

Lockhart Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017



Lockhart Shire Council

General Purpose Financial Statements

for the year ended 30 June 2017

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Overview

- (i) These financial statements are General Purpose Financial Statements and cover the operations for Lockhart Shire Council.
- (ii) Lockhart Shire Council is a body politic of NSW, Australia – being constituted as a local government area by proclamation and is duly empowered by the *Local Government Act 1993* (LGA).

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

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

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

- (iii) All figures presented in these financial statements are presented in Australian currency.
- (iv) These financial statements were authorised for issue by the Council on 20 October 2017. Council has the power to amend and reissue these financial statements.

Lockhart Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

Understanding Council's financial statements

Introduction

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

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2017.

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

About the Councillor/Management Statement

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

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

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

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

Council's annual financial statements are required to be audited by the Auditor-General. In NSW the auditor provides 2 audit reports:

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

Who uses the financial statements?

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

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

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

Lockhart Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 16 October 2017.



Clr Rodger Schirmer
Mayor



Clr Greg Verdon
Councillor



Peter Veneris
General Manager



Craig Fletcher
Responsible Accounting Officer

Lockhart Shire Council

Income Statement

for the year ended 30 June 2017

Budget ¹ 2017	\$ '000	Notes	Actual 2017	Actual 2016
Income from continuing operations				
Revenue:				
3,191	Rates and annual charges	3a	3,145	3,056
297	User charges and fees	3b	396	308
240	Interest and investment revenue	3c	194	238
178	Other revenues	3d	290	238
6,723	Grants and contributions provided for operating purposes	3e,f	13,184	8,602
1,035	Grants and contributions provided for capital purposes	3e,f	41	–
Other income:				
–	Net gains from the disposal of assets	5	69	137
–	Net share of interests in joint ventures and associates using the equity method	19	–	18
11,664	Total income from continuing operations		17,319	12,597
Expenses from continuing operations				
2,589	Employee benefits and on-costs	4a	2,818	3,287
65	Borrowing costs	4b	65	67
2,270	Materials and contracts	4c	3,168	1,835
2,848	Depreciation and amortisation	4d	2,912	2,917
–	Impairment	4d	–	–
1,110	Other expenses	4e	1,264	1,240
–	Net share of interests in joint ventures and associates using the equity method	19	4	–
8,882	Total expenses from continuing operations		10,231	9,346
2,782	Operating result from continuing operations		7,088	3,251
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
2,782	Net operating result for the year		7,088	3,251
2,782	Net operating result attributable to Council		7,088	3,251
–	Net operating result attributable to non-controlling interests		–	–
1,747	Net operating result for the year before grants and contributions provided for capital purposes		7,047	3,251

¹ Original budget as approved by Council – refer Note 16

Lockhart Shire Council

Statement of Comprehensive Income
for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
Net operating result for the year (as per Income Statement)		7,088	3,251
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	(2,277)	16,587
Total items which will not be reclassified subsequently to the operating result		(2,277)	16,587
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		(2,277)	16,587
Total comprehensive income for the year		4,811	19,838
Total comprehensive income attributable to Council		4,811	19,838
Total comprehensive income attributable to non-controlling interests		–	–

Lockhart Shire Council

Statement of Financial Position

as at 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
ASSETS			
Current assets			
Cash and cash equivalents	6a	7,677	7,715
Investments	6b	–	–
Receivables	7	2,609	239
Inventories	8	1,823	1,833
Other	8	9	6
Non-current assets classified as 'held for sale'	22	–	–
Total current assets		12,118	9,793
Non-current assets			
Investments	6b	–	–
Receivables	7	42	81
Inventories	8	355	472
Infrastructure, property, plant and equipment	9	218,620	215,652
Investments accounted for using the equity method	19	139	143
Investment property	14	–	–
Intangible assets	25	–	–
Total non-current assets		219,156	216,348
TOTAL ASSETS		231,274	226,141
LIABILITIES			
Current liabilities			
Payables	10	767	417
Income received in advance	10	13	13
Borrowings	10	36	34
Provisions	10	871	805
Total current liabilities		1,687	1,269
Non-current liabilities			
Payables	10	2	–
Borrowings	10	785	821
Provisions	10	55	117
Total non-current liabilities		842	938
TOTAL LIABILITIES		2,529	2,207
Net assets		228,745	223,934
EQUITY			
Retained earnings	20	205,995	198,907
Revaluation reserves	20	22,750	25,027
Other reserves	20	–	–
Council equity interest		228,745	223,934
Non-controlling equity interests		–	–
Total equity		228,745	223,934

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

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Lockhart Shire Council

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

\$ '000	Notes	2017					2016						
		Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity	Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity
Opening balance (as per last year's audited accounts)		198,907	25,027	–	223,934	–	223,934	194,969	8,440	–	203,409	–	203,409
a. Correction of prior period errors	20 (c)	–	–	–	–	–	–	687	–	–	687	–	687
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–	–	–	–	–	–	–	–
Revised opening balance		198,907	25,027	–	223,934	–	223,934	195,656	8,440	–	204,096	–	204,096
c. Net operating result for the year		7,088	–	–	7,088	–	7,088	3,251	–	–	3,251	–	3,251
d. Other comprehensive income													
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	(2,277)	–	(2,277)	–	(2,277)	–	16,587	–	16,587	–	16,587
Other comprehensive income		–	(2,277)	–	(2,277)	–	(2,277)	–	16,587	–	16,587	–	16,587
Total comprehensive income (c&d)		7,088	(2,277)	–	4,811	–	4,811	3,251	16,587	–	19,838	–	19,838
e. Distributions to/(contributions from) non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–
f. Transfers between equity		–	–	–	–	–	–	–	–	–	–	–	–
Equity – balance at end of the reporting period		205,995	22,750	–	228,745	–	228,745	198,907	25,027	–	223,934	–	223,934

Lockhart Shire Council

Statement of Cash Flows

for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
Cash flows from operating activities				
Receipts:				
3,191	Rates and annual charges		3,123	3,036
297	User charges and fees		427	414
240	Investment and interest revenue received		210	230
7,758	Grants and contributions		10,921	8,612
–	Bonds, deposits and retention amounts received		5	–
179	Other		1,237	1,056
Payments:				
(3,479)	Employee benefits and on-costs		(2,826)	(3,154)
(1,380)	Materials and contracts		(3,834)	(2,479)
(65)	Borrowing costs		(65)	(67)
–	Bonds, deposits and retention amounts refunded		–	(5)
(1,110)	Other		(1,363)	(1,338)
5,631	Net cash provided (or used in) operating activities	11b	7,835	6,305
Cash flows from investing activities				
Receipts:				
–	Sale of real estate assets		358	60
279	Sale of infrastructure, property, plant and equipment		222	547
21	Deferred debtors receipts		39	–
Payments:				
(6,211)	Purchase of infrastructure, property, plant and equipment		(8,438)	(6,431)
–	Purchase of real estate assets		(20)	(211)
–	Deferred debtors and advances made		–	(62)
(5,911)	Net cash provided (or used in) investing activities		(7,839)	(6,097)
Cash flows from financing activities				
Receipts:				
Nil				
Payments:				
(34)	Repayment of borrowings and advances		(34)	(30)
(34)	Net cash flow provided (used in) financing activities		(34)	(30)
(314)	Net increase/(decrease) in cash and cash equivalents		(38)	178
7,715	Plus: cash and cash equivalents – beginning of year	11a	7,715	7,537
7,401	Cash and cash equivalents – end of the year	11a	7,677	7,715
Additional Information:				
	plus: Investments on hand – end of year	6b	–	–
Total cash, cash equivalents and investments			7,677	7,715

Please refer to Note 11 for additional cash flow information

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) New and amended standards adopted by Council

During the current year, Council adopted all of the new and revised Standards and Interpretations Issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

This included the first time application of AASB 124 Related Party Disclosures. As a result, Council has disclosed information about related parties and transactions with those related parties. This information is presented in Note 28.

The adoption of the new and revised Standards and Interpretations has not resulted in any material changes to Council's accounting policies, financial position, financial performance or cash flows.

(ii) Early adoption of standards

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

(iii) Historical cost convention

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

(iv) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

(i) Estimated fair values of infrastructure, property, plant and equipment,

Significant judgements in applying the Council's accounting policies

(i) Impairment of Receivables.

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

(b) Revenue recognition

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

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(i) Rates, annual charges, grants and contributions

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

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

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

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

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

(ii) User charges and fees

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

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

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

(iv) Interest

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

(v) Rent

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

(vi) Dividend income

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

(vii) Other income

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

(c) Principles of consolidation

(i) The Consolidated Fund

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

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

- General Purpose Operations Fund
- Combined Sewerage Fund

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

- Bidgeemia Hall Committee
- Lockhart & District Historical Society
- Lockhart Recreation Ground Committee
- Lockhart Showground & Racecourse Management Committee
- The Rock Recreation Ground Management Committee
- The Rock Hall Committee
- The Rock Showground Committee
- Milbrulong Hall Committee

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

- Tootool Recreation Reserve Committee
- Tourism & Economic Development Committee
- Osborne Recreation Ground Committee
- Pleasant Hill Recreation Ground Committee
- Pleasant Hills Hall Committee
- Yerong Creek Hall Committee
- Yerong Creek Recreation Ground Committee

The (i) total income and expenditure from continuing operations and (ii) net assets held by these excluded committees and operations is as follows:

Total income from continuing operations	\$276,000
Total expenditure from continuing operations	\$226,000
Total net assets held (i.e. equity)	\$207,000

Note:

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

(ii) The Trust Fund

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

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

(iii) County Councils

Council is a member of the **Riverina Water**, a body corporate established under the Local Government Act 1993 (NSW) to distribute water. Council is one of 4 constituent councils and neither controls nor significantly influences the County Council. Accordingly, the County Council has not been consolidated in the financial statements.

(iv) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

A list of controlled entities is contained in Note 19 to the financial statements.

Joint arrangements

Council has no interest in any joint arrangements.

Joint ventures/associates

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

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

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

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

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

(d) Leases

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

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

(e) Impairment of assets

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

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

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

(f) Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original

maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts.

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

(g) Inventories

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

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

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

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

(ii) Inventory held for distribution

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

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

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

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

(i) Investments and other financial assets

Classification

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

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

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

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

(ii) Loans and receivables

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

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

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

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

(iii) Held-to-maturity investments

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

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

Recognition and de-recognition

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

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

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

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

Subsequent measurement

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

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

Impairment

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

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

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

(i) Assets carried at amortised cost

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

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

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

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Investment Policy

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

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

Council amended its policy following revisions to the Ministerial Local Government Investment Order (the Order) arising from the Cole Inquiry recommendations.

(j) Fair value estimation – financial instruments

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

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

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

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

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

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

Externally valued:

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

Internally valued:

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

As approximated by depreciated historical cost:

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

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss.

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

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

Depreciation

Land is not depreciated.

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

Plant and Equipment

- Office Equipment	5-10 years
- Office Furniture	5-20 years
- Computer Equipment	3-7 years
- Vehicles	2-10 years
- Heavy Plant/Road Making equip.	5-20 years
- Other Plant and Equipment	5-20 years

Other Equipment

- Playground equipment	20-50 years
- Benches, seats etc	20-50 years

Buildings

- Buildings: Masonry	20-100 years
- Buildings: Other	20-100 years

Sewer Assets

- Reticulation pipes: PVC	40-60 years
- Reticulation pipes: Other	40-60 years
- Pumps and telemetry	80-150 years

Stormwater Assets

- Drains	80-100 years
- Culverts	50-75 years

Transportation Assets

- Sealed Roads: Surface	10-20 years
- Sealed Roads: Formation	Infinite
- Unsealed roads: Sub base	100 years
- Unsealed roads: Base	20 years
- Bridge: Concrete	70-100 years
- Bridge: Other	70-100 years
- Road Pavements	50-100 years
- Kerb, Gutter and Paths	60-100 years

Other Infrastructure Assets

- Bulk earthworks	Infinite
- Swimming Pools	50-60 years
- Other Open Space/ Recreational Assets	15-100 years
- Other Infrastructure	15-100 years

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

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

(l) Investment property

Council has no investment properties.

(m) Payables

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

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

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

(o) Borrowing costs

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

(p) Provisions

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

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

any one item included in the same class of obligations may be small.

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

(q) Employee benefits

(i) Short-term obligations

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

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

(ii) Other long-term employee benefit obligations

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

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

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

Defined Benefit Plans

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

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

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

Defined Contribution Plans

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

(r) Land under roads

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

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

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

(s) Self-insurance

Council has decided to self-insure for future flood damage risks.

Council also maintains cash and investments to meet expected future claims; these are detailed in Note 6(c).

(t) Intangible assets

Council has not classified any assets as intangible.

(u) Crown reserves

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

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

(v) Rural fire service assets

Under section 119 of the Rural Fire Services Act 1997 (NSW), "all firefighting 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 firefighting equipment has been purchased or constructed".

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(w) Goods and Services Tax (GST)

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

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

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

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

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

AASB 9 – Financial Instruments

Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value. Apart from Held-to-maturity term deposits, Council already values all other investments at fair value with the result that there will not be any financial impact for these developments.

The revisions also amend measurement rules for financial liabilities that the Council elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the Council's own credit risk are presented in other comprehensive income. Council does not have any liabilities that are

recorded on this basis and the new requirements will not have any financial impact.

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- The 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) of full lifetime;
- Expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A financial impact will only arise if any investments become subject to impairment.

Available-for-sale investments will be classified as fair value through other comprehensive income and will no longer be subject to impairment testing.

AASB 15 – Revenue from contracts with customers

AASB 15 will replace AASB 118 which covers contracts for good 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 Council 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 undertaking an assessment of the impact of AASB 15.

AASB 16 – Leases

AASB 16 Leases replaces AASB 117 Leases and some associated lease-related interpretations.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

AASB 16 introduces a single lease accounting model (for lessees) that will require all leases to be accounted for on the balance sheet (i.e. recognition of both a right-of-use asset and a corresponding lease) for all lease 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 on or after 1 January 2019.

Council is undertaking an 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 rather than operating activities.

(y) Rounding of amounts

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

(z) Comparative figures

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

(aa) Disclaimer

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current and non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2017	2017	2016	2017	2017	2016	2017	2017	2016	2017	2016	2017	2016
Governance	–	–	–	–	189	172	–	(189)	(172)	–	–	–	–
Administration	203	147	48	1,764	1,742	1,773	(1,561)	(1,595)	(1,725)	6	3	13,142	10,350
Public order and safety	118	158	122	232	294	291	(114)	(136)	(169)	157	119	528	516
Environment	1,141	1,078	1,397	1,472	1,335	1,726	(331)	(257)	(329)	504	895	489	474
Community services and education	135	141	84	174	198	110	(39)	(57)	(26)	48	20	–	–
Housing and community amenities	64	124	92	224	210	211	(160)	(86)	(119)	–	13	2,268	2,627
Sewerage services	504	450	443	443	467	471	61	(17)	(28)	11	11	10,888	9,113
Recreation and culture	44	239	139	811	736	881	(767)	(497)	(742)	114	74	4,809	4,928
Mining, manufacturing and construction	13	6	10	–	5	4	13	1	6	–	9	35	72
Transport and communication	3,350	6,890	4,086	3,511	4,838	3,418	(161)	2,052	668	5,579	2,587	196,454	195,114
Economic affairs	–	252	235	251	213	289	(251)	39	(54)	5	–	2,522	2,804
Total functions and activities	5,572	9,485	6,656	8,882	10,227	9,346	(3,310)	(742)	(2,690)	6,424	3,731	231,135	225,998
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	18	–	4	–	–	(4)	18	–	–	139	143
General purpose income ¹	6,092	7,834	5,923	–	–	–	6,092	7,834	5,923	5,499	3,592	–	–
Operating result from continuing operations	11,664	17,319	12,597	8,882	10,231	9,346	2,782	7,088	3,251	11,923	7,323	231,274	226,141

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

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

GOVERNANCE

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

ADMINISTRATION

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

PUBLIC ORDER AND SAFETY

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

ENVIRONMENT

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; town planning; building control; and, 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 out of school care service; child care; and other family and children services.

HOUSING AND COMMUNITY AMENITIES

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

SEWERAGE SERVICES

RECREATION AND CULTURE

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

MINING, MANUFACTURING AND CONSTRUCTION

Includes quarries and pits, mineral resources.

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; real estate development; and other business undertakings.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Rates and annual charges			
Ordinary rates			
Residential		315	303
Farmland		1,763	1,734
Business		97	93
Total ordinary rates		2,175	2,130
Special rates			
Bush fire		115	113
Total special rates		115	113
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		353	333
Sewerage services		411	393
Waste management services (non-domestic)		91	87
Total annual charges		855	813
TOTAL RATES AND ANNUAL CHARGES		3,145	3,056
Council has used 2013 year valuations provided by the NSW Valuer General in calculating its rates.			
(b) User charges and fees			
Specific user charges (per s.502 – specific 'actual use' charges)			
Sewerage services		7	7
Total user charges		7	7
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Planning and building regulation		25	16
Private works – section 67		41	102
Section 149 certificates (EPA Act)		6	8
Section 603 certificates		7	7
Tipping fees		31	18
Town planning		23	19
Total fees and charges – statutory/regulatory		133	170
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Caravan park		43	54
Cemeteries		71	57
Fire and emergency services levy (FESL) implementation		66	–
Quarry revenues		6	9
Rockoosh – out of school hours care service		38	10
Scrap metal sales – from tips		31	–
Other		1	1
Total fees and charges – other		256	131
TOTAL USER CHARGES AND FEES		396	308

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		12	12
– Interest earned on investments (interest and coupon payment income)		182	226
TOTAL INTEREST AND INVESTMENT REVENUE		194	238
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		12	12
General Council cash and investments		148	189
Restricted investments/funds – external:			
Development contributions			
– Section 94		5	5
Sewerage fund operations		29	32
Total interest and investment revenue recognised		194	238
(d) Other revenues			
Rental income – other council properties		118	100
Diesel rebate		68	57
Employee contribution to vehicle		6	5
Foodshop inspection		2	2
Garbage Bins Sales		3	3
Insurance policy rebates/dividend		26	23
Magnolia entry fees		–	10
RockOOSH Fees		38	11
Other		29	27
TOTAL OTHER REVENUE		290	238

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(e) Grants				
General purpose (untied)				
Financial assistance – general component	2,127	2,054	–	–
Financial assistance – local roads component	1,491	1,520	–	–
Advance financial assistance – general	1,100	–	–	–
Advance financial assistance – roads	764	–	–	–
Pensioners' rates subsidies – general component	17	18	–	–
Total general purpose	5,499	3,592	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Sewerage	11	11	–	–
– Domestic waste management	21	21	–	–
Back to Business Grant	5	–	–	–
Bushfire and emergency services	132	50	–	–
Department Veteran Affairs Grant	–	4	–	–
Employment and training programs	6	3	–	–
Environmental protection	–	267	–	–
Fire Protection – Hazard Reduction	25	25	–	–
Flood damage – RMS Nov 2016	1,669	–	–	–
Flood mitigation voluntary purchase	430	515	–	–
Heavy Vehicle Safety & Productivity Programme	1,548	–	–	–
Heritage and cultural	3	5	–	–
Heritage Fund Submission	5	7	–	–
Library	25	20	–	–
Local Lands Service – Galore Hill Grants	–	19	–	–
Lockhart Rec Ground Grant – Netball Courts	25	–	–	–
Lockhart Show Ground Grant – Poultry Shed	–	–	24	–
Milbrulong Hall Grant	–	–	17	–
Museum advisor	10	10	–	–
Museum – items above flood level	5	–	–	–
Noxious weeds	53	51	–	–
Partners in recovery grant	–	1	–	–
Pleasant Hills Hall Grant	–	30	–	–
Rockoosh Setup & Sustainability Grants	27	15	–	–
Street lighting	4	4	–	–
Transport (Roads to Recovery)	1,613	2,002	–	–
Transport (Fixing Country Roads)	749	666	–	–
Youth Activities	17	2	–	–
Walking Paths in Reserves Grant	–	3	–	–
Total specific purpose	6,383	3,731	41	–
Total grants	11,882	7,323	41	–
Grant revenue is attributable to:				
– Commonwealth funding	8,669	5,576	–	–
– State funding	3,213	1,747	41	–
	11,882	7,323	41	–

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 94A – fixed development consent levies	13	21	–	–
Total developer contributions	13	21	–	–
Other contributions:				
Bushfire services	–	44	–	–
Galore Hill trust	–	11	–	–
Heritage/cultural	87	–	–	–
Pedestrian access and mobility plan	–	26	–	–
RMS contributions (regional roads, block grant)	857	840	–	–
RMS regional roads supplementary	101	101	–	–
RMS Regional Roads Traffic Facilities	67	66	–	–
RMS RRRP grant	177	170	–	–
Total other contributions	1,289	1,258	–	–
Total contributions	1,302	1,279	–	–
TOTAL GRANTS AND CONTRIBUTIONS	13,184	8,602	41	–

\$ '000	Actual 2017	Actual 2016
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Unexpended at the close of the previous reporting period	294	337
Add: grants and contributions recognised in the current period but not yet spent:	45	41
Less: grants and contributions recognised in a previous reporting period now spent:	(29)	(84)
Net increase (decrease) in restricted assets during the period	16	(43)
Unexpended and held as restricted assets	310	294
Comprising:		
– Specific purpose unexpended grants	96	98
– Developer contributions	214	196
	310	294

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Employee benefits and on-costs			
Salaries and wages		3,078	2,630
Travel expenses		87	86
Employee leave entitlements (ELE)		405	555
Superannuation		322	330
Workers' compensation insurance		127	159
Fringe benefit tax (FBT)		41	43
Training costs (other than salaries and wages)		32	84
Protective clothing		15	18
Other		30	10
Total employee costs		4,137	3,915
Less: capitalised costs		(1,319)	(628)
TOTAL EMPLOYEE COSTS EXPENSED		2,818	3,287
Number of 'full-time equivalent' employees (FTE) at year end		51	49
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		65	67
Total interest bearing liability costs expensed		65	67
(ii) Other borrowing costs			
Nil			
TOTAL BORROWING COSTS EXPENSED		65	67
(c) Materials and contracts			
Raw materials and consumables		3,077	1,733
Contractor and consultancy costs		55	64
Auditors remuneration ⁽¹⁾		35	37
Legal expenses:			
– Legal expenses: other		1	1
TOTAL MATERIALS AND CONTRACTS		3,168	1,835
(continued on the next page...)			

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Materials and contracts (continued)			
1. Auditor remuneration			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Auditor-General		27	–
Remuneration for audit and other assurance services		27	–
Total Auditor-General remuneration		27	–
b. During the year, the following fees were incurred for services provided by the Council's other Auditors:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		8	19
Remuneration for audit and other assurance services		8	19
(ii) Taxation services			
– Tax compliance services		–	2
Remuneration for taxation services		–	2
(iii) Other non-assurance services			
– Economic Development Strategy		–	16
Remuneration for other services		–	16
Total remuneration of other Council's Auditors		8	37
Total Auditor remuneration		35	37
(d) Depreciation, amortisation and impairment			
Plant and equipment		473	482
Office equipment		30	33
Furniture and fittings		9	9
Infrastructure:			
– Buildings – non-specialised		24	25
– Buildings – specialised		207	202
– Other structures		8	57
– Roads		1,846	1,821
– Bridges		36	37
– Footpaths		34	33
– Stormwater drainage		6	6
– Sewerage network		170	156
– Swimming pools		64	50
– Other open space/recreational assets		1	3
Other assets			
– Other		4	3
Total depreciation and amortisation costs		2,912	2,917
Impairment			
Nil			
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		2,912	2,917

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(e) Other expenses			
Advertising		10	8
Bank charges		14	14
Cleaning		28	20
Computer software and maintenance		109	73
Contributions/levies to other levels of government			
– Emergency services levy		6	6
– NSW fire brigade levy		17	16
– NSW rural fire service levy		157	170
– Contribution – noxious weeds		3	3
– Contribution – REROC		14	13
– Contribution – Riverina Regional Library		106	102
– Contribution – sec 355 committees		52	53
– Contribution – sec 356		56	59
– Other contributions/levies		4	4
Councillor expenses – mayoral fee		24	24
Councillor expenses – councillors' fees		75	70
Councillors' expenses (incl. mayor) – other (excluding fees above)		22	24
DCP, S94 and S64 plans updates		11	–
Election expenses		20	1
Electricity and heating		75	70
Fair value decrements – I,PP&E	9(a)	–	26
Fire control expenses		2	1
Insurance		120	120
Kerbside recycling		79	85
Newsletter		16	12
Office supplies and stationery		22	19
Postage		13	14
Printing and photocopying		44	46
Subscriptions and memberships		37	35
Telephone and communications		45	47
Tourism expenses (excluding employee costs)		39	43
Valuation fees		25	24
Other		19	38
<u>TOTAL OTHER EXPENSES</u>		<u>1,264</u>	<u>1,240</u>

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2017	Actual 2016
Property (excl. investment property)			
Proceeds from disposal – property		–	161
Less: carrying amount of property assets sold/written off		–	(208)
Net gain/(loss) on disposal		–	(47)
Plant and equipment			
Proceeds from disposal – plant and equipment		210	386
Less: carrying amount of plant and equipment assets sold/written off		(269)	(250)
Net gain/(loss) on disposal		(59)	136
Infrastructure			
Proceeds from disposal – infrastructure		12	–
Less: carrying amount of infrastructure assets sold/written off		(12)	–
Net gain/(loss) on disposal		–	–
Real estate assets held for sale			
Proceeds from disposal – real estate assets		358	60
Less: carrying amount of real estate assets sold/written off		(230)	(12)
Net gain/(loss) on disposal		128	48
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		69	137

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	2017	2017	2016	2016
		Actual Current	Actual Non-current	Actual Current	Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		927	–	465	–
Cash-equivalent assets ¹					
– Deposits at call		700	–	–	–
– Short-term deposits		6,050	–	7,250	–
Total cash and cash equivalents		7,677	–	7,715	–
Investments (Note 6b)					
Nil					
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		7,677	–	7,715	–

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'

	7,677	–	7,715	–
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Investments

Nil

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

\$ '000	2017	2017	2016	2016
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	7,677	–	7,715	–
attributable to:				
External restrictions (refer below)	2,385	–	2,726	–
Internal restrictions (refer below)	4,507	–	2,746	–
Unrestricted	785	–	2,243	–
	7,677	–	7,715	–

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

2017 \$ '000		Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Details of restrictions					
External restrictions – included in liabilities					
Nil					
External restrictions – other					
Developer contributions – general	(D)	190	18	–	208
Developer contributions – sewer fund	(D)	6	–	–	6
Specific purpose unexpended grants	(F)	98	–	(2)	96
Sewerage services	(G)	2,432	–	(357)	2,075
External restrictions – other		2,726	18	(359)	2,385
Total external restrictions		2,726	18	(359)	2,385
Internal restrictions					
Plant and vehicle replacement		122	–	(109)	13
Employees leave entitlement		775	–	–	775
Computer software upgrade		40	–	–	40
Disaster reserve		123	11	–	134
Economic development		75	–	–	75
Flood damages reserve		229	–	–	229
Future election expenses		18	6	(24)	–
Future infrastructure improvements/replacement		837	–	–	837
Future landfill land acquisition		20	2	–	22
Galore Hill reserve		16	–	–	16
Gravel pit reserve		207	6	–	213
Lockhart Recreation Ground		10	–	–	10
Lockhart swimming pool		18	–	–	18
Magolia lodge admin fee		52	–	–	52
Public halls		7	5	–	12
Unallocated funds		169	–	–	169
Youth flats		28	–	–	28
Advance Financial Assistance – General		–	1,100	–	1,100
Advance Financial assistance – Roads		–	764	–	764
Total internal restrictions		2,746	1,894	(133)	4,507
TOTAL RESTRICTIONS		5,472	1,912	(492)	6,892

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

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 7. Receivables

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		147	–	125	–
User charges and fees		17	–	22	–
Accrued revenues					
– Interest on investments		9	–	25	–
Deferred debtors		39	42	39	81
Government grants and subsidies		2,316	–	–	–
Other debtors		81	–	28	–
Total		2,609	42	239	81
Less: provision for impairment					
Nil					
TOTAL NET RECEIVABLES		2,609	42	239	81
Externally restricted receivables					
Sewerage services					
– Rates and availability charges		36	–	30	–
– Other		2	–	3	–
Total external restrictions		38	–	33	–
Internally restricted receivables					
Nil					
Unrestricted receivables		2,571	42	206	81
TOTAL NET RECEIVABLES		2,609	42	239	81

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 8.0% (2016 8.50%).
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 8. Inventories and other assets

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Real estate for resale (refer below)		1,563	355	1,656	472
Stores and materials		260	–	177	–
Total inventories at cost		1,823	355	1,833	472
TOTAL INVENTORIES		1,823	355	1,833	472
(b) Other assets					
Prepayments		9	–	6	–
TOTAL OTHER ASSETS		9	–	6	–

Externally restricted assets

There are no restrictions applicable to the above assets.

Other disclosures**(a) Details for real estate development**

Residential		935	355	1,020	472
Industrial/commercial		628	–	636	–
Total real estate for resale		1,563	355	1,656	472

(Valued at the lower of cost and net realisable value)

Represented by:

Acquisition costs		1,344	355	1,457	472
Development costs		219	–	199	–
Total real estate for resale		1,563	355	1,656	472

Movements:

Real estate assets at beginning of the year		1,656	472	1,617	312
– Purchases and other costs		20	–	51	160
– WDV of sales (expense)	5	(230)	–	(12)	–
– Transfer between current/non-current		117	(117)	–	–
Total real estate for resale		1,563	355	1,656	472

(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;

Real estate for resale				2017	2016
				1,571	1,605
				1,571	1,605

(c) Inventory write downs

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 9a. Infrastructure, property, plant and equipment

Asset class	as at 30/6/2016			Asset movements during the reporting period						as at 30/6/2017		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000												
Capital work in progress	30	–	30	–	146	–	–	–	–	176	–	176
Plant and equipment	5,720	2,279	3,441	–	1,019	(269)	(473)	–	–	5,913	2,195	3,718
Office equipment	364	250	114	–	15	–	(30)	–	–	379	280	99
Furniture and fittings	147	77	70	–	5	–	(9)	–	–	152	86	66
Land:												
– Operational land	1,286	–	1,286	–	43	–	–	(298)	–	1,031	–	1,031
– Community land	2,521	–	2,521	–	–	–	–	(614)	–	1,907	–	1,907
Infrastructure:												
– Buildings – non-specialised	2,810	964	1,846	–	3	–	(24)	–	–	2,813	988	1,825
– Buildings – specialised	10,799	4,160	6,639	–	364	(2)	(207)	–	–	11,149	4,355	6,794
– Other structures	389	126	263	–	14	–	(8)	–	–	403	134	269
– Roads	209,301	28,682	180,619	2,561	3,768	–	(1,846)	(3,278)	–	211,089	29,265	181,824
– Bridges	3,653	1,303	2,350	–	–	–	(36)	–	–	3,653	1,339	2,314
– Footpaths	1,697	698	999	–	–	–	(34)	–	39	1,739	735	1,004
– Bulk earthworks (non-depreciable)	7,198	–	7,198	–	–	–	–	–	–	7,198	–	7,198
– Stormwater drainage	592	80	512	–	–	–	(6)	–	7	600	87	513
– Sewerage network	12,660	6,018	6,642	–	430	–	(170)	–	1,867	14,454	5,685	8,769
– Swimming pools	2,350	2,119	231	–	30	(10)	(64)	–	–	2,369	2,182	187
– Other open space/recreational assets	2,285	1,474	811	–	37	–	(1)	–	–	2,323	1,476	847
Other assets:												
– Other	102	22	80	–	3	–	(4)	–	–	106	27	79
<u>TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.</u>	263,904	48,252	215,652	2,561	5,877	(281)	(2,912)	(4,190)	1,913	267,454	48,834	218,620

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.

Lockhart Shire Council

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

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

\$ '000 Class of asset	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Sewerage services						
WIP	103	–	103	–	–	–
Infrastructure	14,454	5,685	8,769	12,660	6,019	6,641
Total sewerage services	14,557	5,685	8,872	12,660	6,019	6,641
TOTAL RESTRICTED I,PP&E	14,557	5,685	8,872	12,660	6,019	6,641

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		762	2	417	–
Security bonds, deposits and retentions		5	–	–	–
Total payables		767	2	417	–
Income received in advance					
Payments received in advance		13	–	13	–
Total income received in advance		13	–	13	–
Borrowings					
Loans – secured ¹		36	785	34	821
Total borrowings		36	785	34	821
Provisions					
Employee benefits:					
Annual leave		346	–	308	–
Long service leave		475	53	450	112
ELE on-costs		50	2	47	5
Total provisions		871	55	805	117
<u>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</u>		<u>1,687</u>	<u>842</u>	<u>1,269</u>	<u>938</u>
(i) Liabilities relating to restricted assets					
		2017		2016	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Sewer		5	2	5	2
Liabilities relating to externally restricted assets		5	2	5	2
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		5	2	5	2
Total liabilities relating to unrestricted assets		1,682	840	1,264	936
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		<u>1,687</u>	<u>842</u>	<u>1,269</u>	<u>938</u>

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.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Actual 2017	Actual 2016
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(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	669	546
	669	546

Note 10b. Description of and movements in provisions

Class of provision	2016		2017			
	Opening balance as at 1/7/16	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	Closing balance as at 30/6/17
Annual leave	308	178	(140)	–	–	346
Sick leave	–	89	(89)	–	–	–
Long service leave	562	(22)	(12)	–	–	528
ELE on-costs	52	–	–	–	–	52
TOTAL	922	245	(241)	–	–	926

- a. Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	7,677	7,715
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		7,677	7,715

**(b) Reconciliation of net operating result
to cash provided from operating activities**

Net operating result from Income Statement		7,088	3,251
Adjust for non-cash items:			
Depreciation and amortisation		2,912	2,917
Net losses/(gains) on disposal of assets		(69)	(137)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Write offs relating to the fair valuation of I,PP&E		–	26
Share of net (profits) or losses of associates/joint ventures		4	(18)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(2,370)	101
Decrease/(increase) in inventories		(83)	(40)
Decrease/(increase) in other assets		(3)	(3)
Increase/(decrease) in payables		347	66
Increase/(decrease) in other liabilities		5	(5)
Increase/(decrease) in employee leave entitlements		4	147
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		7,835	6,305

(c) Non-cash investing and financing activities

Nil

(d) Financing arrangements**(i) Unrestricted access was available at balance date to the
following lines of credit:**

Credit cards/purchase cards		15	15
Total financing arrangements		15	15

(ii) Secured loan liabilities

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2017	Actual 2016
(a) Capital commitments (exclusive of GST)			
Nil			
(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		45	45
Later than one year and not later than 5 years		90	135
Later than 5 years		–	–
Total non-cancellable operating lease commitments		135	180

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

Office rentals

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

Conditions relating to operating leases:

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

(d) Investment property commitments

Nil

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Amounts 2017	Indicator 2017	Prior periods		Benchmark
			2016	2015	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>6,982</u>	40.57%	25.09%	10.99%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>17,209</u>				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>4,025</u>	23.33%	30.86%	39.00%	>60.00%
Total continuing operating revenue ⁽¹⁾	<u>17,250</u>				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>8,124</u>	4.83x	7.56x	10.44x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>1,682</u>				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>9,959</u>	100.60x	62.95x	39.60x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>99</u>				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>147</u>	4.48%	3.92%	3.95%	<10% Rural
Rates, annual and extra charges collectible	<u>3,282</u>				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>7,677</u>	11.34 mths	13.1 mths	13.7 mths	> 3 mths
Payments from cash flow of operating and financing activities	<u>677</u>				

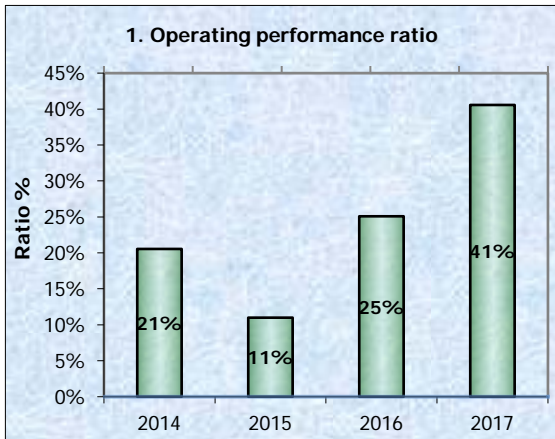
Notes

- (1) Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.
- (2) Refer Notes 6-8 inclusive.
Also excludes any real estate and land for resale not expected to be sold in the next 12 months.
- (3) Refer to Note 10(a).
- (4) Refer to Note 10(a)(ii) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

Lockhart Shire Council

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

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



Purpose of operating performance ratio

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

Commentary on 2016/17 result

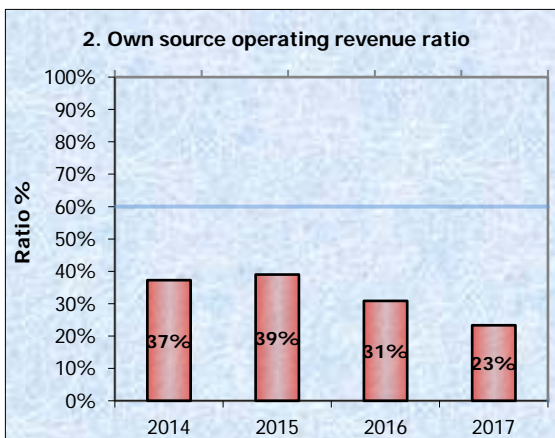
2016/17 ratio 40.57%

The increase in operating performance is due mainly to an advance payment in FAGs of \$1.9M and other one-off grants totalling \$4.5M being recognised as income.

Benchmark: ——— Minimum $\geq 0.00\%$

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of own source operating revenue ratio

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

Commentary on 2016/17 result

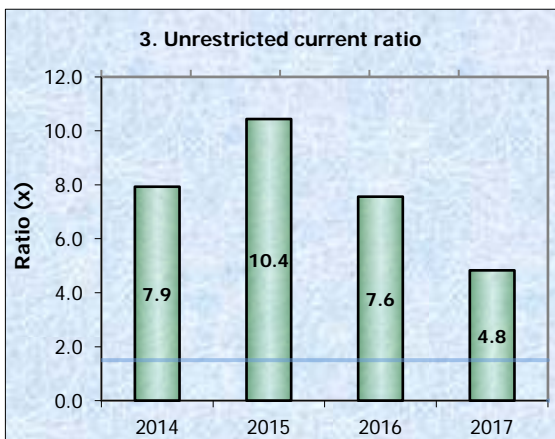
2016/17 ratio 23.33%

One-off grants of \$4.5M has impacted on Council's Own Source Revenue ratio.

Benchmark: ——— Minimum $\geq 60.00\%$

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of unrestricted current ratio

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

Commentary on 2016/17 result

2016/17 ratio 4.83x

Council is well above the industry benchmark. Council is in a strong financial position to pay its debts as and when they fall due.

Benchmark: ——— Minimum ≥ 1.50

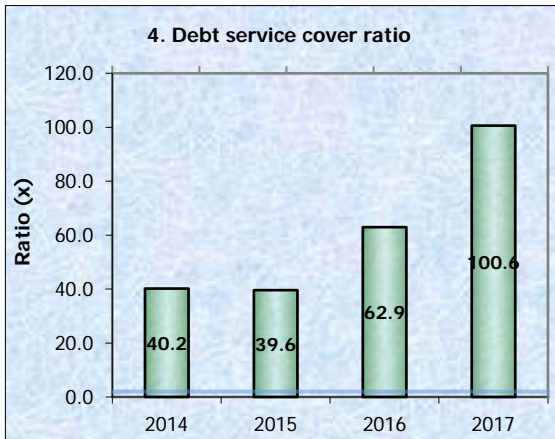
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Ratio achieves benchmark
 Ratio is outside benchmark

Lockhart Shire Council

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

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



Purpose of debt service cover ratio

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

Commentary on 2016/17 result

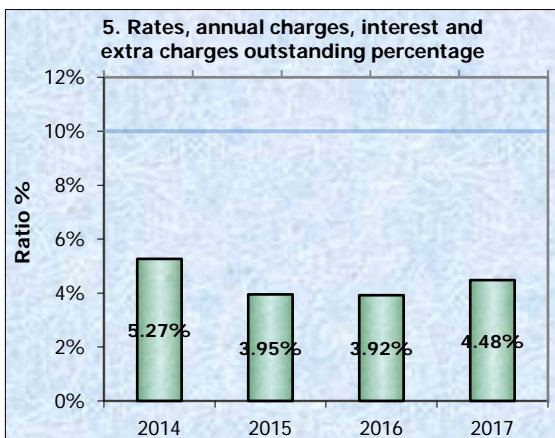
2016/17 ratio 100.60x

The significant increase for 2017 is attributed to an increased operating result, which was due to an advance payment of Financial Assistance Grant and other one off grants.

Benchmark: Minimum ≥ 2.00

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

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of rates and annual charges outstanding ratio

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

Commentary on 2016/17 result

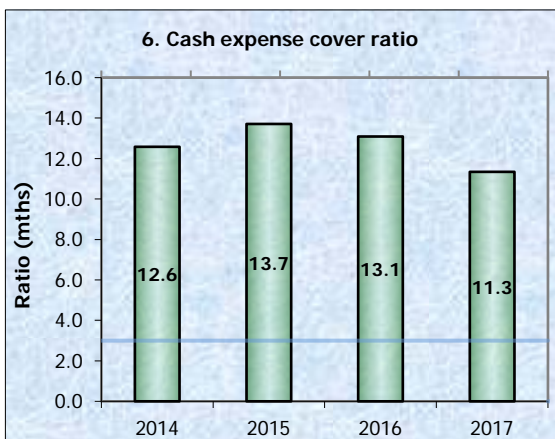
2016/17 ratio 4.48%

Council is well within the benchmark for a rural council. This is a reflection of Council's strong debt collection procedures.

Benchmark: Maximum $< 10.00\%$

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

Ratio is within Benchmark
 Ratio is outside Benchmark



Purpose of cash expense cover ratio

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

Commentary on 2016/17 result

2016/17 ratio 11.34 mths

Council continues to maintain a strong liquidity ratio which is well above the benchmark.

Benchmark: Minimum ≥ 3.00

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

Ratio achieves benchmark
 Ratio is outside benchmark

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	General indicators ⁵		Sewer indicators		Benchmark
	2017	2016	2017	2016	
Local government industry indicators – by fund					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	41.66%	26.25%	2.31%	-6.32%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions					
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	21.22%	28.40%	97.69%	97.52%	>60.00%
Total continuing operating revenue ⁽¹⁾					
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	8.02x	7.56x	422.60x	493.00x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)					

Notes

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	General indicators ⁵		Sewer indicators		Benchmark
	2017	2016	2017	2016	
Local government industry indicators – by fund (continued)					
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	98.77x	61.63x	0.00x	0.00x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)					
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	3.89%	3.40%	8.37%	7.63%	<10% Rural
Rates, annual and extra charges collectible					
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	8.27	8.95	0.00	0.00	> 3 months
Payments from cash flow of operating and financing activities	months	months	months	months	

Notes

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 14. Investment properties

\$ '000

Council has not classified any land or buildings as 'investment properties'.

Note 15. Financial risk management

Risk management

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

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	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	7,677	7,715	7,677	7,715
Receivables	2,651	320	2,651	320
Total financial assets	10,328	8,035	10,328	8,035
Financial liabilities				
Payables	769	417	769	417
Loans/advances	821	855	821	855
Total financial liabilities	1,590	1,272	1,590	1,272

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 market 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.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

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

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

Council has an investment policy which complies with the *Local Government Act 1993* and Minister's investment order. This policy is regularly reviewed by Council and 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
2017				
Possible impact of a 1% movement in interest rates	68	68	(68)	(68)
2016				
Possible impact of a 1% movement in interest rates	72	72	(72)	(72)

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

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

	2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	67%	96%	0%	38%
Overdue	33%	4%	100%	62%
	100%	100%	100%	100%

		2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables				
Current	Current	99	2,403	–	50
< 1 year overdue	0 – 30 days overdue	20	–	78	64
1 – 2 years overdue	31 – 60 days overdue	10	8	32	–
2 – 5 years overdue	61 – 90 days overdue	14	2	12	–
> 5 years overdue	> 91 days overdue	4	91	3	81
		147	2,504	125	195

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2017									
Trade/other payables	5	764	–	–	–	–	–	769	769
Loans and advances	–	99	99	99	99	99	893	1,388	821
Total financial liabilities	5	863	99	99	99	99	893	2,157	1,590
2016									
Trade/other payables	–	417	–	–	–	–	–	417	417
Loans and advances	–	99	99	99	99	99	992	1,487	855
Total financial liabilities	–	516	99	99	99	99	992	1,904	1,272

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

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

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	769	0.00%	417	0.00%
Loans and advances – fixed interest rate	821	7.80%	855	7.80%
	<u>1,590</u>		<u>1,272</u>	

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 20 June 2016.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----	
REVENUES				
Rates and annual charges	3,191	3,145	(46)	(1%) U
User charges and fees	297	396	99	33% F
Funds received that were not budgeted, being \$66K for Fire & Emergency Services Levy (FESL) from NSW Treasury and sale of scrap metal of \$31K from Council's waste management sites.				
Interest and investment revenue	240	194	(46)	(19%) U
Lower than forecast interest rates.				
Other revenues	178	290	112	63% F
Combination of many over budget and/or unbudgeted items, being mainly long service leave paid by another Council of (\$16K), diesel rebate over budget of (\$22K), housing rental over budget by (\$7K) and unbudgeted work performed for another Council of (\$7K).				
Operating grants and contributions	6,723	13,184	6,461	96% F
Due to payments of Financial Assistance Grant in advance of (\$1.9M). Other one-off grants not budgeted, Fixing Country Roads, Heavy Vehicle Safety & Productivity Programme and RMS Storm Damage totalling (\$4.5M).				
Capital grants and contributions	1,035	41	(994)	(96%) U
Flood Mitigation Voluntary Purchase grant incorrectly classed as Capital Grant, is actually an Operating Grant Flood Mitigation Construction Grant has been approved, however works had not commenced at years end. Funds are paid after expended and on project milestones.				
Net gains from disposal of assets	–	69	69	0% F
Unbudgeted gain.				

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----		
EXPENSES					
Employee benefits and on-costs	2,589	2,818	(229)	(9%)	U
Borrowing costs	65	65	-	0%	F
Materials and contracts	2,270	3,168	(898)	(40%)	U
Combination of under & over budget variances. Also unbudgeted expenditure relating to storm damage (\$1.2M) and a number of accounts coding not in sync between budget and year end accounts.					
Depreciation and amortisation	2,848	2,912	(64)	(2%)	U
Other expenses	1,110	1,264	(154)	(14%)	U
Implementation cost of FESL (\$29K), Bushfire Services over budget of (\$40K) and a number of accounts coded to Other Expenses in Statements yet in budget are coded to Materials & Contracts.					

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

Cash flows from operating activities	5,631	7,835	2,204	39.1%	F
Increase from one-off grants					
Cash flows from investing activities	(5,911)	(7,839)	(1,928)	32.6%	U
Increase from one-off grants					
Cash flows from financing activities	(34)	(34)	-	0.0%	F

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 17. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	42	–	–	–	–	–	42	–
Community facilities	127	–	–	–	–	–	127	–
Other	21	13	–	5	–	–	39	–
S94 contributions – under a plan	190	13	–	5	–	–	208	–
Total S94 revenue under plans	190	13	–	5	–	–	208	–
S64 contributions	6	–	–	–	–	–	6	–
Total contributions	196	13	–	5	–	–	214	–

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 17. Statement of developer contributions (continued)

\$ '000

S94A CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN - COUNCIL WIDE S94A 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					
Roads	42	–	–	–	–	–	42	–
Community facilities	127	–	–	–	–	–	127	–
Other	21	13	–	5	–	–	39	–
Total	190	13	–	5	–	–	208	–

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

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 30/6/17 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.

Lockhart Shire Council

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

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

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 not classified any privately owned land parcels as local open space or bushland.

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 Revenue NSW.

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

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

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

(iii) Rural fire fighting assets

These assets are under the control of the Rural Fire Services to enable that Department to provide the bushfire protection defences set out in their Service Level Agreement with Council and accordingly they have not been recognised in these reports.

OTHER

Rehabilitation of tips and quarries

The rehabilitation of Council's tips and quarries is being considered by Council, with a long term plan being developed. Council is of the view any rehabilitation work will not be required for another ten or more years. Council is placing funds in Reserve for the future acquisition of land and rehabilitation of existing sites.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities

\$ '000

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

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

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

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

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

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

	Council's share of net income		Council's share of net assets	
	Actual 2017	Actual 2016	Actual 2017	Actual 2016
Joint ventures	(4)	18	139	143
Total	(4)	18	139	143

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

\$ '000

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

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

(b) Joint ventures and associates

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

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	2017	2016
Riverina Regional Library	Joint venture	139	143
Total carrying amounts – material joint ventures and associates		139	143

(b) Details

Name of entity	Principal activity
Riverina Regional Library	Provision of Library Services (data is actually from YE 2016, as this is the most recent information available at time of preparing Lockhart's Statements)

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2017	2016	2017	2016	2017	2016	2017	2016
Riverina Regional Library	n/a	n/a	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%

(d) Summarised financial information for joint ventures and associates

	Riverina Regional Library	
Statement of financial position	2017	2016
Current assets		
Cash and cash equivalents	2,258	2,013
Other current assets	21	19
Non-current assets	2,840	2,945
Current liabilities		
Other current liabilities	1,018	771
Non-current liabilities	1	1
Net assets	4,100	4,205
Reconciliation of the carrying amount		
Opening net assets (1 July)	4,205	3,667
Profit/(loss) for the period	(105)	538
Closing net assets	4,100	4,205
Council's share of net assets (%)	3.4%	3.4%
Council's share of net assets (\$)	139	143

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates (continued)

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

	Riverina Regional Library	
	2017	2016
Statement of comprehensive income		
Income	2,836	3,214
Interest income	20	20
Depreciation and amortisation	(766)	(710)
Interest expense	(10)	(12)
Employee Benefits & On-Costs	(1,353)	(1,461)
Other expenses	(832)	(513)
Profit/(loss) for period	(105)	538
Total comprehensive income	(105)	538
Share of income – Council (%)	3.4%	3.4%
Profit/(loss) – Council (\$)	(4)	18
Total comprehensive income – Council (\$)	(4)	18

(c) Joint operations

Council has no interest in any joint operations.

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		198,907	194,969
a. Correction of prior period errors	20 (c)	–	687
b. Net operating result for the year		7,088	3,251
Balance at end of the reporting period		205,995	198,907
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		22,750	25,027
Total		22,750	25,027
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance		25,027	8,440
– Revaluations for the year	9(a)	(2,277)	16,587
– Balance at end of year		22,750	25,027
TOTAL VALUE OF RESERVES		22,750	25,027
(iii) Nature and purpose of reserves			
Infrastructure, property, plant and equipment revaluation reserve			
– The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrements of non-current asset values due to their revaluation.			
(c) Correction of error/s relating to a previous reporting period			
Correction of errors as disclosed in last year's financial statements:			
– Community Land Not previously recognised		–	641
– Other Structures/Open Space Assets		–	46
In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively.			
These amounted to the following equity adjustments:			
– Adjustments to opening equity – 1/7/15 (relating to adjustments for the 30/6/15 reporting year end and prior periods)		–	687
Total prior period adjustments – prior period errors		–	687
(d) Voluntary changes in accounting policies			
Council made no voluntary changes in any accounting policies during the year.			

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2017	Actual 2017
<u>Continuing operations</u>	Sewer	General¹
Income from continuing operations		
Rates and annual charges	430	2,715
User charges and fees	4	392
Interest and investment revenue	29	165
Other revenues	3	287
Grants and contributions provided for operating purposes	11	13,173
Grants and contributions provided for capital purposes	–	41
Other income		
Net gains from disposal of assets	–	69
Total income from continuing operations	477	16,842
Expenses from continuing operations		
Employee benefits and on-costs	87	2,731
Borrowing costs	–	65
Materials and contracts	190	2,978
Depreciation and amortisation	170	2,742
Impairment	–	–
Other expenses	19	1,245
Share of interests in joint ventures and associates using the equity method	–	4
Total expenses from continuing operations	466	9,765
Operating result from continuing operations	11	7,077
<u>Discontinued operations</u>		
Net profit/(loss) from discontinued operations	–	–
Net operating result for the year	11	7,077
Net operating result attributable to each council fund	11	7,077
Net operating result attributable to non-controlling interests	–	–
 Net operating result for the year before grants and contributions provided for capital purposes	 11	 7,036

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

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

Lockhart Shire Council

Notes to the Financial Statements

as at 30 June 2017

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

Statement of Financial Position by fund \$ '000	Actual 2017	Actual 2017
ASSETS	Sewer	General¹
Current assets		
Cash and cash equivalents	2,081	5,596
Investments	–	–
Receivables	38	2,571
Inventories	–	1,823
Other	–	9
Total current assets	2,119	9,999
Non-current assets		
Investments	–	–
Receivables	–	42
Inventories	–	355
Infrastructure, property, plant and equipment	8,872	209,748
Investments accounted for using the equity method	–	139
Investment property	–	–
Total non-current assets	8,872	210,284
TOTAL ASSETS	10,991	220,283
LIABILITIES		
Current liabilities		
Payables	–	767
Income received in advance	–	13
Borrowings	–	36
Provisions	5	866
Total current liabilities	5	1,682
Non-current liabilities		
Payables	–	2
Income received in advance	–	–
Borrowings	–	785
Provisions	2	53
Total non-current liabilities	2	840
TOTAL LIABILITIES	7	2,522
Net assets	10,984	217,761
EQUITY		
Retained earnings	7,517	198,478
Revaluation reserves	3,467	19,283
Total equity	10,984	217,761

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

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000

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

Note 23. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2017) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

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

Accordingly, the 'authorised for issue' date is 20/10/17.

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

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

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

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

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

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

Note 24. Discontinued operations

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

Note 25. Intangible assets

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

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

Note 26. Reinstatement, rehabilitation and restoration liabilities

Council has no outstanding obligations to make, restore, rehabilitate or reinstate any of its assets/operations.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement

\$ '000

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

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

2017	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/12	–	–	3,718	3,718
Office equipment	30/06/12	–	–	99	99
Furniture and fittings	30/06/12	–	–	66	66
Operational land	30/06/17	–	1,031	–	1,031
Community land	30/06/17	–	–	1,907	1,907
Buildings – non-specialised	30/06/13	–	1,825	–	1,825
Buildings – specialised	30/06/13	–	–	6,794	6,794
Other structures	30/06/16	–	–	269	269
Roads	30/06/17	–	–	181,824	181,824
Bridges	30/06/17	–	–	2,314	2,314
Footpaths	30/06/17	–	–	1,004	1,004
Bulk earthworks	30/06/17	–	–	7,198	7,198
Stormwater drainage	30/06/17	–	–	513	513
Sewerage network	30/06/17	–	–	8,769	8,769
Swimming pools	30/06/16	–	–	187	187
Other open space/recreational assets	30/06/16	–	–	847	847
Other assets	30/06/11	–	–	79	79
Total infrastructure, property, plant and equipment		–	2,856	215,588	218,444

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

2016	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/12	—	—	3,441	3,441
Office equipment	30/06/12	—	—	114	114
Furniture and fittings	30/06/12	—	—	70	70
Operational land	30/06/13	—	1,286	—	1,286
Community land	30/06/16	—	—	2,521	2,521
Buildings – non-specialised	30/06/13	—	1,846	—	1,846
Buildings – specialised	30/06/13	—	—	6,639	6,639
Other structures	30/06/16	—	—	263	263
Roads	30/06/15	—	—	180,619	180,619
Bridges	30/06/15	—	—	2,350	2,350
Footpaths	30/06/15	—	—	999	999
Bulk earthworks	30/06/15	—	—	7,198	7,198
Stormwater drainage	30/06/15	—	—	512	512
Sewerage network	30/06/14	—	—	6,642	6,642
Swimming pools	30/06/16	—	—	231	231
Other open space/recreational assets	30/06/16	—	—	811	811
Other assets	30/06/11	—	—	80	80
Total infrastructure, property, plant and equipment		—	3,132	212,490	215,622

(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.

Lockhart Shire Council

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

Note 27. Fair value measurement (continued)

(3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (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

Nil.

Financial liabilities

The loan liability is the value of the outstanding loan.

Infrastructure, property, plant and equipment

Plant & Equipment

Council's Plant and equipment incorporates

- Major plants – Graders, Loaders, Rollers, Trucks, tractors.
- Fleet Vehicles – Cars, Utes etc.
- Minor Plant – Pumps, Chainsaws, brush cutters, mowers, concrete mixers.

Council fair values plant and equipment using level 3 inputs. The observable Level 3 inputs used

- Quoted price for similar assets
- Purchase price
- Useful life of asset
- Current replacement Cost

The 'Cost Approach' is used to value Plant & Equipment

Furniture & Fittings

Council's Furniture & Fittings incorporates

- Furniture and fittings – Desks, Chairs, Display Systems

Council fair values furniture fittings using level 3 inputs. The observable Level 3 inputs used include:

- Quoted prices for similar assets
- Current replacement cost
- Purchase prices
- Useful life on asset

The 'Cost Approach' is used to value Furniture & Fittings.

Office Equipment

Council's Office Equipment incorporates:

- Office Equipment: workstations, chairs, bookshelves etc.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

Council fair values office equipment using level 3 inputs. The observable Level 3 inputs used include:

- Quoted prices for similar assets
- Current replacement cost
- Purchase prices
- Useful life on asset

The 'Cost Approach' is used to value Office Equipment.

Infrastructure – Roads

The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter and would include any paved makers parking places as well as alongside roadside.

Council's Road Asset Data contains detailed dimensions and specification for all Council roads. Council fair values, road infrastructure using Level 3 inputs at a component level.

The 'Unit Rate Approach' is used to value roads by componentising the assets into significant parts and then rolling up these component values to provide and overall road valuation (for each road segment) within Council's Asset System. (Bizeassets)

Level of componentisation adopted by Council is in accordance with AASB 116, OLG Circular 09-09 and the Institute of Public Work Engineers International Infrastructure Management Manual (IIMM)

The unobservable Level 3 inputs used include:

- Components
- Useful life and residual value
- Asset Condition
- Dimensions and Specification
- Remaining Life of Carriageway
- Unit Rates.

There were no changes in valuation technique from prior year. A desktop valuation was performed this year.

Infrastructure – Bridges

A bridge is defined as all structures greater than 6m in trafficable length that convey a road, a footpath or a cycleway across any other physical feature (including waterways and other roads).

Council Road Asset Data contains detailed dimensions and specification for all Council's bridges. Council fair values, bridges (non- componentised) using Level 3 inputs.

The unobservable Level 3 inputs used include:

- Components
- Residual value
- Asset Condition
- Dimensions and Specification
- Unit Rates.

In addition, the value of bridges takes into consideration the various type of structures such as:

- Bridge Deck/ Superstructure

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

- Bridge Abutments/Foundations
- Bridge rails and hand rails

There were no changes in valuation technique from prior year. The 'Unit Rate Approach' is used to value bridges. A desktop valuation was performed this year.

Infrastructure – Footpaths

A footpath is defined as all footways (including those shared with a cycleway) sealed or non-sealed, located within Council's road reserve. Council Road Asset Data contains detailed dimensions and specifications for all Council footpaths.

Council fair values, footpaths (non-componentised) using Level 3 inputs. The unobservable Level 3 input used include:

- Components
- Residual value
- Asset Condition
- Dimensions and Specification
- Unit Rates.

In addition, the value of footpaths takes into consideration the various type of structure such as:

- Length
- Construction Materials

The 'Unit Rate Approach' is used to value footpaths. A desktop valuation was performed this year.

Infrastructure – Drainage

Council's Drainage Assets comprise pits, pipes, culverts, open channels, headwalls used to collect and remove stormwater. Council carries fair values drainage assets (non-componentised) using Level 3 inputs.

The unobservable Level 3 inputs used include:

- Components
- Residual value
- Asset Condition
- Dimensions and Specification
- Unit Rates.

In addition, the value of drainage assets takes into consideration the various type of structure such as

- Pipe Diameter
- Pit Type
- Water Quality Device Type
- Culverts and Headwall Constructions Type.

The 'Unit Rates Approach' is used to value drainage assets. A desktop valuation was performed this year.

Property – Operational Land

Council's "Operational" land by definition has no special restriction other than those that may apply to any piece of land.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

Council carries fair values operational land by an External Valuer every 5 years (last valuation being 2017) using Level 2 inputs. The unobservable Level 2 inputs used include:

- Land Area
- Rate per square Metre
- Planning and Other Restrictions
- Description of Land

The 'Market Approach' is used to value the Operational Land. A desktop valuation was performed this year.

Property – Community Land

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

Community Land:

- Cannot be sold
- Cannot be leased, licensed, or any other estate granted over the land for more than 21 years and

In relation to Community Land the Office of Local Government has reviewed its positions on the use of the Valuer General's Valuations of community land and in association with the Local Government Accounting Advisory Group, the Division has determined that community land may be valued as follows.

- The NSW Valuer General's valuations may be used under revaluation model to represent fair value for the revaluation of community land under clause 31 of AASB 116.
- Council fair values community land using unobservable Level 3 inputs based on inputs on either the UCV (Unimproved Capital Value) provided by the Valuer General or an average unit rate based on the UCV and allocated by Council against those properties where the Valuer General did not provide a UCV.

The 'Cost Approach' is used to value Community land. A full valuation was performed this year.

Property – Buildings (Specialised and non-Specialised)

Council Buildings incorporates Council administration buildings, Public Amenities, Sporting Club Rooms, Depot Buildings and workshops and public halls, Rural Fire Service Buildings and Council Caravan Park.

Council carries fair values building using level 3 inputs. Valuations are generally carried out by an external Valuer, this approach estimates the replacement cost for each building by componentising the building (for complex structures) into significant parts with different useful life and taking in to account a range of factors. Buildings are physically inspected and unit rates based on square meters could be supported from the market evidence, extensive professional judgement, and condition and consumption rates etc. impact significantly on the final value determination of fair value. As such these assets are classified as having being valued using Level 3 inputs.

The unobservable Level 3 inputs used include:

- Condition
- Useful Life of an asset

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

The 'Cost Approach' is used to value specialised buildings.

Other Structures, Swimming Pools, Open Space & Recreation:

Council's other structures incorporates the following types of assets;

- Significant single assets such as swimming pools, playgrounds, floodlighting system, tennis courts, tennis shelters, etc. and
- Aggregated lower value assets such as recreational / park infrastructures (picnic tables, seats, bollards, fences BBQs, irrigation systems etc.)

Council carries fair value of other structures assets (non-componentised) using Level 3 inputs. Such valuations are under taken by Council Staff or by an external valuer depending on the structure.

The unobservable Level 3 inputs used include:

- Residual Value
- Asset Condition
- Components
- Dimensions and specifications
- Unit Rates.

The "Unit Rates Approach' is used to value other structures.

Sewerage Network

Council's Sewerage Network incorporates:

- Sewer Lines
- Pump Stations
- Vent Stacks
- Sewer Treatment Plant
- Recycle Water System

Council carries fair value of waste water supply assets using Level 3 inputs. Such valuations are under taken by Council Staff using the NSW Office of Water Reference Rates Manual.

The unobservable Level 3 inputs used include:

- Residual Value
- Asset Condition
- Components
- Dimensions and specifications
- Unit Rates.

The "Unit Rates Approach' is used to value the sewerage network. A full valuation was performed this year.

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

	IPP&E Total
Opening balance – 1/7/15	192,431
Purchases (GBV)	6,442
Disposals (WDV)	(250)
Depreciation and impairment	(2,892)
FV gains – other comprehensive income	16,759
Closing balance – 30/6/16	<u>212,490</u>
Purchases (GBV)	8,412
Disposals (WDV)	(271)
Depreciation and impairment	(2,888)
FV gains – other comprehensive income	(1,979)
Closing balance – 30/6/17	<u>215,764</u>

b. Information relating to the transfers into and out of the level 3 fair valuation hierarchy (as disclosed in the table above) includes:

Nil

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

Class	Fair value (30/6/17) \$'000	Valuation technique/s	Unobservable inputs
I,PP&E			
Plant, equipment, furniture, fittings and office equipment	3,883	Cost used to approximate fair value	Gross replacement cost, useful life and residual value
Community Land	1,907	Land values obtained from the NSW Valuer General	Land value, land area
Specialised buildings	6,794	Cost used to approximate fair value	
Other structures	269	Cost used to approximate fair value	Gross replacement cost, useful life and residual value
Roads, bridges, footpaths, bulkworks	192,340	Unit rates per sq metre or length	Asset condition, unit rate and dimensions
Stormwater drainage	513	Cost used to approximate fair value	Asset condition and remaining lives
Sewerage Network	8,769		Asset condition and remaining lives
Swimming Pools	187	Cost used to approximate fair value	Asset condition and remaining lives
Other open space/recreational assets	847	Cost used to approximate fair value	Asset condition and remaining lives
Other Assets	79	Cost used to approximate fair value	Gross replacement cost, useful life and residual value

d. The valuation process for level 3 fair value measurements

Council assesses the expertise required for the valuation of all asset classes in determining who will undertake the valuations. All asset classes with the exception of Operational and Community Land are undertaken by suitably qualified and experienced council officers. Land is valued using the Valuer General valuations. Management reviews the valuation reports for consistency and accuracy and to ensure all valuations are current.

(5). Highest and best use

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

Lockhart Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 28. Related party disclosures

\$

a. Key management personnel

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

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

Compensation:	Actual 2017
Short-term benefits	667,781
Post-employment benefits	117,424
Other long term benefits	17,478
Total	802,683

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

Nature of the transaction	Value of transactions during year	Outstanding balance	Terms and conditions	Provisions for doubtful debts outstanding	Doubtful debts expense recognised
	\$'000	(incl. loans and commitments) \$'000		\$'000	\$'000
Mayor Schirmer / MSW Fabrication	15	–	Creditor 30 day account	–	–
Councillor Rockliff / Lockhart Newsagency	12	–	Creditor 30 day account	–	–
Councillor Driscoll / Sophie Driscoll	18	–	Swimming Pool Contractor	–	–

Lockhart Shire Council

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

Note 29. Council information and contact details

Principal place of business:

65 Green Street
LOCKHART NSW 2656

Contact details**Mailing address:**

PO Box 21
LOCKHART NSW 2656

Opening hours:

8:30am to 4:00pm
Monday to Friday

Telephone: 02 6920 5305

Facsimile: 02 6920 5247

Internet: www.lockhart.nsw.gov.au

Email: mail@lockhart.nsw.gov.au

Officers**GENERAL MANAGER**

Peter Veneris

RESPONSIBLE ACCOUNTING OFFICER

Craig Fletcher

PUBLIC OFFICER

Craig Fletcher

AUDITORS

Auditor-General
Audit Office of NSW
Level 15
1 Margaret Street
Sydney NSW 2000

Elected members**MAYOR**

Clr Rodger Schirmer

COUNCILLORS

Clr Max Day
Clr Derek Douglas
Clr Gail Driscoll
Clr Ian Marston
Clr Peter Sharp
Clr Andrew Rockliff
Clr Gregory Verdon (Deputy Mayor)
Clr James Walker

Other information

ABN: 82 002 584 082



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Lockhart Shire Council

To the Councillors of the Lockhart Shire Council

Opinion

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

In my opinion,

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Matter

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 28 October 2016.

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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



Lawrissa Chan
Director, Financial Audit Services

20 October 2017
SYDNEY

Cr Rodger Schirmer
Mayor
Lockhart Shire Council
PO Box 21
LOCKHART NSW 2656

20 October 2017

Dear Cr Schirmer

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

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

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

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. Section 417(3) requires us to consider and report on matters pertinent to the Council's financial statements and audit. This Report should be read in conjunction with our audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

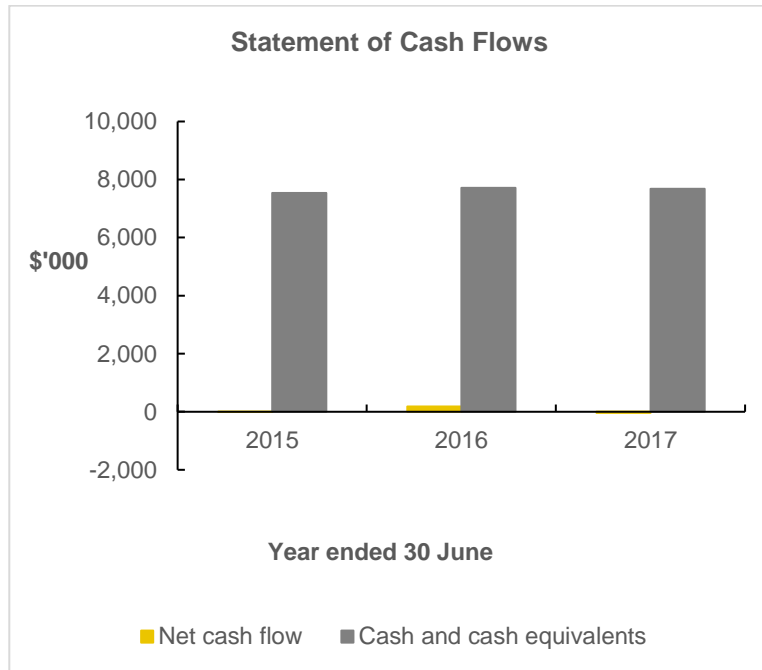
	2017	2016	Variance
	\$'000	\$'000	%
Rates and annual charges revenue	3,145	3,056	2.9 ↑
Grants and contributions revenue	13,225	8,602	53.7 ↑
Operating result for the year	7,088	3,251	118.0 ↑
Net operating result before capital amounts	7,047	3,251	116.8 ↑

The following comments are made in respect of Council’s operating result for the year:

- Council’s operating surplus improved from \$3.3M in the previous year to \$7.1M in the current period. The increase of \$3.8M is driven by the receipt of \$1.9M (50%) of 2017-18 Financial Assistance Grants in advance and \$1.7M from RMS for flood damage. Council budgeted for a surplus of \$2.8M.
- The net operating result before capital contributions was a surplus of \$7.0M against the previous year’s surplus of \$3.3M. The movement is due to the increase in grants and contributions provided for operating purposes as a result of the advance payment of 2017-18 Financial Assistance Grants and \$1.7M from RMS for flood damage.
- Rates and annual charges revenue have increased by \$89K (2.9%). The increase in rate income is in line with the permissible rate increase granted by the Minister for Local Government and movements in rateable properties in the Lockhart Shire Council area.
- Grants and contributions provided for operating purposes increased by \$4.6M (53.7%) to \$13.2M. The increase was largely due to the receipt of 50% of the 2017/2018 Financial Assistance Grant amounting to \$1.9M received and booked as income in June 2017. There were also some other one-off grants recorded in 2017, including \$1.7M for flood damage and \$1.5M for Heavy Vehicle Safety and Productivity Programme.
- Council’s depreciation and amortisation expense was consistent with the prior year decreasing by \$5K to \$2.9M for the year ended 30 June 2017 (2016: \$2.9M).

STATEMENT OF CASH FLOWS

- Council has generated consistent cash flows for the past three years. Council’s cash and cash equivalents balance for the current and prior year remained steady at \$7.7 million.
- Council recorded a decrease in net cash flows due to additional purchases of infrastructure, property, plant and equipment compared with the prior year. There was net cash outflows of \$8.2M for I,PP&E additions during the year, with \$6.3M being invested in roads.



FINANCIAL POSITION

Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$'000	\$'000	
External restrictions	2,385	2,726	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. The movement in externally restricted cash balances included the decrease of \$357k in Sewerage services.
Internal restrictions	4,507	2,746	
Unrestricted	785	2,243	
Cash and investments	7,677	7,715	<ul style="list-style-type: none"> Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The movement of internally restricted cash balances included an increase of \$1.9M relating to the Financial Assistance Grant payment for 2017/2018 received in advance. The decrease in unrestricted cash relates to significant grant debtor as at 30 June 2017 for \$2.3M that will convert to cash in the 2017-18 financial year.

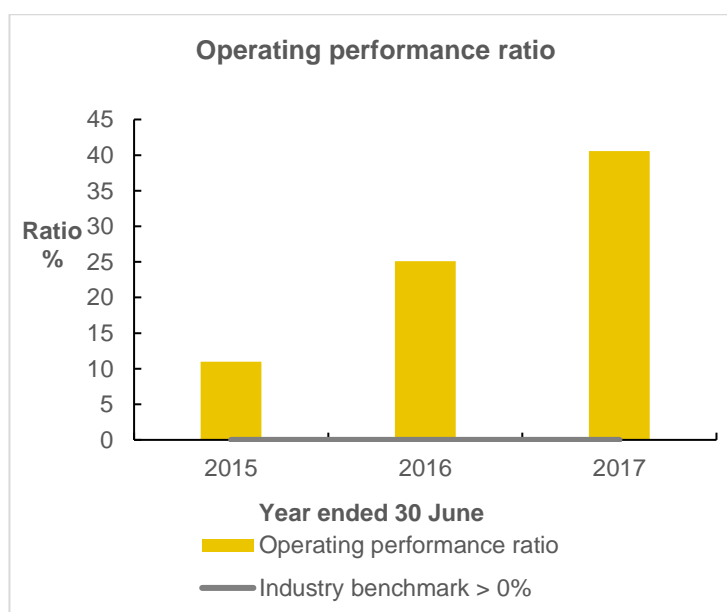
Debt

- Council has \$0.8M in loans secured over the general rating income of Council at 30 June 2017.

PERFORMANCE RATIOS

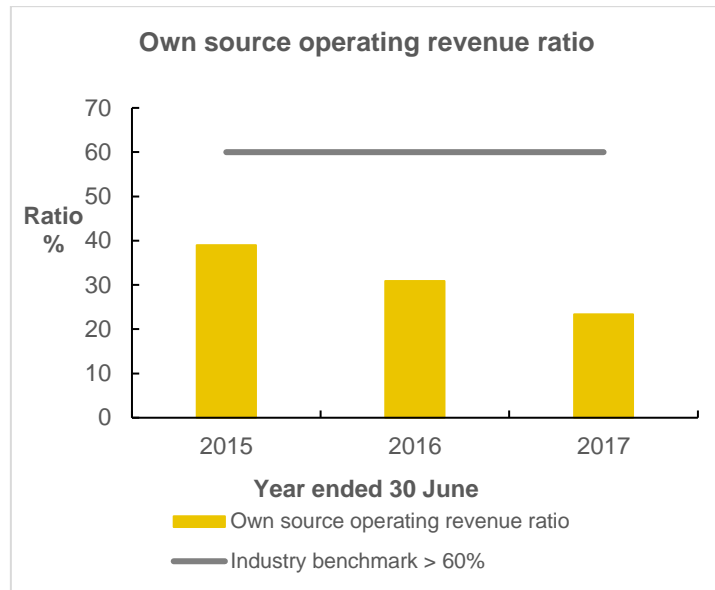
Operating performance ratio

- The 'operating performances ratio' measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.
- The operating performance ratio improved to 40% and remained well above the industry benchmark of 0%.
- The operating performance ratio improved this year due to additional grant income (predominately Financial Assistance Grants funding received in advance of \$1.9M).



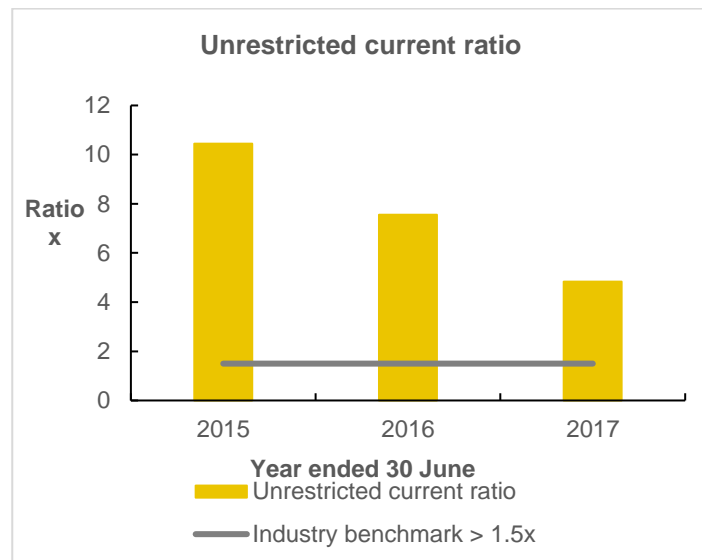
Own source operating revenue ratio

- The 'own source operating revenue ratio' measures Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.
- The own source operating revenue ratio declined slightly to 23.33% due to the early payment of the 2017/18 Financial Assistance Grant and one off grants received during 2017 for flood damage and heavy vehicle safety. The ratio remains below the industry benchmark of 60%.



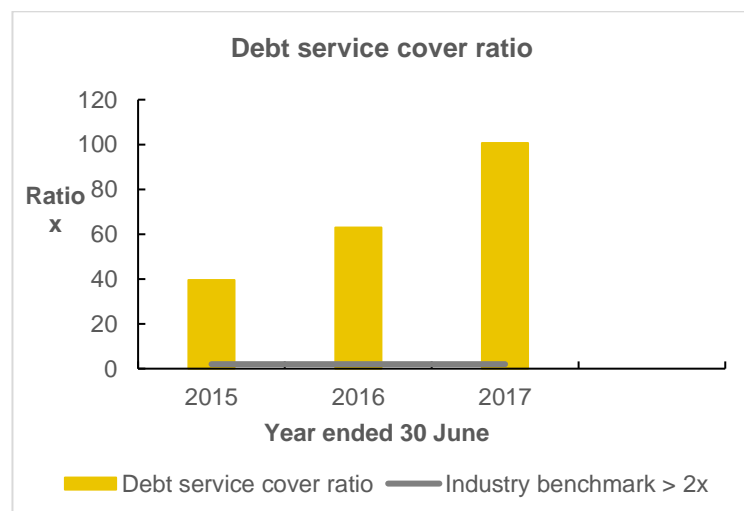
Unrestricted current ratio

- The 'unrestricted current ratio' is specific to local government and represents Council's ability to meet its short term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.
- The liquidity ratio shows a slight decrease in Council's liquidity position compared to the prior year.
- Council continues to report a result well in excess of the 1.5:1 benchmark minimum and has sufficient liquidity to meet its current liabilities when they fall due.



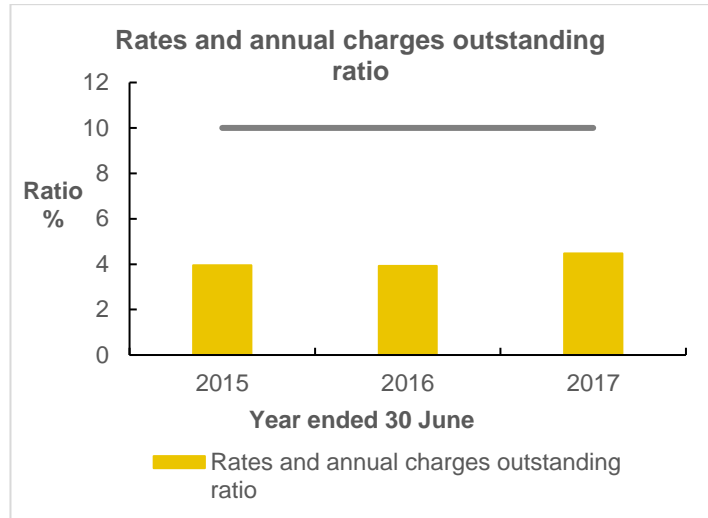
Debt service cover ratio

- The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.
- This ratio indicates 100.60 times (2016: 62.95 times) Council's operating cash is available to service Council debts.
- Council continues to demonstrate that sufficient cash is being generated from operations to fund borrowings.



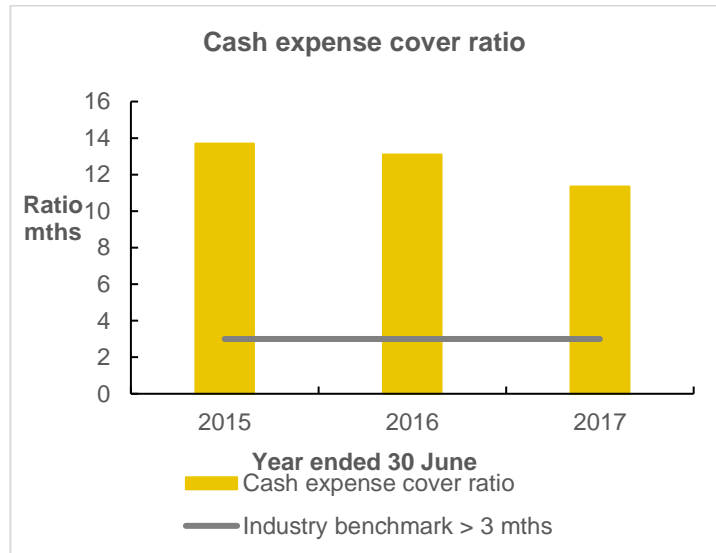
Rates and annual charges outstanding ratio

- The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.
- The outstanding rates and annual charges percentage has increased slightly, but remains below the benchmark for rural councils which is a reflection of sound debt recovery procedures at the Council.



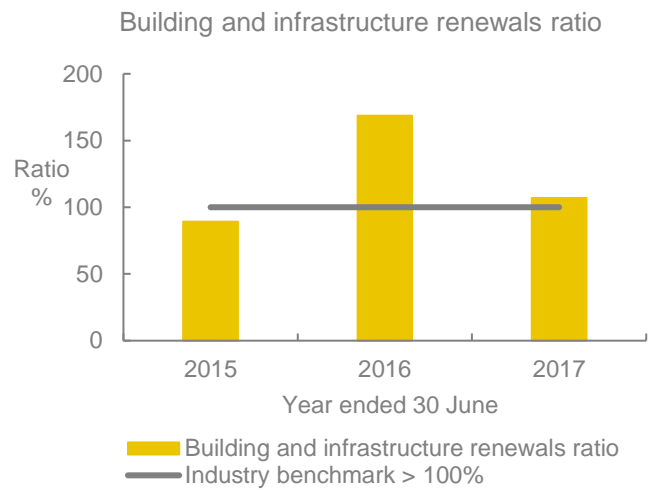
Cash expense cover ratio

- This liquidity ratio indicates the number of months the Council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.
- At 30 June 2017, the Council had the capacity to cover 11.34 months of cash expenditure without additional cash inflows. Council has performed comfortably above the benchmark in both the current and prior period, indicating a satisfactory liquidity position.



Building and Infrastructure renewals ratio

- The 'building and infrastructure renewals ratio assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.
- This ratio is sourced from information contained in Council's Special Schedule 7 which has not been audited.
- Council has remained above the benchmark in both the current and prior period, indicating that Council is actively renewing its building and infrastructure assets.
- We highlight that this ratio should not be viewed in isolation. A long-term view should be taken, as capital expenditure fluctuates from year to year and can distort this ratio.



OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

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

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

Legislative compliance

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

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



Lawrissa Chan
Director, Financial Audit Services

20 October 2017
SYDNEY

cc: Mr Craig Fletcher, Director of Corporate & Community Services
Mr Peter Veneris, General Manager

Lockhart Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017



Lockhart Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Contents	Page
1. Statement by Councillors and Management	2
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Income Statement – Sewerage Business Activity	3
Statement of Financial Position – Sewerage Business Activity	4
3. Notes to the Special Purpose Financial Statements	5
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Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Lockhart Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

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

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

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

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

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

Signed in accordance with a resolution of Council made on 16 October 2017.



Mayor



Councillor



General Manager



Responsible Accounting Officer

Lockhart Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	430	393
User charges	4	7
Liquid trade waste charges	–	–
Fees	–	–
Interest	29	32
Grants and contributions provided for non-capital purposes	11	11
Profit from the sale of assets	–	–
Share of profit from equity accounted investment	–	–
Other income	3	–
Total income from continuing operations	477	443
Expenses from continuing operations		
Employee benefits and on-costs	87	87
Borrowing costs	–	–
Materials and contracts	190	228
Depreciation, amortisation and impairment	170	156
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Other expenses	19	–
Total expenses from continuing operations	466	471
Surplus (deficit) from continuing operations before capital amounts	11	(28)
Grants and contributions provided for capital purposes	–	–
Surplus (deficit) from continuing operations after capital amounts	11	(28)
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	11	(28)
Less: corporate taxation equivalent (30%) [based on result before capital]	(3)	–
SURPLUS (DEFICIT) AFTER TAX	8	(28)
Plus opening retained profits	7,506	7,534
Plus/less: prior period adjustments	–	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	3	–
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
Closing retained profits	7,517	7,506
Return on capital %	0.1%	-0.4%
Subsidy from Council	200	160
Calculation of dividend payable:		
Surplus (deficit) after tax	8	(28)
Less: capital grants and contributions (excluding developer contributions)	–	–
Surplus for dividend calculation purposes	8	–
Potential dividend calculated from surplus	4	–

Lockhart Shire Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	2,081	2,437
Investments	–	–
Receivables	38	34
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current Assets	2,119	2,471
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	8,872	6,641
Investments accounted for using equity method	–	–
Investment property	–	–
Other	–	–
Total non-current assets	8,872	6,641
TOTAL ASSETS	10,991	9,112
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	–	–
Income received in advance	–	–
Borrowings	–	–
Provisions	5	5
Total current liabilities	5	5
Non-current liabilities		
Payables	–	–
Borrowings	–	–
Provisions	2	2
Total non-current liabilities	2	2
TOTAL LIABILITIES	7	7
NET ASSETS	10,984	9,105
EQUITY		
Retained earnings	7,517	7,506
Revaluation reserves	3,467	1,599
Other reserves	–	–
Council equity interest	10,984	9,105
Non-controlling equity interest	–	–
TOTAL EQUITY	10,984	9,105

Lockhart Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	6
2	Water Supply Business Best-Practice Management disclosure requirements	n/a
3	Sewerage Business Best-Practice Management disclosure requirements	9

Lockhart Shire Council

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

Note 1. Significant accounting policies

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

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

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

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

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

National Competition Policy

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

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

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

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

activities and provide a standard for disclosure requirements.

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

Declared business activities

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

Category 1

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

None

Category 2

(where gross operating turnover is less than \$2 million)

Sewerage Service

Comprising the whole of the sewerage reticulation and treatment operations and net assets system servicing the villages of Lockhart, The Rock and Yerong Creek.

Monetary amounts

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

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

(i) Taxation-equivalent charges

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

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-

Lockhart Shire Council

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

Note 1. Significant accounting policies (continued)

nominated business activities and are reflected in Special Purpose Financial Statements.

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

Notional rate applied (%)

Corporate income tax rate – 30%

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

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

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

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

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

Income tax

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

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

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

provision equivalent to the corporate income tax rate, currently 30%.

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of

Lockhart Shire Council

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

Note 1. Significant accounting policies (continued)

return' pricing and revenue generated from prices set by Council in any given financial year.

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

In accordance with the DPIW guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the DPIW.

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

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

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

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

Lockhart Shire Council

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

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

2017

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	-
(ii)	Number of assessments multiplied by \$3/assessment	2,760
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	-
(iv)	Amounts actually paid for tax equivalents	-

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	3,850
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	27,600
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	30,100

2017 Surplus	7,700	2016 Surplus	(28,000)	2015 Surplus	50,400
		2016 Dividend	-	2015 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	3,850
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	-
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

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

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

Lockhart Shire Council

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

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2017

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	429
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	8,872
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	273
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	–
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	-0.08%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

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

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	429
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	2.56%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	–
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	-0.08%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Lockhart Shire Council

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

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

2017

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-18.95%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		-
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	11
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	11

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Lockhart Shire Council

To the Councillors of the Lockhart Shire Council

Opinion

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

The Declared Business Activities of the Council is Sewerage.

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

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

Basis for Opinion

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Matter

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 28 October 2016.

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Lawrissa Chan
Director, Financial Audit Services

20 October 2017
SYDNEY

Lockhart Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2017



Lockhart Shire Council

Special Schedules for the year ended 30 June 2017

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Special Schedules¹		
Special Schedule 1	Net Cost of Services	2
Special Schedule 2(a)	Statement of Long Term Debt (all purposes)	4
Special Schedule 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
Special Schedule 3	Water Supply Operations – incl. Income Statement	n/a
Special Schedule 4	Water Supply – Statement of Financial Position	n/a
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¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

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

Lockhart Shire Council

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

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	189	–	–	(189)
Administration	1,742	147	–	(1,595)
Public order and safety				
Fire service levy, fire protection, emergency services	291	157	–	(134)
Beach control	–	1	–	1
Enforcement of local government regulations	–	–	–	–
Animal control	3	–	–	(3)
Other	–	–	–	–
Total public order and safety	294	158	–	(136)
Health	–	–	–	–
Environment				
Noxious plants and insect/vermin control	107	496	–	389
Other environmental protection	781	52	–	(729)
Solid waste management	447	530	–	83
Street cleaning	–	–	–	–
Drainage	–	–	–	–
Stormwater management	–	–	–	–
Total environment	1,335	1,078	–	(257)
Community services and education				
Administration and education	167	104	–	(63)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	31	37	–	6
Children's services	–	–	–	–
Total community services and education	198	141	–	(57)
Housing and community amenities				
Public cemeteries	83	71	–	(12)
Public conveniences	35	–	–	(35)
Street lighting	42	–	–	(42)
Town planning	–	–	–	–
Council Housing	12	32	–	20
Youth Flats	15	13	–	(2)
Other community amenities	23	8	–	(15)
Total housing and community amenities	210	124	–	(86)
Sewerage services	467	450	–	(17)

Lockhart Shire Council

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

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	111	25	–	(86)
Museums	22	102	–	80
Art galleries	–	–	–	–
Public Halls	28	2	17	(9)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	4	–	–	(4)
Sporting grounds and venues	–	–	–	–
Swimming pools	129	–	–	(129)
Parks and gardens (lakes)	359	–	–	(359)
Other sport and recreation	83	69	24	10
Total recreation and culture	736	198	41	(497)
Mining, manufacturing and construction				
Building control	–	–	–	–
Other mining, manufacturing and construction	5	6	–	1
Total mining, manufacturing and const.	5	6	–	1
Transport and communication				
Urban roads (UR) – local	195	–	–	(195)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	973	–	–	(973)
Sealed rural roads (SRR) – regional	749	1,202	–	453
Unsealed rural roads (URR) – local	998	–	–	(998)
Unsealed rural roads (URR) – regional	–	–	–	–
Storm Damage 2016	1,266	1,169	–	(97)
Causeways	4	–	–	(4)
Culverts	23	–	–	(23)
Kerb & Gutter	55	–	–	(55)
Bridges	37	–	–	(37)
Footpaths	34	–	–	(34)
Footpaths	2	–	–	(2)
Aerodromes	6	–	–	(6)
Other transport and communication	496	4,519	–	4,023
Total transport and communication	4,838	6,890	–	2,052
Economic affairs				
Caravan Park	58	48	–	(10)
Shops & Offices	30	33	–	3
Private Works	37	41	–	4
Other economic affairs	88	130	–	42
Total economic affairs	213	252	–	39
Totals – functions	10,227	9,444	41	(742)
General purpose revenues ⁽¹⁾		7,834		7,834
Share of interests – joint ventures and associates using the equity method	4	–		(4)
NET OPERATING RESULT ⁽²⁾	10,231	17,278	41	7,088

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

Lockhart Shire Council

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

for the year ended 30 June 2017

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
Loans (by source)											
Commonwealth Government	–	–	–							–	–
NSW Treasury Corporation	–	–	–							–	–
Other State Government	–	–	–							–	–
Public subscription	–	–	–							–	–
Financial institutions	34	821	855	–	34	–	–	65	36	785	821
Other	–	–	–							–	–
Total loans	34	821	855	–	34	–	–	65	36	785	821
Other long term debt											
Ratepayers advances	–	–	–							–	–
Government advances	–	–	–							–	–
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
Total long term debt	–	–	–	–	–	–	–	–	–	–	–
Total debt	34	821	855	–	34	–	–	65	36	785	821

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

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

Lockhart Shire Council

Special Schedule 5 – Sewerage Service Income Statement

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

\$'000	Actuals 2017	Actuals 2016
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	51	52
b. Engineering and supervision	35	35
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	9	14
– Pumping stations		
c. Operation expenses (excluding energy costs)	–	–
d. Energy costs	–	–
e. Maintenance expenses	24	19
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	8	9
g. Chemical costs	–	–
h. Energy costs	29	25
i. Effluent management	17	16
j. Biosolids management	–	–
k. Maintenance expenses	100	113
– Other		
l. Operation expenses	–	–
m. Maintenance expenses	–	–
3. Depreciation expenses		
a. System assets	170	156
b. Plant and equipment	–	–
4. Miscellaneous expenses		
a. Interest expenses	–	–
b. Revaluation decrements	–	–
c. Other expenses	4	51
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	447	490

Lockhart Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

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

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges (including rates)	411	412
7. Non-residential charges		
a. Access (including rates)	–	–
b. Usage charges	–	–
8. Trade waste charges		
a. Annual fees	–	–
b. Usage charges	–	–
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	–	–
10. Interest income	29	32
11. Other income	7	7
11a. Aboriginal Communities Water and Sewerage Program	–	–
12. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	11	11
c. Other grants	–	–
13. Contributions		
a. Developer charges	–	–
b. Developer provided assets	–	–
c. Other contributions	–	–
14. Total income	<u>458</u>	<u>462</u>
15. Gain (or loss) on disposal of assets	–	–
16. Operating result	<u>11</u>	<u>(28)</u>
16a. Operating result (less grants for acquisition of assets)	11	(28)

Lockhart Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

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

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	–	–
c. Renewals	–	–
d. Plant and equipment	–	–
18. Repayment of debt	–	–
19. Totals	<u>–</u>	<u>–</u>
Non-operating funds employed		
20. Proceeds from disposal of assets	–	–
21. Borrowing utilised	–	–
22. Totals	<u>–</u>	<u>–</u>
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	680	686
b. Residential (unoccupied, ie. vacant lot)	86	93
c. Non-residential (occupied)	117	110
d. Non-residential (unoccupied, ie. vacant lot)	37	30
24. Number of ETs for which developer charges were received	– ET	– ET
25. Total amount of pensioner rebates (actual dollars)	\$ 10,629	\$ 10,612

Lockhart Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

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

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	6	–	6
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	2,075	–	2,075
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	36	–	36
c. User charges	–	–	–
d. Other	2	–	2
28. Inventories	–	–	–
29. Property, plant and equipment			
a. System assets	–	–	–
b. Plant and equipment	–	8,872	8,872
30. Other assets	–	–	–
31. Total assets	<u>2,119</u>	<u>8,872</u>	<u>10,991</u>
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	–	–	–
34. Borrowings	–	–	–
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	5	2	7
36. Total liabilities	<u>5</u>	<u>2</u>	<u>7</u>
37. NET ASSETS COMMITTED	<u>2,114</u>	<u>8,870</u>	<u>10,984</u>
EQUITY			
38. Accumulated surplus			7,517
39. Asset revaluation reserve			3,467
40. Other reserves			–
41. TOTAL EQUITY			<u>10,984</u>
Note to system assets:			
42. Current replacement cost of system assets			14,557
43. Accumulated current cost depreciation of system assets			(5,685)
44. Written down current cost of system assets			<u>8,872</u>

Lockhart Shire Council

Notes to Special Schedule 5 for the year ended 30 June 2017

Administration ⁽¹⁾

(item 1a of Special Schedule 5) comprises the following:

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

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedule 5) comprises the following:

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

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

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

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

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

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

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

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

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

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

Other income (item 11 of Special Schedule 5) includes all income not recorded elsewhere.

Other contributions (item 13c of Special Schedule 5) including capital contributions for sewerage services received by Council under Section 565 of the *Local Government Act*.

Notes:

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

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

Lockhart Shire Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Aged Care	–		15	15	443	588	0%	100%	0%	0%	0%
	Caravan Park	30		5	5	267	516	45%	0%	45%	1%	9%
	Council Depot	–		10	20	223	731	0%	20%	80%	0%	0%
	Council Housing	–		5	1	715	859	35%	65%	0%	0%	0%
	Council Office	–		5	6	1,617	1,713	100%	0%	0%	0%	0%
	Fire	–		5	–	370	560	57%	23%	20%	0%	0%
	Halls	50		18	1	1,120	2,024	0%	8%	92%	0%	0%
	Rec & Culture	70		20	35	2,337	4,501	6%	32%	24%	38%	0%
	Shops & Offices	–		10	8	817	1,150	0%	92%	0%	8%	0%
	Swimming Pool	75		3	–	253	550	0%	4%	72%	24%	0%
	Youth	–		10	9	144	234	0%	15%	85%	0%	0%
	Other	–		–	–	313	535	0%	0%	50%	25%	25%
	Sub-total	225	–	106	100	8,619	13,961	20.3%	29.6%	33.9%	14.9%	1.3%
Other structures	Other structures	–		–	–	269	403					100%
	Sub-total	–	–	–	–	269	403	0.0%	0.0%	0.0%	0.0%	100.0%
Roads	Sealed roads	–		500	705	112,400	135,503	36%	50%	14%	0%	0%
	Unsealed roads	–		500	447	64,192	68,981	34%	10%	56%	0%	0%
	Bridges	–		5	–	2,314	3,653	80%	20%	0%	0%	0%
	Footpaths	–		20	2	1,004	1,739	91%	4%	5%	0%	0%
	Bulk earthworks	–		–	–	7,198	7,198	0%	8%	92%	0%	0%
	Other	–		–	–	5,232	7,205	30%	40%	30%	0%	0%
		Sub-total	–	–	1,025	1,154	192,340	224,279	35.2%	35.2%	29.6%	0.0%

Lockhart Shire Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Sewerage network	Mains	50		50	9	4,357	6,388	0%	25%	73%	2%	0%
	Pumping Stations	36		25	24	1,509	3,600	5%	20%	75%	0%	0%
	Treatment	180		80	100	2,670	4,173	10%	25%	65%	0%	0%
	Effluent Water Reuse	5		15	17	233	293	25%	30%	45%	0%	0%
	Sub-total	271	-	170	150	8,769	14,454	4.6%	23.9%	70.6%	0.9%	0.0%
Stormwater drainage	Stormwater drainage	-		30	-	513	600	100%	0%	0%	0%	0%
	Sub-total	-	-	30	-	513	600	100.0%	0.0%	0.0%	0.0%	0.0%
Open space/recreational assets	Swimming pools	2,200		60	55	187	2,369	0%	15%	45%	35%	5%
	Open Space/Recreation	-		220	256	847	2,323	50%	23%	25%	2%	0%
	Sub-total	2,200	-	280	311	1,034	4,692	24.8%	19.0%	35.1%	18.7%	2.5%
	TOTAL – ALL ASSETS	2,696	-	1,611	1,715	211,544	258,389	32.6%	33.8%	32.1%	1.2%	0.3%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Lockhart Shire Council

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

\$ '000	Amounts	Indicator	Benchmark	Prior periods	
	2017	2017		2016	2015
Infrastructure asset performance indicators * consolidated					
1. Infrastructure renewals ratio					
Asset renewals ⁽¹⁾	<u>2,561</u>	106.89%	>= 100%	168.49%	89.22%
Depreciation, amortisation and impairment	<u>2,396</u>				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	<u>2,696</u>	1.32%	< 2%	0.80%	0.00%
Net carrying amount of infrastructure assets	<u>204,346</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>1,715</u>	1.06	> 1.00	1.14	1.22
Required asset maintenance	<u>1,611</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>–</u>	0.00%		0.00%	
Gross replacement cost	<u>258,389</u>				

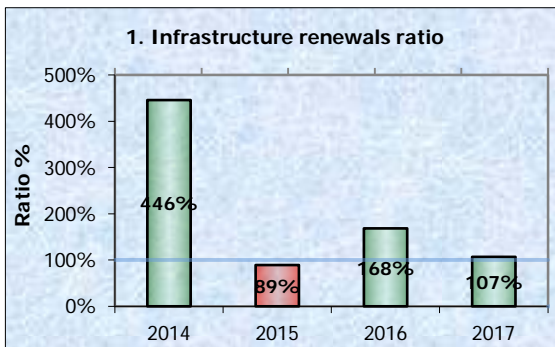
Notes

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

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

Lockhart Shire Council

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



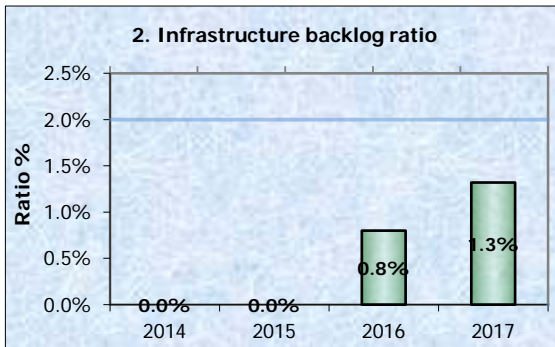
Purpose of asset renewals ratio

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

Commentary on 2016/17 result	
2016/17 Ratio	106.89%
A healthy ratio that is above industry benchmark.	

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

■ Ratio achieves benchmark
■ Ratio is outside benchmark



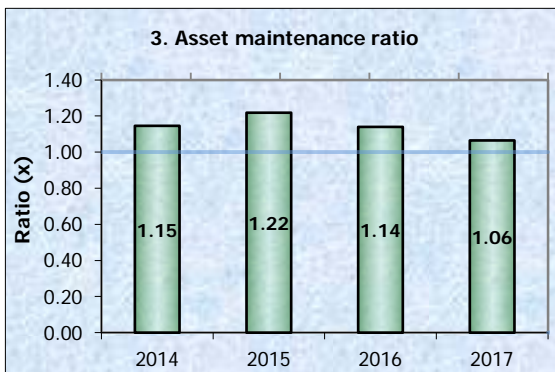
Purpose of infrastructure backlog ratio

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

Commentary on 2016/17 result	
2016/17 Ratio	1.32%
While ratio has increased marginally in recent years, ratio is well under the industry benchmark.	

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

■ Ratio achieves benchmark
■ Ratio is outside benchmark



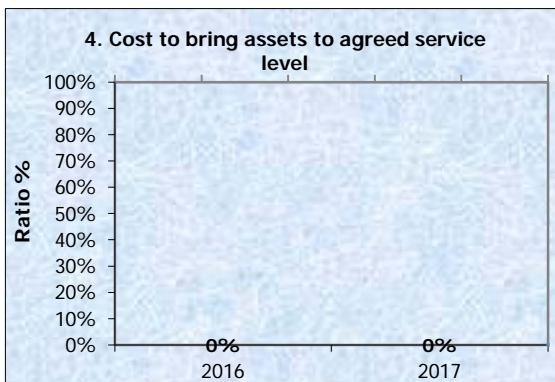
Purpose of asset maintenance ratio

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

Commentary on 2016/17 result	
2016/17 Ratio	1.06 x
Ratio has reduced, ratio is still above industry benchmark.	

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

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Purpose of agreed service level ratio

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

2016/17 Ratio	0.00%
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Lockhart Shire Council

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

\$ '000	Benchmark	Sewer 2017	General ⁽¹⁾ 2017
Infrastructure asset performance indicators by fund			
1. Infrastructure renewals ratio			
<u>Asset renewals ⁽²⁾</u>		0.00%	115.05%
Depreciation, amortisation and impairment	>= 100%		
	prior period:	0.00%	180.26%
2. Infrastructure backlog ratio			
<u>Estimated cost to bring assets to a satisfactory standard</u>		3.09%	1.24%
Net carrying amount of infrastructure assets	< 2%		
	prior period:	4.08%	0.69%
3. Asset maintenance ratio			
<u>Actual asset maintenance</u>		0.88	1.09
Required asset maintenance	> 1.00		
	prior period:	0.98	1.16
4. Cost to bring assets to agreed service level			
<u>Estimated cost to bring assets to an agreed service level set by Council</u>		0.00%	0.00%
Gross replacement cost			

Notes

- (1) General fund refers to all of Council's activities except for its sewer activity which is listed separately.
- (2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Lockhart Shire Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2018

\$'000		Calculation 2016/17	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	2,277	2,323
Plus or minus adjustments ⁽²⁾	b	(2)	1
Notional general income	c = (a + b)	<u>2,275</u>	<u>2,324</u>
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	1.80%	1.50%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	–	–
Or plus rate peg amount	i = c x e	41	35
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
Sub-total	k = (c + g + h + i + j)	<u>2,316</u>	<u>2,359</u>
Plus (or minus) last year's carry forward total	l	7	(0)
Less valuation objections claimed in the previous year	m	–	–
Sub-total	n = (l + m)	<u>7</u>	<u>(0)</u>
Total permissible income	o = k + n	<u>2,323</u>	<u>2,359</u>
Less notional general income yield	p	2,323	2,359
Catch-up or (excess) result	q = o – p	<u>(0)</u>	<u>(0)</u>
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	–	–
Less unused catch-up ⁽⁵⁾	s	–	–
Carry forward to next year	t = q + r – s	<u>(0)</u>	<u>(0)</u>

Notes

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule No. 8

Lockhart Shire Council

To the Councillors of Lockhart Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Matter

Special Schedule No.8 of the Council for the year ended 30 June 2017 was audited by another auditor who expressed an unmodified opinion on Special Schedule No. 8 on 28 October 2016.

Councillors' Responsibility for Special Schedule No. 8

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

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

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

My objectives are to:

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

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

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

My opinion does not provide assurance:

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



Lawrissa Chan
Director, Financial Audit Services

20 October 2017
SYDNEY