

Muswellbrook Shire Council

General Purpose Financial Statements

for year ended 30 June 2016



muswellbrook
shire council

Muswellbrook Shire Council

General Purpose Financial Statements

for the year ended 30 June 2016

Contents

Page

1. Understanding Council's Financial Statements

2

2. Statement by Councillors and Management

5

3. Primary Financial Statements:

- Income Statement
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows

6

7

8

9

10

4. Notes to the Financial Statements

12-115

5. Independent Auditor's Reports:

- On the Financial Statements (Sect 417 [2])
- On the Conduct of the Audit (Sect 417 [3])

116-117

118-124

Overview

- (i) These financial statements are General Purpose Financial Statements and cover the consolidated operations for Muswellbrook Shire Council.
- (ii) Muswellbrook 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 27 October 2016. Council has the power to amend and reissue these financial statements.

As a designated reporting entity, Muswellbrook Shire Council is required to make public its Annual Financial Statements.

In New South Wales local government entities like Muswellbrook Shire Council present their statements in three parts.

The first are the General Purpose Financial Reports which are prepared using the accounting principles of accrual accounting and the consolidation of the operations of the separate "funds" that operate as part of Council. These statements are designed to provide an overall of the Council's financial performance during and current financial position as the end of the 2015/16 Financial Year.

The second part is the Special Purpose Financial Reports. These reports outline the financial performance and current position of the "minor funds". These are funds which Council is either required or has chosen to separate from the general operations of Council. At Muswellbrook Shire Council, these consist of the Water and Sewer Funds, which Council is required to treat as separate entities for purpose of these reports and the Commercial Buildings fund, which Council has resolved to separate from the general operations of Council as this is considered a "non-core" activity of Council and is being carried out with the aim of achieving profit. The aim of preparing these Special Purpose Reports is to demonstrate that these operations are being operated without being subsidised using Council's General Revenues.

The final part of these reports are the Special Schedules. These schedules provide a range of additional information to the figures provided in the General and Special Purpose Financial Statements. It is important to note that the figures provided in these schedules are not audited as the other reports are and, as such care should be taken before reaching decisions about Council's financial position based on the figures presented therein. The Schedules exist only to provide additional information to the figures presented in the reports.

However, from 2016/17 Special Schedule 7 – Report on Infrastructure Assets and Condition of Public Works will be audited. As a transition to this situation, Council's auditors have prepared a list of suggestions for the ongoing improvement of reporting in regard to this schedule. It is expected that that the auditing of this schedule will provide a higher level of accountability for Councils in terms of the management of public infrastructure and an improved capability to assess Council's financial sustainability.

General Purpose Financial Reports

Like all General Purpose Financial Reports, Council's include an Income Statement (Profit and Loss), Balance Sheet and Statements of Changes in Equity and Cashflow. These are referred to as the "Primary Financial Statements". These reports will be familiar to all users of Financial Reports. In addition to these standard reports, a series of "Notes" providing further details of the figures provided in the Primary Financial Statements have been prepared and are presented in the Statements.

For further information concerning the figures presented in the Income Statement, refer to Note 3 (Income from Continuing Operations), Note 4 (Expenses from Continuing Operations) and Note 5 (Gains and Losses from the Disposal of Assets).

Further details concerning the Balance Sheet are found in Note 6 (Cash and Cash Equivalent Assets), Note 7 (Receivables), Note 8 (Inventories and Other Assets), Note 9 (Property, Plant and Equipment), Note 10 (Payables, Borrowings and Provisions) and Note 14 (Investment Properties).

Additional Information concerning the Statement of Changes in Equity can be found in Note 20 (Equity – Retained Earnings and Revaluation Reserves) while Note 11 (Statement of Cash Flows – Additional Information) will provide greater details of the figures provided in the Statement of Cash Flows.

The remainder of the Notes do not refer to the Primary Statements but still provide important information for readers. Note 1 (Summary of Significant Accounting Policies) outlines the methodologies that have been used in preparing the reports. Note 2 (Council Functions/Activities – Financial Information) allocates the incomes, expenses and assets of Council to the individual functions of Council, allowing readers to evaluate the financial performance of each of these functions. Note 12 (Commitments for Expenditure) outlines the amounts that Council is committed to spending in future years, either through contracts or other agreements or through other resolutions of Council. Note 13 (Statement of Performance Measures – Indicators) provides information concerning a

number of key accounting and asset management measures. Note 21 (Financial Result and Financial Position by Fund) is interesting in that it provides an insight into the 2015/16 results for each of the individual funds. The consolidation that occurs in the preparation of the reports can lead readers to believe that because the overall financial position of Council is sound that each of the individual funds must also be in a sound condition. While this is generally true, the high level of strength of Council's minor funds (especially water and sewer) can, to some degree, hide some of the weaknesses of the General Fund. As such, a review of this note is vital in ensuring a more accurate understanding of Council's Financial Position and Performance.

Examination of the Primary Financial Statements, along with the Notes outlined above, should provide readers with a solid understanding of Council's financial performance for 2015/16 and position as at 30 June 2016.

The remaining notes not specifically mentioned above have been provided as a means of providing very specific additional information. At Muswellbrook Shire Council, most of these remaining notes are either not pertinent or provide details of relatively minor aspects of Council's financial situation.

Special Purpose Financial Reports

These reports are prepared to show the financial performance and position of the individual Business Activities that are included in the Consolidated Reports.

Council is required to have separate funds for the Water and Sewer Business Activities under the Local Government Act 1993 which requires that revenues raised relating to provision of water and sewerage services may only be applied to the provision of those services. This prevents General Fund rates and other revenues being used to subsidise the provision of these services and vice versa. These reports are prepared as if these water and sewer funds were entirely separate entities from Council and Income Statements and Balance Sheets are prepared for each fund.

Council has also chosen to prepare these reports in relation to its Commercial Buildings Fund. This has been done with the aim of ensuring compliance with National Competition Guidelines for this "non-core" revenue generation activity of Council.

Special Schedules

The Special Schedules are mostly prepared in order to provide additional information to other government departments. For example, Special Schedules 3 to 6 relate to water and sewer operations and present that information in a slightly different format to

that used in the Special Purpose Reports. These schedules are produced for the New South Wales Office of Water.

Special Schedule 1, like Note 2 of the General Purpose Financial Statements, provides details of individual activities conducted by Council. Special Schedule 2 provides additional detail concerning the level and nature of Council's debt. Special Schedule 7 discloses an estimate of the current condition of Council's infrastructure and has been used in recent times by outside parties as an indicator of Council's financial sustainability.

Auditor's Reports

Both the General and Special Purpose reports are required to be independently audited. Council has appointed Hill Rogers Spencer Steer as its auditor. This firm is well respected within the Local Government industry. Audits are conducted both in regard to these reports and in regard to the financial controls and processes in place to prepare them.

A copy of the signed auditors report, outlining the conduct of the audit and commenting on the results in the accounts are provided with the reports.

Muswellbrook 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:

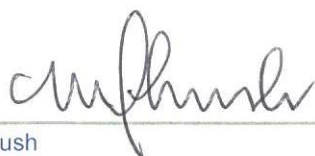
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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.

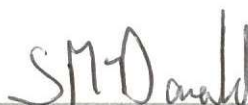
Signed in accordance with a resolution of Council made on 11 October 2016.



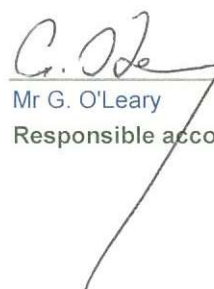
Cr. M. Rush
Mayor



Cr. R. Scholes
Councillor



Mr. S. McDonald
General manager



Mr G. O'Leary
Responsible accounting officer

Muswellbrook 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:				
18,851	Rates and annual charges	3a	18,420	17,715
11,050	User charges and fees	3b	11,495	10,647
2,465	Interest and investment revenue	3c	2,586	2,340
1,786	Other revenues	3d	1,563	1,392
5,639	Grants and contributions provided for operating purpose	3e,f	9,023	5,209
8,591	Grants and contributions provided for capital purposes	3e,f	15,638	22,576
Other income:				
	Net gains from the disposal of assets	5	4	—
	Net share of interests in joint ventures and associates using the equity method	19	2	30
48,382	Total income from continuing operations		58,731	59,909
Expenses from continuing operations				
13,091	Employee benefits and on-costs	4a	12,876	12,798
947	Borrowing costs	4b	973	919
10,861	Materials and contracts	4c	12,542	8,897
11,326	Depreciation and amortisation	4d	9,874	10,831
	Impairment	4d	600	—
5,637	Other expenses	4e	7,060	5,886
	Interest and investment losses	3c	—	—
	Net losses from the disposal of assets	5	—	618
	Net share of interests in joint ventures and associates using the equity method	19	—	—
41,862	Total expenses from continuing operations		43,925	39,949
6,520	Operating result from continuing operations		14,806	19,960
Discontinued operations				
	Net profit/(loss) from discontinued operations	24	—	—
6,520	Net operating result for the year		14,806	19,960
6,520	Net operating result attributable to Council		14,806	19,960
	Net operating result attributable to non-controlling interests		—	—
(2,071)	Net operating result for the year before grants and contributions provided for capital purposes		(832)	(2,616)

¹ Original budget as approved by Council – refer Note 16

Muswellbrook 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)		14,806	19,960
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	2,330	(8,350)
Adjustment to correct prior period errors			—
Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—
Other comprehensive income – joint ventures and associates	19b	—	—
Other movements			—
Total items which will not be reclassified subsequently to the operating result		2,330	(8,350)
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Realised (gain) loss on available-for-sale investments recognised in P&L	20b (ii)	—	—
Gain (loss) on revaluation of available-for-sale investments	20b (ii)	—	—
Realised (gain) loss from other reserves recognised in P&L	20b (ii)	—	—
Other movements			—
Total items which will be reclassified subsequently to the operating result when specific conditions are met		—	—
Total other comprehensive income for the year		2,330	(8,350)
Total comprehensive income for the year		17,136	11,610
Total comprehensive income attributable to Council		17,136	11,610
Total comprehensive income attributable to non-controlling interests		—	—

Muswellbrook 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	2,319	9,296
Investments	6b	9,416	7,148
Receivables	7	7,888	5,459
Inventories	8	2,116	2,131
Other	8	102	28
Non-current assets classified as 'held for sale'	22	—	—
Total current assets		21,841	24,062
Non-current assets			
Investments	6b	38,919	38,964
Receivables	7	—	—
Inventories	8	—	—
Infrastructure, property, plant and equipment	9	569,080	550,049
Investments accounted for using the equity method	19	91	89
Investment property	14	20,675	8,861
Intangible assets	25	—	—
Non-current assets classified as 'held for sale'	22	—	—
Total non-current assets		628,765	597,963
TOTAL ASSETS		650,606	622,025
LIABILITIES			
Current liabilities			
Payables	10	5,529	5,504
Borrowings	10	987	2,925
Provisions	10	3,185	2,773
Liabilities associated with assets classified as 'held for sale'	22	—	—
Total current liabilities		9,701	11,202
Non-current liabilities			
Payables	10	—	—
Borrowings	10	26,393	13,675
Provisions	10	5,284	5,056
Investments accounted for using the equity method	19	—	—
Liabilities associated with assets classified as 'held for sale'	22	—	—
Total non-current liabilities		31,677	18,731
TOTAL LIABILITIES		41,378	29,933
Net assets		609,228	592,092
EQUITY			
Retained earnings	20	306,238	291,432
Revaluation reserves	20	302,990	300,660
Council equity interest		609,228	592,092
Non-controlling equity interests		—	—
Total equity		609,228	592,092

Muswellbrook 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)		291,432	300,660	592,092	–	592,092
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)		291,432	300,660	592,092	–	592,092
c. Net operating result for the year		14,806		14,806	–	14,806
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)		2,330	2,330		2,330
– Revaluations: other reserves	20b (ii)		–	–		–
– Transfers to Income Statement	20b (ii)		–	–		–
– Impairment (loss) reversal relating to I,PP&E	20b (ii)		–	–		–
– Joint ventures and associates	19b	–		–		–
Other comprehensive income		–	2,330	2,330	–	2,330
Total comprehensive income (c&d)		14,806	2,330	17,136	–	17,136
e. Distributions to/(contributions from) non-controlling Interests				–	–	–
f. Transfers between equity		–	–	–		–
Equity – balance at end of the reporting period		306,238	302,990	609,228	–	609,228

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
2015						
Opening balance (as per last year's audited accounts)		271,472	309,010	580,482	–	580,482
a. Correction of prior period errors	20 (c)	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
Revised opening balance (as at 1/7/14)		271,472	309,010	580,482	–	580,482
c. Net operating result for the year		19,960	–	19,960	–	19,960
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	(8,350)	(8,350)	–	(8,350)
– Revaluations: other reserves	20b (ii)	–	–	–	–	–
– Transfers to Income Statement	20b (ii)	–	–	–	–	–
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	–	–	–	–	–
– Joint ventures and associates	19b	–	–	–	–	–
Other comprehensive income		–	(8,350)	(8,350)	–	(8,350)
Total comprehensive income (c&d)		19,960	(8,350)	11,610	–	11,610
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		–	–	–	–	–
Equity – balance at end of the reporting period		291,432	300,660	592,092	–	592,092

Muswellbrook Shire Council

Statement of Cash Flows

for the year ended 30 June 2016

Budget			Actual	Actual
2016	\$ '000	Notes	2016	2015
Cash flows from operating activities				
Receipts:				
18,851	Rates and annual charges		18,207	18,724
13,271	User charges and fees		10,646	11,585
2,465	Investment and interest revenue received		2,571	2,499
11,836	Grants and contributions		24,423	26,703
	Bonds, deposits and retention amounts received		296	97
295	Other		4,000	5,309
Payments:				
(13,091)	Employee benefits and on-costs		(12,519)	(12,900)
(11,910)	Materials and contracts		(12,687)	(9,702)
(947)	Borrowing costs		(634)	(639)
	Bonds, deposits and retention amounts refunded		(305)	(79)
(9,467)	Other		(9,383)	(7,816)
	Net cash from boundary adjustments		—	—
11,303	Net cash provided (or used in) operating activities	11b	24,615	33,781
Cash flows from investing activities				
Receipts:				
	Sale of investment securities		8,839	7,491
	Sale of investment property		—	—
	Sale of real estate assets		—	—
	Sale of infrastructure, property, plant and equipment		339	167
	Sale of shares in companies		—	—
	Sale of interests in joint ventures and associates		—	—
	Sale of disposal groups		—	—
	Deferred debtors receipts		—	—
	Distributions received from joint ventures and associates		—	—
	Other investing activity receipts		—	—
Payments:				
	Purchase of investment securities		(11,000)	(10,303)
(500)	Purchase of investment property		(15,180)	(2,531)
(16,494)	Purchase of infrastructure, property, plant and equipment		(25,288)	(26,369)
	Purchase of real estate assets		(26)	(26)
	Purchase of shares in companies		—	—
	Purchase of interests in joint ventures and associates		—	—
	Deferred debtors and advances made		—	—
	Contributions paid to joint ventures and associates		—	—
	Other investing activity payments		—	—
(16,994)	Net cash provided (or used in) investing activities		(42,316)	(31,571)
Cash flows from financing activities				
Receipts:				
—	Proceeds from borrowings and advances		13,500	5,350
	Proceeds from finance leases		—	—
	Other financing activity receipts		—	—

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

Payments:

(880)	Repayment of borrowings and advances	(2,776)	(1,616)
	Repayment of finance lease liabilities	–	–
	Distributions to non-controlling interests	–	–
	Other financing activity payments		–
<u>(880)</u>	Net cash flow provided (used in) financing activities	<u>10,724</u>	<u>3,734</u>
(6,571)	Net increase/(decrease) in cash and cash equivalents	(6,977)	5,944
	Plus: cash and cash equivalents – beginning of year 11a	9,296	3,352
<u>(6,571)</u>	Cash and cash equivalents – end of the year 11a	<u>2,319</u>	<u>9,296</u>

Additional Information:

plus: Investments on hand – end of year	6b	48,335	46,112
Total cash, cash equivalents and investments		<u>50,654</u>	<u>55,408</u>

Please refer to Note 11 for information on the following:

- Non-cash financing and investing activities
- Financing arrangements
- Net cash flow disclosures relating to any discontinued operations

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	13-31
2(a)	Council functions/activities – financial information	32
2(b)	Council functions/activities – component descriptions	33
3	Income from continuing operations	34-41
4	Expenses from continuing operations	42-45
5	Gains or losses from the disposal of assets	46
6(a)	Cash and cash equivalent assets	47
6(b)	Investments	48-49
6(c)	Restricted cash, cash equivalents and investments – details	50-51
7	Receivables	52-53
8	Inventories and other assets	54-55
9(a)	Infrastructure, property, plant and equipment	56
9(b)	Externally restricted infrastructure, property, plant and equipment	57
9(c)	Infrastructure, property, plant and equipment – current year impairments	58
10(a)	Payables, borrowings and provisions	59-61
10(b)	Description of (and movements in) provisions	61
11	Statement of cash flows – additional information	62-63
12	Commitments for expenditure	64-66
13	Statement of performance measures:	
13a (i)	Local government industry indicators (consolidated)	67
13a (ii)	Local government industry graphs (consolidated)	n/a
13b	Local government industry indicators (by fund)	68
14	Investment properties	69-70
15	Financial risk management	71-75
16	Material budget variations	76-78
17	Statement of developer contributions	79-83
18	Contingencies and other liabilities/assets not recognised	84-86
19	Interests in other entities	87-92
20	Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	93-95
21	Financial result and financial position by fund	96-97
22	'Held for sale' non-current assets and disposal groups	98
23	Events occurring after the reporting date	99
24	Discontinued operations	100
25	Intangible assets	101
26	Reinstatement, rehabilitation and restoration liabilities	102
27	Fair value measurement	103-113
Additional council disclosures		
28	Financial review	114
29	Council information and contact details	115

n/a – not applicable

Muswellbrook 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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

(vii) Critical accounting estimates

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

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

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

(b) Revenue recognition

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

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

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

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

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

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

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

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

Muswellbrook 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
- Commercial Buildings

This is the final year in which separate reporting of the Commercial Buildings funds will occur. In July 2016, Council resolved to replace this fund with an expanded Future Fund.

(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

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

purposes of or in accordance with the trusts relating to those monies.

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

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

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

(iii) Interests in other entities

Joint arrangements

Joint operations (controlled assets and operations)

Joint operations represent operational arrangements where the joint control parties 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.

The proportionate interests of Council in the assets, liabilities, income and expenses of all Joint Operation activities have been incorporated throughout the financial statements under the appropriate notes and line items.

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

Joint ventures

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

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

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

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

Associates

Where Council has the power to participate in the financial and operating decisions of another entity, (i.e. where Council is deemed to have 'significant influence' over another entities' operations but neither controls nor jointly controls the entity), then Council accounts for such interests using the equity method of accounting – in a similar fashion to joint ventures.

Such entities are usually termed associates.

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

Detailed information relating to Council's interest in associates can be found at Note 19 (b).

County councils

Council is a member of the following county councils (which are bodies incorporated under the *Local Government Act*):

▪ Upper Hunter Weeds Authority

This organisation is responsible for the control of noxious plants in the area consisting of the Muswellbrook, Singleton and Upper Hunter Local Government Areas.

The governing body of each county council is responsible for managing its own affairs.

Council is of the opinion that it neither controls nor significantly influences the above county council/s and accordingly these entities have not been consolidated or otherwise included within these financial statements.

Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(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;

- 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.

Assets in this category are primarily classified as current assets as they are primarily held for trading

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

and/or are expected to be realised within twelve 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 twelve 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 twelve 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.

They are generally included in non-current assets unless management intends to dispose of the

investment within twelve months of the balance sheet date or the term to maturity from the reporting date is less than twelve 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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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.

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(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.

(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

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.

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

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

Land held for resale/capitalisation of borrowing costs

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

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

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

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

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

(j) Infrastructure, property, plant and equipment (IPP and 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 IPP and E were stated at their fair value:

- **Plant and equipment**
(as approximated by depreciated historical cost)
- **Operational land** (external valuation)
- **Community land** (external valuation)
- **Land improvements**
(as approximated by depreciated historical cost)
- **Buildings – specialised/non-specialised**
(external valuation)
- **Other structures**
(as approximated by depreciated historical cost)
- **Roads assets including roads, bridges and footpaths**
(internal valuation)
- **Bulk earthworks** (internal valuation)
- **Stormwater drainage** (internal valuation)
- **Water and sewerage networks**
(internal valuation)
- **Swimming pools**
(internal valuation)
- **Other open space/recreational assets**
(internal valuation)
- **Other infrastructure**
(internal valuation)
- **Other assets**
(as approximated by depreciated historical cost)
- **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.

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

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 five year cycle.

Capitalisation thresholds

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

Land

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

Plant and equipment

Office furniture	> \$2,000
Office equipment	> \$2,000

Other plant and equipment	> \$2,000
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Buildings and land improvements

Park furniture and equipment	> \$2,000
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Building

- Construction/extensions	100% capitalised
- Renovations	> \$5,000
Other structures	> \$2,000

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	> \$5,000
Reseal/re-sheet and major repairs	> \$5,000
Bridge construction and reconstruction	> \$5,000

Other infrastructure assets

Swimming pools	> \$5,000
Other open space/recreational assets	> \$5,000
Other infrastructure	> \$5,000

Depreciation

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

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

Land is not depreciated.

Estimated useful lives for Council's IPP and E include:

Plant and equipment

- Office equipment	5 to 20 years
- Office furniture	10 years
- Computer equipment	4 years
- Vehicles	7 to 10 years
- Heavy plant/road making equipment	7 to 10 years
- Other plant and equipment	7 to 10 years

Other equipment

- Playground equipment	5 - 33 years
- Benches, seats etc.	10 years

Buildings

- Buildings: masonry	50 to 70 years
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Water and sewer assets

- Dams and reservoirs	80 to 100 years
- Bores	20 to 40 years
- Reticulation pipes: PVC	50 years
- Pumps and telemetry	15 to 20 years

Stormwater assets

- Drains	60 years
- Culverts	50 to 80 years

Transportation assets

- Sealed roads: surface	20 years
- Sealed roads: structure	50 years
- Sealed roads: other	20 to 40 years
- Unsealed roads	20 years
- Bridge: concrete	100 years
- Bridge: other	50 years
- Road pavements	60 years
- Kerb, gutter and footpaths	40 years

Other infrastructure assets

- Bulk earthworks	Infinite
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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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

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

(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 an open-market value determined annually 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 three years with an appropriate index utilised each year in between the full revaluations.

The last full revaluation for Council's investment properties was dated 30 June 2014.

(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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

operations and revisions to discount rates are capitalised within property, plant and equipment.

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

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

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

These costs are charged to the Income Statement.

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

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

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

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

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

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

(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 IPP and 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.

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

Goodwill 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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(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 twelve months after the reporting period.

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

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

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

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

Wages 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 twelve 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 four 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 twelve months – even though it is not anticipated that all employees with more than four years service (as at reporting date) will apply for and take their leave entitlements in the next twelve 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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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 of Mercer Consulting (Australia) Pty Ltd AFS License #41177 on 30 June 2016 and covers the period ended 30 June 2016.

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.

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. However, the share of the deficit that can broadly be attributed to Council is \$180,126 as at 30 June 2016

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.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$261,237.

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 June 2016.

(y) Self-insurance

Council has determined to self-insure for various risks, including public liability and professional indemnity.

(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 twelve 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 twelve 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 twelve 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 twelve 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).

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

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

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

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

Operating cash flows within the Cash Flow Statement are on a gross basis, 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.

Muswellbrook Shire Council

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

Note 1. Summary of significant accounting policies (continued)

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.

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).

AASB 2014 – 10 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in AASB 10 and those in AASB 128 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not).

A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

This standard will only impact Council where there has been a sale or contribution of assets between the entity and the associate/joint venture.

(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.

Muswellbrook 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 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Governance		–	–	365	410	558	(365)	(410)	(558)	833	86	–	–
Administration	181	151	3,153	6,140	5,504	4,446	(5,959)	(5,353)	(1,293)	7	31	48,626	51,010
Public order and safety	604	311	350	1,094	1,001	1,158	(490)	(690)	(808)	266	246	4,187	4,397
Health	–	–	–	–	–	–	–	–	–	–	–	301	231
Environment	4,734	4,684	4,172	7,332	6,542	6,005	(2,598)	(1,858)	(1,833)	59	18	505	528
Community services and education	46	49	58	569	615	442	(523)	(566)	(384)	49	–	16,982	12,308
Housing and community amenities	2,727	2,838	656	1,460	1,229	1,946	1,267	1,609	(1,290)	136	187	5,376	5,740
Water supplies	6,247	6,145	5,649	5,063	4,537	4,840	1,184	1,608	809	34	38	62,883	61,712
Sewerage services	4,656	6,858	4,546	3,289	3,131	3,096	1,367	3,727	1,450	1,009	33	64,960	61,946
Recreation and culture	1,167	2,012	1,290	5,023	5,856	4,990	(3,856)	(3,844)	(3,700)	13	47	48,494	47,205
Fuel and energy	–	–	–	–	–	–	–	–	–	–	–	–	–
Agriculture	–	–	–	–	–	–	–	–	–	–	–	–	–
Mining, manufacturing and construction	–	–	–	–	–	–	–	–	–	–	–	–	–
Transport and communication	10,293	13,915	21,682	10,681	12,165	10,880	(388)	1,750	10,802	7,650	15,095	370,508	364,965
Economic affairs	1,541	5,961	2,949	846	2,935	1,588	695	3,026	1,361	4,647	1,783	27,693	11,894
Total functions and activities	32,196	42,924	44,505	41,862	43,925	39,949	(9,666)	(1,001)	4,556	14,703	17,564	650,515	621,936
Share of gains/(losses) in associates and joint ventures (using the equity method)													
General purpose income ¹	–	2	30		–	–	–	2	30		–	91	89
Operating result from continuing operations	16,186	15,805	15,374			–	16,186	15,805	15,374	3,386	3,452		–
	48,382	58,731	59,909	41,862	43,925	39,949	6,520	14,806	19,960	18,089	21,016	650,606	622,025

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

Muswellbrook 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

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

ADMINISTRATION

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

PUBLIC ORDER AND SAFETY

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

HEALTH

Includes immunisation, food control, health centres etc.

ENVIRONMENT

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

COMMUNITY SERVICES AND EDUCATION

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

HOUSING AND COMMUNITY AMENITIES

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

WATER SUPPLIES

SEWERAGE SERVICES

RECREATION AND CULTURE

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

FUEL AND ENERGY – Gas supplies

AGRICULTURE

Includes the administration of agricultural services; supervision and regulation of the agricultural industry; operation of flood control and irrigation systems; and operation of support services to farmers, including vet services, pest control services, crop inspection, and crop grading services.

MINING, MANUFACTURING AND CONSTRUCTION

Includes building control, quarries and pits, mineral resources, and abattoirs.

TRANSPORT AND COMMUNICATION

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

ECONOMIC AFFAIRS

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

Muswellbrook 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		4,716	4,653
Farmland		1,366	1,260
Mining		4,231	3,860
Business		1,149	1,195
Other		—	—
Total ordinary rates		11,462	10,968
Special rates			
Water supplies		—	—
Sewerage services		—	—
Environmental		—	—
Infrastructure		—	—
Drainage		—	—
Town improvement		—	—
Parking		—	—
Main street		—	—
Tourism		—	—
Other		—	—
Total special rates		—	—
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		1,933	1,837
Stormwater management services		155	154
Water supply services		1,445	1,434
Sewerage services		3,293	3,196
Drainage		—	—
Waste management services (non-domestic)		132	126
Environmental		—	—
Coastal protection		—	—
Section 611 charges		—	—
Waste levy		—	—
Other		—	—
Total annual charges		6,958	6,747
TOTAL RATES AND ANNUAL CHARGES		18,420	17,715

Council has used 2012 year valuations provided by the NSW Valuer General in calculating its rates.

Muswellbrook 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)			
Domestic waste management services		–	–
Water supply services		2,913	2,821
Sewerage services		488	424
Drainage services		–	–
Waste management services (non-domestic)		–	–
Other		–	–
Total user charges		3,401	3,245
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building regulation		120	104
Building services – other		–	–
Inspection services		42	34
Planning and building regulation		–	–
Private works – section 67		64	46
Regulatory/ statutory fees		140	89
Registration fees		–	–
Regulatory fees		–	–
Section 149 certificates (EPA Act)		95	45
Section 603 certificates		19	14
Tapping fees		–	–
Town planning		21	26
Development/building control		216	378
Water and sewer related sales		525	409
DECCW levy recovered		1,506	1,519
Other		–	–
Total fees and charges – statutory/regulatory		2,748	2,664

Muswellbrook 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
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome		–	–
Aged care		–	–
Caravan park		–	–
Cemeteries		61	68
Child care		–	–
Community centres		32	36
Gravel pits		–	–
Lease rentals		–	–
Leaseback fees – Council vehicles		59	57
Leisure centre		34	38
Library and art gallery		55	63
Multipurpose centre		–	–
Park rents		30	25
Parking fees		–	–
Quarry revenues		–	–
Refuse and effluent disposal		–	–
Recycling income (non-domestic)		–	–
Restoration charges		–	–
RMS (formerly RTA) charges (state roads not controlled by Council)		1,732	1,479
Saleyards		–	–
Sundry sales		–	–
Swimming centres		529	518
Tourism		–	–
Waste disposal tipping fees		2,664	2,266
Water connection fees		–	–
Gym centre		83	86
Road vehicle permits		30	32
Environment Management		–	59
Other		37	11
Total fees and charges – other		5,346	4,738
TOTAL USER CHARGES AND FEES		11,495	10,647

Muswellbrook 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 and Dividends			
– Interest on overdue rates and annual charges (incl. special purpose rates)		117	102
– Interest earned on investments (interest and coupon payment income)		2,407	2,189
– Interest on deferred debtors		–	–
– Interest and dividend income (other)		–	–
Dividend income		–	–
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		–	–
– Fair valuation movements in investments (other)		–	–
Impairment (losses)/reversals			
– Investments other than available for sale		107	133
– Investments available for sale	20b(ii)	–	–
Available for sale revaluation reserves realised on investment sale		–	–
Amortisation of premiums and discounts			
– Interest free (and interest reduced) loans provided		–	–
– ‘Held to maturity’ investments		(45)	(84)
Fair valuation of financial liabilities on recognition			
– Interest free (or favourable) loans and advances received		–	–
Other		–	–
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>2,586</u>	<u>2,340</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		117	102
General Council cash and investments		840	852
Restricted investments/funds – external:			
Development contributions			
– Section 94		96	97
– Section 64		641	661
Water fund operations		727	350
Sewerage fund operations		165	278
Domestic waste management operations			–
Other externally restricted assets			–
Restricted investments/funds – internal:			
Internally restricted assets			–
Total interest and investment revenue recognised		2,586	2,340

Muswellbrook 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
Fair value increments – investment properties	14	–	–
Rental income – investment properties	14	1,097	930
Rental income – other council properties		204	203
Reversal of prior period revaluation decrements (applicable to I,PP&E)	9(a)	–	–
Ex gratia rates		–	–
Fines		41	69
Fines – parking		–	–
Fines – other		–	–
Legal fees recovery – rates and charges (extra charges)		22	32
Legal fees recovery – other		–	44
Commissions and agency fees		–	–
Computer bureau income		–	–
Diesel rebate		–	–
Insurance claim recoveries		130	34
Recycling income (non-domestic)		–	–
Sale of abandoned vehicles		–	–
Sale of land for overdue rates		–	–
Sales – general		–	–
Insurance rebates		69	47
Other		–	–
<u>TOTAL OTHER REVENUE</u>		<u>1,563</u>	<u>1,392</u>

Muswellbrook 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	—	—	—	—
Financial assistance – general component	2,448	2,500	—	—
Financial assistance – local roads component	860	876	—	—
Pensioners' rates subsidies – general component	78	76	—	—
Other grants	—	—	—	—
Total general purpose	3,386	3,452	—	—
Specific purpose				
Pensioners' rates subsidies:				
– Water	34	33	—	—
– Sewerage	34	33	—	—
– Domestic waste management	32	31	—	—
Water supplies	—	—	—	—
Bushfire and emergency services	247	231	19	—
Child care	—	—	—	—
Community care	49	83	—	—
Community centres	—	—	—	—
Economic development	—	—	4,647	1,783
Employment and training programs	7	7	—	—
Environmental protection	59	18	—	—
Heritage and cultural	10	4	—	—
Library	3	—	—	—
LIRS subsidy	77	84	—	—
Public halls	—	—	—	—
Recreation and culture	—	—	15	47
Street lighting	57	57	—	—
Traffic route subsidy	—	—	—	—
Transport (roads to recovery)	—	—	—	409
Transport (other roads and bridges funding)	2,838	203	5,511	14,426
Planning	14	26	—	—
Waste management	90	89	—	—
Sewerage services	—	—	960	—
Total specific purpose	3,551	899	11,152	16,665
Total grants	6,937	4,351	11,152	16,665
Grant revenue is attributable to:				
– Commonwealth funding	3,308	3,376	25	861
– State funding	3,629	975	11,127	15,804
– Other funding	—	—	—	—
	6,937	4,351	11,152	16,665

Muswellbrook 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 93F – contributions using planning agreements	–	–	1,812	1,779
S 94 – contributions towards amenities/services	469	425	21	206
S 94A – fixed development consent levies	–	–	228	91
S 64 – water supply contributions	–	–	–	114
S 64 – sewerage service contributions	–	–	–	107
S 64 – stormwater contributions	–	–	1	35
Developer provided infrastructure roads/drainage	–	–	386	1,314
Developer provided infrastructure water	–	–	89	201
Developer provided infrastructure sewer	–	–	129	–
Other developer contributions	–	–	–	–
Total developer contributions	469	425	2,666	3,847
Other contributions:				
Bushfire services	–	–	–	–
Business development	–	–	–	–
Community services	254	50	–	–
Dedications (other than by S94)	–	–	–	–
Drainage	–	–	–	–
Heritage/cultural	2	29	–	–
Kerb and gutter	–	–	–	–
Other councils – joint works/services	–	–	–	–
Paving	–	–	–	–
Recreation and culture	59	27	18	–
Roads and bridges	979	–	1,750	2,010
RMS contributions (regional roads, block grant)	–	–	–	–
Sewerage (excl. section 64 contributions)	–	–	–	–
Tourism	–	–	–	–
Water supplies (excl. section 64 contributions)	–	–	–	–
Environmental officer/monitoring	203	187	–	–
Library operations	120	140	52	54
Community grants officer	–	–	–	–
Total other contributions	1,617	433	1,820	2,064
Total contributions	2,086	858	4,486	5,911
TOTAL GRANTS AND CONTRIBUTIONS	9,023	5,209	15,638	22,576

Muswellbrook Shire Council

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

Note 3. Income from continuing operations (continued)

	Actual 2016	Actual 2015
\$ '000		
(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	20,714	19,176
Add: grants and contributions recognised in the current period but not yet spent:	24,235	20,554
Less: grants and contributions recognised in a previous reporting period now spent	(21,676)	(19,016)
Net increase (decrease) in restricted assets during the period	2,559	1,538
Unexpended and held as restricted assets	23,273	20,714
Comprising:		
– Specific purpose unexpended grants	1,824	978
– Developer contributions	21,449	19,736
– Other contributions	—	—
	23,273	20,714

Muswellbrook 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		11,166	11,103
Employee termination costs		14	130
Travel expenses		228	244
Employee leave entitlements (ELE)		1,556	1,129
ELE on-costs		—	—
Superannuation		1,251	1,220
Workers' compensation insurance		243	365
Fringe benefit tax (FBT)		93	90
Payroll tax		50	55
Training costs (other than salaries and wages)		254	310
Sick leave insurance		1	1
Protective clothing		41	41
Staff appreciation		11	13
Other		—	—
Total employee costs		14,908	14,701
Less: capitalised costs		(2,032)	(1,903)
TOTAL EMPLOYEE COSTS EXPENSED		12,876	12,798
Number of 'full-time equivalent' employees (FTE) at year end		165	158
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)		184	174
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on overdraft		—	—
Interest on loans		634	588
Interest on advances		—	—
Charges relating to finance leases		—	—
Total interest bearing liability costs		634	588
Less: capitalised costs		—	—
Total interest bearing liability costs expensed		634	588
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtor:			
– Interest free (or favourable) loans and advances made by Council		—	—
Fair value adjustment on loans (to Council)		—	—
Discount adjustments relating to movements in provisions (other than ELE)		—	—
– Remediation liabilities	26	283	267
Interest applicable on interest free (and favourable) loans to Council		56	64
Total other borrowing costs		339	331
TOTAL BORROWING COSTS EXPENSED		973	919

Muswellbrook 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			
Raw materials and consumables		11,361	7,603
Contractor and consultancy costs		—	—
Auditors remuneration ⁽¹⁾		78	42
Infringement notice contract costs (SEINS)		—	—
Legal expenses:			
– Legal expenses: planning and development		78	185
– Legal expenses: debt recovery		22	29
– Legal expenses: other		52	120
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		75	45
– Operating lease rentals: contingent rentals ⁽²⁾		—	—
– Operating lease rentals: sub lease payments ⁽²⁾		—	—
Waste collection		866	863
Venue manager		10	10
Total materials and contracts		12,542	8,897
Less: capitalised costs		—	—
TOTAL MATERIALS AND CONTRACTS		12,542	8,897
1. Auditor remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor (and the Auditors of other consolidated entities):			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		47	42
– Due diligence services		—	—
– Other audit and assurance services: Internal Auditor		31	—
Remuneration for audit and other assurance services		78	42
(ii) Taxation services			
– Tax compliance services		—	—
– GST advice		—	—
Remuneration for taxation services		—	—
(iii) Other non-assurance services			
– Remuneration advice		—	—
– Benchmarking advice		—	—
Remuneration for other services		—	—
Total Auditor remuneration		78	42
2. Operating lease payments are attributable to:			
Buildings		75	—
Computers		—	—
Motor vehicles		—	—
Other		—	45
		75	45

Muswellbrook Shire Council

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

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
(d) Depreciation, amortisation and impairment					
Plant and equipment		—	—	1,160	1,278
Office equipment		—	—	166	157
Furniture and fittings		—	—	92	88
Property, plant and equipment – leased		—	—	—	—
Land improvements (depreciable)		—	—	112	105
Infrastructure:					
– Buildings		—	—	—	—
– Buildings – non-specialised		—	—	1	1
– Buildings – specialised		600	—	277	277
– Other structures		—	—	306	256
– Roads		—	—	3,522	3,429
– Bridges		—	—	605	601
– Footpaths		—	—	281	685
– Other road assets		—	—	—	—
– Stormwater drainage		—	—	593	1,253
– Water supply network		—	—	1,438	1,408
– Sewerage network		—	—	1,196	1,157
– Swimming pools		—	—	—	—
– Other open space/recreational assets		—	—	—	—
– Other infrastructure		—	—	—	—
Other assets					
– Heritage collections		—	—	—	—
– Library books		—	—	—	—
– Other		—	—	125	113
Impairment losses/(reversals)					
– Investments other than available for sale		—	—	—	—
– Investments available for sale		—	—	—	—
– Other		—	—	—	—
Asset reinstatement costs	9 & 26	—	—	—	23
Intangible assets	25	—	—	—	—
Total depreciation and impairment costs		600	—	9,874	10,831
Less: capitalised costs		—	—	—	—
Less: IPP&E impairments (to)/from equity	9a	—	—	—	—
Less: investment impairments (to)/from equity		—	—	—	—
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		600	—	9,874	10,831

Muswellbrook 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		41	59
Bad and doubtful debts		—	—
Bank charges		50	48
Cleaning		178	235
Computer software charges		—	—
Contributions/levies to other levels of government		—	—
– Bushfire fighting fund		—	—
– Department of planning levy		—	—
– Emergency services levy (includes FRNSW, SES, and RFS levies)		28	24
– NSW fire brigade levy		39	39
– NSW rural fire service levy		296	321
– Waste levy		1,895	1,907
– Upper Hunter Weeds Authority		78	76
– Other contributions/levies		—	—
Councillor expenses – mayoral fee		24	23
Councillor expenses – councillors' fees		127	129
Councillors' expenses (incl. mayor) – other (excluding fees above)		15	15
Donations, contributions and assistance to other organisations (Section 356)		159	92
Election expenses		—	—
Electricity and heating		707	775
Fair value decrements – I,PP&E	9(a)	—	—
Fair value decrements – investment properties	14	1,967	875
Fire control expenses		—	—
Insurance		724	635
Office expenses (including computer expenses)		—	—
Postage		25	25
Printing and stationery		23	34
Street lighting		380	358
Subscriptions and publications		—	—
Telephone and communications		112	141
Tourism expenses (excluding employee costs)		—	—
Valuation fees		62	75
Community Facility Contribution		130	—
Total other expenses		7,060	5,886
Less: capitalised costs		—	—
TOTAL OTHER EXPENSES		7,060	5,886

Muswellbrook 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		–	–
Less: carrying amount of property assets sold/written off		–	–
Net gain/(loss) on disposal		–	–
Plant and equipment			
Proceeds from disposal – plant and equipment		339	167
Less: carrying amount of plant and equipment assets sold/written off		(197)	(120)
Net gain/(loss) on disposal		142	47
Infrastructure			
Proceeds from disposal – infrastructure		–	–
Less: carrying amount of infrastructure assets sold/written off		(138)	(385)
Net gain/(loss) on disposal		(138)	(385)
Real estate assets held for sale			
Proceeds from disposal – real estate assets		–	–
Less: carrying amount of real estate assets sold/written off		–	–
Net gain/(loss) on disposal		–	–
Investment properties			
Proceeds from disposal – investment properties		–	–
Less: carrying amount of investment properties sold/written off		–	(280)
Net gain/(loss) on disposal		–	(280)
Financial assets*			
Proceeds from disposal/redemptions/maturities – financial assets		8,839	7,491
Less: carrying amount of financial assets sold/redeemed/matured		(8,839)	(7,491)
Net gain/(loss) on disposal		–	–
Non-current assets classified as 'held for sale'			
Proceeds from disposal – non-current assets 'held for sale'		–	–
Less: carrying amount of 'held for sale' assets sold/written off		–	–
Net gain/(loss) on disposal		–	–
Other (enter details...)			
Proceeds from disposal – Other (enter details...)		–	–
Less: carrying amount of Other (enter details...) assets sold/written off		–	–
Net gain/(loss) on disposal		–	–
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		4	(618)

Muswellbrook Shire Council
Notes to the Financial Statements
for the year ended 30 June 2016

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

		2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000	Notes				
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		754	–	6,270	–
Cash-equivalent assets ¹					
– Deposits at call		1,565	–	3,026	–
– Managed funds		–	–	–	–
– Short-term deposits		–	–	–	–
– NCD's, FRN's		–	–	–	–
– Other financial assets		–	–	–	–
Total cash and cash equivalents		2,319	–	9,296	–
– Managed funds		–	–	–	–
– Long term deposits		4,000	23,653	4,000	24,884
– Government and semi-government bonds		–	–	–	–
– Bills of exchange		–	–	–	–
– Equity linked notes		–	–	–	–
– NCD's, FRN's (with maturities > 3 months)		–	13,250	3,148	7,752
– CDO's		–	–	–	–
– Mortgage backed securities		–	–	–	–
– Listed equity securities		–	–	–	–
– Unlisted equity securities		–	–	–	–
– Other long term financial assets		5,416	2,016	–	6,328
Total investments		9,416	38,919	7,148	38,964
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		11,735	38,919	16,444	38,964

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'		2,319	–	9,296	–
--	--	--------------	----------	--------------	----------

Investments

a. 'At fair value through the profit and loss'					
– 'Held for trading'	6(b-i)			–	–
– 'Designated at fair value on initial recognition'	6(b-i)			–	–
b. 'Held to maturity'	6(b-ii)	9,416	38,919	7,148	38,964
c. 'Loans and receivables'	6(b-iii)			–	–
d. 'Available for sale'	6(b-iv)			–	–
Investments		9,416	38,919	7,148	38,964

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

Muswellbrook Shire Council
Notes to the Financial Statements
for the year ended 30 June 2016
Note 6b. investments (continued)

\$ '000	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
Note 6(b-i)				
Reconciliation of investments classified as 'at fair value through the profit and loss'				
Balance at the beginning of the year	—	—	—	—
Adjustment on adoption of AASB 132/139			—	—
Revaluations (through the Income Statement)	—		—	—
Additions	—	—	—	—
Disposals (sales and redemptions)	—		—	—
Transfers between current/non-current			—	—
Transfers from/(to) 'held to maturity'			—	—
Transfers from/(to) 'loans/receivables'			—	—
Transfers from/(to) 'available for sale'			—	—
Balance at end of year	—	—	—	—
Comprising:				
– Managed funds	—	—	—	—
– Government and semi-government bonds			—	—
– Bills of exchange			—	—
– Equity linked notes			—	—
– NCD's, FRN's (with maturities > 3 months)			—	—
– CDO's			—	—
– Mortgage backed securities			—	—
– Listed equity securities			—	—
– Unlisted equity securities			—	—
– Other long term financial assets	—	—	—	—
Total	—	—	—	—
Note 6(b-ii)				
Reconciliation of investments classified as 'held to maturity'				
Balance at the beginning of the year	7,148	38,964	4,990	38,261
Adjustment on adoption of AASB 132/139			—	—
Amortisation of premiums and discounts	—	(45)	—	(84)
Additions	—	11,000	—	10,303
Impairment (loss)/prior loss reversal (via P&L)	107	—	5	128
Disposals (sales and redemptions)	(6,148)	(2,691)	(4,990)	(2,501)
Transfers between current/non-current	8,309	(8,309)	7,143	(7,143)
Transfers from/(to) 'at fair value'			—	—
Transfers from/(to) 'available for sale'			—	—
Balance at end of year	9,416	38,919	7,148	38,964

Muswellbrook Shire Council
Notes to the Financial Statements
for the year ended 30 June 2016
Note 6b. investments (continued)

	2016	2016	2015	2015
	Actual	Actual	Actual	Actual
\$ '000	Current	Non-current	Current	Non-current
Comprising:				
– Long term deposits	4,000	23,653	4,000	24,884
– Government and semi-government bonds				
– Bills of exchange				
– Equity linked notes				
– NCD's, FRN's (with maturities > 3 months)	–	13,250	3,148	7,753
– CDO's				
– Mortgage backed securities				
– Listed equity securities				
– Unlisted equity securities				
– Other long term financial assets	5,416	2,016	–	6,327
Total	9,416	38,919	7,148	38,964

Note 6(b-iii)

**Reconciliation of investments
classified as 'loans and receivables'**

Nil

Note 6(b-iv)

**Reconciliation of investments
classified as 'available for sale'**

Nil

Muswellbrook 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	11,735	38,919	16,444	38,964
attributable to:				
External restrictions (refer below)	8,850	29,211	8,693	29,059
Internal restrictions (refer below)	2,691	9,708	6,457	9,905
Unrestricted	194	–	1,294	–
	11,735	38,919	16,444	38,964

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

Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – general (A)	872		(872)	–
Specific purpose unexpended loans – water (A)	–	–	–	–
Specific purpose unexpended loans – sewer (A)	–	–	–	–
RMS (formerly RTA) advances (B)	–			–
Self insurance claims (C)	–			–
Other	–			–
External restrictions – included in liabilities	872	–	(872)	–

External restrictions – other

Developer contributions – general (D)	4,546	2,353	(1,280)	5,619
Developer contributions – water fund (D)	5,913	248	–	6,161
Developer contributions – sewer fund (D)	9,277	392	–	9,669
RMS (formerly RTA) contributions (E)	–			–
Specific purpose unexpended grants (F)	948	493	(607)	834
Specific purpose unexpended grants-water fund (F)	30	–	–	30
Specific purpose unexpended grants-sewer fund (F)	–	960	–	960
Water supplies (G)	13,043	–	(237)	12,806
Sewerage services (G)	2,757	–	(1,132)	1,626
Domestic waste management (G)	366	2,079	(2,089)	356
Stormwater management (G)	–			–
Coastal protection (G)	–			–
Other special levies (G)	–			–
External restrictions – other	36,880	6,525	(5,345)	38,061
Total external restrictions	37,752	6,525	(6,217)	38,061

Muswellbrook 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				
Plant and vehicle replacement	1,418		(1,007)	411
Infrastructure replacement	3,556		(2,386)	1,170
Employees leave entitlement	1,248		(380)	868
Carry over works	—			—
Deposits, retentions and bonds	611			611
Carpark replacement	60		(15)	45
Road works contingency	420	895	(829)	486
Land bank development	13		(10)	3
Building replacement	412		(34)	378
Art gallery	33			33
Parks and facilities	204		(204)	—
Administrative	152			152
Environmental	377		(147)	230
Waste management centre	4,092	790	(215)	4,667
Aquatic centre	220		(105)	115
Stormwater management	342	155	(200)	297
Carry over works 15/16 Operational	—	362		362
Carry over works 15/16 Capital	—	1,224		1,224
Carry over works 14/15 Capital	1,502	214	(1,502)	214
Recreation	870		(99)	771
Campbell's corner	122		(122)	—
Legal Matters	—	42		42
Infrastructure works	125			125
Heritage Matters	—	18		18
Carry over works 14/15 operations	449	84	(449)	84
Strategic town planning	136	66	(109)	93
Total internal restrictions	16,362	3,850	(7,813)	12,399
TOTAL RESTRICTIONS	54,114	10,375	(14,030)	50,460

- A Loan moneys which must be applied for the purposes for which the loans were raised.
- B Advances by roads and maritime services for (RMS) works on the State's classified roads.
- C Self insurance liability resulting from reported claims or incurred claims not yet reported.
- 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.

Muswellbrook 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		1,247	—	1,034	—
Interest and extra charges		—	—	—	—
User charges and fees		1,909	—	1,060	—
Private works		—	—	—	—
Contributions to works		—	—	—	—
Capital debtors (being sale of assets)					
– Sale of land		—	—	—	—
– Other asset sales		—	—	—	—
Accrued revenues					
– Interest on investments		709	—	756	—
– Interest on impaired investments		—	—	—	—
– Other income accruals		—	—	—	—
Amounts due from other councils		1	—	2	—
Deferred debtors		—	—	—	—
Government grants and subsidies		2,114	—	1,168	—
Loans to non-profit organisations		—	—	—	—
Loans to sporting clubs		—	—	—	—
Net GST receivable		366	—	342	—
Waste depot charges		626	—	92	—
On site management system		22	—	13	—
Community enhancement		748	—	1,040	—
RMS IPWO's		186	—	—	—
RMS grants		—	—	—	—
Other debtors		23	—	15	—
Total		7,951	—	5,522	—
Less: provision for impairment					
Rates and annual charges		—	—	—	—
Interest and extra charges		—	—	—	—
User charges and fees		(52)	—	(52)	—
Other debtors		(11)	—	(11)	—
Total provision for impairment – receivables		(63)	—	(63)	—
TOTAL NET RECEIVABLES		7,888	—	5,459	—

Muswellbrook Shire Council

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

Note 7. Receivables (continued)

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Externally restricted receivables					
Water supply					
– Specific purpose grants		–	–	–	–
– Rates and availability charges		88	–	67	–
– Other		580	–	434	–
Sewerage services					
– Specific purpose grants		–	–	–	–
– Rates and availability charges		381	–	300	–
– Other		73	–	79	–
Domestic waste management		168		130	–
Parking				–	–
Drainage				–	–
Town improvement				–	–
Stormwater management				–	–
Other					
- Voluntary Planning Contribution - Community Facilities				160	–
Total external restrictions		1,290	–	1,170	–
Internally restricted receivables					
Nil					
Internally restricted receivables		–	–	–	–
Unrestricted receivables		6,598	–	4,289	–
TOTAL NET RECEIVABLES		7,888	–	5,459	–

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.

Muswellbrook 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)		1,974	—	1,948	—
Stores and materials		99	—	136	—
Trading stock		—	—	—	—
Loose tools		—	—	—	—
Other		43	—	47	—
Total inventories at cost		2,116	—	2,131	—
<u>TOTAL INVENTORIES</u>		<u>2,116</u>	<u>—</u>	<u>2,131</u>	<u>—</u>
(b) Other assets					
Prepayments		102	—	28	—
Shares in unlisted companies – StateCover		—	—	—	—
Work in progress		—	—	—	—
Other		—	—	—	—
<u>TOTAL OTHER ASSETS</u>		<u>102</u>	<u>—</u>	<u>28</u>	<u>—</u>
Externally restricted assets					
Water					
Nil					
Sewerage					
Nil					
Total sewerage		—	—	—	—
Domestic waste management					
Nil					
Other					
Nil					
Total externally restricted assets		—	—	3	—
Total internally restricted assets				—	—
Total unrestricted assets		2,218	—	2,156	—
TOTAL INVENTORIES AND OTHER ASSETS		2,218	—	2,159	—

Muswellbrook 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
(i) Other disclosures				
(a) Details for real estate development				
Residential	309	—	282	—
Industrial/commercial	1,665	—	1,666	—
Other properties	—	—	—	—
Total real estate for resale	1,974	—	1,948	—
(Valued at the lower of cost and net realisable value)				
Represented by:				
Acquisition costs	1,974	—	1,948	—
Development costs	—	—	—	—
Borrowing costs	—	—	—	—
Other holding costs	—	—	—	—
Other properties – book value	—	—	—	—
Total costs	1,974	—	1,948	—
Less: provision for under recovery	—	—	—	—
Total real estate for resale	1,974	—	1,948	—
Movements:				
Real estate assets at beginning of the year	1,948	—	1,922	—
– Purchases and other costs	26	—	26	—
– Transfers in from (out to) Note 9	—	—	—	—
– WDV of sales (expense)	—	—	—	—
– Transfer between current/non-current	—	—	—	—
– Other	—	—	—	—
Total real estate for resale	1,974	—	1,948	—
(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			1,234	1,472
Other			—	—
			1,234	1,472
(c) Inventories recognised as an expense for the year included:				
– Real estate for resale			—	—
– Stores and materials			—	—
– Trading stock			—	—
(d) Inventory write downs				

\$3,496 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.

Muswellbrook 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	Impairment loss (recognised in P/L)	WIP transfers	Tfns from/(to) investment properties	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated		Carrying value
			depreciation	impairment												depreciation	impairment	
Capital work in progress	18,273	—	—	—	18,273	2,523	5,460	(197)	(1,160)	—	(17,328)	—	—	8,928	—	—	—	8,928
Plant and equipment	—	13,632	9,650	—	3,982	—	1,332	—	(166)	—	—	—	—	—	13,908	9,950	—	3,958
Office equipment	—	2,363	1,841	—	522	—	140	—	(92)	—	—	—	—	—	2,504	2,007	—	497
Furniture and fittings	—	1,387	600	—	787	—	6	—	—	—	—	—	—	—	1,394	693	—	701
Land:																		
– Operational land	—	8,341	—	—	8,341	—	—	—	—	—	—	—	2,406	—	8,341	—	—	8,341
– Community land	—	9,389	—	—	9,389	—	—	—	—	—	—	—	—	—	11,795	—	—	11,795
– Land under roads (pre 17/08)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– Land under roads (post 30/6/08)	—	—	—	—	—	—	—	—	—	—	259	—	(440)	—	—	—	—	—
Land improvements – depreciable	—	5,355	1,456	—	3,899	13	—	—	(112)	—	—	—	—	—	4,398	779	—	3,619
Infrastructure:																		
– Buildings – non-specialised	—	3,043	572	—	2,471	512	7,554	—	(1)	—	2,338	1,399	—	—	3,043	573	—	2,470
– Buildings – specialised	—	45,720	4,220	—	41,500	26	286	—	(277)	(600)	12	—	—	—	57,523	4,497	600	52,426
– Other structures	—	9,528	2,079	—	7,449	3,777	347	(138)	(283)	—	—	—	(1,192)	—	8,209	1,911	—	6,298
– Roads	—	341,678	83,358	—	258,320	—	—	—	(3,522)	—	12,291	—	—	—	357,883	86,807	—	271,076
– Bridges	—	59,745	15,933	—	43,812	—	—	—	(605)	—	—	—	—	—	59,745	16,538	—	43,207
– Footpaths	—	12,927	3,135	—	9,792	682	248	—	(281)	—	—	—	—	—	13,857	3,416	—	10,441
– Other road assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– Bulk earthworks (non-depreciable)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– Stormwater drainage	—	57,906	19,330	—	38,576	123	—	—	(593)	—	178	—	—	—	58,207	19,923	—	38,284
– Water supply network	—	84,107	36,026	—	48,081	1,259	108	—	(1,438)	—	73	—	740	—	86,848	38,025	—	48,823
– Sewerage network	—	81,856	31,855	—	50,001	1,371	219	—	(1,196)	—	2,177	—	816	—	86,936	33,548	—	53,388
Other assets:																		
– Heritage collections	—	4,330	—	—	4,330	—	1	—	—	—	—	—	—	—	4,331	—	—	4,331
– Library books	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– Other	—	1,245	999	—	246	—	121	—	(125)	—	—	—	—	—	1,366	1,124	—	242
Reinstatement, rehabilitation and restoration assets (refer Note 26):																		
– Tip assets	2,191	—	1,913	—	278	—	—	—	(23)	—	—	—	—	—	2,191	1,936	—	255
– Quarry assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– Other assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	20,464	742,552	212,967	—	550,049	10,286	15,822	(335)	(9,874)	(600)	—	1,399	2,330	8,928	782,479	221,727	600	569,080

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.

Muswellbrook 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				–	–	–	–	–
Plant and equipment		495	293	202	–	595	363	232
Office equipment		87	87	–	–	87	87	–
Furniture and fittings		21	13	8	–	21	12	9
Land								
– Operational land		582		582	–	582	–	582
– Community land				–	–	–	–	–
– Improvements non-depreciable				–	–	–	–	–
– Improvements - depreciable				–	–	–	–	–
Buildings				–	–	–	–	–
Other structures				–	–	–	–	–
Infrastructure		88,067	38,025	50,042	–	85,095	36,026	49,069
Other assets				–	–	–	–	–
Total water supply	–	89,252	38,418	50,834	–	86,380	36,488	49,892
Sewerage services								
WIP				–	–	–	–	–
Plant and equipment		295	256	39	–	282	242	40
Office equipment		29	29	–	–	29	29	–
Furniture and fittings		2	2	–	–	2	2	–
Land								
– Operational land		1,172		1,172	–	1,172	–	1,172
– Community land		50		50	–	100	–	100
– Improvements non-depreciable				–	–	–	–	–
– Improvements - depreciable				–	–	–	–	–
Buildings				–	–	–	–	–
Other structures				–	–	–	–	–
Infrastructure		88,779	33,548	55,231	–	84,064	31,855	52,209
Other assets				–	–	–	–	–
Total sewerage services	–	90,327	33,835	56,492	–	85,649	32,128	53,521

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2016Note 9c. Infrastructure, property, plant and equipment – current year
impairments

\$ '000	Notes	Actual 2016	Actual 2015
(i) Impairment losses recognised in the Income Statement:			
In December 2015, the Denman Memorial Hall was badly damaged by fire. Council is currently negotiating with its insurance provider in relation to the restoration of the hall.		(600)	—
Total impairment losses		(600)	—
(ii) Reversal of impairment losses previously recognised in the Income Statement:			
			—
Total impairment reversals		—	—
IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L	4(d)	(600)	—
(iii) Impairment losses recognised direct to equity (ARR):			
			—
Total impairment losses		—	—
(iv) Reversals of impairment losses previously recognised direct to equity (ARR):			
			—
Total impairment reversals		—	—
IMPAIRMENT OF ASSETS – DIRECT to EQUITY (ARR)	20 (ii)	—	—

Muswellbrook 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		1,613	–	1,799	–
Goods and services – capital expenditure		3,179	–	2,960	–
Payments received In advance		–	–	–	–
Accrued expenses:					
– Borrowings		–	–	–	–
– Interest on bonds and deposits		–	–	–	–
– Salaries and wages		–	–	–	–
– Other expenditure accruals		–	–	–	–
Advances		–	–	–	–
Security bonds, deposits and retentions		675	–	684	–
ATO – net GST payable		–	–	–	–
Other		62	–	61	–
Total payables		5,529	–	5,504	–
Borrowings					
Bank overdraft		–	–	–	–
Loans – secured ¹		987	26,393	2,925	13,675
Loans – unsecured		–	–	–	–
Government advances		–	–	–	–
Ratepayers' advances		–	–	–	–
Finance lease liabilities		–	–	–	–
Deferred payment liabilities		–	–	–	–
Total borrowings		987	26,393	2,925	13,675
Provisions					
Employee benefits:					
Annual leave		1,413	–	1,408	–
Sick leave		–	–	–	–
Long service leave		1,700	280	1,281	335
Gratuities		–	–	–	–
Other leave		72	–	84	–
ELE on-costs		–	–	–	–
Sub-total – aggregate employee benefits		3,185	280	2,773	335
Self insurance – workers compensation		–	–	–	–
Self insurance – public liability		–	–	–	–
Self insurance – other		–	–	–	–
Asset remediation/restoration (future work)	26	–	5,004	–	4,721
Total provisions		3,185	5,284	2,773	5,056
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		9,701	31,677	11,202	18,731

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

(i) Liabilities relating to restricted assets

	2016		2015	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	1,040	2,213	1,261	2,470
Sewer	947	788	520	851
Domestic waste management	68		154	—
Self insurance	—		—	—
Other	—		—	—
Liabilities relating to externally restricted assets	2,055	3,001	1,935	3,321
Internally restricted assets				
Other - Loan Commercial Buildings		800	—	800
Liabilities relating to internally restricted assets	—	800	—	800
Total liabilities relating to restricted assets	2,055	3,801	1,935	4,121
Total liabilities relating to unrestricted assets	7,646	27,876	9,267	14,610
TOTAL PAYABLES, BORROWINGS AND PROVISIONS	9,701	31,677	11,202	18,731

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.

Muswellbrook 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	2,314	2,097
Payables – security bonds, deposits and retentions	170	164
	2,484	2,261

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	1,408	879	(874)			1,413
Sick leave	–	–				–
Long service leave	1,616	666	(302)			1,980
Other leave (enter detail	84	(12)				72
ELE on-costs	–	–				–
Gratuities	–	–				–
Self insurance	–	–				–
Asset remediation	4,721	–		283		5,004
Carbon tax	–	–				–
Other	–	–				–
TOTAL	7,829	1,533	(1,176)	283	–	8,469

- 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.
- Self insurance provisions represent both (i) claims incurred but not reported and (ii) claims reported and estimated as a result of Council's being a self insurer up to certain levels of excess.
- 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.

Muswellbrook 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	2,319	9,296
Less bank overdraft	10	—	—
Balance as per the Statement of Cash Flows		2,319	9,296
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		14,806	19,960
Adjust for non-cash items:			
Depreciation and amortisation		9,874	10,831
Net losses/(gains) on disposal of assets		(4)	618
Non-cash capital grants and contributions		(604)	(1,515)
Impairment losses recognition – I,PP&E		600	—
Impairment (reversal of previous losses) – I,PP&E		—	—
Impairment losses/(prior period reversals) – financial investments		(107)	(133)
Investment income relating to 'available for sale' investments sold		—	—
Reversal of prior period I,PP&E revaluation decrements costed direct to the P&L		—	—
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		—	—
– Investment properties		1,967	875
– Favourable financial liabilities (i.e. initial recognition at fair value)		—	—
– Fair valuation adjustment (re-measurement) of existing loans to Council		—	—
– Interest-free advances made by Council (deferred debtors)		—	—
– Write offs relating to the fair valuation of I,PP&E		—	—
Amortisation of premiums, discounts and prior period fair valuations			
– 'Held to maturity' financial assets		45	84
– Interest on all fair value adjusted interest free advances made by Council		—	—
– Interest exp. on interest-free loans received by Council (previously fair value)		56	64
Unwinding of discount rates on reinstatement provisions		283	267
Share of net (profits) or losses of associates/joint ventures		(2)	(30)
Net loss/(gain) on Council restructure/amalgamations (excluding cash)		—	—
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(2,429)	2,651
Increase/(decrease) in provision for doubtful debts		—	—
Decrease/(increase) in inventories		41	(24)
Decrease/(increase) in other assets		(74)	25
Increase/(decrease) in payables		(186)	107
Increase/(decrease) in accrued interest payable		—	(51)
Increase/(decrease) in other accrued expenses payable		—	—
Increase/(decrease) in other liabilities		(8)	57
Increase/(decrease) in employee leave entitlements		357	(5)
Increase/(decrease) in other provisions		—	—
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		24,615	33,781

Muswellbrook 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			
Acquisition of plant and equipment by means of finance lease			—
Subsidised works (sewer scheme)			—
PwD construction			—
Bushfire grants			—
S94 contributions 'in kind'			—
Other dedications		604	1,515
Total non-cash investing and financing activities		604	1,515
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		750	750
Credit cards/purchase cards		77	25
Master lease facilities			—
Standby credit facilities			—
Other			—
Total financing arrangements		827	775
Amounts utilised as at balance date:			
– Bank overdraft facilities			—
– Credit cards/purchase cards			—
– Lease facilities			—
– Standby credit facilities			—
– Other			—
Total financing arrangements utilised		—	—

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.

Please refer to Note 24 for details of cash flows that relate to discontinued operations

Muswellbrook 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		2,377	3,691
Plant and equipment			572
Road Infrastructure		6,870	6,070
Other		932	—
Investment property			
– Land			3,156
– Buildings		179	—
– Other			—
Total commitments		10,358	13,489
These expenditures are payable as follows:			
Within the next year		10,358	13,489
Later than one year and not later than 5 years			—
Later than 5 years			—
Total payable		10,358	13,489
Sources for funding of capital commitments:			
Unrestricted general funds		1,090	—
Future grants and contributions		7,040	10,299
Sect 64 and 94 funds/reserves			757
Unexpended grants		2,228	
Externally restricted reserves			
Internally restricted reserves			572
Unexpended loans			871
New loans (to be raised)			990
Total sources of funding		10,358	13,489

Muswellbrook Shire Council

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

Note 12. Commitments for expenditure (continued)

\$ '000	Notes	Actual 2016	Actual 2015
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(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

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

Within the next year	13	28
Later than one year and not later than 5 years		13
Later than 5 years		—
Total non-cancellable operating lease commitments	13	41

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

Office equipment

Muswellbrook Shire Council

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

Note 12. Commitments for expenditure (continued)

\$ '000	Notes	Actual 2016	Actual 2015
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Conditions relating to operating leases:

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

(d) Investment property commitments

Council has received grant funding that allows for the partial funding of the refurbishment and repurposing of Loxton House in Bridge St Muswellbrook.

(e) Investment in joint operations – commitments

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

Muswellbrook 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 20152014	
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	1,129	2.62%	-3.09%	-0.71%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	43,087			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	34,064	58.01%	53.60%	65.46%
Total continuing operating revenue ⁽¹⁾	58,725			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	10,467	2.03x	1.82x	1.94x
Current liabilities less specific purpose liabilities ^(3, 4)	5,162			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	12,576	3.35x	4.18x	6.91x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,749			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	1,247	6.36%	5.20%	10.90%
Rates, annual and extra charges collectible	19,593			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	29,972	9.39 mths	14.0 mths	12.7 mths
Payments from cash flow of operating and financing activities	3,192			
Notes				

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).

Muswellbrook 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			
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	12.70%	22.42%	-2.13%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	prior period: -1.14%	21.25%	-7.40%
2. Own source operating revenue ratio			
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	97.97%	80.51%	49.98%
Total continuing operating revenue ⁽¹⁾	prior period: 93.76%	96.92%	45.06%
3. Unrestricted current ratio			
Current assets less all external restrictions ⁽²⁾	3.77x	1.30x	2.03x
Current liabilities less specific purpose liabilities ^(3, 4)	prior period: 3.33x	2.43x	1.82x
4. Debt service cover ratio			
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	5.88x	19.64x	2.43x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	prior period: 3.93x	18.80x	3.39x
5. Rates, annual charges, interest and extra charges outstanding percentage			
Rates, annual and extra charges outstanding	6.24%	11.30%	5.25%
Rates, annual and extra charges collectible	prior period: 4.80%	9.17%	4.38%
6. Cash expense cover ratio			
Current year's cash and cash equivalents plus all term deposits	30.71 mths	32.43 mths	4.88 mths
Payments from cash flow of operating and financing activities	prior period: 28.44 mths	22.39 mths	10.93 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.

Muswellbrook 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			
Investment properties on hand		20,675	8,861
Reconciliation of annual movement:			
Opening balance		8,861	7,485
– Acquisitions		12,310	–
– Capitalised expenditure – this year		2,870	2,531
– Acquisitions (transfers) through amalgamations			–
– Classified as 'held for sale'			–
– Disposals during year		–	(280)
– Net gain/(loss) from fair value adjustments		(1,967)	(875)
– Transfers from/(to) inventories (Note 8)			–
– Transfers from/(to) owner occupied (Note 9)		(1,399)	–
– Other movements		–	–
CLOSING BALANCE – INVESTMENT PROPERTIES		20,675	8,861

(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:
Property Valuations NSW with a market appraisal of each of the properties.

(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	1,761	799
Later than 1 year but less than 5 years	2,279	2,118
Later than 5 years	864	864
Total minimum lease payments receivable	4,904	3,781

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 14. Investment properties (continued)

\$ '000	Notes	Actual 2016	Actual 2015
Rental income from investment properties:			
– Minimum lease payments		1,097	930
– Contingent rentals			–
– Other income			–
Direct operating expenses on investment properties:			
– that generated rental income		(374)	(347)
– that did not generate rental income			–
Net revenue contribution from investment properties		723	583
plus:			
Fair value movement for year		(1,967)	(875)
Total income attributable to investment properties		(1,244)	(292)

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

Muswellbrook 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	2,319	9,296	2,319	9,296
Investments				
– 'Held for trading'	–	–	–	–
– 'Designated at fair value on initial recognition'	–	–	–	–
– 'Held to maturity'	48,335	46,112	48,602	45,612
– 'Loans and receivables'	–	–	–	–
– 'Available for sale'	–	–	–	–
Receivables	7,888	5,459	7,888	5,459
Total financial assets	58,542	60,867	58,809	60,367
Financial liabilities				
Bank overdraft	–	–	–	–
Payables	5,529	5,504	5,529	5,504
Loans/advances	27,380	16,600	27,380	16,600
Lease liabilities	–	–	–	–
Total financial liabilities	32,909	22,104	32,909	22,104

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.

Muswellbrook 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 it's staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

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

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

Council also seeks advice from independent advisers before placing any funds in cash equivalents 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				
Possible impact of a 1% movement in interest rates	506	506	506	506
2015				
Possible impact of a 10% movement in market values				
Possible impact of a 1% movement in interest rates	554	554	554	554

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

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

		2016	2016	2015	2015
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		100%	19%	0%	73%
Overdue		100%	81%	100%	27%
		100%	100%	100%	100%
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables	Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	–	2,324	–	3,290
< 1 year overdue	0 – 30 days overdue	892	–	781	271
1 – 2 years overdue	30 – 60 days overdue	214	1,669	152	51
2 – 5 years overdue	60 – 90 days overdue	123	12	88	16
> 5 years overdue	> 90 days overdue	18	2,699	13	860
		1,247	6,704	1,034	4,488

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

(iii) Movement in provision for impairment of receivables

	2016	2015
Balance at the beginning of the year	63	63
+ new provisions recognised during the year		
– amounts already provided for and written off this year		
– amounts provided for but recovered during the year		
– previous impairment losses reversed		
Balance at the end of the year	63	63

Muswellbrook 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									
Bank overdraft	–							–	–
Trade/other payables	675	4,854						5,529	5,529
Loans and advances	19,309	2,361	1,809	1,809	1,653	1,653	6,129	34,723	27,380
Lease liabilities								–	–
Total financial liabilities	19,984	7,215	1,809	1,809	1,653	1,653	6,129	40,252	32,909
2015									
Bank overdraft	–	–	–	–	–	–	–	–	–
Trade/other payables	684	4,820	–	–	–	–	–	5,504	5,504
Loans and advances	5,842	3,452	1,263	1,199	1,199	1,199	5,166	19,320	16,600
Lease liabilities	–	–	–	–	–	–	–	–	–
Total financial liabilities	6,526	8,272	1,263	1,199	1,199	1,199	5,166	24,824	22,104

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
Bank overdraft	–		–	
Trade/other payables	5,529		5,504	
Loans and advances – fixed interest rate	21,571	3.85%	10,758	5.06%
Loans and advances – variable interest rate	5,809	3.22%	5,842	3.22%
Lease liabilities	–		–	
	<u>32,909</u>		<u>22,104</u>	

Muswellbrook 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 2015/16 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	18,851	18,420	(431)	(2%)	U
User charges and fees	11,050	11,495	445	4%	F
During 2015/16 Council received less than expected revenues in regard to a range of sources, however, the major contributors to the results shown here include the less than expected receipt of Waste Levy Revenues (although this was offset by a reduction in the matching expense) by \$594K and less than expected Water Usage Charges (\$143K).					
Interest and investment revenue	2,465	2,586	121	5%	F
Other revenues	1,786	1,563	(223)	(12%)	U
This result is mainly due to the less than expected receipt of building lease fees.					
Operating grants and contributions	5,639	9,023	3,384	60%	F
During 2015/16, Council was in receipt of significant grant funding (\$2.9M) in relation to the development of the entry into the town of Denman. Council had included this as a Capital Revenue in the Budget, however, the works are considered to be operational in nature as the works belong to the State Government rather than Council. As such, both the revenues and expenses related to this project have been included in the Operating Statement.					
Capital grants and contributions	8,591	15,638	7,047	82%	F
Significant capital grant revenues in regard to projects such as Resources for Regions (\$5.62M), Campbell's Corner (\$2M) and the Town Education Centre (\$3.6M) were received in 2015/16, however these had been included in their entity in the 2014/15 Budget and the subsequent quarterly reviews.					
Net gains from disposal of assets	—	4	4	0%	F
Joint ventures and associates - net profits	—	2	2	0%	F

Muswellbrook 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	13,091	12,876	215	2%	F
Borrowing costs	947	973	(26)	(3%)	U
Materials and contracts	10,861	12,542	(1,681)	(15%)	U
As outlined above, the road works in relation to the Denman entry into town had to be expensed. These works had been included in the Capital Budget for 2015/16.					
Depreciation and amortisation	11,326	9,874	1,452	13%	F
Council is constantly revising and reviewing the valuations, condition and useful lives of its infrastructure assets and this leads to ongoing variations between estimated amounts that are based on the previous factors and the actual expense which is based on the more current factors.					
Impairment expenses	—	600	(600)	0%	U
Council does not make any allowance for the Impairment of Assets due to the high degree of unpredictability inherent in this issue. However in December 2015, the Denman Memorial Hall was damaged by fire and as a result has been impaired.					
Other expenses	5,637	7,060	(1,423)	(25%)	U
In 2015/16 Council was required to write down around \$1.97M worth of building asset due to the revaluation of a recently constructed building.					
Net losses from disposal of assets	—	—	—	0%	F
Joint ventures and associates – net losses	—	—	—	0%	F
Operating result from discontinued operations	—	—	—	0%	F

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

Cash flows from operating activities	11,303	24,615	13,312	117.8%	F
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This result is due to the higher than expected receipt of grant funding that has been outlined above.

Cash flows from investing activities	(16,994)	(42,316)	(25,322)	149.0%	U
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The additional expenditure includes the capital expenditures that were carried over from 2014/15. In addition to this, during the course of 2015/16, Council resolved to acquire commercial properties that were not included in the original budget.

Cash flows from financing activities	(880)	10,724	11,604	(1318.6%)	F
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Council does not budget for the acquisitions and disposal of cash investments. Instead, these activities are conducted in terms of managing Council's Cash Flow.

Muswellbrook 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	201	–	–	9	–	–	210	–
Roads	653	19	–	28	–	–	700	–
Traffic facilities	–	–	–	–	–	–	–	–
Parking	2	–	–	–	–	–	2	–
Open space	517	1	–	22	–	–	540	–
Community facilities	66	–	–	3	–	–	69	–
Tourism	68	–	–	3	–	–	71	–
Bushfire	90	2	–	4	–	–	96	–
Social Infrastructure	362	1	–	15	(51)	–	327	–
Other	–	–	–	–	–	–	–	–
S94 contributions – under a plan	1,959	23	–	84	(51)	–	2,015	–
S94A levies – under a plan	45	228	–	12	(176)	–	109	–
Total S94 revenue under plans	2,004	251	–	96	(227)	–	2,124	–
S94 not under plans	2,543	2,005	656	–	(1,053)	–	3,495	–
S93F planning agreements	–						–	
S64 contributions	15,189	–	218	641	–	–	15,830	
Total contributions	19,736	2,256	874	737	(1,280)	–	21,449	–

Muswellbrook 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

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	201			9			210	
Roads	653	19		28			700	
Traffic facilities	–						–	
Parking	2						2	
Open space	517	1		22			540	
Community facilities	66			3			69	
Tourism	68			3			71	
Bushfire	90	2		4			96	
Social Infrastructure	362	1		15	(51)		327	
Other	–						–	
Total	1,959	23	–	84	(51)	–	2,015	–

Muswellbrook Shire Council

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

Note 17. Statement of developer contributions (continued)

\$ '000

S94A LEVIES – UNDER A PLAN

CONTRIBUTION PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
S94A Levies	45	228		12	(176)		109	
Other	–						–	
Total	45	228	–	12	(176)	–	109	–

Muswellbrook Shire Council

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

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – NOT UNDER A PLAN

VOLUNTARY PLANNING AGREEMENTS

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	–						–	
Roads	–	136	656		(136)		–	
Traffic facilities	–						–	
Parking	–						–	
Open space	–						–	
Community facilities	1,754	1,505			(554)		2,705	
Recreation	98	304			(303)		99	
Wybong Uplands Strategy	491						491	
Education	200						200	
Environment	–	60			(60)		–	
Other	–						–	
Total	2,543	2,005	656	–	(1,053)	–	3,495	–

Muswellbrook Shire Council

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

Note 17. Statement of developer contributions (continued)

\$ '000

S64 contributions

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					
Water	5,912		89	249			6,161	
Sewer	9,277		129	392			9,669	
Other	—						—	
Total	15,189	—	218	641	—	—	15,830	—

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

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

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

(ii) Statewide Limited

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

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) StateCover Limited

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

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

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

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

(iv) Other guarantees

Council has provided no other guarantees other than those listed above.

Muswellbrook Shire Council

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

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other liabilities

(i) Third party claims

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) S94 plans

Council levies section 94/94A contributions upon various development across the Council area through the required contributions plans.

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

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

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

(iii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

ASSETS NOT RECOGNISED:

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

Muswellbrook Shire Council

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

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

\$ '000

(iii) Contribution to Muswellbrook Cinema

During 2014/15 Council made a conditional loan to the owners of the Muswellbrook Cinema with the aim of facilitating the establishment of the cinema. The loan amount was \$650K and is only repayable in the event of the conditions set out in the agreement between the owners and Council are not met. The loan is secured by bank guarantees issued in favour of Council. The amount repayable decreases in each of the years between 2014/15 and 2018/19.

The cinema has met all the necessary requirements during 2015/16 and as such the value of the loan outstanding has been reduced to \$520K.

The loan was issued in accordance with Council's Community Strategic Plan and after an appropriate period of public consultation.

Related Assets and Liabilities Not Recognised

As a result of the Thomas Mitchell Drive Contribution Study and the planning and approval conditions related to that, Council has an obligation to undertake road works on Thomas Mitchell Drive. These take the form of a completion of upgrading works, two reseals and rehabilitation. The reseals are planned for around 2023 and 2031 and the rehabilitation between 2035 and 2040.

The costs of these works is estimated at \$9.74M in 2013 dollars. As the works are undertaken, coal mines deemed to be the major contributors to the need for the works are required to make a monetary contribution toward the works. In total, these mines are required to pay 39.1% of the actual cost of the works.

As the works are completed the effected coal mines will be invoiced for their contributions based upon the costs of the work and their assessed impact on Thomas Mitchell Drive.

Muswellbrook Shire Council

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

Note 19. Interests in other entities

\$ '000

Council's objectives can and in some cases are best met through the use of separate entities and operations. These operations and entities range from 100% ownership and control through to lower levels of ownership and control via co-operative arrangements with other councils, bodies and other outside organisations. The accounting and reporting for these various entities, operations and arrangements varies in accordance with accounting standards, depending on the level of council's (i) interest and (ii) control and the type (form) of entity/operation, as follows;

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

- (i) Subsidiaries disclosed under Note 19(a) and joint operations disclosed at Note 19(c) are accounted for on a 'line by line' consolidation basis within the Income Statement and Statement of Financial Position.
- (ii) Joint ventures and associates as per Note 19(b) are accounted for using the equity accounting method and are disclosed as a 1 line entry in both the Income Statement and Statement of Financial Position.

	Council's share of net income		Council's share of net assets	
	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Joint ventures	2	30	91	89
Associates	—	—	—	—
Total	2	30	91	89

Muswellbrook 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).

Muswellbrook Shire Council

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

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates

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

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2016	2015
Strategic Services Australia Ltd	Joint Venture	Fair Value	91	89
Total carrying amounts – material joint ventures and associates			91	89

(b) Details

Name of entity	Principal activity	Place of business
Strategic Services Australia Ltd	Local Government Services	Thornton

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2016	2015	2016	2015	2016	2015	2016	2015
Strategic Services Australia Ltd	n/a	n/a	4.25%	4.25%	4.25%	4.25%	7.69%	7.69%

(d) Summarised financial information for joint ventures and associates

				Strategic Services Australia Ltd	
Statement of financial position		2016	2015	2016	2015
Current assets					
Cash and cash equivalents				212	109
Other current assets				1,043	536
Total current assets		–	–	1,255	645
Non-current assets					
				4,827	4,561
Current liabilities					
Financial liabilities (excl. accounts payable)				3,307	1,318
Other current liabilities				294	75
Total current liabilities		–	–	3,601	1,393
Non-current liabilities					
				342	1,730
Net assets		–	–	2,139	2,083

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities (continued)

			Strategic Services Australia Ltd	
	2016	2015	2016	2015
Reconciliation of the carrying amount				
Opening net assets (1 July)	—		2,084	1,368
Profit/(loss) for the period			473	26
Dividends paid				
Dividends received				
Other adjustments to equity				690
Closing net assets	—	—	2,557	2,084
Council's share of net assets (%)			4.3%	4.3%
Council's share of net assets (\$)	—	—	91	89
			Strategic Services Australia Ltd	
	2016	2015	2016	2015
Statement of comprehensive income				
Income			7,550	3,243
Interest income				
Depreciation and amortisation			(358)	(219)
Interest expense			(109)	(169)
Income tax expense				
Other expenses			(6,632)	(2,255)
Profit/(loss) from continuing operations	—	—	451	600
Profit/(loss) from discontinued operations				
Profit/(loss) for period	—	—	451	600
Other comprehensive income				
Total comprehensive income	—	—	451	600
Share of income – Council (%)			4.3%	4.3%
Profit/(loss) – Council (\$)	—	—	19	26
Less Other Changes in Equity			(17)	4
Total comprehensive income – Council (\$)	—	—	2	30
Dividends received by Council				

Muswellbrook Shire Council

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

Note 19. Interests in other entities (continued)

\$ '000

(c) Joint operations

Council has no interest in any joint operations.

Muswellbrook Shire Council

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

Note 19. Interests in other entities (continued)

\$ '000

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

Muswellbrook 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)		291,432	271,472
a. Correction of prior period errors	20 (c)	—	—
b. Changes in accounting policies (prior period effects)	20 (d)	—	—
c. Other comprehensive income (excl. direct to reserves transactions)		—	—
d. Net operating result for the year		14,806	19,960
e. Distributions to/(contributions from) non-controlling Interests		—	—
f. Transfers between equity		—	—
Balance at end of the reporting period		306,238	291,432
(b) Revaluation reserves			
(i) Reserves are represented by:			
— Infrastructure, property, plant and equipment revaluation reserve		302,990	300,660
— 'Available for sale' financial investments revaluation reserve		—	—
— Other reserves (specify)		—	—
Total		302,990	300,660
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
— Opening balance		300,660	309,010
— Revaluations for the year	9(a)	2,330	(8,350)
— (Impairment of revalued assets)/impairment reversals	9(a),(c)	—	—
— Transfer to retained earnings for asset disposals		—	—
— Correction of prior period errors	20(c)	—	—
— Balance at end of year		302,990	300,660
'Available for sale' financial investments revaluation reserve			
— Opening balance		—	—
— Unrealised gain (loss) in value for the year		—	—
— Impairment (reversal) of 'available for sale' investments to (from) the P&L		—	—
— Transfer of 'available for sale' values to the P&L for disposals		—	—
— Balance at end of year		—	—
Other reserves			
— Opening balance		—	—
— Increases/(decreases) for the year		—	—
— Transfers to the P&L		—	—
— Transfers to retained earnings		—	—
— Balance at end of year		—	—
TOTAL VALUE OF RESERVES		302,990	300,660
(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 changes to non current asset values due to their revaluation.			

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

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

Muswellbrook 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
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(d) Voluntary changes in accounting policies

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 21. Financial result and financial position by fund

\$ '000

Income Statement by fund \$ '000	Actual 2016	Actual 2016	Actual 2016	Actual 2016
Continuing operations	DWM	Water	Sewer	General¹
Income from continuing operations				
Rates and annual charges	2,065	1,380	3,350	11,625
User charges and fees	9	3,422	430	7,634
Interest and investment revenue	11	976	557	1,042
Other revenues		241	304	1,018
Grants and contributions provided for operating purposes	32	36	34	8,921
Grants and contributions provided for capital purposes		88	1,091	14,459
Other income				
Net gains from disposal of assets		9	—	(5)
Share of interests in joint ventures and associates using the equity method				2
Total income from continuing operations	2,117	6,152	5,766	44,696
Expenses from continuing operations				
Employee benefits and on-costs	84	1,007	889	10,896
Borrowing costs		171	59	743
Materials and contracts	1,917	2,370	1,271	6,984
Depreciation and amortisation		1,482	1,210	7,182
Impairment				600
Other expenses	3	263	200	6,594
Interest and investment losses				—
Net losses from the disposal of assets		—	—	—
Share of interests in joint ventures and associates using the equity method				—
Total expenses from continuing operations	2,004	5,293	3,629	32,999
Operating result from continuing operations	113	859	2,137	11,697
Discontinued operations				
Net profit/(loss) from discontinued operations		—	—	—
Net operating result for the year	113	859	2,137	11,697
Net operating result attributable to each council fund	113	859	2,137	11,697
Net operating result attributable to non-controlling interests	—	—	—	—
Net operating result for the year before grants and contributions provided for capital purposes	113	771	1,046	(2,762)

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

* DWM represents Council's Commercial Building Fund

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

Muswellbrook Shire Council
Notes to the Financial Statements
as at 30 June 2016

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

\$ '000

Statement of Financial Position by fund \$ '000	Actual 2016	Actual 2016	Actual 2016	Actual 2016
	DWM	Water	Sewer	General ¹
ASSETS				
Current assets				
Cash and cash equivalents		—	—	2,319
Investments	83	4,685	3,019	1,629
Receivables	168	668	454	6,598
Inventories		—	—	2,116
Other		—	—	102
Total current assets	251	5,353	3,473	12,764
Non-current assets				
Investments	273	14,312	9,236	15,098
Receivables		1,497	—	—
Inventories		—	—	—
Infrastructure, property, plant and equipment		50,834	56,492	461,754
Investments accounted for using the equity method		—	—	91
Investment property		—	—	20,675
Total non-current assets	273	66,643	65,728	497,618
TOTAL ASSETS	524	71,996	69,201	510,382
LIABILITIES				
Current liabilities				
Payables	68	411	648	4,402
Borrowings		257	63	667
Provisions		372	236	2,577
Total current liabilities	68	1,040	947	7,646
Non-current liabilities				
Payables		—	—	—
Borrowings		2,213	788	23,392
Provisions		—	—	5,284
Investments accounted for using the equity method				—
Total non-current liabilities	—	2,213	788	28,676
TOTAL LIABILITIES	68	3,253	1,735	36,322
Net assets	456	68,743	67,466	474,060
EQUITY				
Retained earnings	456	37,570	44,758	223,454
Revaluation reserves	—	31,173	22,708	250,606
Council equity interest	456	68,743	67,466	474,060
Non-controlling interests		—	—	—
Total equity	456	68,743	67,466	474,060

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

* DWM represents Council's Commercial Building Fund

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

Muswellbrook 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
\$ '000	Current	Non-current	Current	Non-current

Council did not classify any non-current assets or disposal groups as 'held for sale'.

Muswellbrook 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 27/10/16.

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.

Muswellbrook Shire Council

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

Note 24. Discontinued operations

\$ '000

	Actual	Actual
\$ '000	2016	2015

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

Muswellbrook Shire Council

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

Note 25. Intangible assets

	Actual	Actual
\$ '000	2016	2015

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.

Muswellbrook Shire Council

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

Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

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

Asset/operation	Estimated year of restoration	NPV of provision	
		2016	2015
Rehabilitation of the Muswellbrook Waste Management Facility	2027	5,004	4,721
Balance at end of the reporting period	10(a)	5,004	4,721

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.

Specific uncertainties relating to the final costs and the assumptions made in determining the amounts of provisions include:

– the actual rehabilitation date may change if significant changes occur in relation to the amount of waste accepted in any given year or technological or statutory changes that impact on the useful life of the current waste void. In such a case, Council will be required to recalculate the annual remediation costs and the value of the liability.

Reconciliation of movement in provision for year:

Balance at beginning of year	4,721	4,454
Amounts capitalised to new or existing assets:		
Effect of a change in discount rates used in PV calculations		–
Effect of a change in other calculation estimates used		–
Amortisation of discount (expensed to borrowing costs)	283	267
Expenditure incurred attributable to provisions		–
Total – reinstatement, rehabilitation and restoration provision	5,004	4,721

Muswellbrook 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

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:

	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	
2016					
Recurring fair value measurements					
Financial assets					
Investment Properties					
Commerciil Properties	30/06/16			20,675	20,675
Total Investment Properties		–	–	20,675	20,675
Infrastructure, property, plant and equipment					
Plant and Equipment	30/06/13			3,958	3,958
Office Equipment	30/06/13			497	497
Furniture and Fittings	30/06/13			701	701
Operational Land	30/06/13			8,341	8,341
Community Land	30/06/16			11,795	11,795
Depreciable Land Improvements	30/06/11			3,619	3,619
Buildings - Non-Specialised	30/06/12			2,470	2,470
Buildings - Specialised	30/06/12			52,426	52,426
Other Structures	30/06/16			6,298	6,298
Roads	30/06/14			271,076	271,076
Bridges	30/06/15			43,207	43,207
Footpaths	30/06/15			10,441	10,441
Stormwater Drainage	30/06/15			38,284	38,284
Water Supply Network	30/06/16			48,823	48,823
Sewerage Network	30/06/16			53,388	53,388
Heritage Collections	30/06/10			4,331	4,331
Other	30/06/13			242	242
Total infrastructure, property, plant and equipment		–	–	559,897	559,897

Muswellbrook Shire Council

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

Note 27. Fair value measurement

2015		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		Date of latest valuation			
Financial assets					
Investment Properties					
Commercial Buildings	30/06/15			8,861	8,861
Total Investment Properties			—	8,861	8,861
Infrastructure, property, plant and equipment					
Plant and Equipment	30/06/13			3,982	3,982
Office Equipment	30/06/13			522	522
Furniture and Fittings	30/06/13			787	787
Operational Land	30/06/13			8,341	8,341
Community Land	30/06/14			9,389	9,389
Depreciable Land Improvements	30/06/11			3,899	3,899
Buildings - Non-Specialised	30/06/12			2,471	2,471
Buildings - Specialised	30/06/12			41,500	41,500
Other Structures	30/06/11			7,449	7,449
Roads	30/06/14			258,320	258,320
Bridges	30/06/15			43,812	43,812
Footpaths	30/06/15			9,792	9,792
Stormwater Drainage	30/06/15			38,576	38,576
Water Supply Network	30/06/16			48,081	48,081
Sewerage Network	30/06/16			50,001	50,001
Heritage Collections	30/06/10			4,330	4,330
Other	30/06/13			246	246
Total infrastructure, property, plant and equipment			—	531,498	531,498

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

(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.

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

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial Assets

Council's investments in the form of deposits and other notes held with financial institutions are valued at their face of par value. This value is adjusted where the security has been acquired at either a discount or a premium with that discount or premium being amortised over period between the acquisition and the maturity of the security. This valuation occurs based on the principle that Council has designated the securities as being "Held to Maturity". Accounts receivable are valued at their face value.

The key unobservable input is that Council has no motive to test the marketability of either its financial securities or its accounts receivable.

Investment Properties

Council obtains independent valuations of its Investment Properties on an annual basis as at the reporting date in order to ensure that the Financial Statements include the most current valuation. The best evidence of fair value is the current price in an active market for similar assets. Investment Property is included in level 3 of the hierarchy. The key unobservable input is the estimated lease returns in which the valuations are based.

The fair value is determined by an independent local real estate agent with the appropriate level of experience and a solid understanding of the market for local properties of this type. There has been no change to the valuation process during the reporting period.

Plant and Equipment, Office Equipment and Furniture and Fittings

Plant and Equipment, Office Equipment and Furniture and Fittings are valued at cost and this is disclosed as the 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 within these classes include:-

- Plant and Equipment including Council's works and vehicle fleet.
- Office Equipment including computer and associated equipment including printers, servers etc.
- Furniture and Fittings includes items such as office furniture, blinds and carpets etc.

The key unobservable inputs into the valuation are the remaining useful life and any residual value. Council reviews the value of these assets by taking into account the pattern of consumption, estimated remaining useful life and any residual value. There has been no change to the valuation process during the reporting period.

Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. The last valuation was undertaken at 30 June 2012 and was performed by Liquid Pacific valuers.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to **replace** the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal. There has been no change to the valuation process during the reporting period.

Community Land

Valuations of all Council's Community Land and Council managed land were based on the Unimproved Capital Value as provided by the Valuer-General. As these rates were not considered to be observable market evidence they have been classified as Level 3. There has been no change to the valuation process during the reporting period.

Depreciable Land Improvements

This asset class comprises land improvements such as spectator mounds, swales, berms, gardens, mulched areas, streetscaping and landscaping. These assets may be located on parks, reserves and also within road reserves. 'Land Improvements' were valued in-house using the replacement cost approach by experienced Council engineers and asset management staff.

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 impacted significantly on the final determination of fair value. 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.

Buildings – Non specialised and Specialised

Buildings were valued by APV Valuers and Asset Management in June 2013 using the cost approach. The approach estimated the replacement cost for each building by componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While all buildings were physically inspected, inputs such as estimates of residual value and pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using Level 3 valuation inputs.

During the financial year Council completed the construction of one specialised building (Sam Adams College). The construction costs used to make the valuation are current and, as such provide a clear guide for the valuation of the building in accordance with its Current Replacement Cost. There has been no change to the valuation process during the reporting period.

Other Structures

This asset class comprises infrastructure such as dog leash free areas, ancillary waste facilities, fences, carpark and skateparks.

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 impacted significantly on the final determination of fair value. 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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Roads, Bridges and Footpaths

This asset class comprises infrastructure including the Road Carriageway, Footpaths, Guardrails, Kerb and Gutter, Retaining walls, Bridges and Traffic facilities. The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. The 'Cost Approach' using Level 3 inputs was used to value the road carriageway and other infrastructure within this class. These valuations for the asset class have been based on calculations carried out internally by qualified and experienced Council staff.

The cost approach was utilised with inputs such as the estimated pattern of consumption, residual value, asset condition and useful life requiring extensive professional judgement which impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there some uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Drainage Infrastructure

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices. 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. The Level of componentisation adopted by Council is in accordance with Office of Local Government Circular 09-09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM). Inputs such as estimates of the pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impact significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Water Supply and Sewerage Network

Assets within these classes include the mains, pump stations, access pits, reservoirs and treatment plants which enable the treatment and reticulation of potable water and the collection and treatment of waste water. Mains are valued in accordance with the NSW Reference Rates Manual issued by the NSW Office of Water, which is based on extensive data collected in relation the expected replacement cost of water and sewer mains. All other items are valued in accordance with their replacement cost. These values are based on an independent valuation undertaken in 2007 and updated with more current data as items are replaced, providing improved replacement costs. These valuations are undertaken internally by experienced and qualified Council staff. Inputs such as estimates of the pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impact significantly on the final determination of fair value.

Heritage Assets

Assets within this class comprise Council's Art Collection. The collection is independently valued with the most recent valuation being completed in 2009/10.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Plant and Equipment	Office Equipment	Furniture and Fittings	Operational Land	Total
Opening balance – 1/7/14	4,827	517	817	8,341	14,502
Adoption of AASB 13	—	—	—	—	—
Transfers from/(to) level 1 FV hierarchy 274(b)	—	—	—	—	—
Transfers from/(to) level 2 FV hierarchy 274(b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	553	162	58	—	773
Disposals (WDV)	(120)	—	—	—	(120)
Depreciation and impairment	(1,278)	(157)	(88)	—	(1,523)
FV gains – other comprehensive income	—	—	—	—	—
FV gains – Income Statement ¹	—	—	—	—	—
Work in Progress Transfers	—	—	—	—	—
Closing balance – 30/6/15	3,982	522	787	8,341	13,632
Adoption of AASB 13	—	—	—	—	—
Transfers from/(to) level 1 FV hierarchy 274(b)	—	—	—	—	—
Transfers from/(to) level 2 FV hierarchy 274(b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	1,332	140	6	—	1,478
Disposals (WDV)	(197)	—	—	—	(197)
Depreciation and impairment	(1,160)	(166)	(92)	—	(1,418)
FV gains – other comprehensive income	—	—	—	—	—
FV gains – Income Statement ¹	—	—	—	—	—
Other movement (details here)	—	—	—	—	—
Other movement (details here)	—	—	—	—	—
Other movement (details here)	—	—	—	—	—
Other movement (details here)	—	—	—	—	—
Closing balance – 30/6/16	3,958	497	701	8,341	13,495
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 14/15	—	—	—	—	—
YE 15/16	—	—	—	—	—

Muswellbrook Shire Council

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

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Community Land	Deprec. Land Improve.	Buildings Non Specialised	Buildings Specialised	Total
Opening balance – 1/7/14	9,389	2,733	2,447	34,823	49,392
Adoption of AASB 13	—	—	—	—	—
Transfers from/(to) level 1 FV hierarchy 27 4(b)	—	—	—	—	—
Transfers from/(to) level 2 FV hierarchy 27 4(b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	—	74	13	948	1,035
Disposals (WDV)	—	—	—	—	—
Depreciation and impairment	—	(105)	(1)	(277)	(383)
FV gains – other comprehensive income	—	—	—	—	—
FV gains – Income Statement ¹	—	—	—	—	—
Work in Progress Transfer	—	1,197	12	6,006	7,215
Closing balance – 30/6/15	9,389	3,899	2,471	41,500	57,259
Adoption of AASB 13	—	—	—	—	—
Transfers from/(to) level 1 FV hierarchy 27 4(b)	—	—	—	—	—
Transfers from/(to) level 2 FV hierarchy 27 4(b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	1,399	1,399
Purchases (GBV)	—	13	—	8,066	8,079
Disposals (WDV)	—	—	—	—	—
Depreciation and impairment	—	(112)	(1)	(877)	(990)
FV gains – other comprehensive income	—	—	—	—	—
FV gains – Income Statement ¹	—	—	—	—	—
Revaluation Increments	2,406	(440)	—	—	1,966
Work in Progress Transfers	—	259	—	2,338	2,597
Other movement (details here)	—	—	—	—	—
Other movement (details here)	—	—	—	—	—
Closing balance – 30/6/16	11,795	3,619	2,470	52,426	70,310
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 14/15	—	—	—	—	—
YE 15/16	—	—	—	—	—

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Other Structures	Roads	Bridges	Footpaths	Total
Opening balance – 1/7/14	6,199	260,878	43,201	6,708	316,986
Adoption of AASB 13	–	–	–	–	–
Transfers from/(to) level 1 FV hierarchy ^{27 4(b)}	–	–	–	–	–
Transfers from/(to) level 2 FV hierarchy ^{27 4(b)}	–	–	–	–	–
Transfers from/(to) another asset class	–	–	–	–	–
Purchases (GBV)	855	6,546	–	294	7,695
Disposals (WDV)	–	(364)	–	(19)	(383)
Depreciation and impairment	(256)	(3,429)	(601)	(685)	(4,971)
FV gains – other comprehensive income	–	–	–	–	–
FV gains – Income Statement ¹	–	–	–	–	–
Work in Progress Transfers	651	7,552	1,212	3,494	12,909
Revaluation Increments	–	(12,863)	–	–	(12,863)
Closing balance – 30/6/15	7,449	258,320	43,812	9,792	319,373
Adoption of AASB 13	–	–	–	–	–
Transfers from/(to) level 1 FV hierarchy ^{27 4(b)}	–	–	–	–	–
Transfers from/(to) level 2 FV hierarchy ^{27 4(b)}	–	–	–	–	–
Transfers from/(to) another asset class	–	–	–	–	–
Purchases (GBV)	312	4,124	–	930	5,366
Disposals (WDV)	–	(138)	–	–	(138)
Depreciation and impairment	(283)	(3,522)	(605)	(281)	(4,691)
FV gains – other comprehensive income	–	–	–	–	–
FV gains – Income Statement ¹	–	–	–	–	–
Work in Progress Transfer	12	12,291	–	–	12,303
Revaluation Increment	(1,192)	–	–	–	(1,192)
Closing balance – 30/6/16	6,298	271,076	43,207	10,441	331,021
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 14/15	–	–	–	–	–
YE 15/16	–	–	–	–	–

Muswellbrook Shire Council
Notes to the Financial Statements
for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Stormwater Drainage	Water Supply Network	Sewerage Network	Other Minor Classes	Total
Opening balance – 1/7/14	44,214	47,619	45,502	4,507	141,842
Adoption of AASB 13	—	—	—	—	—
Transfers from/(to) level 1 FV hierarchy ^{27 4(b)}	—	—	—	—	—
Transfers from/(to) level 2 FV hierarchy ^{27 4(b)}	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	183	1,654	1,499	182	3,518
Disposals (WDV)	(2)	—	—	—	(2)
Depreciation and impairment	(1,253)	(1,408)	(1,157)	(113)	(3,931)
FV gains – other comprehensive income	—	—	—	—	—
FV gains – Income Statement ¹	—	—	—	—	—
Work in Progress Transfers	(4,566)	216	4,157	—	(193)
Revaluation Increments	—	—	—	—	—
Closing balance – 30/6/15	38,576	48,081	50,001	4,576	141,234
Adoption of AASB 13	—	—	—	—	—
Transfers from/(to) level 1 FV hierarchy ^{27 4(b)}	—	—	—	—	—
Transfers from/(to) level 2 FV hierarchy ^{27 4(b)}	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	123	1,367	1,590	122	3,202
Disposals (WDV)	—	—	—	—	—
Depreciation and impairment	(593)	(1,438)	(1,196)	(125)	(3,352)
FV gains – other comprehensive income	—	—	—	—	—
FV gains – Income Statement ¹	—	—	—	—	—
Work in Progress Transfer	178	73	2,177	—	2,428
Revaluation Increment	—	740	816	—	1,556
Closing balance – 30/6/16	38,284	48,823	53,388	4,573	145,068
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 14/15	—	—	—	—	—
YE 15/16	—	—	—	—	—

Muswellbrook Shire Council

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

Note 27. Fair value measurement (continued)

\$ '000

(5). Highest and best use

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

Muswellbrook Shire Council
Notes to the Financial Statements
for the year ended 30 June 2016

Note 28. Financial review (continued)

\$ '000

Key financial figures of Council over the past 5 years (consolidated)

Financial performance figures	2016	2015	2014	2013	2012
Inflows:					
Rates and annual charges revenue	18,420	17,715	17,120	16,111	15,289
User charges revenue	11,495	10,647	11,888	10,374	8,474
Interest and investment revenue (losses)	2,586	2,340	2,909	2,857	2,432
Grants income – operating and capital	18,089	21,016	6,430	6,639	7,195
Total income from continuing operations	58,731	59,909	50,573	55,482	44,082
Sale proceeds from I,PP&E	339	167	759	3,184	1,655
New loan borrowings and advances	13,500	5,350	5,700	–	–
Outflows:					
Employee benefits and on-cost expenses	12,876	12,798	12,788	12,792	11,493
Borrowing costs	973	919	886	809	823
Materials and contracts expenses	12,542	8,897	8,804	7,633	7,749
Total expenses from continuing operations	43,925	39,949	38,308	36,546	34,453
Total cash purchases of I,PP&E	25,288	26,369	25,571	14,194	15,732
Total loan repayments (incl. finance leases)	2,776	1,616	744	591	564
Operating surplus/(deficit) (excl. capital income)	(832)	(2,616)	(619)	3,005	(1,108)
Financial position figures	2016	2015	2014	2013	2012
Current assets	21,841	24,062	18,586	22,429	22,401
Current liabilities	9,701	11,202	8,829	6,087	6,098
Net current assets	12,140	12,860	9,757	16,342	16,303
Available working capital (Unrestricted net current assets)	4,238	2,625	4,235	2,235	2,726
Cash and investments – unrestricted	194	1,294	45	42	791
Cash and investments – internal restrictions	12,399	16,362	8,917	14,212	11,763
Cash and investments – total	50,654	55,408	46,603	51,006	43,964
Total borrowings outstanding (Loans, advances and finance leases)	27,380	16,600	12,802	7,776	8,290
Total value of I,PP&E (excl. land and earthworks)	771,271	745,286	759,226	630,464	577,699
Total accumulated depreciation	222,327	212,967	235,384	220,825	212,106
Indicative remaining useful life (as a % of GBV)	71%	71%	69%	65%	63%

Source: published audited financial statements of Council (current year and prior year)

Muswellbrook Shire Council

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

Note 29. Council information and contact details

Principal place of business:

157 Maitland St
MUSWELLBROOK NSW 2333

Contact details
Mailing address:

PO Box 122
MUSWELLBROOK NSW 2333

Opening hours:

9 am to 4:30 pm Monday to Friday

Telephone: 02 6547 3700

Facsimile: 02 6549 3701

Internet: www.muswellbrook.nsw.gov.au

Email: council@muswellbrook.nsw.gov.au

Officers
GENERAL MANAGER

Mr. S. McDonald

RESPONSIBLE ACCOUNTING OFFICER

Mr G. O'Leary

PUBLIC OFFICER

Mr P. Veneris

AUDITORS

Hill Rogers
GPO Box 7066
SYDNEY NSW 2001

Elected members
MAYOR

Cr. M. Rush

COUNCILLORS

Cr. R.Scholes
Cr. G.McNeil
Cr. B. Woodruff
Cr. S. Ward
Cr. J. Risby
Cr. M. Green
Cr. J. Ledlin
Cr. J. Foy
Cr. S. Bailey
Cr. S. Reynolds
Cr. M. Bowditch

Other information

ABN: 86 864 180 944



MUSWELLBROOK SHIRE COUNCIL

GENERAL PURPOSE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying general purpose financial statements of Muswellbrook Shire Council, which comprises the Statement of Financial Position as at 30 June 2016, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Statement by Councillors and Management. The financial statements include the consolidated financial statements of the economic entity and the entities it controlled at year end or from time to time during the year.

Responsibility of Council 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) and the Local Government Act 1993. 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. 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. Our audit responsibility does not extend to the original budget information disclosed in the Income Statement, Statement of Cash Flows, and Note 2(a) or the budget variation explanations disclosed in Note 16. Accordingly, no opinion is expressed on these matters.

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 entity'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. Our audit did not involve an analysis of the prudence of business decisions made by Council or management.



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.

Auditor's Opinion

In our opinion,

- (a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 part 3 Division 2; and
- (b) the financial statements:
 - (i) have been presented in accordance with the requirements of this Division;
 - (ii) are consistent with the Council's accounting records;
 - (iii) present fairly the Council's financial position, the results of its operations and its cash flows; and
 - (iv) are in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia.
- (c) all information relevant to the conduct of the audit has been obtained; and
- (d) there are no material deficiencies in the accounting records or financial statements that we have become aware of during the course of the audit.

HILL ROGERS



BRETT HANGER

Partner

Dated at Sydney this 27th day of October 2016



27 October 2016

The Mayor
Muswellbrook Shire Council
PO Box 122
MUSWELLBROOK NSW 2333

Mayor,

Audit Report - Year Ended 30 June 2016

We are pleased to advise completion of the audit of Council's books and records for the year ended 30 June 2016 and that all information required by us was readily available. We have signed our reports as required under Section 417(1) of the Local Government Act, 1993 and the Local Government Code of Accounting Practice and Financial Reporting to the General and Special Purpose Financial Statements.

Our audit has been conducted in accordance with Australian Auditing Standards so as to express an opinion on both the General and Special Purpose Financial Statements of the Council. We have ensured that the financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and the Local Government Code of Accounting Practice and Financial Reporting.

This report on the conduct of the audit is also issued under Section 417(1) and we now offer the following comments on the financial statements and the audit;

1. RESULTS FOR THE YEAR

1.1 *Operating Result*

The operating result for the year was a surplus of \$14.806 million compared with \$19.960 million previous year.

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The following table sets out the results for the year and the extent (%) that each category of revenue and expenses contributed to the total.

	2016	% of Total	2015	% of Total	Increase (Decrease)
	\$000		\$000		\$000
Revenues before capital items					
Rates & annual charges	18,420	43%	17,715	47%	705
User charges, fees & other revenues	13,064	30%	12,069	32%	995
Grants & contributions provided for operating purposes	9,023	21%	5,209	14%	3,814
Interest & investment revenue	2,586	6%	2,340	6%	246
	43,093	100%	37,333	100%	5,760
Expenses					
Employee benefits & costs	12,876	29%	12,798	32%	78
Materials, contracts & other expenses	19,602	45%	15,401	39%	4,201
Depreciation, amortisation & impairment	10,474	24%	10,831	27%	(357)
Borrowing costs	973	2%	919	2%	54
	43,925	100%	39,949	100%	3,976
Surplus (Deficit) before capital items	(832)		(2,616)		1,784
Grants & contributions provided for capital purposes	15,638		22,576		(6,938)
Net Surplus (Deficit) for the year	14,806		19,960		(5,154)
Performance Measures	2016		2015		
Operating Performance	2.62%		-3.09%		
Own Source Operating Revenue	58.01%		53.60%		

The above table shows an overall decrease of \$5.154 million from the previous year. The decrease can be attributed to a decrease of \$6.938 million in capital grants and contributions received; which included the upgrade of Thomas Mitchell Drive and various other State funded road projects in the previous year.

Operating Performance measures the ability to contain operating expenditure within operating revenue excluding capital amounts. For 2016, this indicator was 2.62% and was above the benchmark of 0%.

Own Source Operating Revenue measures the degree of reliance on external funding sources such as grants and contributions. For 2016, this indicator was 58.01% and was below the benchmark of 60%.

1.2 Funding Result

As the operating result only accounts for operating income and expenditure, in reviewing the overall financial performance of Council, it is useful to consider the total source of revenues and how they were applied during the year which is illustrated in the table below.

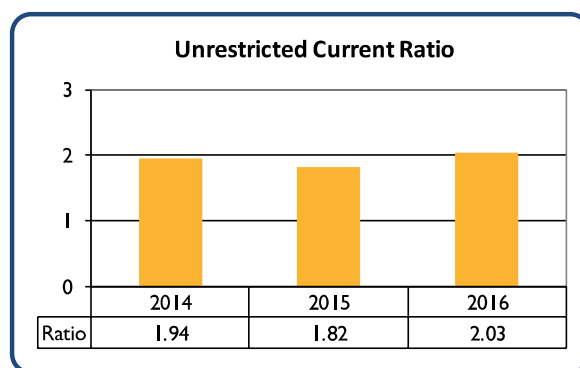
	2016	2015
	\$000	\$000
Funds were provided by:-		
Operating Result (as above)	14,806	19,960
Add back non funding items:-		
- Depreciation, amortisation & impairment	10,474	10,831
- Book value of non-current assets sold	335	785
- Fair value adjustment to interest free loan	56	64
- Non-cash contributions of assets acquired	(604)	(1,515)
- (Gain)/Loss of fair value to investment properties	1,967	875
- (Surplus)/Deficit in joint ventures	(2)	(30)
	27,032	30,970
New loan borrowings	13,500	5,350
Transfers from internal reserves (net)	3,680	0
Net Changes in current/non-current assets & liabilities	893	257
	45,105	36,577
Funds were applied to:-		
Purchase and construction of assets	(40,666)	(29,182)
Increase/Purchase in non-current investments	0	(703)
Principal repaid on loans	(2,776)	(1,616)
Transfers to externally restricted assets (net)	(154)	(1,424)
Transfers to internal reserves (net)	0	(5,323)
	(43,596)	(38,248)
Increase/(Decrease) in Available Working Capital	1,509	(1,671)

2. FINANCIAL POSITION

2.1 Unrestricted Current Ratio

The Unrestricted Current Ratio is a financial indicator specific to local government and represents Council's ability to meet its debts and obligations as they fall due.

After eliminating externally restricted assets and current liabilities not expected to be paid within the next 12 months net current assets amounted to \$5.305 million representing a factor of 2.03 to 1.



2.2 Available Working Capital – (Working Funds)

At the close of the year the Available Working Capital of Council stood at \$4.891 million as detailed below;

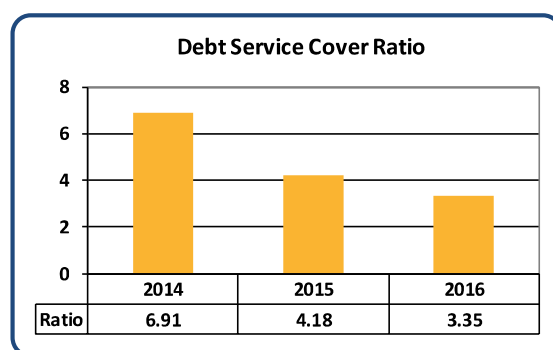
	2016 \$000	2015 \$000	Change \$000
Net Current Assets (Working Capital) as per Accounts	12,140	12,860	(720)
Add: Payables, provisions & inventories not expected to be realised in the next 12 months included above	1,250	789	461
Adjusted Net Current Assets	13,390	13,649	(259)
Add: Budgeted & expected to pay in the next 12 months			
- Borrowings	987	2,925	(1,938)
- Employees leave entitlements	871	676	195
- Deposits & retention moneys	505	520	(15)
Less: Externally restricted assets	(8,085)	(7,931)	(154)
Less: Internally restricted assets	(2,777)	(6,457)	3,680
Available Working Capital as at 30 June	4,891	3,382	1,509

The balance of Available Working Capital should be at a level to manage Council's day to day operations including the financing of hard core debtors, stores and to provide a buffer against unforeseen and unbudgeted expenditures. Taking into consideration the nature and level of the internally restricted assets (Reserves) set aside to fund future works and services and liabilities, Council's Available Working Capital at year end was sound.

2.3 Debt

After repaying principal and interest of \$3.410 million and taking up new borrowings of \$13.5 million, total debt as at 30 June 2016 stood at \$27.380 million (2015 - \$16.6 million).

The debt service cover ratio measures the availability of operating cash to service debt repayments. For 2016, the ratio indicated that operating results before capital, interest and depreciation covered payments required to service debt by a factor of 3.35 to 1.



2.4 Summary

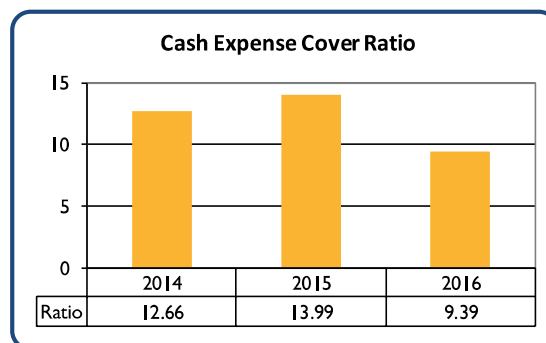
Council's overall financial position, when taking into account the above financial indicators was, in our opinion, sound.

3. CASH ASSETS

3.1 Cash Expense Cover Ratio

This liquidity ratio indicates the number of months of expenditure requirements that can be met with available cash and term deposit balances without the need for additional cash inflow.

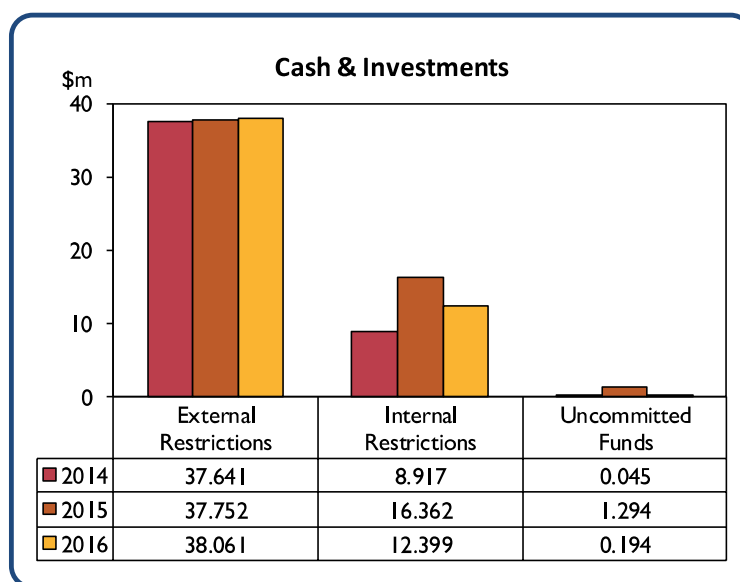
For 2016, this ratio stood at 9.39 months compared to the benchmark of 3.



3.2 Cash & Investment Securities

Cash and investments amounted \$50.654 million at 30 June 2016 as compared with \$55.408 million in 2015 and \$46.603 million in 2014.

The chart alongside summarises the purposes for which cash and investments securities were held.



Externally restricted cash and investments are restricted in their use by externally imposed requirements and consisted of unexpended developer contributions (\$21.449 million), specific purpose grants (\$1.824 million), domestic waste management charges (\$356,000) and water and sewerage funds (\$14.432 million).

Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect forward plans, identified programs of works, and are, in fact, Council's **"Reserves"**. These Reserves totalled \$12.399 million and their purposes are more fully disclosed in Note 6 of the financial statements.

Unrestricted cash and investments amounted to \$194,000, which is available to provide liquidity for day to day operations.

3.3 Cash Flows

The Statement of Cash Flows illustrates the flow of cash (highly liquid cash and investments) moving in and out of Council during the year and reveals that cash decreased by \$6.977 million to \$2.319 million at the close of the year.

In addition to operating activities which contributed net cash of \$24.615 million were the proceeds from the sale of investment securities (\$8.839 million), sale of assets (\$339,000) and the receipt of borrowings (\$13.5 million). Cash outflows other than operating activities were used to purchase investment securities (\$11 million), repay loans (\$2.776 million) and to purchase and construct assets (\$40.468 million).

4. RECEIVABLES

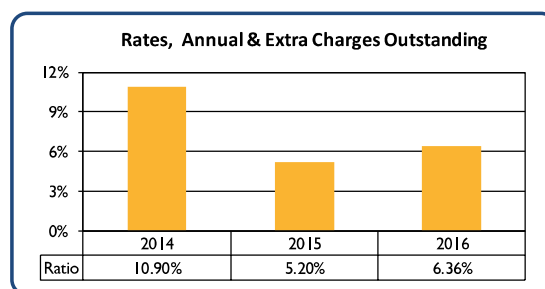
4.1 Rates & Annual Charges (excluding interest & extra charges)

Net rates and annual charges levied during the year totalled \$18.240 million and represented 31% of Council's total revenues.

Including arrears, the total rates and annual charges collectible was \$19.454 million of which \$18.207 million (94%) was collected.

4.2 Rates, Annual & Extra Charges

Arrears of rates, annual and extra charges stood at \$1.247 million at the end of the year and represented 6.36% of those receivables. The higher level of rates debtors in 2014 was largely related to outstanding mining rates.



4.3 Other Receivables

Receivables (other than rates annual & extra charges) totalled \$6.704 million and included amounts due from government departments (\$2.666 million), community enhancement contributions (\$748,000) and accrued interest on investments (\$709,000). Receivables considered to be uncertain of collection have been provided for as doubtful debts and this provision amounted to \$63,000

5. PAYABLES

5.1 Employees Leave Entitlements

Council's provision for its liability toward employees leave entitlements and associated on costs amounted to \$3.465 million. Internally restricted cash and investments of \$868,000 was held representing 25% of this liability and was, in our opinion, sufficient to meet unbudgeted and unanticipated retirements.

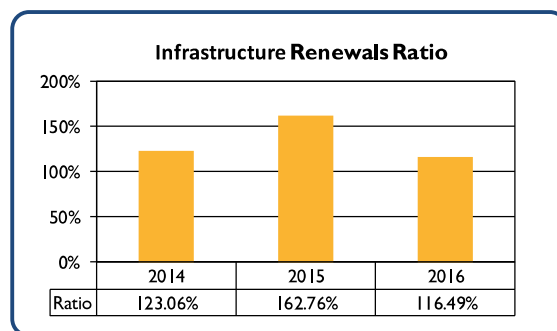
5.2 Deposits, Retentions & Bonds

Deposits, retentions and bonds held at year end amounted to \$675,000 and were 91% funded by internally restricted cash and investments.

6. INFRASTRUCTURE RENEWALS

The Infrastructure Renewals Ratio measures the rate at which these assets are renewed against the rate at which they are depreciating.

Special Schedule No. 7 discloses that asset renewals for 2016 represented 116% of the depreciation charges for these assets. An industry benchmark is considered to be 100%, measured annually over the long term.



7. REVALUATION OF ASSETS

Council's infrastructure, property, plant and equipment are required to be carried at fair value with revaluations of each asset class to be performed at least every five years.

During the year, water and sewerage asset values were indexed, and community land, land improvements and other structures were revalued. This resulted in a net increase of \$2.33 million that was credited directly to Equity. Notes 1(j) and 9 of the financial statements provide further details.

8. MANAGEMENT LETTER

An audit management letter addressing the findings from our interim audit was issued on 11 July 2016 and included our recommendations on possible ways to strengthen and/or improve procedures.

9. CONCLUSION

We wish to record our appreciation to your General Manager and his staff for their ready co-operation and the courtesies extended to us during the conduct of the audit.

Yours faithfully,
HILL ROGERS

BRETT HANGER
Partner

Muswellbrook Shire Council
**Special Purpose
Financial Statements**

for year ended 30 June 2016



**muswellbrook
shire council**

Muswellbrook Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents	Page
1. Statement by Councillors and Management	2
2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	5
Statement of Financial Position – Water Supply Business Activity	6
Statement of Financial Position – Sewerage Business Activity	7
Statement of Financial Position – Other Business Activities	8
3. Notes to the Special Purpose Financial Statements	9-17
4. Auditor's Report	18-19

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).
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