	5,881	7,709	5,881

Fair value is determined as follows:

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

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

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

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

The risks associated with the investments held are:

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

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
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)
2015				
Possible impact of a 10% movement in market values	2	2	(2)	(2)
Possible impact of a 1% movement in interest rates	435	435	(435)	(435)

Inverell Shire Council

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

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

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

	2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	78%	0%	87%
Overdue	100%	22%	100%	13%
	100%	100%	100%	100%

	2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
(ii) Ageing of receivables – value				
Rates and annual charges				
Current	–	3,266	–	3,005
< 1 year overdue	–	392	–	61
1 – 2 years overdue	551	1	579	1
2 – 5 years overdue	164	107	314	12
> 5 years overdue	163	437	38	357
	878	4,203	931	3,436

	2016	2015
(iii) Movement in provision for impairment of receivables		
Balance at the beginning of the year	40	16
+ new provisions recognised during the year	6	24
Balance at the end of the year	46	40

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2016									
Trade/other payables	748	1,740	–	–	–	–	–	2,488	2,488
Loans and advances	–	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
2015									
Trade/other payables	33	2,290	–	–	–	–	–	2,323	2,323
Loans and advances	–	501	501	501	501	501	1,857	4,362	3,558
Total financial liabilities	33	2,791	501	501	501	501	1,857	6,685	5,881

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

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

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	2,488	0.00%	2,323	0.00%
Loans and advances – fixed interest rate	5,221	4.19%	3,558	4.78%
	<u>7,709</u>		<u>5,881</u>	

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 22 June 2015.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2016 Budget	2016 Actual	2016 Variance*	
REVENUES				
Rates and annual charges	16,944	16,640	(304)	(2%) U
User charges and fees	3,385	5,254	1,869	55% 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, \$1.32M, additional Water Sales of \$393K and other minor increases in Commercial Waste Collections, trade waste income, Development Applications and Construction Certificate revenue				
Interest and investment revenue	1,087	2,639	1,552	143% F
The actual amount of interest received on an accrual basis was over budget by \$507K. This favourable increase was the result of reducing the original budget to reflect anticipated downward movement in interest rates. Council also received settlement payments from Lehman Brothers Australia and Standard & Poor's which has been records through Interest Revenue				
Other revenues	441	1,028	587	133% F
This favourable variance is due to higher income in a range of areas including, Connection Brokerage Fees (\$71K), insurance proceeds (\$56K), rental income (\$42K), interest on outstanding rates (\$21K), LTC sundry income (\$38K), workers comp reimbursements (\$134K), Paid Parental Leave (\$30K), waste income (\$49K), tourism sales (\$24K) Investment Property - fair value increment (\$58K)				
Operating grants and contributions	11,796	12,827	1,031	9% F
This favourable variance is due to higher income in a range of areas including, Financial Assistance Grants (\$136K) Waste Management Grants (\$495K), Weeds Programs (\$24K), Youth Services (\$205K), Transport Grant (\$77K) R2R Grants (\$773K) Unfavourable - Connections Grants (-\$757K)				
Capital grants and contributions	2,018	1,841	(177)	(9%) U
This favourable variance is due to higher income in a range of areas including, Blackspot Funding (\$154K), Cycleway Funding (\$36K), Section 94 Contributions (\$64K), Water Contributions (\$75K), Sewer Contributions (\$41K), Club NSW Grants (\$401K) Unfavourable - Transport (-\$800K) - deferred to 2016/2017 financial year.				
Net gains from disposal of assets	160	150	(10)	(6%) U

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 Variance* -----	
EXPENSES				
Employee benefits and on-costs	12,961	12,073	888	7% F
Borrowing costs	251	270	(19)	(8%) U
Materials and contracts	6,202	7,133	(931)	(15%) 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	8,208	7,593	615	7% F
Other expenses	4,211	3,212	999	24% F
This favourable variance is due primarily to Councils ongoing energy efficiency program reducing electricity cost (General Fund \$93K, Water Fund \$191K, Sewer Fund \$63K), reduced insurance premiums (\$130K), reduced street lighting costs (\$54K) and a range of other smaller savings (<\$10K each) across Council's entire budget.				

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

Cash flows from operating activities	12,046	16,587	4,541	37.7% F
Cash flows from investing activities	(17,090)	(17,449)	(359)	2.1% U
Cash flows from financing activities	1,501	1,663	162	10.8% F

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 17. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	25	–	–	1	–	–	26	–
Roads	276	60	–	7	–	–	343	–
Community facilities	–	4	–	–	(4)	–	–	–
S94 contributions – under a plan	301	64	–	8	(4)	–	369	–
Total S94 revenue under plans	301	64	–	8	(4)	–	369	–
S64 contributions	–	284	–	–	(284)	–	–	–
Total contributions	301	348	–	8	(288)	–	369	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN - 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	25	–	–	1	–	–	26	–
Roads	276	60	–	7	–	–	343	–
Community facilities	–	4	–	–	(4)	–	–	–
Total	301	64	–	8	(4)	–	369	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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 2016 was \$354,585.80. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 24th February 2016 and covers the period ended 30th June 2015.

However this position is monitored annually and the actuary has estimated that as at 30th June 2016 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 \$187,408.

Council's expected contributions to the plan for the next annual reporting period is \$187,408

The share of this deficit, that is broadly attributed to Council is estimated to be in the order of \$255,178.63 as at 30th June 2016.

These additional Contributions are estimated to remain in place until 30th June 2020 (ie \$544,000 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 0.34%.

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.

Lehman Brothers Holdings

On the 15th September 2008 Lehman Brothers Holding Inc filed for Chapter 11 bankruptcy protection. The US bankruptcy code gives debtors (Lehman) protection from creditors while they attempt to reorganise the business. Friday 26 September 2008 the Australian branch of Lehman Brothers went into voluntary Administration. The affect of this on Councils CDO investments remain uncertain and any recovery in these CDO's will be subject to the liquidation process.

Clients of Lehman Brothers may be affected several different ways depending on whether Lehman's were the Arranger or Issuer of the Security. Each CDO has its own legal structure and Council has engaged financial advice to assist with any claims against Lehman's as they restructure and liquidate certain assets.

The final impact of the Lehman Brothers Bankruptcy on Councils investment portfolio is still being continually evaluated with the assistance of Council's investment advisors.

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

Inverell Shire Council

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

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

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 2016.

Inverell Shire Council

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

Note 19. Interests in other entities

\$ '000

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

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

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

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Inverell Shire Council

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

Note 19. Interests in other entities (continued)

\$ '000

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

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

(b) Joint ventures and associates

Council has 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	2016 Net profit	2016 Net assets
Inverell Sport Council	Advisory committee on Inverell sporting fields and facilities section 355 advisory committee	1,965	18,083
Inverell Sapphire Floral Festival	Co-ordinate annual Inverell festival section 355 specific event comm	4,374	61,414
Great Inland Fishing Festival	Co-ordinate annual fishing festival section 355 specific event comm	–	31,415
Equestrian Council	Management of Equestrian centre section 355 management comm	1,590	6,087
Delungra District Development Council	Co-ordinate events in Delungra section 355 specific event comm	28,878	41,318

Inverell Shire Council

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

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 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		491,980	376,510
a. Correction of prior period errors	20 (c)	—	109,992
b. Net operating result for the year		10,098	5,478
Balance at end of the reporting period		502,078	491,980

(b) Revaluation reserves

(i) Reserves are represented by:

– Infrastructure, property, plant and equipment revaluation reserve	160,342	158,602
Total	160,342	158,602

(ii) Reconciliation of movements in reserves:

Infrastructure, property, plant and equipment revaluation reserve

– Opening balance	158,602	190,515
– Revaluations for the year	1,740	(31,913)
– Balance at end of year	160,342	158,602

TOTAL VALUE OF RESERVES

160,342	158,602
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(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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
(c) Correction of error/s relating to a previous reporting period			
Correction of errors as disclosed in last year's financial statements:			
As part of Council's transition to measuring all its I,PP&E at Fair Values, Council this year reviewed and brought to account Fair Values for the following Asset Classes:			
Road assets			
Bridge assets			
Footpath assets			
Stormwater assets			
As part of that evaluation and measurement process, the remaining useful life of each asset has been reassessed to actual.			
This reassessment resulted in a material difference as to where some assets actually sat in with respect to their asset life cycle relative to what the value of accumulated depreciation in Council's financial reports had previously indicated.			
Council did not have sufficient and reliable information that would allow the restatement of information prior to 30/6/14 (the closing date for the comparative figures in last year's report).			
As a result, Council adjusted the accumulated depreciation for the asset classes below as at 30/6/15 to reflect the correct value of accumulated depreciation;			
Road assets			81,911
Bridge assets			18,933
Footpath assets			439
Stormwater assets			8,709
This adjustment resulted in a net increase/(decrease) in Council's accumulated surplus as at 30/6/15.			
In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively.			
These amounted to the following equity adjustments:			
– Adjustments to closing equity – 30/6/15		–	109,992
(relating to adjustments for the 30/6/15 year end)			
Total prior period adjustments – prior period errors		–	109,992

(d) Voluntary changes in accounting policies

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	1,971	2,306	12,363
User charges and fees	2,456	–	2,798
Interest and investment revenue	534	814	1,291
Other revenues	34	18	976
Grants and contributions provided for operating purposes	131	115	12,581
Grants and contributions provided for capital purposes	227	57	1,557
Other income			
Net gains from disposal of assets	–	–	150
Share of interests in joint ventures and associates using the equity method	–	–	–
Total income from continuing operations	5,353	3,310	31,716
Expenses from continuing operations			
Employee benefits and on-costs	966	495	10,612
Borrowing costs	84	77	109
Materials and contracts	525	299	6,309
Depreciation and amortisation	835	705	6,053
Impairment	–	–	–
Other expenses	1,506	806	900
Total expenses from continuing operations	3,916	2,382	23,983
Operating result from continuing operations	1,437	928	7,733
Discontinued operations			
Net profit/(loss) from discontinued operations	–	–	–
Net operating result for the year	1,437	928	7,733
Net operating result attributable to each council fund	1,437	928	7,733
Net operating result attributable to non-controlling interests	–	–	–
Net operating result for the year before grants and contributions provided for capital purposes	1,210	871	6,176

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 2016

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

Statement of Financial Position by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	672	1,632	1,520
Investments	5,010	6,000	32,000
Receivables	1,636	169	2,980
Inventories	109	10	486
Other	–	–	83
Non-current assets classified as 'held for sale'	–	–	481
Total current assets	7,427	7,811	37,550
Non-current assets			
Investments	–	–	5,000
Receivables	–	–	250
Inventories	–	–	–
Infrastructure, property, plant and equipment	78,437	46,238	490,900
Investments accounted for using the equity method	–	–	–
Investment property	–	–	2,725
Intangible assets	–	–	–
Total non-current assets	78,437	46,238	498,875
TOTAL ASSETS	85,864	54,049	536,425
LIABILITIES			
Current liabilities			
Payables	72	33	2,864
Borrowings	185	170	174
Provisions	332	123	3,569
Total current liabilities	589	326	6,607
Non-current liabilities			
Payables	–	–	–
Borrowings	1,279	1,588	1,825
Provisions	–	–	1,704
Total non-current liabilities	1,279	1,588	3,529
TOTAL LIABILITIES	1,868	1,914	10,136
Net assets	83,996	52,135	526,289
EQUITY			
Retained earnings	21,444	17,773	462,861
Revaluation reserves	62,552	34,362	63,428
Total equity	83,996	52,135	526,289

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 2016

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

\$ '000	2016	2016	2015	2015
	Current	Non-current	Current	Non-current
(i) Non-current assets and disposal group assets				
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>

\$ '000	Assets 'held for sale'	
	2016	2015
(ii) Reconciliation of non-current assets 'held for sale' and disposal groups – i.e. discontinued operations		
Opening balance	481	1,024
Less: carrying value of assets/operations sold	–	(745)
Balance still unsold after 12 months:	481	279
Plus new transfers in:		
– Assets 'held for sale'	–	202
Closing balance of 'held for sale' non-current assets and operations	481	481

Inverell Shire Council

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

Note 23. Events occurring after the reporting date

\$ '000

Events that occur between the end of the reporting period (30 June 2016) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

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

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

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

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

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

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

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

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

Note 24. Discontinued operations

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

Note 25. Intangible assets

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

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

Inverell Shire Council

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

Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

Council has various garbage centres and transfer stations situated around the community.

These all have useful lives, which on being reached will result in Council having to reinstate these areas through restoration and remediation works.

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

Asset/operation	Estimated year of restoration	NPV of provision	
		2016	2015
Tips		1,225	1,155
Quarry/gravel pits		447	422
Balance at end of the reporting period	10(a)	1,672	1,577

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	1,577	1,488
Amounts capitalised to new or existing assets:		
Amortisation of discount (expensed to borrowing costs)	95	89
Total – reinstatement, rehabilitation and restoration provision	1,672	1,577

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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 2016

Note 27. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- 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 all assets and liabilities that have been measured and recognised at fair values:

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

Note 27. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	—	—	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

2015		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						
Financial assets						
Investments						
– ‘Designated at fair value on initial recognition’		30/06/15	–	–	18	18
Total financial assets			–	–	18	18
Investment properties						
Commerical offices and vacant land		30/06/13	–	2,667	–	2,667
Total investment properties			–	2,667	–	2,667

Inverell Shire Council

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

Note 27. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2015		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/15	—	—	8,533	8,533
Office equipment	30/06/15	—	—	722	722
Furniture and fittings	30/06/15	—	—	202	202
Operational land	30/06/13	—	12,709	—	12,709
Community land	30/06/13	—	9,559	—	9,559
Buildings – non-specialised	30/06/13	—	—	20,572	20,572
Buildings – specialised	30/06/13	—	—	9,978	9,978
Other structures	30/06/13	—	—	12,146	12,146
Roads	30/06/15	—	—	165,611	165,611
Bridges	30/06/15	—	—	96,362	96,362
Footpaths	30/06/15	—	—	4,300	4,300
Bulk earthworks (non-depreciable)	30/06/15	—	—	105,299	105,299
Stormwater drainage	30/06/15	—	—	22,860	22,860
Water supply network	30/06/12	—	—	72,129	72,129
Sewerage network	30/06/12	—	—	45,449	45,449
Swimming pools	30/06/13	—	—	3,148	3,148
Other open space/recreational assets	30/06/13	—	—	10,165	10,165
Heritage collections	30/06/15	—	—	79	79
Library books	30/06/15	—	—	324	324
Other assets	30/06/15	—	—	55	55
Tip assets	30/06/15	—	—	765	765
Quarry assets	30/06/15	—	—	152	152
Capital Works in progress	dd/mm/yy	—	—	6,160	6,160
Total infrastructure, property, plant and equipment		—	22,268	585,011	607,279

(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 2016

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:

Financial assets

Investments at fair value through profit or loss include the following two securities:

- Lehman Brothers Global Property Note

Council obtains valuations from Reportfolio Pty Ltd on a monthly basis and at the end of each reporting period to ensure the financial statements reflect the most up-to date valuation. The best evidence of fair value is the current price in an active market for similar assets.

The market for Australian mortgage backed securities, regardless of the robustness of the structure is highly illiquid as a direct consequence of the global financial crisis. Therefore these securities are valued using the results of a financial modelling process undertaken by external consultants. This process takes into account the structure of the securities and the current state of the market conditions likely to impact the value of the securities." 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.

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:

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

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.

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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

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.

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

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 2012 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 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 2012 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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

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.

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 2016

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>2016</u>
	\$000
<u>Opening Balance 30/6/2015</u>	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)	15,327
Disposals (WDV)	(711)
Depreciation & Impairment	(8,060)
Revaluation Decrements to Equity	-
Revaluation Increments to Equity	1,740
<u>Closing Balance - 30/6/16</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**Fair value Hierarchy**

AASB 13 Fair Value Measurement requires disclosure of fair value measurement by level of input, using the following hierarchy;

- **Level 1**– Quoted prices (unadjusted) 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** – Unobservable inputs for asset or liability

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Fair Value – Valuation techniques

The valuation techniques prescribed by AASB 13 can be summarised as:

- **Cost Approach** – A valuation technique that reflects the amount what would be required to replace the service capacity of an asset (current replacement cost)
- **Income Approach** – A valuation technique that converts future amounts (cash flows inflows/outflows) to signal the current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about these future amounts
- **Market Approach** – A valuation technique that uses prices and other relevant information, generated by market transactions involving identical or comparable (similar) assets, liabilities or a group of assets of liabilities such as a business.

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), council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (Level 3)

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

i. Level 2

Level 2 valuation process for some assets classes where the basis was Cost Approach under level 2 inputs which were determined based on whereby maximising observable inputs and minimising unobservable inputs as below

- Quoted prices for similar asset in active markets
- Current replacement cost concept
- Purchase Price
- Useful Life

ii. Level 3

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 2016

Note 28. 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

Elected members**MAYOR**

Paul Harmon

RESPONSIBLE ACCOUNTING OFFICER

Ken Beddie

Other information

ABN: 72695204530

Armidale

92 Rusden Street
PO Box 114
Armidale NSW 2350

p +61 2 6773 8400

f +61 2 6772 9957

email armidale@forsyth's.com.au

Forsyth's Business Services Pty Ltd
ABN 66 182 781 401

INDEPENDENT AUDIT REPORT
Report on the general purpose financial statements

To Inverell Shire Council

SCOPE

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the Statement by Councillors and Management in the approved form as required by Section 413(2)(C) of the *Local Government Act 1993* for Inverell Shire Council (the Council), for the year ended 30th June 2016.

Councils' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements to the Council based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement and Statement of Cash Flows and the Original Budget disclosures in Notes 2 and 16 and accordingly, we express no opinion on them.

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

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

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

INDEPENDENCE

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

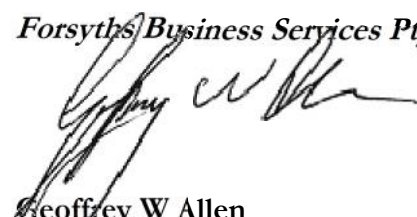
AUDIT OPINION

In our opinion:

- (a) the accounting records of the Council have been kept in accordance with the requirements of Division 2 of Part 3 of the *Local Government Act 1993*;
- (b) the general purpose financial statements:
 - (i) have been prepared in accordance with the requirements of Division 2 of Part 3 of the *Local Government Act 1993*;
 - (ii) are consistent with the Council's accounting records; and
 - (iii) presents fairly, in all material respects, the Council's financial position as at 30th June 2016 and the results of its operations for the year then ended;
- (c) we have been able to obtain all information relevant to the conduct of our audit; and
- (d) no material deficiencies in the records or the financial statements were detected in the course of the audit.

Forsyths

Forsyths Business Services Pty Ltd



Geoffrey W Allen
Principal

21 October 2016
92 Rusden Street Armidale

21 October 2016

The Mayor
Inverell Shire Council
PO Box 138
INVERELL 2360

Armidale

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Forsyths Business Services Pty Ltd
ABN 66 182 781 401

Dear Sir

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

We are pleased to report that we have completed the audit of Council's records for the year ended 30th June 2016 and have reported on the general purpose financial statements and special purpose financial statements and underlying accounting records as required by the provisions of Section 417(2) of the *Local Government Act 1993*.

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

Councils Responsibilities

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

Audit Objectives

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

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

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

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

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

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

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

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

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

Matters Relating to the Electronic Presentation of the Audited Financial Statements

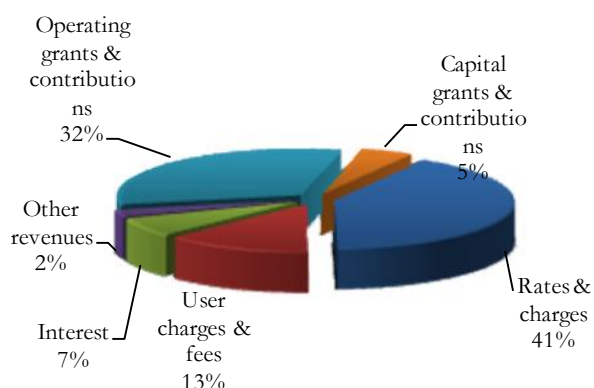
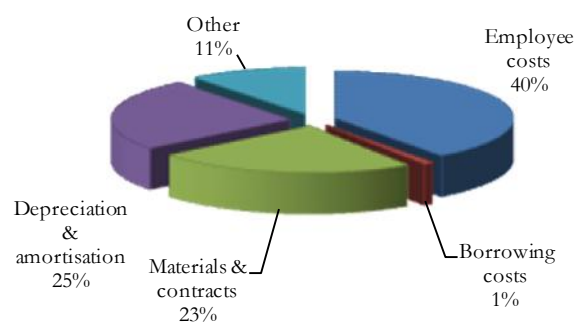
This auditor's report relates to the financial statements of Inverell Shire Council for the year ended 30th June 2016 included on Inverell Shire Council's web site. The Council is responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Council's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

**Additional Reporting Requirements:**

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

The combined Income Statement for the year ended 30th June 2016 discloses the following result:

INCOME STATEMENT	Budget	Actual	Actual	Variance	
	2016	2016	2015	Actual	Budget
	\$'000	\$'000	\$'000		%
INCOME FROM CONTINUING OPERATIONS					
Rates & annual charges	16,944	16,640	15,843	5.0%	-1.8%
User charges & fees	3,385	5,254	5,909	-11.1%	55.2%
Interest income	1,087	2,639	1,508	75.0%	142.8%
Other revenues from ordinary activities	441	1,028	1,367	-24.8%	133.1%
Grants & contributions for operating purposes	11,796	12,827	11,486	11.7%	8.7%
Grants & contributions for capital purposes	2,018	1,841	3,155	-41.6%	-8.8%
Gain from sale of assets	160	150	0	0.0%	-6.3%
Total income from continuing operations	35,831	40,379	39,268	2.8%	12.7%
EXPENSES FROM CONTINUING OPERATIONS					
Employee benefits & oncosts	12,961	12,073	12,881	-6.3%	-6.9%
Borrowing costs	251	270	226	19.5%	7.6%
Materials and contracts	6,202	7,133	8,071	-11.6%	15.0%
Depreciation & amortisation	8,208	7,593	9,232	-17.8%	-7.5%
Other expenses from ordinary activities	4,211	3,212	3,347	-4.0%	-23.7%
Loss on sale of assets	0	0	33	0.0%	0.0%
Total Expenses from continuing operations	31,833	30,281	33,790	-10.4%	-4.9%
OPERATING RESULT FROM CONTINUING OPERATIONS	3,998	10,098	5,478	84.3%	152.6%
NET OPERATING RESULT FOR THE YEAR	3,998	10,098	5,478	84.3%	152.6%
NET OPERATING RESULT BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,980	8,257	2,323	255.4%	317.0%

Revenues from Continuing Operations**Expense from Continuing Operations**

Council achieved a surplus of \$10.1m after recognising an inflow of grants and contributions for capital expenditure purposes of \$1.8m. The expenditure of such grants is not recorded in the Income Statement but in the Statement of Financial Position. If these grants are excluded council had a surplus of \$8.2m.



Revenue increased by 2.8% compared to 2015 mainly as a result of increases in rates & annual charges, interest, grants and contributions for operating purposes which were partially offset by decreases in user charges and fees, other revenues and grants & contributions for capital purposes explained as follows:

- Rates & annual charges increased principally due to rate pegging increases;
- Interest increased due to the level of funds held in term deposits and a settlement received from the Lehman Bros in respect of CDO previously written off;
- Other revenue has decreased mainly as a result of Council no longer operating the Connections disability services in the community;
- Capital grants and contributions have decrease mainly as a result of NSW Rural Fire Services not contributing capital assets to the Council during the year.

Expenditure has decreased by 10.4% mainly due to decreases in employee benefits and on-costs, depreciation & amortisation and materials & contracts as explained as follows:

- Council no longer operates Connections disability services resulting in a decrease in salaries and wages;
- Material & contracts has decreased as a result of increased in capitalisation of cost in capital works projects and Council no longer operating Connections disability services;
- Other expenses have decreased mainly due to decreases in insurance as a result a reduction in claims, electricity and street lighting decreasing due to Council continuing to install solar panels and LED street lighting;
- Depreciation & amortisation decreased as a result of the revaluation of roads and related infrastructure in the 2015 year; and
- Borrowing expenses have increased due to increase in borrowing during the year.

The actual operating surplus from continuing operations for the year of \$10.1m compares with the original budget surplus (excluding re-votes) of \$4.0m. The \$6.1m favourable variance between the actual results and the original budget is primarily due to the following:

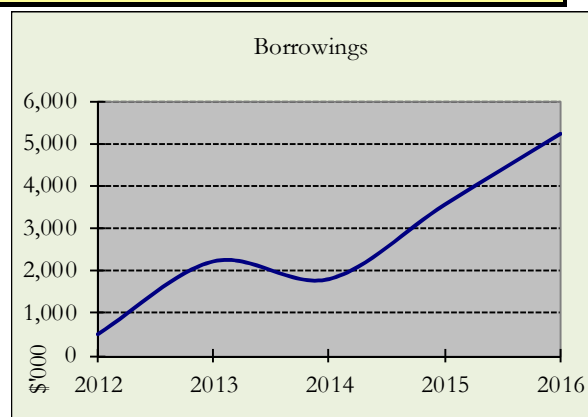
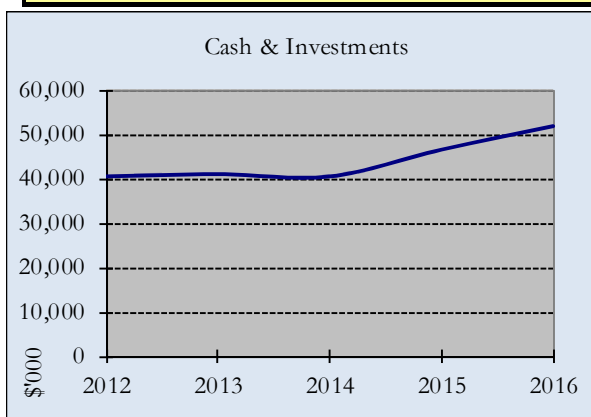


Budget Variations > than 10% and > \$0.5m		Comment
User charges & fees	\$ 1,869,000	Favourable variance to budget mainly due to increased RMS contract revenue for the construction of State Highway 12 and minor increases in commercial waste collections, trade waste income, development applications and construction certificates.
Interest income	\$ 1,552,000	Favourable variance to budget due to better than expected interest rates. Council also received a settlement from Lehman Brothers Australia and Standard & Poor's.
Other revenues from ordinary activities	\$ 587,000	Favourable to budget mainly due to higher than expected Connections disability services brokerage fees & sundry income and insurance proceeds.
Grants & contributions for operating purposes	\$ 1,031,000	Favourable variance to budget mainly due to higher than expected financial assistance grants, waste management, weeds program, youth services, transport and R2R grants during the year.
Grants & contributions for capital purposes	\$ (177,000)	Capital grants were favourable to budget mainly due to higher than expected blackspot funding, cycleway funding, section 94 contributions, water and sewer contributions and clubs NSW grants.
Materials and contracts	\$ (931,000)	Unfavourable to budget mainly due to council under estimating materials and contact costs and higher than expected costs associated with community services and RMS maintenance and construction work on State Highway 12 during the year.
Other expenses from ordinary activities	\$ 999,000	Favourable to budget mainly due to lower than expected electricity expenses and the impact of the installation of solar panels on Councils facilities.



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

SCHEDULE OF ASSETS & LIABILITIES	2016 \$'000	2015 \$'000	Variance %
CURRENT ASSETS			
Cash and cash equivalents	3,824	3,023	26.5%
Investments	43,010	35,518	21.1%
Receivables	4,785	4,132	15.8%
Inventories	605	594	1.9%
Other	83	502	-83.5%
Available for sale non-current assets	481	481	0.0%
TOTAL CURRENT ASSETS	52,788	44,250	19.3%
CURRENT LIABILITIES			
Payables	2,969	2,750	8.0%
Borrowings	529	337	57.0%
Provisions	4,024	3,893	3.4%
TOTAL CURRENT LIABILITIES	7,522	6,980	7.8%
NET CURRENT ASSETS	45,266	37,270	21.5%
NON-CURRENT ASSETS			
Investments	5,000	8,000	-37.5%
Investment Properties	2,725	2,667	2.2%
Receivables	250	195	28.2%
Infrastructure, Property Plant & Equipment	615,575	607,279	1.4%
TOTAL NON-CURRENT ASSETS	623,550	618,141	0.9%
NON-CURRENT LIABILITIES			
Provisions	1,704	1,608	6.0%
Borrowings	4,692	3,221	45.7%
TOTAL NON-CURRENT LIABILITIES	6,396	4,829	32.4%
NET ASSETS	662,420	650,582	1.8%



The major movements in the statement of financial position for 2016 were as follows:

- Net current assets increased by \$7.9m which was mainly a result of the increase in current investments due to a reduction in long term investments and costs from operations;



- Total cash assets and investments currently stand at \$51.8m compared with \$46.5m as at 30th June 2015;
- Receivables increased due to the final settlement payment from Lehman Bros action which is yet to be received and an increase in outstanding water charges at year end;
- Payables have increased mainly due to the monies owing to Best Employment who now operate Connections disability service, the NSW Department of Family & Community Services Ageing Disability and Home Care continuing to pay the grant to the Council after the operations were transferred to Best Employment; and
- Borrowings have increased due to the new loan for the construction of the waste management facility.

NET CURRENT ASSETS

The Net Current Asset position at year end is an important financial indicator as it discloses the working capital available to Council to fund day to day operations and finance infrastructure and new community projects. However, included in Current Assets are assets which are “Restricted” by regulation or other externally imposed requirements and therefore are not available other than their restricted purpose. The table below shows the net current asset position adjusted for restricted assets.

	Water \$'000	Sewerage \$'000	Dom Waste \$'000	General \$'000	Total \$'000
Current Assets	7,427	7,811	117	37,433	52,788
Current Liabilities	589	326	-	6,607	7,522
Net Current Assets	6,838	7,485	117	30,826	45,266
Plus: Non-Current Investments	-	-	-	5,000	5,000
Plus: Employee Entitlements Payable >12mths	-	-	-	2,855	2,855
Total Funds before Restrictions	6,838	7,485	117	38,681	53,121
LESS: Restricted Cash & Investments (Included in Revenue)					
Developer Contributions	-	-	-	369	369
Bonds and deposits				748	748
RMS Contributions				1,076	1,076
Specific Purpose Grants & Contributions and other minor restrictions	14	1,805	-	1,401	3,220
	14	1,805	-	3,594	5,413
NET FUNDS AVAILABLE	6,824	5,680	117	35,087	47,708
LESS Internal Restrictions	-	-	-	17,071	17,071
Net Funds After All Restrictions	6,824	5,680	117	18,016	30,637



After funding all restrictions, Council still retains a very strong cash position to fund working capital needs with net unrestricted general funds of \$18.0m. This amount includes the \$10.3m of budget revotes for works in progress at 30 June 2016.

Refer to the table below for a breakup of the internal restrictions.

INTERNAL RESTRICTIONS	Opening \$'000	Transfer to \$'000	Transfer from \$'000	Closing \$'000
Employee leave entitlements	1,011	-	-	1,011
Strategic development fund	1,115	-	425	690
Plant replacement	3,973	1,650	2,313	3,310
Garbage depot	169	-	-	169
Computer	758	300	51	1,007
Administration building	2,568	-	747	1,821
Aerodrome	134	-	-	134
Workers compensation insurance	439	134	-	573
Future capital works/land purchase	1,505	-	855	650
Garbage degradation/rehabilitation	938	-	-	938
Equipment upgrade/Emergency management	211	-	-	211
Special capital projects	5	-	-	5
Town Hall upgrade	100	-	-	100
Other restrictions	6,432	2,214	2,194	6,452
	19,358	4,298	6,585	17,071

Council has set aside \$1.0m to fund employee entitlements within the general function. This restriction represents 25% of the total employee leave provision entitlements and is considered adequate given the existing staff levels, age profiles and that Council has estimated that \$4.1m of employee entitlements as at 30th June 2016 are not due within the coming 12 months.

Local Government Industry Performance Indicators

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

The key financial indicators disclosed in the Financial Statements are:



RATIO	PURPOSE	2016	2015	2014	2013	2012	Benchmark
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating revenue.	18.8%	6.8%	3.2%	6.1%	7.0%	>0%(3yrs)
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	62.5%	62.8%	68.0%	65.0%	60.0%	>60%(3yrs)
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	11.21	7.68	8.36	14.08	10.59	>1.5
DEBT SERVICE COVER RATIO	To assess the availability of operating cash to service debt including interest, principle and lease payments.	24.49	25.28	16.40	24.95	31.85	>20(3yrs)
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	5.3%	5.9%	5.6%	5.4%	5.2%	<10%
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	24.77	20.68	20.05	18.72	22.68	>3

Operating performance

An operating performance surplus of 18.8% compares to a surplus in 2015 of 6.8%. The ratio indicates that Councils operating revenue, excluding capital grants and contributions are sufficient to cover operating expenditure. This compares to a Group 11 average deficit of 0.36% and State average deficit of 0.58% for 2015. The benchmark for this ratio is that Councils should have a breakeven or better over a three year period which Council has achieved.

Own source operating revenue

A ratio of 62.5% highlights Council's low dependence on grants and contributions and compares to a Group 11 average of 66.8% and a State average of 66.97% for 2015. The benchmark for sustainability is for councils to have own source operating revenue of greater than 60% over a three year period which council has achieved. It is noted, however, that the benchmark for the general fund is 55.13% being below the Fit for the Future benchmark requirement.

Unrestricted ratio

The unrestricted ratio excludes all current assets and liabilities that are restricted to specific purposes such as water, sewer, domestic waste management functions and specific purpose unexpended grants & contributions. This ratio is before setting aside cash to fund internal restrictions relative to the general function. An unrestricted current ratio of 11.21 indicates that the general purpose function of Council has \$11.21 available to meet every dollar of current liability. This ratio is high when compared to the average of Group 11 Councils of 3.98 and the State average of 3.92 for 2015. The benchmark for the unrestricted is 1.5.

Debt service cover ratio

The debt service cover ratio of 24.49 times indicates that council has \$24.49 before interest and depreciation to pay each \$1 of interest and principal repayments on current borrowings. The



benchmark for sustainability is to have a ratio of greater than 2.0. This ratio compares to the average of Group 11 Councils of 9.4 and the State average of 104.13 for 2015. This ratio is one indicator that Council may be able to borrow for critical infrastructure projects in the future.

Outstanding rates ratio

The outstanding rates ratio of 5.3% (i.e. 5.3% of all rates levied had not been recovered by year end) has remained at a low level and is within benchmarks and reflects good recovery procedures. Council's ratio compares to the Group 11 Councils average of 5.9% and the State average of 5.85% for 2015.

Cash expense ratio

This ratio indicates that Council can pay 24.77 months of its expenses without additional cash inflows. The benchmark is to have reserves to meet at least 3 months of operating expenditure. Council's ratio compares favourably to the Group 11 Councils average of 13.5 and the State average of 11.36 for 2015.

The key financial indicators by fund disclosed in the Financial Statements are:

RATIO	PURPOSE	Water	Sewer	General	
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating revenue.	20.8% 14.4%	10.9% 8.2%	19.2% 5.5%	■ 2016 ■ 2015
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	92.8% 90.8%	93.6% 91.4%	55.1% 56.5%	■ 2016 ■ 2015
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	21.3 21.49	25.78 22.78	10.09 7.08	■ 2016 ■ 2015
DEBT SERVICE COVER RATIO	To assess the availability of operating cash to service debt including interest, principle and lease payments.	7.49 6.07	4.44 7.61	109.84 105.78	■ 2016 ■ 2015
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	4.7% 5.5%	4.6% 5.6%	5.5% 6.0%	■ 2016 ■ 2015
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	20.93 20.06	49.77 43.41	23.1 18.96	■ 2016 ■ 2015

Operating performance

The operating performance ratio by fund shows that sewer, water and general fund have sufficient operating revenue, excluding capital grants and contributions to cover operating expenditure.

Own source operating revenue

The own source revenue ratio shows the quantum of own source income across each fund. The water and sewer funds ratios are above the benchmark 60%.

*Unrestricted Ratio*

The unrestricted ratios show that the general fund, water fund and sewer funds have sufficient working capital.

Debt service cover ratio

The debt service cover ratio by fund shows that Council may have potential to increase borrowings to fund infrastructure backlogs in each fund.

Outstanding rate ratio

The outstanding rate ratio by fund shows that the outstanding rates are slightly higher in the general fund than the water and sewer funds.

Cash expense ratio

This ratio shows that the each fund has sufficient cash reserves.

Infrastructure Asset Performance Indicators

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

RATIO	PURPOSE	2016	2015	2014	2013	2012	Benchmark
BUILDING AND INFRASTRUCTURE RENEWALS RATIO	To assess the proportion spent on infrastructure renewals vs infrastructure deterioration.	186%	67%	106%	64%	77%	>100% (3yrs)
INFRASTRUCTURE BACKLOG RATIO	To assess the infrastructure backlog against the total value of councils infrastructure.	1.1%	1.1%	6.0%	7.0%	20.0%	<2%
ASSET MAINTENANCE RATIO	To assess the actual vs required annual maintenance expenditure.	103%	101%	103%	102%	91%	>100% (3yrs)

Building and infrastructure renewals ratio

The asset renewals ratio of 186% compares to a Group 11 Councils average of 95.8% and a State average of 92.04% for 2015. This ratio assists readers of the financial statements to assess Council's performance with renewing its infrastructure assets against the estimated level of infrastructure asset deterioration (as represented by depreciation expense). A ratio of 186% indicates that council has expended \$1.86 in infrastructure asset renewal for every \$1 of estimated infrastructure deterioration. The benchmark is that councils should have a Building and infrastructure renewals ratio of greater than one over a three year period.

Infrastructure backlog ratio

An infrastructure backlog ratio 1.1% indicates that the infrastructure backlog represents 1.1% of the value of Councils infrastructure and compares to a Group 11 average of 3.1% and State average of 4.7% for 2015. The benchmark is a ratio less than 2% which Council has achieved.

Asset maintenance ratio

The Asset Maintenance ratio of 1.03 indicated that Council's maintenance this year has keep pace with required maintenance as determined by council's engineers and maintenance staff and compares



to a Group 11 average of 1.04 and State average of 1.00% for 2015. The benchmark for the asset maintenance ratio is greater than 1.0.

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

CASH MOVEMENTS	Actual 2016	Actual 2015	Variance
	\$'000	\$'000	%
CASH INFLOWS			
Operating Receipts	41,356	43,121	-4.1%
Proceeds from Assets Sales	861	1,082	-20.4%
Other receipts	0	4	0.0%
Proceeds form sale of investments	16,052	7,032	128.3%
Proceeds from Borrowings	2,000	2,000	0.0%
TOTAL RECEIPTS	60,269	53,239	13.2%
CASH OUTFLOWS			
Operating Payments	24,769	26,748	-7.4%
Purchase of investments	19,500	27,000	-27.8%
Purchase of Assets	14,860	13,063	13.8%
Repayment of Loans	337	246	37.0%
Other Payments	2	0	0.0%
TOTAL PAYMENTS	59,468	67,057	-11.3%
TOTAL CASH MOVEMENT	801	-13,818	-105.8%
Cash	3,824	3,023	26.5%
Investments	48,010	43,518	10.3%
Total Cash & Investments on Hand	51,834	46,541	11.4%

Council's cash and investments have increased by \$5.3m after expending \$14.9m on infrastructure and assets and \$0.3m on scheduled repayments of borrowings. This has been funded by the continued strong cashflows from operations.

Cash Outflows for Purchase of Assets included road and bridge construction totalling \$5.5m. This compares with the \$3.4m annual rate of depreciation of these assets. In assessing the replacement rate of depreciating assets it is also important to note that Special Schedule No 7, which is an unaudited statement prepared in conjunction with the financial report, discloses that the estimated cost to bring roads and bridges to a satisfactory standard is \$5.1m and the estimated annual maintenance expense required is \$4.5m.

As stated in our previous reports, Council's enviable cash position provides a strong footing from which to address infrastructure improvements and complete internally restricted projects.

SPECIAL PURPOSE FINANCIAL STATEMENTS

Council is required to report the financial results of identified Business Units in accordance with National Competition Policy guidelines. The reports are known as Special Purpose Financial Statements and are subject to audit. Council has identified the Water and Sewer functions as Category 1 Business units.



WATER SUPPLY FUNCTION

The Water Supply function recorded an operating surplus (before capital funding) of \$1,203,000 after allowing for depreciation of \$835,000.

The Net Current Asset position of \$6.8m places the fund in a strong financial position, especially when you take into account that water infrastructure condition (per unaudited Special Schedule 7) is stated as being of “satisfactory” standard.

SEWERAGE SERVICES

The Sewerage Service function recorded an operating surplus (before capital funding) of \$862,000 after allowing for depreciation of \$705,000.

The Net Current Asset position is a surplus of \$7.5m. The fund is in a sound financial position given the size of the function and is adequate to meet operational requirements.

GENERAL

Reporting obligations under the Local Government Act

It is pleasing to report that Council’s systems and records have been well maintained during the year and the audited accounts will be submitted to the Division of Local Government within the prescribed time provide for in Division 2 of the *Local Government Act 1993*.

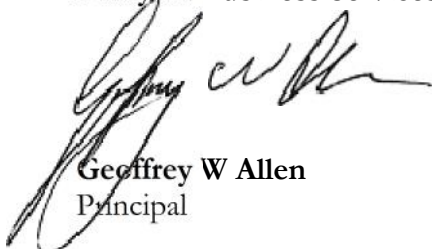
Matters of a technical nature have been documented in a management letter to the General Manager.

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

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

Yours faithfully

Forsyths Business Services Pty Ltd



Geoffrey W Allen
Principal

Inverell Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016



Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

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Income Statement – Other Business Activities	n/a
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Statement of Financial Position – Sewerage Business Activity	6
Statement of Financial Position – Other Business Activities	n/a
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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 2016

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 28 September 2016.



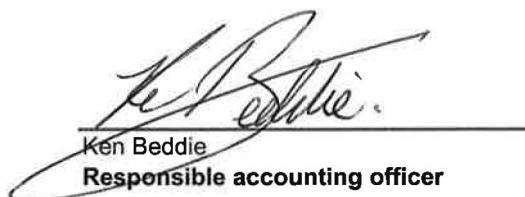
Paul Harmon
Mayor



Anthony Michael
Councillor



Paul Henry
General Manager



Ken Beddie
Responsible accounting officer

Inverell Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	1,971	1,859
User charges	2,456	2,084
Fees	—	—
Interest	534	176
Grants and contributions provided for non-capital purposes	131	141
Profit from the sale of assets	—	—
Other income	34	58
Total income from continuing operations	5,126	4,318
Expenses from continuing operations		
Employee benefits and on-costs	966	911
Borrowing costs	84	92
Materials and contracts	525	595
Depreciation and impairment	835	821
Water purchase charges	104	78
Loss on sale of assets	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	7	8
Other expenses	1,402	1,440
Total expenses from continuing operations	3,923	3,945
Surplus (deficit) from continuing operations before capital amounts	1,203	373
Grants and contributions provided for capital purposes	227	283
Surplus (deficit) from continuing operations after capital amounts	1,430	656
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	1,430	656
Less: corporate taxation equivalent (30%) [based on result before capital]	(361)	(112)
SURPLUS (DEFICIT) AFTER TAX	1,069	544
Plus opening retained profits	20,007	19,343
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	7	8
– Corporate taxation equivalent	361	112
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	21,444	20,007
Return on capital %	1.6%	0.6%
Subsidy from Council	274	1,866
Calculation of dividend payable:		
Surplus (deficit) after tax	1,069	544
Less: capital grants and contributions (excluding developer contributions)	—	—
Surplus for dividend calculation purposes	1,069	544
Potential dividend calculated from surplus	535	272

Inverell Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	2,306	2,182
User charges	—	30
Liquid trade waste charges	—	—
Fees	—	—
Interest	814	14
Grants and contributions provided for non-capital purposes	115	77
Profit from the sale of assets	—	—
Other income	18	15
Total income from continuing operations	3,253	2,318
Expenses from continuing operations		
Employee benefits and on-costs	495	502
Borrowing costs	77	45
Materials and contracts	299	273
Depreciation and impairment	705	704
Loss on sale of assets	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	9	10
Other expenses	806	848
Total expenses from continuing operations	2,391	2,382
Surplus (deficit) from continuing operations before capital amounts	862	(64)
Grants and contributions provided for capital purposes	57	146
Surplus (deficit) from continuing operations after capital amounts	919	82
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	919	82
Less: corporate taxation equivalent (30%) [based on result before capital]	(259)	—
SURPLUS (DEFICIT) AFTER TAX	660	82
Plus opening retained profits	16,845	16,753
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	9	10
– Corporate taxation equivalent	259	—
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	17,773	16,845
Return on capital %	2.0%	0.0%
Subsidy from Council	—	1,408
Calculation of dividend payable:		
Surplus (deficit) after tax	660	82
Less: capital grants and contributions (excluding developer contributions)	—	—
Surplus for dividend calculation purposes	660	82
Potential dividend calculated from surplus	330	41

Inverell Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	672	1,487
Investments	5,010	4,018
Receivables	1,636	674
Inventories	109	120
Other	–	14
Non-current assets classified as held for sale	–	–
Total current assets	7,427	6,313
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	78,437	77,175
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	78,437	77,175
TOTAL ASSETS	85,864	83,488
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	72	21
Borrowings	185	174
Provisions	332	340
Total current liabilities	589	535
Non-current liabilities		
Payables	–	–
Borrowings	1,279	1,464
Provisions	–	–
Total non-current liabilities	1,279	1,464
TOTAL LIABILITIES	1,868	1,999
NET ASSETS	83,996	81,489
EQUITY		
Retained earnings	21,444	20,007
Revaluation reserves	62,552	61,482
Council equity interest	83,996	81,489
Non-controlling equity interest	–	–
TOTAL EQUITY	83,996	81,489

Inverell Shire Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	1,632	824
Investments	6,000	5,500
Receivables	169	228
Inventories	10	13
Other	–	14
Non-current assets classified as held for sale	–	–
Total Current Assets	7,811	6,579
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	46,238	45,993
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	46,238	45,993
TOTAL ASSETS	54,049	52,572
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	33	7
Borrowings	170	163
Provisions	123	109
Total current liabilities	326	279
Non-current liabilities		
Payables	–	–
Borrowings	1,588	1,757
Provisions	–	–
Total non-current liabilities	1,588	1,757
TOTAL LIABILITIES	1,914	2,036
NET ASSETS	52,135	50,536
EQUITY		
Retained earnings	17,773	16,845
Revaluation reserves	34,362	33,691
Council equity interest	52,135	50,536
Non-controlling equity interest	–	–
TOTAL EQUITY	52,135	50,536

Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

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1	Summary of significant accounting policies	8
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 2016

Note 1. Significant accounting policies

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

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

The figures presented in the SPFS, unless otherwise stated, have been prepared in accordance with:

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

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

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

National Competition Policy

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

The framework for its application is set out in the June 1996 government policy statement, *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 standards for disclosure. 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, with the exception of some figures disclosed in 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 in undertaking its business activities. Where this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council-

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

nominated business activities and are reflected in these financial statements.

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

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, 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 Best-Practice Management of Water Supply and Sewerage Guidelines, 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 in the Best-Practice Management of Water Supply and Sewerage 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 against the Best-Practice Management of Water Supply and Sewerage 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 each reported business activity.

While 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 or 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 positive gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since this 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 Council's General Purpose Financial Statements.

The 30% rate applied is the equivalent company tax rate prevalent as at balance 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.

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

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

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

(iii) Return on investments (rate of return)

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

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

The rate of return on capital is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.99% at 30/6/16.

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

(iv) Dividends

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

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

The dividend, calculated and approved in accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, must not exceed either:

- (i) 50% of this surplus in any one year, or

- (ii) the number of water supply or sewerage assessments at 30 June 2016 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a Dividend Payment Form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the NSW Office of Water prior to making the dividend and only after it has approved the payment.

For the year ended 30/6/16 Council has not met the conditions of the Best Practice Management Guide and accordingly no dividend has been declared.

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 2. Water supply business
best-practice management disclosure requirements

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

2016

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	7,000
(ii)	Number of assessments multiplied by \$3/assessment	18,039
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	7,000
(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]	534,550
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	173,390
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	2,331,200

2016 Surplus	1,069,100	2015 Surplus	544,100	2014 Surplus	718,000
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	173,390
(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 2016Note 2. Water supply business
best-practice management disclosure requirements (continued)

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

2016

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	4,819
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)]	%	48.13%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	78,431
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	2,158
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	1,027
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)]	%	2.33%
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 2016Note 3. Sewerage business
best-practice management disclosure requirements

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

2016

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	9,000
(ii)	Number of assessments multiplied by \$3/assessment	14,856
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	9,000
(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]	330,200
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	139,560
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	998,100

2016 Surplus	660,400	2015 Surplus	82,000	2014 Surplus	255,700
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	139,560
(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 2016Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2016

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	2,496
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	46,237
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	1,357
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	278
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)]	%	0.94%
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	7,315
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.74%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	1,305
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)]	%	1.81%
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 2016Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2016

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-7.41%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): 2,261 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: - 1,187 Interest expense (w4a + s4a) – interest income (w9 + s10)		> 100
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	2,365
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	127

- 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

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INDEPENDENT AUDIT REPORT
Report on the special purpose financial statements

To Inverell Shire Council

SCOPE

We have audited the special purpose financial statements of Inverell Shire Council for the year ended 30th June 2016 comprising the Statement by Councillors and Management, Income Statement of Business Activities, Statement of Financial Position by Business Activities, and Note 1 to the Financial Statements. The financial statements include the financial results of the business activities of the Council and the entities it controlled at the year's end or from time to time during the year.

Councils' responsibility for the financial statements

The Council is responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the requirements of the Office of Local Government and Council. The Councils' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the Council or the Office of Local Government. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

The special purpose financial statements have been prepared for distribution to the Council and the Office of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council or the Office of Local Government or for any purpose other than for which the report was prepared.

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

INDEPENDENCE

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

AUDIT OPINION

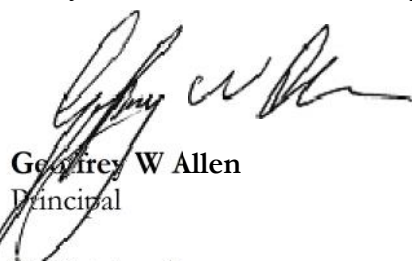
In our opinion, the Special Purpose Financial Statements of the Inverell Shire Council for the year ended 30th June 2016 are presented fairly, in all material respects, in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

BASIS OF ACCOUNTING

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Office of Local Government. As a result, the financial statements may not be suitable for another purpose.

Forsyths

Forsyths Business Services Pty Ltd



Geoffrey W Allen
Principal

21 October 2016
92 Rusden Street Armidale

Inverell Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2016



Inverell Shire Council

Special Schedules for the year ended 30 June 2016

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Special Schedules¹

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Special Schedule 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
Special Schedule 3	Water Supply Operations – incl. Income Statement	5
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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 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,561	–	–	(1,561)
Administration	1,275	419	–	(856)
Public order and safety				
Fire service levy, fire protection, emergency services	801	279	82	(440)
Beach control	–	–	–	–
Enforcement of local government regulations	3	9	–	6
Animal control	178	53	–	(125)
Other	–	–	–	–
Total public order and safety	982	341	82	(559)
Health	(231)	24	–	255
Environment				
Noxious plants and insect/vermin control	246	101	–	(145)
Other environmental protection	1	20	–	19
Solid waste management	2,555	3,402	6	853
Street cleaning	398	(8)	–	(406)
Drainage	–	–	–	–
Stormwater management	412	131	–	(281)
Total environment	3,612	3,646	6	40
Community services and education				
Administration and education	2	2	–	–
Social protection (welfare)	–	–	–	–
Aged persons and disabled	533	486	–	(47)
Children's services	325	308	–	(17)
Total community services and education	860	796	–	(64)
Housing and community amenities				
Public cemeteries	150	114	–	(36)
Public conveniences	206	–	–	(206)
Street lighting	193	44	–	(149)
Town planning	481	152	–	(329)
Other community amenities	16	–	16	–
Total housing and community amenities	1,046	310	16	(720)
Water supplies	3,767	4,933	227	1,393
Sewerage services	2,382	3,224	57	899

Inverell Shire Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	930	56	26	(848)
Museums	–	–	–	–
Art galleries	60	–	30	(30)
Community centres and halls	284	27	–	(257)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	98	–	–	(98)
Sporting grounds and venues	578	75	410	(93)
Swimming pools	301	9	–	(292)
Parks and gardens (lakes)	646	–	39	(607)
Other sport and recreation	112	69	–	(43)
Total recreation and culture	3,009	236	505	(2,268)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	268	98	–	(170)
Other mining, manufacturing and construction	(13)	32	–	45
Total mining, manufacturing and const.	255	130	–	(125)
Transport and communication				
Urban roads (UR) – local	1,423	–	20	(1,403)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	1,390	10	155	(1,225)
Sealed rural roads (SRR) – regional	1,613	2,413	–	800
Unsealed rural roads (URR) – local	2,313	160	–	(2,153)
Unsealed rural roads (URR) – regional	4	–	–	(4)
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	1,196	–	–	(1,196)
Bridges on regional roads	–	–	–	–
Parking areas	92	–	–	(92)
Footpaths	164	(2)	236	70
Aerodromes	216	1	–	(215)
Other transport and communication	1,947	4,462	537	3,052
Total transport and communication	10,358	7,044	948	(2,366)
Economic affairs				
Camping areas and caravan parks	65	37	–	(28)
Other economic affairs	1,340	640	–	(700)
Total economic affairs	1,405	677	–	(728)
Totals – functions	30,281	21,780	1,841	(6,660)
General purpose revenues ⁽¹⁾		16,758		16,758
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	30,281	38,538	1,841	10,098

(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 2016

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
Loans (by source)											
Commonwealth government	–	–	–	–	–	–	–	–	–	–	–
Treasury corporation	–	–	–	2,000	–	–	–	14	174	1,826	2,000
Other state government	–	–	–	–	–	–	–	–	–	–	–
Public subscription	–	–	–	–	–	–	–	–	–	–	–
Financial institutions	337	3,221	3,558	–	337	–	–	161	355	2,866	3,221
Other	–	–	–	–	–	–	–	–	–	–	–
Total loans	337	3,221	3,558	2,000	337	–	–	175	529	4,692	5,221
Other long term debt											
Ratepayers advances	–	–	–	–	–	–	–	–	–	–	–
Government advances	–	–	–	–	–	–	–	–	–	–	–
Finance leases	–	–	–	–	–	–	–	–	–	–	–
Deferred payments	–	–	–	–	–	–	–	–	–	–	–
Total long term debt	–	–	–	–	–	–	–	–	–	–	–
Total debt	337	3,221	3,558	2,000	337	–	–	175	529	4,692	5,221

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 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income Expenses		
1. Management expenses		
a. Administration	244	239
b. Engineering and supervision	76	111
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	–
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	–	–
d. Maintenance expenses	367	303
– Reservoirs		
e. Operation expenses	–	–
f. Maintenance expenses	42	47
– Pumping stations		
g. Operation expenses (excluding energy costs)	–	–
h. Energy costs	–	661
i. Maintenance expenses	673	93
– Treatment		
j. Operation expenses (excluding chemical costs)	652	505
k. Chemical costs	–	215
l. Maintenance expenses	–	–
– Other		
m. Operation expenses	–	772
n. Maintenance expenses	–	–
o. Purchase of water	104	78
3. Depreciation expenses		
a. System assets	834	818
b. Plant and equipment	–	3
4. Miscellaneous expenses		
a. Interest expenses	84	92
b. Revaluation decrements	–	–
c. Other expenses	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	3,916	3,937

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 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges		
a. Access (including rates)	1,971	1,859
b. Usage charges	1,829	1,551
7. Non-residential charges		
a. Access (including rates)	—	—
b. Usage charges	605	510
8. Extra charges	—	—
9. Interest income	534	176
10. Other income	56	81
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	69	71
c. Other grants	62	70
12. Contributions		
a. Developer charges	—	—
b. Developer provided assets	—	—
c. Other contributions	227	283
13. Total income	5,353	4,601
14. Gain (or loss) on disposal of assets	—	—
15. Operating result	1,437	664
15a. Operating result (less grants for acquisition of assets)	1,437	664

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 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	63	26
c. Renewals	964	231
d. Plant and equipment	–	–
17. Repayment of debt	175	166
18. Totals	1,202	423
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)	5,206	5,105
b. Residential (unoccupied, ie. vacant lot)	149	166
c. Non-residential (occupied)	558	559
d. Non-residential (unoccupied, ie. vacant lot)	100	100
23. Number of ETs for which developer charges were received	16 ET	25 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 125,004	\$ 127,881

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 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	14	–	14
c. Accrued leave	332	–	332
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	5,336	–	5,336
26. Receivables			
a. Specific purpose grants	14	–	14
b. Rates and availability charges	97	–	97
c. User charges	800	–	800
d. Other	725	–	725
27. Inventories	109	–	109
28. Property, plant and equipment			
a. System assets	–	78,431	78,431
b. Plant and equipment	–	6	6
29. Other assets	–	–	–
30. Total assets	7,427	78,437	85,864
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	72	–	72
33. Borrowings	185	1,279	1,464
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	332	–	332
35. Total liabilities	589	1,279	1,868
36. NET ASSETS COMMITTED	6,838	77,158	83,996
EQUITY			
37. Accumulated surplus			21,444
38. Asset revaluation reserve			62,552
39. TOTAL EQUITY			83,996
Note to system assets:			
40. Current replacement cost of system assets			103,154
41. Accumulated current cost depreciation of system assets			(24,723)
42. Written down current cost of system assets			78,431

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 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	65	127
b. Engineering and supervision	338	303
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	289	276
– Pumping stations		
c. Operation expenses (excluding energy costs)	152	168
d. Energy costs	65	77
e. Maintenance expenses	–	–
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	379	361
g. Chemical costs	–	–
h. Energy costs	69	81
i. Effluent management	–	–
j. Biosolids management	–	–
k. Maintenance expenses	–	–
– Other		
l. Operation expenses	–	–
m. Maintenance expenses	–	–
3. Depreciation expenses		
a. System assets	705	703
b. Plant and equipment	–	1
4. Miscellaneous expenses		
a. Interest expenses	77	45
b. Revaluation decrements	–	–
c. Other expenses	243	230
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	2,382	2,372

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 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges (including rates)	2,109	1,996
7. Non-residential charges		
a. Access (including rates)	135	127
b. Usage charges	62	59
8. Trade waste charges		
a. Annual fees	—	—
b. Usage charges	—	—
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	—	—
10. Interest income	814	14
11. Other income	18	46
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	58	59
c. Other grants	57	18
13. Contributions		
a. Developer charges	—	—
b. Developer provided assets	—	—
c. Other contributions	57	145
14. Total income	3,310	2,464
15. Gain (or loss) on disposal of assets	—	—
16. Operating result	928	92
16a. Operating result (less grants for acquisition of assets)	928	92

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 2016

\$'000	Actuals 2016	Actuals 2015
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	182	238
d. Plant and equipment	–	–
18. Repayment of debt	163	80
19. Totals	441	318
Non-operating funds employed		
20. Proceeds from disposal of assets	–	–
21. Borrowing utilised	–	2,000
22. Totals	–	2,000
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	4,567	4,529
b. Residential (unoccupied, ie. vacant lot)	149	166
c. Non-residential (occupied)	136	131
d. Non-residential (unoccupied, ie. vacant lot)	100	100
24. Number of ETs for which developer charges were received	20 ET	40 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 104,978	\$ 107,319

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 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	3	–	3
c. Accrued leave	123	–	123
d. Unexpended loans	1,802	–	1,802
e. Sinking fund	–	–	–
f. Other	5,704	–	5,704
27. Receivables			
a. Specific purpose grants	3	–	3
b. Rates and availability charges	113	–	113
c. User charges	–	–	–
d. Other	53	–	53
28. Inventories	10	–	10
29. Property, plant and equipment			
a. System assets	–	46,237	46,237
b. Plant and equipment	–	1	1
30. Other assets	–	–	–
31. Total assets	7,811	46,238	54,049
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	33	–	33
34. Borrowings	170	1,588	1,758
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	123	–	123
36. Total liabilities	326	1,588	1,914
37. NET ASSETS COMMITTED	7,485	44,650	52,135
EQUITY			
38. Accumulated surplus			17,773
39. Asset revaluation reserve			34,362
40. TOTAL EQUITY			52,135
Note to system assets:			
41. Current replacement cost of system assets			64,905
42. Accumulated current cost depreciation of system assets			(18,668)
43. Written down current cost of system assets			46,237

Inverell Shire Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2016

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 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – non-specialised	–	–	342	458	20,347	22,174	62%	38%	0%	0%	0%
	Buildings – specialised	–	–	97	90	9,925	11,218	0%	100%	0%	0%	0%
	Sub-total	–	–	439	548	30,272	33,392	41.2%	58.8%	0.0%	0.0%	0.0%
Other structures	Other structures	–	–	141	146	12,255	13,532	6%	94%	0%	0%	0%
	Sub-total	–	–	141	146	12,255	13,532	6.0%	94.0%	0.0%	0.0%	0.0%
Roads	Sealed roads	5,097	–	2,609	2,763	129,097	167,122	17%	72%	9%	2%	0%
	Unsealed roads	–	–	1,502	1,507	40,868	45,334	43%	52%	5%	0%	0%
	Bridges/Culverts/Causeways	–	–	321	174	95,642	124,233	18%	72%	10%	0%	0%
	Footpaths	–	–	106	99	5,026	6,374	21%	78%	1%	0%	0%
	Bulk earthworks	–	–	–	–	105,803	105,803	100%	0%	0%	0%	0%
	Sub-total	5,097	–	4,538	4,543	376,436	448,866	39.5%	53.1%	6.6%	0.7%	0.0%

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (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	2015/16 Required maintenance	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Water supply network	Water supply network	–	–	876	877	72,694	97,418	0%	95%	5%	0%	0%
	Sub-total	–	–	876	877	72,694	97,418	0.0%	95.0%	5.0%	0.0%	0.0%
Sewerage network	Sewerage network	–	–	695	701	45,523	64,191	2%	94%	4%	0%	0%
	Sub-total	–	–	695	701	45,523	64,191	2.0%	94.0%	4.0%	0.0%	0.0%
Stormwater drainage	Stormwater drainage	–	–	102	103	22,689	30,710	1%	98%	1%	0%	0%
	Sub-total	–	–	102	103	22,689	30,710	1.0%	98.0%	1.0%	0.0%	0.0%
Open space/recreational assets	Swimming pools	–	–	50	84	3,082	3,947	0%	100%	0%	0%	0%
	Other Open Space/Recreational Assets	–	–	780	864	11,213	12,610	0%	100%	0%	0%	0%
	Sub-total	–	–	830	948	14,295	16,557	0.0%	100.0%	0.0%	0.0%	0.0%
	TOTAL – ALL ASSETS	5,097	–	7,621	7,866	574,164	704,666	27.5%	66.7%	5.3%	0.5%	0.0%

Notes:

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 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Infrastructure asset performance indicators *				
consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	11,244	186.07%	67.40%	106.13%
Depreciation, amortisation and impairment	6,043			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	5,097	1.09%	1.10%	6.21%
Carrying value of infrastructure assets	468,361			
3. Asset maintenance ratio				
Actual asset maintenance	7,866	1.03	1.01	1.03
Required asset maintenance	7,621			

Notes

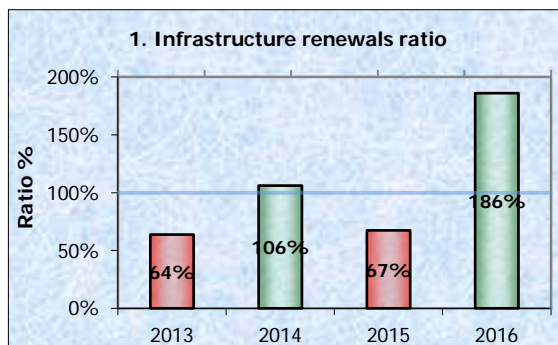
* All asset performance indicators are calculated using the asset classes identified in the previous table.

⁽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 2016



Benchmark: — Minimum $\geq 100.00\%$

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

Purpose of asset renewals ratio

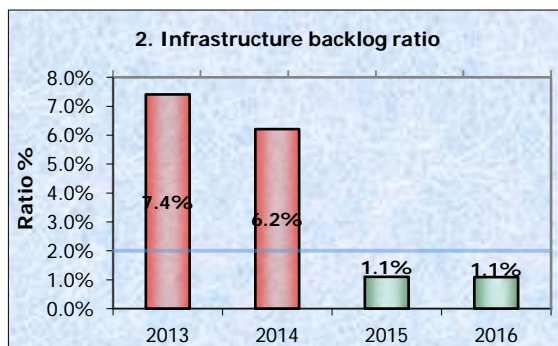
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2015/16 result

2015/16 Ratio 186.07%

Council has achieved that "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.

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$

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

Purpose of infrastructure backlog ratio

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

Commentary on 2015/16 result

2015/16 Ratio 1.09%

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%

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Minimum > 1.00

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

Purpose of asset maintenance ratio

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

Commentary on 2015/16 result

2015/16 Ratio 1.03 x

Council's Asset Maintenance Ratio of 1.03 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

Ratio achieves benchmark
Ratio is outside benchmark

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016

\$ '000	Water 2016	Sewer 2016	General ⁽¹⁾ 2016
Infrastructure asset performance indicators by fund			
1. Infrastructure renewals ratio			
Asset renewals ⁽²⁾	31.93%	1.70%	243.42%
Depreciation, amortisation and impairment			
prior period:	31.42%	33.85%	76.04%
2. Infrastructure backlog ratio			
Estimated cost to bring assets to a satisfactory standard	0.00%	0.00%	1.46%
Carrying value of infrastructure assets			
prior period:	0.00%	0.00%	1.48%
3. Asset maintenance ratio			
Actual asset maintenance	1.00	1.01	1.04
Required asset maintenance			
prior period:	1.00	1.00	1.01

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 2017

\$'000		Calculation 2015/16	Calculation 2016/17
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	10,257	10,532
Plus or minus adjustments ⁽²⁾	b	28	15
Notional general income	c = (a + b)	10,285	10,547
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	—	—
Plus special variation amount	$h = d \times (c - g)$	—	—
Or plus rate peg amount	$i = c \times e$	247	190
Or plus Crown land adjustment and rate peg amount	$j = c \times f$	—	—
Sub-total	$k = (c + g + h + i + j)$	10,532	10,737
Plus (or minus) last year's carry forward total	l	1	1
Less valuation objections claimed in the previous year	m	—	(1)
Sub-total	$n = (l + m)$	1	0
Total permissible income	$o = k + n$	10,533	10,737
Less notional general income yield	p	10,532	10,736
Catch-up or (excess) result	$q = o - p$	1	1
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	1

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.

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Forsyths Business Services Pty Ltd
ABN 66 182 781 401

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

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

Responsibility of Council for Special Schedule No. 8

The Council is responsible for preparation and fair presentation of Special No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 23. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant preparation and fair presentation of Special Schedule No. 8 that is free from material mistreatment, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

Our responsibility is to express an opinion on Special Schedule No. 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit Standard require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 8 and is free from material misstatement.

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

Because of the inherent limitation of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of the expressing an opinion on the effectiveness of the entity's internal control.

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

Independence

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

Audit Opinion

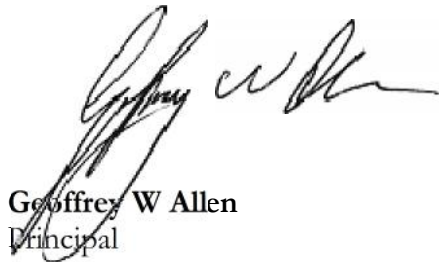
In our opinion Special Schedule No. 8 of Inverell Shire Council for the year ending 30 June 2017 is properly drawn up in all material respects, in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

Basis of Accounting

Without modifying our opinion, we advise that the Special Schedule No. 8 has been prepared for distribution to the Office of Local Government for the purposes of confirming the Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the Special Schedule No. 8 may not be suitable for another purpose

Forsyths

FORYSTHS BUSINESS SERVICES PTY LTD



Geoffrey W Allen
Principal

Dated at Armidale this 21st October 2016