



AGENDA APPENDIX
Council Meeting
Wednesday 23 September 2015

AGENDA ITEM FOR SEPARATE DISTRIBUTION TO COUNCILLORS AND
EXECUTIVE LEADERSHIP TEAM DUE TO DOCUMENT SIZE.

THE ITEM IS ACCESSIBLE VIA THE COUNCIL WEBSITE OR BY
CONTACTING COUNCIL ON 03 5662 9200.

**E.7 UNAUDITED FINANCIAL STATEMENTS AND PERFORMANCE
STATEMENTS 2014-2015**

Appendix 1 – Annual Financial Report for Year Ended 2015

SOUTH GIPPSLAND SHIRE COUNCIL

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2015

**South Gippsland Shire Council
Annual Financial Report Contents
For the Year Ended 30 June 2015**

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**South Gippsland Shire Council
Comprehensive Income Statement
For the Year Ended 30 June 2015**

	Note	2,015 \$'000	2,014 \$'000
Income			
Rates and charges	3	35,797	33,712
Statutory fees and fines	4	565	556
User fees	5	3,959	3,417
Grants - Operating	6	19,727	11,192
Grants - Capital	6	2,172	3,183
Contributions - monetary	7	306	279
Contributions - non monetary	7	1,503	121
Net gain/(loss) on disposal of property, infrastructure plant and equipment	8	(125)	(42)
Fair value adjustment for investment property	23	-	42
Share of net profits/(losses) of associates and joint ventures	16	(24)	173
Other Income	9	2,348	2,218
Total income		66,228	54,851
Expenses			
Employee costs	10	22,362	20,943
Materials and services	11	20,228	22,138
Bad and doubtful debts	12	54	-
Depreciation	13	10,559	10,173
Borrowing costs	14	122	127
Other expenses	15	2,920	3,409
Total expenses		56,245	56,790
Surplus / (deficit) for the year		9,983	(1,939)
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	28 (a)	-	17,081
Total Comprehensive result		9,983	15,142

The above comprehensive income statement should be read in conjunction with the accompanying notes.

**South Gippsland Shire Council
Balance Sheet
As at 30 June 2015**

	Note	2015 \$'000	2014 \$'000
Assets			
Current assets			
Cash and cash equivalents	17	15,419	11,425
Trade and other receivables	18	3,815	4,634
Other financial assets	19	4,312	351
Inventories	20	292	248
Other assets	21	303	212
Total current assets		<u>24,141</u>	<u>16,870</u>
Non-current assets			
Investments in associates and joint ventures	16	752	776
Property, infrastructure, plant and equipment	22	487,320	486,044
Investment property	23	716	716
Total non-current assets		<u>488,788</u>	<u>487,536</u>
Total assets		<u>512,929</u>	<u>504,406</u>
Liabilities			
Current liabilities			
Trade and other payables	24	2,531	3,896
Trust funds and deposits	25	1,065	842
Provisions	26	5,332	5,673
Interest-bearing loans and borrowings	27	-	3,350
Total current liabilities		<u>8,928</u>	<u>13,761</u>
Non-current liabilities			
Provisions	26	1,264	1,241
Interest-bearing loans and borrowings	27	3,350	-
Total non-current liabilities		<u>4,614</u>	<u>1,241</u>
Total liabilities		<u>13,542</u>	<u>15,002</u>
Net Assets		<u>499,387</u>	<u>489,404</u>
Equity			
Accumulated surplus		198,371	189,233
Asset revaluation reserve	28 (a)	299,985	299,985
Other reserves	28 (b)	1,031	186
Total Equity		<u>499,387</u>	<u>489,404</u>

The above balance sheet should be read in conjunction with the accompanying notes.

**South Gippsland Shire Council
Statement of Changes in Equity
For the Year Ended 30 June 2015**

2015	Note	Total \$'000	Accumulated Surplus \$'000	Asset Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		489,404	189,233	299,985	186
Surplus/(deficit) for the year		9,983	9,983	-	-
Net Asset revaluation increment/(decrement)	28 (a)	-	-	-	-
Transfers to other reserves	28 (b)	-	(2,584)	-	2,584
Transfers from other reserves	28 (b)	-	1,739	-	(1,739)
Balance at end of the financial year		499,387	198,371	299,985	1,031

2014	Note	Total \$'000	Accumulated Surplus \$'000	Asset Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		474,262	190,062	282,904	1,296
Surplus/(deficit) for the year		(1,939)	(1,939)	-	-
Net Asset revaluation increment/(decrement)	28 (a)	17,081	-	17,081	-
Transfers to other reserves	28 (b)	-	(1,559)	-	1,559
Transfers from other reserves	28 (b)	-	2,669	-	(2,669)
Balance at end of the financial year		489,404	189,233	299,985	186

The above statement of changes in equity should be read in conjunction with the accompanying notes.

South Gippsland Shire Council
Statement of cash flows
For the Year Ended 30 June 2015

	Note	2015 Inflows/ (Outflows) \$'000	2014 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		35,140	33,157
Statutory fees and fines		565	557
User fees		4,978	4,063
Grants - operating		19,727	11,192
Grants - capital		2,172	3,189
Contributions - monetary		306	279
Interest received		468	551
Trust funds and deposits taken		258	27
Other receipts		1,990	1,777
Net GST refund/(payment)		2,513	2,956
Employee costs		(21,713)	(20,604)
Materials and services		(25,017)	(24,802)
Trust funds and deposits repaid		(35)	(30)
Other payments		(2,813)	(3,480)
Net cash provided by/(used in) operating activities	29	18,539	8,832
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		(11,012)	(12,593)
Proceeds from sale of property, infrastructure, plant and equipment		555	733
Payments for investments		(3,961)	1,349
Net Cash used in investing activities		(14,418)	(10,511)
Cash flows from financing activities			
Finance costs		(127)	(104)
Proceeds from borrowings		-	4,000
Repayment of borrowings		-	(784)
Net cash used in financing activities		(127)	3,112
Net increase/(decrease) in cash and cash equivalents		3,994	1,433
Cash and cash equivalents at the beginning of the financial year		11,425	9,992
Cash and cash equivalents at the end of the financial year	30	15,419	11,425
Financing arrangements	31		
Restrictions on cash assets	17		

The above statement of cash flows should be read in conjunction with the accompanying notes.

**South Gippsland Shire Council
Statement of Capital Works
For the Year Ended 30 June 2015**

	2015 \$'000	2014 \$'000
Property		
Land	217	-
Land improvements	-	-
Total land	<u>217</u>	<u>-</u>
Buildings	469	1,058
Heritage Buildings	-	-
Building improvements	-	-
Total buildings	<u>469</u>	<u>1,058</u>
Total property	<u>686</u>	<u>1,058</u>
Plant and equipment		
Plant, machinery and equipment	2,042	3,025
Fixtures, fittings and furniture	42	-
Computers and telecommunications	569	161
Total plant and equipment	<u>2,653</u>	<u>3,186</u>
Infrastructure		
Roads	5,681	4,734
Bridges	456	644
Footpaths and cycleways	253	383
Kerb and Channel	65	52
Drainage	252	1,295
Waste management	29	-
Off street car parks	-	-
Other infrastructure	937	1,241
Total infrastructure	<u>7,673</u>	<u>8,349</u>
Total capital works expenditure	<u>11,012</u>	<u>12,593</u>
Represented by:		
New asset expenditure	15	-
Asset renewal expenditure	8,913	9,977
Asset expansion expenditure	605	561
Asset upgrade expenditure	1,479	2,055
Total capital works expenditure	<u>11,012</u>	<u>12,593</u>

The above statement of capital works should be read in conjunction with the accompanying notes.

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

Introduction

South Gippsland Shire Council was established by an order of the Governor in Council on 2nd December 1994 and is a body corporate. Council's main office is located at 9 Smith Street, Leongatha.

Statement of compliance

These financial statements are a general purpose financial report that consists of a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, Statement of Capital Works and notes accompanying these financial statements. The general purpose financial report complies with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1989*, and the *Local Government (Planning and Reporting) Regulations 2014*.

Note 1 Significant accounting policies

(a) Basis of accounting

The accrual basis of accounting has been used in the preparation of these financial statements, whereby assets liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated judgements are based on professional judgement derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AAS's that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, infrastructure, plant and equipment (refer to note 1 (m))
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to note 1 (n))
- the determination of employee provisions (refer to note 1 (t))

Unless otherwise stated, all accounting policies are consistent with those applied in the prior year. Where appropriate, comparative figures have been amended to accord with current presentation, and disclosure has been made of any material changes to comparatives.

(b) Changes in accounting policies

There have been no changes in accounting policies from previous period.

(c) Principles of consolidation

The consolidated financial statements of Council incorporate all entities controlled by Council as at 30 June 2015, and their income and expenses for that part of the reporting period in which control existed.

Subsidiaries are all entities over which Council has control. Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Council. They are deconsolidated from the date that control ceases.

Where dissimilar accounting policies are adopted by entities and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

In the process of preparing consolidated financial statements all material transactions and balances between consolidated entities are eliminated.

As at 30 June 2015 there were no entities consolidated into Council.

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

Note 1 Significant accounting policies (cont.)

(d) Committees of management

All entities controlled by Council that have material revenues, expenses, assets or liabilities, such as committees of management, have been included in this financial report. Any transactions between these entities and Council have been eliminated in full.

(e) Accounting for investments in associates

Associates are all entities over which Council has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

f) Revenue Recognition

Income is recognised when the Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to the Council and the amount of the contribution can be measured reliably.

Rates and Charges

Annual rates and charges are recognised as revenues when Council issues annual rates notices. Supplementary rates are recognised when a valuation and reassessment is completed and a supplementary rates notice issued.

Statutory fees and fines

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

User fees

User fees are recognised as revenue when the service has been provided or the payment is received, whichever first occurs.

Grants

Grant income is recognised when Council obtains control of the contribution. This is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and are 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 undischarged at balance date, the unused grant or contribution is disclosed in note 6. 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.

Contributions

Monetary and non monetary contributions are recognised as revenue when Council obtains control over the contributed asset.

Sale of property, infrastructure, plant and equipment

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

Interest

Interest is recognised as it is earned.

Dividends

Dividend revenue is recognised when the Council's right to receive payment is established.

Other Income

Other income is measured at the fair value of the consideration received or receivable and is recognised when Council gains control over the right to receive the income.

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

Note 1 Significant accounting policies (cont.)

(g) Fair value measurement

Council measures certain assets and liabilities at fair value where required or permitted by Australian Accounting Standards. AASB 13 Fair value measurement, aims to improve consistency and reduce complexity by providing a definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards.

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, Council has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, Council determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of 90 days or less, net of outstanding bank overdrafts.

(i) Trade and other receivables

Receivables are carried at amortised cost using the effective interest rate method. A provision for doubtful debts is recognised when there is objective evidence that an impairment has occurred.

(j) Other financial assets

Other financial assets are valued at fair value, being market value, at balance date. Term deposits are measured at amortised cost. Any unrealised gains and losses on holdings at balance date are recognised as either a revenue or expense.

(k) Inventories

Inventories held for distribution are measured at cost adjusted when applicable for any loss of service potential. Inventories are measured at the lower of cost and net realisable value.

All other inventories, including land held for sale, are measured at the lower of cost and net realisable value.

Where Inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

(l) Non-current assets classified as held for sale

A non-current asset classified as held for sale (including disposal groups) is measured at the lower of its carrying amount and fair value less costs to sell, and are not subject to depreciation. Non-current assets, disposal groups and related liabilities and assets are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale (or disposal group sale) is expected to be completed within 12 months from the date of classification.

(m) Recognition and measurement of property, plant and equipment, infrastructure, intangibles

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction, and an appropriate share of directly attributable variable and fixed overheads.

In accordance with Council's policy, the threshold limits detailed in Note 1 (n) have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

Note 1 Significant accounting policies (cont.)

(m) Recognition and measurement of property, plant and equipment, infrastructure, intangibles (cont.)

Revaluation

Subsequent to the initial recognition of assets, non-current physical assets, other than plant and equipment, are measured at their fair value, being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. At balance date, the Council reviewed the carrying value of the individual classes of assets measured at fair value to ensure that each asset materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date, the class of asset was revalued.

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use on an asset result in changes to the permissible or practical highest and best use of the asset. Further details regarding the fair value hierarchy are disclosed at Note 22, Property, infrastructure, plant and equipment.

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 1 to 3 years. The valuation is performed either by experienced council officers or independent experts.

Where the assets are revalued, the revaluation increments are credited directly to the asset revaluation reserve except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense in which case the increment is recognised as revenue up to the amount of the expense. Revaluation decrements are recognised as an expense except where prior increments are included in the asset revaluation reserve for that class of asset in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are offset.

Land under roads

Council recognises land under roads it controls at fair value since 30 June 2008.

(n) Depreciation of property, infrastructure, plant and equipment and intangibles

Buildings, land improvements, plant and equipment, infrastructure, and other assets having limited useful lives are systematically depreciated over their useful lives to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives and residual values are made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods are reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are assigned distinct useful lives and residual values and a separate depreciation rate is determined for each component.

Road earthworks are not depreciated on the basis that they are assessed as not having a limited useful life.

Straight line depreciation is charged based on the residual useful life as determined each year.

Depreciation periods used are listed below and are consistent with the prior year unless otherwise stated.

Asset recognition thresholds and depreciation periods

	Depreciation Period	Threshold Limit \$'000
Property		
land	-	No Threshold
land improvements	-	10
Buildings		
heritage buildings	100 years	15
buildings	20 to 50 years	15
building improvements	20 to 50 years	15
Plant and Equipment		
major plant, machinery and equipment	1 to 10 years	No Threshold
fixtures, fittings and furniture	1 to 5 years	15
computers and telecommunications	1 to 5 years	15
Infrastructure		
road pavements	100 years	No Threshold
road seals	17 years	No Threshold
road formation and earthworks	not depreciated	No Threshold
road kerbs & channel	60 years	15
major culverts	50 to 100 years	15
bridges	100 Years	15
footpaths and cycleways	40 to 60 years	15
drainage	100 Years	15
waste management	4 to 50 years	15
other Structures	10 to 40 Years	15
off street car parks pavement	100 years	15
off street car parks seal	17 years	15

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

Note 1 Significant accounting policies (cont.)

(o) Repairs and maintenance

Routine maintenance, repair costs, and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

(p) Investment property

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. Investment property is measured initially at cost, including transaction costs. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefit in excess of the originally assessed performance of the asset will flow to the Council. Subsequent to initial recognition at cost, investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the comprehensive income statement in the period that they arise. Rental income from the leasing of investment properties is recognised in the comprehensive income statement on a straight line basis over the lease term.

(q) Impairment of assets

At each reporting date, the Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the comprehensive income statement, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

(r) Trust funds and deposits

Amounts received as deposits and retention amounts controlled by Council are recognised as trust funds until they are returned, transferred in accordance with the purpose of the receipt, or forfeited (refer to Note 25).

(s) Borrowings

Borrowings are initially measured at fair value, being the cost of the interest bearing liabilities, net of transaction costs. The measurement basis subsequent to initial recognition depends on whether the Council has categorised its interest-bearing liabilities as either financial liabilities designated at fair value through the profit and loss, or financial liabilities at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in net result over the period of the borrowing using the effective interest method. The classification depends on the nature and purpose of the interest bearing liabilities. The Council determines the classification of its interest bearing liabilities at initial recognition.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except where they are capitalised as part of a qualifying asset constructed by Council. Except where specific borrowings are obtained for the purpose of specific asset acquisition, the weighted average interest rate applicable to borrowings at balance date, excluding borrowings associated with superannuation, is used to determine the borrowing costs to be capitalised.

Borrowing costs include interest on bank overdrafts and interest on borrowings.

(t) Employee costs and benefits

The calculation of employee costs and benefits includes all relevant on-costs and are calculated as follows at reporting date.

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employee services up to the reporting date, classified as current liabilities and measured at their nominal values.

Liabilities that are not expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits as current liabilities, measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

Note 1 Significant accounting policies (cont.)

(t) Employee costs and benefits (cont.)

Long service leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

Current Liability - unconditional LSL is disclosed as a current liability even when the council does not expect to settle the liability within 12 months because it will not have the unconditional right to defer settlement of the entitlement should an employee take leave within 12 months

The components of this current liability are measured at :

- present value - component that is not expected to be wholly settled within 12 months.
- nominal value - component that is expected to be wholly settled within 12 months.

Classification of employee costs

Non-current liability - conditional LSL that has been accrued, where an employee is yet to reach a qualifying term of employment, is disclosed as a non - current liability. There is an unconditional right to defer settlement of the entitlement until the employee has completed the requisite years of service.

This non-current LSL liability is measured at present value.

(u) Landfill rehabilitation provision

Council is obligated to restore its Koonwarra landfill site to a particular standard. The forecast life of the site is based on current estimates of remaining capacity and the forecast rate of infill. The provision for landfill restoration has been calculated based on the present value of the expected cost of works to be undertaken. The expected cost of works has been estimated based on current understanding of work required to reinstate the site to a suitable standard. Accordingly, the estimation of the provision required is dependent on the accuracy of the forecast timing of the work, work required and related costs.

(v) Leases

Operating leases

Lease payments for operating leases are required by the accounting standard to be recognised on a straight line basis, rather than expensed in the years in which they are incurred.

Leasehold improvements

Leasehold improvements are recognised at cost and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(x) Financial guarantees

Financial guarantee contracts are not recognised as a liability in the balance sheet unless the lender has exercised their right to call on the guarantee or Council has other reasons to believe that it is probable that that right will be exercised. Details of guarantees that Council has provided, that are not recognised in the balance sheet are disclosed at Note 34 Contingent Liabilities and Contingent Assets.

(y) Contingent assets and contingent liabilities and commitments

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Commitments are not recognised in the Balance Sheet. Commitments are disclosed at their nominal value by way of note and presented inclusive of the GST payable.

(z) Pending accounting standards

Certain new AAS's have been issued that are not mandatory for the 30 June 2015 reporting period. Council has assessed these pending standards and has identified that no material impact will flow from the application of these standards in future reporting periods.

(aa) Rounding

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars. Figures in the financial statement may not equate due to rounding.

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

NOTE 2 Budget comparison

The budget comparison notes compare Council's financial plan, expressed through its annual budget, with actual performance. The Local Government (Planning and Reporting) Regulations 2014 requires explanation of any material variances. Council has adopted a materiality threshold of the lower of 5 percent or \$100K where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

The budget figures detailed below are those adopted by Council on 25 June 2014. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for revenue and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

These notes are prepared to meet the requirements of the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014 .

a) Income and Expenditure

	Budget 2015 \$'000	Actual 2015 \$'000	Variance 2015 \$'000 Ref	
Income				
Rates and charges	35,677	35,797	120	1
Statutory fees and fines	588	565	(23)	
User fees	4,267	3,959	(308)	2
Grants - Operating	15,464	19,727	4,263	3
Grants - Capital	4,812	2,172	(2,640)	4
Contributions - monetary	66	306	240	5
Contributions - non monetary	1,337	1,503	166	6
Net gain / (loss) on disposal of property,	290	(125)	(415)	7
Fair value adjustment for investment property	-	-	-	
Share of net profits / (losses) of associates and	-	(24)	(24)	8
Other Income	1,770	2,348	578	9
Total income	64,271	66,228	1,957	
Expenses				
Employee costs	22,241	22,362	(121)	10
Materials and services	21,483	20,228	1,255	11
Bad and doubtful debts	1	54	(53)	12
Depreciation and amortisation	10,855	10,559	296	13
Borrowing costs	151	122	29	14
Other expenses	3,454	2,920	534	15
Total expenses	58,185	56,245	1,940	
Surplus / (deficit) for the year	6,086	9,983	3,897	

(i) Explanation of material variations

Variance Ref.	Item	Explanation
1	Rates and charges	Supplementary rates were higher than estimate.
2	User fees	Site income from Caravan Parks was lower by \$179K and Council fees & charges were lower by \$129K.
3	Grants - Operating	50% of Grants commission allocation amounting to \$4.3M that relates to 2015-16 was received in June 2015.Reduction in Grant funding for projects such as Great Southern Rail Trial and Black spur bridge investigation was partly compensated by new grants during the year.
4	Grants - Capital	Grant funding for Child Care hub - Korumburra (\$3.1M) is now expected only in future years.
5	Contributions - monetary	Unexpected contribution received for various sports & recreation projects. Also \$35K received for Biodiversity projects.
6	Contributions - non monetary	Developer contributed assets during 2015-16 was much higher than estimated.
7	Net gain / (loss) on disposal of property, infrastructure plant and equipment	Land Sales which were budgeted in 2014-15 have now been postponed to future years.
8	Share of net profits / (losses) of associates and joint ventures	Council share of \$24K loss from Library was unexpected and not budgeted for.
9	Other Income	Fuel Tax credit back claims of \$84K, Insurance claim of \$27K and \$169K from new method of staff vehicle recovery. Further private works revenue was higher by \$358K. Lower income in some areas especially sundry revenue of \$49K.
10	Employee costs	Expenditure higher than budget due to redundancy provisions resulting from the organisation re-structure.
11	Materials and services	Mainly due to carry forward of major projects such as Great Southern Rail Trial (\$726K) & Black Spur Bridge Investigation (\$1.4M) to future years. This was partly offset by higher expenditure on Landfill rehabilitation (\$488K)
12	Bad and doubtful debts	Provision made for Caravan Park debtors that were overdue and considered doubtful of recovery.
13	Depreciation and amortisation	This is mainly due to timing and carry forward of Capital expenditure projects.
14	Borrowing costs	Interest rate on the five year loan of \$3.35M was more favourable than budget.
15	Other expenses	Various Community grants which were budgeted for payment in 2014-15 were either reduced or carried forward to 2015-16.

Note 2 Budget comparison (cont.)

b) Capital Works

	Budget 2015 \$'000	Actual 2015 \$'000	Variance 2015 \$'000 Ref	
Property				
Land	250	217	33	1
Total land	250	217	33	
Buildings	3,498	469	3,029	2
Heritage Buildings	-	-	-	
Building improvements	-	-	-	
Total buildings	3,498	469	3,029	
Total property	3,748	686	3,062	
Plant and equipment				
Plant, machinery and equipment	2,344	2,042	302	3
Fixtures, fittings and furniture	-	42	(42)	4
Computers and telecommunications	659	569	90	5
Total plant and equipment	3,003	2,653	350	
Infrastructure				
Roads	5,863	5,681	182	6
Bridges	673	456	217	7
Footpaths and cycleways	313	253	60	8
Kerb and Channel	-	65	(65)	9
Drainage	55	252	(197)	10
Waste management	262	29	233	11
Off street car parks	-	-	-	
Other infrastructure	1,559	937	622	12
Total infrastructure	8,725	7,673	1,052	
Total capital works expenditure	15,476	11,012	4,464	
Represented by:				
New asset expenditure	-	15	(15)	
Asset renewal expenditure	12,994	8,913	4,081	
Asset expansion expenditure	662	605	57	
Asset upgrade expenditure	1,820	1,479	341	
Total capital works expenditure	15,476	11,012	4,464	

(i) Explanation of material variations

Variance Ref.	Item	Explanation
1	Land	Purchase & Sale of Land have been carried forward to future years.
2	Buildings	Child Care Hub, Korumburra (\$2.6M) was carried forward to 2015-16
3	Plant, machinery and equipment	Some of the Major Plant purchases have been postponed to future years.
4	Fixtures, fittings and furniture	Expenditure in this new class of Asset was not budgeted for.
5	Computers and telecommunications	Some of the network infrastructure and improvement projects have been substituted/carried forward to future years.
6	Roads	Variation is within tolerable limits for this major class of asset.
7	Bridges	Allambee Estate Road Bridge rehabilitation estimates has been revised and partly carried forward to 2015-16.
8	Footpaths and cycleways	Extension to Walkerville Road - Tarwin Lower has been carried forward to 2015-16.
9	Kerb and Channel	Kerb and Channel expenses on Dutton Street - Toora (\$65K) was not budgeted.
10	Drainage	Drainage rehabilitation program of \$168K and Hanna rise Court(\$18K) was not part of original budget.
11	Waste management	Landfill construction carried forward to 2015-16.
12	Other infrastructure	Some of the Recreation projects have been carried forward to 2015-16.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

**2015
\$'000** **2014
\$'000**

NOTE 3 Rates and charges

Council uses Capital Improved Value (CIV) as the basis of valuation of all properties within the municipal district. The capital value of a property is the value that it could be reasonably expected to sell for on the open market.

The valuation base used to calculate general rates for 2014/15 was \$6,976 million (2013/14 \$6,780 million)

The rates for each classification was:-

General	17,023	12,470
Industrial	821	401
Commercial	1,133	1,161
Farm	9,240	9,696
Vacant Land	1,883	1,298
Cultural & Recreational Land	17	13
Vacant Restricted Land	-	44
Municipal Charge	3,326	6,271
Special Rates	145	-
Supplementary Rates & Rate Adjustments	399	280
Garbage Charges	1,810	2,078
TOTAL RATES AND CHARGES	<u>35,797</u>	<u>33,712</u>

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2014, and the valuation was first applied in the rating year commencing 1 July 2014.

NOTE 4 Statutory fees and fines

Land Information Certificates	24	23
Local Laws / Animal control	151	144
Building Services	87	109
Town Planning applications	244	213
Supervision Fees	53	34
Others	6	33
TOTAL STATUTORY FEES AND FINES	<u>565</u>	<u>556</u>

NOTE 5 User fees

Aged and health services	676	596
Leisure centre and recreation	92	131
Local Laws	367	315
Waste management services	1,651	1,557
Caravan Parks	1,043	706
Other fees and charges	130	112
TOTAL USER FEES	<u>3,959</u>	<u>3,417</u>

NOTE 6 Grants

Grants were received in respect of the following:-

Summary of grants

Commonwealth funded grants	1,694	1,748
State funded grants	20,205	12,627
Total	<u>21,899</u>	<u>14,375</u>

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015	2014
	\$'000	\$'000
Note 6 Grants (cont.)		
Operating Grants		
<i>Recurrent - Commonwealth Government</i>		
Immunisation	1	1
<i>Recurrent - State Government</i>		
Victoria Grants Commission	12,857	4,212
Valuation Services	274	11
Community Safety	26	33
Family and children	154	149
Aged care	1,408	1,380
School crossing supervision	33	32
Community building	101	97
Community health	32	30
Maternal & child health	286	257
Other	111	115
Total recurrent operating grants	15,283	6,317
<i>Non-recurrent - Commonwealth Government</i>		
Environmental Services	-	83
Training & Development	-	8
<i>Non-recurrent - State Government</i>		
Community Safety	60	60
Families & Children	17	20
Youth Services	54	56
Fire Services Levy Administration	44	70
Economic Development	57	37
Sustainability	82	90
Training & Development	-	55
Community Building	13	79
Local Roads & Infrastructure	534	516
Natural Disasters	2,540	3,377
Recreation & Leisure	1,009	349
Others	34	75
Total non-recurrent operating grants	4,444	4,875
Total operating grants	19,727	11,192
Capital Grants		
<i>Recurrent - Commonwealth Government</i>		
Roads to Recovery - Capital	1,672	1,636
Total recurrent capital	1,672	1,636
<i>Non-recurrent - Commonwealth Government</i>		
Building	21	20
<i>Non-recurrent - State Government</i>		
Building	20	135
Other Structures	333	171
Plant, machinery and equipment	-	18
Roads	126	1,203
Total non-recurrent capital	500	1,547
Total capital grants	2,172	3,183

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

**2015
\$'000** **2014
\$'000**

Note 6 Grants (cont.)

Conditions on grants

Grants recognised as revenue during the year and were obtained on the condition that they be expended in a specified manner that had not occurred at balance date were:

Community Projects	113	287
Home and Community Care	32	87
Families and Children	47	20
Recreation and Leisure	256	91
Road and associated works	231	729
Natural Disaster	-	182
Total	679	1,396

Grants which were recognised as revenue in prior years and were expended in a specified manner by the grantor were:

Community Projects	394	530
Home and Community Care	81	198
Families and Children	6	266
Recreation and Leisure	91	210
Road and associated works	182	2,131
Natural Disaster	2	767
Total	756	4,102

Net (decrease) in restricted assets resulting from grant revenues for the year **(77)** **(2,706)**

NOTE 7 Contributions

<i>Monetary</i>	306	279
<i>Non-monetary</i>	1,503	121
TOTAL CONTRIBUTIONS	1,809	400

Contributions of non monetary assets were received in relation to the following assets:

Roads & Streets	559	-
Drains	577	116
Kerbs & Channel	136	-
Footpaths	176	5
Other Structures	55	-
Total non cash contributions	1,503	121

NOTE 8 Gain / (Loss) on Disposal of property, infrastructure, plant and equipment

Proceeds of Sales

Proceeds from Land & Building Sales	15	13
Proceeds from Plant & Equipment Sales	540	720
Total Proceeds from Sale of Assets	555	733

Written Down Value of Items sold

Carrying Amount of Land & Building Sold	-	-
Carrying Amount of Plant & Equipment Sold	680	775
Total Written Down Value of Assets sold	680	775

TOTAL GAIN / (LOSS) ON DISPOSAL OF NON-CURRENT ASSETS **(125)** **(42)**

NOTE 9 Other income

Interest on rates	187	150
Other Interest	293	396
Other rent	168	198
Investment property rent	61	51
Quarries	13	10
Private Works	639	671
Families & Children	14	66
Coal Creek	234	201
Rate Recovery Proceedings	94	157
Insurances	63	55
Fuel Tax Credits	189	83
Work cover	111	70
Vehicle contribution	169	-
Sundry Income	113	110
TOTAL OTHER INCOME	2,348	2,218

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015	2014
	\$'000	\$'000
NOTE 10 (a) Employee costs		
Wages & Salaries	18,098	16,700
Casual Staff	721	667
Annual and Long Service Leave	2,109	2,125
Superannuation	1,846	1,709
Work cover	233	238
Fringe benefits tax	154	245
	<u>23,161</u>	<u>21,684</u>
Less Capitalised	(799)	(741)
TOTAL EMPLOYEE COST	<u>22,362</u>	<u>20,943</u>

NOTE 10 (b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	133	126
	<u>133</u>	<u>126</u>
Employer contributions payable at reporting date.	-	7

Accumulation fund

Employer contributions - Vision Super/Others	1,713	1,583
	<u>1,713</u>	<u>1,583</u>
Employer contributions payable at reporting date.	-	-

South Gippsland Shire Council makes majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (the Fund). This Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. Obligations for contributions to the Fund are recognised as an expense in Comprehensive Income Statement when they are made or due.

Accumulation

The Fund's accumulation categories, Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2015, this was 9.5% required under Superannuation Guarantee legislation (for 2013/14, this was 9.25%)).

Defined Benefit

South Gippsland Shire Council does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a pooled multi-employer sponsored plan.

There is no proportional split of the defined benefit liabilities, assets or cost between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of South Gippsland Shire Council in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Actuary is unable to allocate benefit liabilities, assets and costs between employer for purposes of AASB 119.

NOTE 11 Materials and services

Waste Management	2,159	2,069
Leisure Centre Operations	793	360
Contractors General	4,591	4,054
Software Maintenance	598	523
Landfill Rehabilitation provision	488	200
Great Southern Rail Trail	660	592
Natural disasters	124	1,673
Materials General	5,158	6,137
Fuel & Oils	871	927
Advertising & Promotion Costs	295	337
Utilities	887	953
Subscriptions, affiliations and conferences	116	137
Leases	246	309
Legal Fees	329	416
Consultancies and projects	342	620
Insurance Premiums	569	625
Plant & Equipment Registrations	134	130
Training expenses	356	366
State levies	678	662
Gippsland Group Training / Labour Hire	765	985
Others	69	63
TOTAL MATERIALS AND SERVICES	<u>20,228</u>	<u>22,138</u>

NOTE 12 Bad and doubtful debts

Caravan parks debtors	53	-
Other debtors	1	-
	<u>54</u>	<u>-</u>

NOTE 13 Depreciation

Property	2,308	2,279
Plant and equipment	1,839	1,753
Infrastructure	6,412	6,141
TOTAL DEPRECIATION	<u>10,559</u>	<u>10,173</u>

Refer to note 22 for a more detailed breakdown of depreciation

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015 \$'000	2014 \$'000
NOTE 14 Borrowing costs		
Interest - Borrowings	122	127
TOTAL BORROWING COSTS	122	127

NOTE 15 Other expenses		
Library Contributions	1,267	1,206
Community & Sporting Grants	991	1,599
Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals #	70	53
Auditors' remuneration - Internal	37	29
Councillors' allowances	282	276
Bank Fees & Charges	273	246
TOTAL OTHER EXPENSES	2,920	3,409

The audit of the 2014-15 financial statements amounted to \$49000.

NOTE 16 Investments in associates

Investment in West Gippsland Regional Library Corporation is accounted for using the equity method.

Background

Council has a 30.55% equity interest in the West Gippsland Regional Library Corporation in 2014/15 (30.55% in 2013/14). The equity interest is calculated on the basis of the proportion it contributes to the operating costs of the services.

Council's share of accumulated surplus/(deficit)

Council's share of accumulated surplus/(deficit) at start of year	702	529
Reported surplus/(deficit) for year	(24)	173
Council's share of accumulated surplus/(deficit) at end of year	678	702

Council's share of reserves

Council's share of reserves at start of year	74	74
Revaluation reserve increment	-	-
Council's share of reserves at end of year	74	74

Movement in carrying value of specific investment

Carrying value of investment at start of year	776	603
Transfers to asset revaluation reserve	-	-
Share of surplus/(deficit) for year	(24)	173
Carrying value of investment at end of year	752	776

Council's share of expenditure commitments	-	-
Operating leases and rentals	-	-
	-	-

West Gippsland Regional Library Corporation has not disclosed any contingent liabilities and assets for the financial years 2014/15 and 2013/14.

NOTE 17 Cash and cash equivalents

Cash on Hand	2	4
Cash at Bank	4,436	3,402
Money Market Call Account	2,981	4,019
Term Deposits	8,000	4,000
TOTAL CASH AND CASH EQUIVALENTS	15,419	11,425

Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use. These include:

- Grants recognised as revenue and obtained on the condition that they be expended in a specified manner that had not occurred at balance date.

- Trust funds and deposits (Note 25)	1,902	1,979
- Reserve funds allocated for specific future purposes (Note 28(b))	1,065	842
	1,031	186

TOTAL RESTRICTED FUNDS	3,998	3,007
TOTAL UNRESTRICTED CASH AND CASH EQUIVALENTS	11,421	8,418

Intended allocations

Although not externally restricted the following amounts have been allocated for specific future purposes by Council:

General Reserve	339	1
Corner Inlet Seawall Reserve	22	21
Henry's Road Reserve	-	44
Loan Reserve	670	-
	1,031	66

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015 \$'000	2014 \$'000
NOTE 18 Trade and other receivables		
Current		
Rates Debtors	2,524	1,993
Other debtors	836	2,231
Special rate assessment	125	1
Net GST Receivable	383	409
Provision for doubtful debts - other debtors	(53)	-
TOTAL TRADE AND OTHER RECEIVABLES	3,815	4,634

a) Ageing of Receivables

At balance date other debtors representing financial assets were past due but not impaired. These amounts relate to a number of independent customers for whom there is no recent history of default. The ageing of Council's Trade and Other Receivables (excluding statutory receivables) was:

	2015 \$'000	2014 \$'000
Current (not yet due)	493	418
Past due by up to 30 Days	70	488
Past due between 31 and 180 days	197	1,270
Past due between 181 and 365 days	26	7
Past due by more than 1 year	50	48
Total Trade & Other Receivables	836	2,231

b) Movement in provisions for doubtful debts

Balance at the beginning of the year	-	-
New provisions recognised during the year	53	-
Amount already provided for and written off as uncollectible	-	-
Amounts provided for but recovered during the year	-	-
Balance at the end of the year	53	-

c) Ageing of individually impaired Trade and Other Receivables

At balance date other debtors representing financial assets with a nominal value of \$52,516 (2013/14 - \$ Nil) were impaired. The amount of provision raised against these debtors was \$52,516 (2013/14 \$ Nil). The individually impaired debtors relate to general and sundry debtors and have been impaired as a result of their doubtful collection. Many of the long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

The ageing of receivables that have been individually determined as impaired at reporting date was:

Past due between 31 and 180 days	42	-
Past due between 181 and 365 days	1	-
Past due by more than 1 year	10	-
Total trade & other receivables	53	-

NOTE 19 Other financial assets

Term Deposits	4,312	351
TOTAL OTHER FINANCIAL ASSETS	4,312	351

NOTE 20 Inventories

Raw Materials and Stores	292	248
TOTAL INVENTORIES	292	248

NOTE 21 Other assets

Prepayments	303	212
TOTAL OTHER ASSETS	303	212

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

NOTE 22 Property, Infrastructure, Plant and Equipment

	Land - specialised	Land - Under Roads	Total Land	Heritage Buildings	Buildings - specialised	Total Buildings	Work In Progress	Total Property
Land and Buildings								
At fair value 1 July 2014	43,023	32,414	75,437	5,510	109,808	115,318	503	191,258
Accumulated depreciation at 1 July 2014	-	-	-	3,994	63,185	67,179	-	67,179
	43,023	32,414	75,437	1,516	46,623	48,139	503	124,079
Movements in fair value								
Acquisition of assets at fair value	-	-	-	-	272	272	414	686
Revaluation increments/decrements	-	-	-	-	-	-	-	-
Fair value of assets disposed	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	212	212	(212)	-
	-	-	-	-	484	484	202	686
Movements in accumulated depreciation								
Depreciation and amortisation	-	-	-	55	2,253	2,308	-	2,308
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
	-	-	-	55	2,253	2,308	-	2,308
At fair value 30 June 2015	43,023	32,414	75,437	5,510	110,292	115,802	705	191,944
Accumulated depreciation at 30 June 2015	-	-	-	4,049	65,438	69,487	-	69,487
	43,023	32,414	75,437	1,461	44,854	46,315	705	122,457

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

NOTE 22 Property, Infrastructure, Plant and Equipment (cont.)

	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Work In Progress	Total plant and equipment
Plant and Equipment					
At fair value 1 July 2014	13,006	158	4,206	67	17,437
Accumulated depreciation at 1 July 2014	4,203	150	3,215	-	7,568
	<u>8,803</u>	<u>8</u>	<u>991</u>	<u>67</u>	<u>9,869</u>
Movements in fair value					
Acquisition of assets at fair value	2,042	42	534	35	2,653
Revaluation increments/decrements	-	-	-	-	-
Fair value of assets disposed	(1,444)	-	-	-	(1,444)
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	67	(67)	-
	<u>598</u>	<u>42</u>	<u>601</u>	<u>(32)</u>	<u>1,209</u>
Movements in accumulated depreciation					
Depreciation and amortisation	1,406	6	427	-	1,839
Accumulated depreciation of disposals	(764)	-	-	-	(764)
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	-	-	-
	<u>642</u>	<u>6</u>	<u>427</u>	<u>-</u>	<u>1,075</u>
At fair value 30 June 2015	13,604	200	4,807	35	18,646
Accumulated depreciation at 30 June 2015	4,845	156	3,642	-	8,643
	<u>8,759</u>	<u>44</u>	<u>1,165</u>	<u>35</u>	<u>10,003</u>

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

NOTE 22 Property, Infrastructure, Plant and Equipment (cont.)

	Roads	Bridges	Major Culverts	Footpaths and cycleways	Kerb & Channel	Off street car parks	Drainage	Waste Management	Other Infrastructure	Work In Progress	Total Infrastructure
Infrastructure											
At fair value 1 July 2014	310,173	30,141	12,168	15,749	20,049	6,197	36,164	3,964	7,482	4,028	446,115
Accumulated depreciation at 1 July 2014	46,699	12,417	4,985	2,860	5,164	2,756	14,418	1,738	2,982	-	94,019
	263,474	17,724	7,183	12,889	14,885	3,441	21,746	2,226	4,500	4,028	352,096
Movements in fair value											
Acquisition of assets at fair value	5,289	92	-	428	201	-	829	-	496	1,841	9,176
Revaluation increments/decrements	-	-	-	-	-	-	-	-	-	-	-
Fair value of assets disposed	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-
Transfers	1,109	641	-	1	-	-	1,086	-	533	(3,370)	-
	6,398	733	-	429	201	-	1,915	-	1,029	(1,529)	9,176
Movements in accumulated depreciation											
Depreciation and amortisation	3,825	303	122	271	336	78	365	600	512	-	6,412
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-
	3,825	303	122	271	336	78	365	600	512	-	6,412
At fair value 30 June 2015	316,571	30,874	12,168	16,178	20,250	6,197	38,079	3,964	8,511	2,499	455,291
Accumulated depreciation at 30 June 2015	50,524	12,720	5,107	3,131	5,500	2,834	14,783	2,338	3,494	-	100,431
	266,047	18,154	7,061	13,047	14,750	3,363	23,296	1,626	5,017	2,499	354,860

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

NOTE 21 Property, Infrastructure Plant and Equipment (cont.)

Valuation of land and buildings

Valuation of Land and buildings were undertaken by Andrew Begg, AAPI (Council Employee). The basis of valuation is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

Specialised land is valued at fair value using site values adjusted for englobo (undeveloped and/or unserved) characteristics, access rights and private interests of other parties and entitlements of infrastructure assets and services. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

Any significant movement in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2015 are as follows:

	Level 1	Level 2	Level 3
Land Specialised	-	-	43,023
Land under roads	-	-	32,414
Heritage buildings	-	-	1,461
Building specialised	-	-	44,854
Total	-	-	121,752

Valuation of infrastructure

Valuation of Council's, infrastructure assets was performed by Alan Landers, B. Civil Engineering (Council employee). The valuation is at fair value based on replacement cost less accumulated depreciation as at the date of valuation.

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2015 are as follows:

	Level 1	Level 2	Level 3
Roads	-	-	266,047
Bridges	-	-	18,154
Major Culverts	-	-	7,061
Footpaths and cycleways	-	-	13,047
Kerb & Channel	-	-	14,750
Off-street car parks	-	-	3,363
Drainage	-	-	23,296
Waste Management	-	-	1,626
Other infrastructure	-	-	5,017
Total	-	-	352,361

Description of significant unobservable inputs into level 3 valuation

Specialised land and land under roads is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1 and \$877 per square metre.

Specialised buildings are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$500 to \$2500 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 20 years to 50 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.

Infrastructure assets are valued based on the depreciated replacement cost. Significant unobservable inputs include the current replacement cost and remaining useful lives of infrastructure. The remaining useful lives of infrastructure assets are determined on the basis of the current condition of the asset and vary from 2 years to 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

Reconciliation of specialised land

	2,015	2,014
Specialised land	43,023	43,023
Land under roads	32,414	32,414
Total specialised land	75,437	75,437

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015	2014
	\$'000	\$'000
NOTE 23 Investment Property		
Balance at the beginning of the year	716	674
Fair value adjustment		42
Balance at end of financial year	716	716

Investment properties include - Quarry site and a portion of the Stockyard gallery. Valuation of investment property has been determined in accordance with an independent valuation by Marc Babos , AAPI (Council employee) who has recent experience in the location and category of the property being valued. The valuation is at fair value, based on the current market value for the property. The valuation is a level three valuation, meaning it is based on unobservable inputs.

There have been no transfers between levels during the period. There were no changes in valuation techniques throughout the period to 30 June 2015. For investment properties measured at fair value, the current use of the asset is considered the highest and best use.

NOTE 24 Trade and other payables

Payables	986	2,695
Accrued expenses	1,545	1,201
TOTAL TRADE AND OTHER PAYABLES	2,531	3,896

NOTE 25 Trust funds and deposits

Refundable development bonds	190	88
Fire Services levy	379	316
Refundable contract deposits	31	15
Retention amounts	47	30
Other Deposits	418	393
TOTAL TRUST FUNDS AND DEPOSITS	1,065	842

Purpose and nature of items

Refundable deposits - Deposits are taken by council as a form of surety in a number of circumstances, including in relation to building works, tender deposits, contract deposits and the use of civic facilities

Fire Service Levy - Council is the collection agent for fire services levy on behalf of the State Government. Council remits amounts received on a quarterly basis. Amounts disclosed here will be remitted to the state government in line with that process.

Retention Amounts - Council has a contractual right to retain certain amounts until a contractor has met certain requirements or a related warrant or defect period has elapsed. Subject to the satisfactory completion of the contractual obligations, or the elapsing of time, these amounts will be paid to the relevant contractor in line with Council's contractual obligations.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

NOTE 26 Provisions

	Landfills Restoration \$'000	Other	Total \$'000
2015			
Balance at beginning of the financial year	1,256	5,658	6,914
Additional provisions	-	2,194	2,194
Amounts used	(558)	(1,992)	(2,550)
Increase/(decrease) in the discounted amount arising because of time and the effect of any changes in the discount rate.		38	38
Balance at the end of the financial year	698	5,898	6,596

2014			
Balance at beginning of the financial year	1,198	5,321	6,519
Additional provisions	200	2,382	2,582
Amounts used	(142)	(2,051)	(2,193)
Increase / (decrease) in the discounted amount arising because of time and the effect of any changes in the discount rate.	-	6	6
Balance at the end of the financial year	1,256	5,658	6,914

	2015 \$'000	2014 \$'000
a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual Leave	1,583	1,446
Rostered Days	200	190
Long Service Leave	1,314	1,292
	<u>3,097</u>	<u>2,928</u>
Current provisions expected to be wholly settled after 12 months		
Annual Leave	591	579
Long Service Leave	1,644	1,608
	<u>2,235</u>	<u>2,187</u>
Total Current Provisions	5,332	5,115
Non-current		
Long Service Leave	566	543
Total Non-Current Provisions	566	543
Aggregate carrying amount of employee provisions:		
Current	5,332	5,115
Non-current	566	543
Total aggregate carrying amount of employee provisions	<u>5,898</u>	<u>5,658</u>

The following assumptions were adopted in measuring the present value of employee benefits:

Weighted average increase in employee costs	4.4%	4.4%
Weighted average discount rates	3.0%	3.0%

(b) Landfill restoration

Current	-	558
Non-current	698	698
	<u>698</u>	<u>1,256</u>

The following assumptions were adopted in measuring the present value of landfill rehabilitation:

Weighted average increase in costs	4.0%	4.0%
Weighted average discount rates	3.0%	3.0%
Weighted average settlement period	2 years	2 years

NOTE 27 Interest-bearing loans and borrowings

Current		
Borrowings - Secured *	-	3,350
	-	3,350
Non-Current		
Borrowings - Secured *	3,350	-
	3,350	-
TOTAL INTEREST-BEARING LOANS AND BORROWINGS	3,350	3,350

* The loans are secured over the general rates of the Council.

The maturity profile for Council's borrowings is:

Not later than one year	-	3,350
Later than one year and not later than five years	3,350	-
TOTAL	3,350	3,350

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

NOTE 28 Reserves

	Balance at beginning of reporting period \$'000's	Increment (decrement) \$'000's	Share of increment/ decrement on revaluation by an associate \$'000's	Balance at end of reporting period \$'000's
(a) Asset Revaluation Reserve				
2015				
Property				
Land	28,840	-	-	28,840
Land under Roads	4,370	-	-	4,370
Investments in associates (Note 16)	74	-	-	74
Buildings	27,190	-	-	27,190
Heritage buildings	523	-	-	523
Plant & Equipment	386	-	-	386
	61,383	-	-	61,383
Infrastructure				
Roads and Streets	200,130	-	-	200,130
Bridges	5,606	-	-	5,606
Major Culverts	3,506	-	-	3,506
Drainage	10,247	-	-	10,247
Footpaths	5,463	-	-	5,463
Kerb & Channel	9,573	-	-	9,573
Car parks	2,641	-	-	2,641
Other Structures	1,436	-	-	1,436
	238,602	-	-	238,602
Total Asset Revaluation Reserve	299,985	-	-	299,985
2014				
Property				
Land	27,727	1,113	-	28,840
Land under Roads	4,110	260	-	4,370
Investments in associates	74	-	-	74
Buildings	23,759	3,431	-	27,190
Heritage buildings	714	(191)	-	523
Plant & Equipment	386	-	-	386
	56,770	4,613	-	61,383
Infrastructure				
Roads and Streets	191,204	8,926	-	200,130
Bridges	5,529	77	-	5,606
Major Culverts	4,192	(686)	-	3,506
Drainage	7,825	2,422	-	10,247
Footpaths	5,442	21	-	5,463
Kerb & Channel	8,004	1,569	-	9,573
Car parks	2,184	457	-	2,641
Other Structures	1,754	(318)	-	1,436
	226,134	12,468	-	238,602
Total Asset Revaluation Reserve	282,904	17,081	-	299,985

The asset revaluation reserve is used to record the increased (net) value of Council's assets over time.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	Balance at beginning of reporting period \$'000's	Transfer from accumulated surplus \$'000's	Transfer to accumulated surplus \$'000's	Balance at end of reporting period \$'000's
NOTE 28 Reserves (cont.)				
<u>(b) Other Reserves</u>				
<u>2015</u>				
Public Open Space	120	385	(505)	-
Caravan Parks Reserve	-	1,188	(1,188)	-
General Reserve	1	338	-	339
Corner Inlet Seawall Reserve	21	1	-	22
Henry's Road Reserve	44	2	(46)	-
Loan Reserve	-	670	-	670
Total Other Reserves	186	2,584	(1,739)	1,031

2014

Public Open Space	403	368	(651)	120
Caravan Parks Reserve	345	872	(1,217)	-
General Reserve	486	316	(801)	1
Corner Inlet Seawall Reserve	20	1	-	21
Henry's Road Reserve	42	2	-	44
Loan Reserve	-	-	-	-
Total Other Reserves	1,296	1,559	(2,669)	186

Public Open Space

Statutory reserve to be used for the future development of land for public purposes.

Caravan Parks Reserve

Reserve created for future funding of Caravan Parks projects

General Reserve

Reserve to provide for unforeseen and unavoidable future costs.

Corner Inlet Seawall Reserve

Reserve for the maintenance of a seawall to protect private lands from flooding.

Henry's Road Reserve

Reserve for contributions made by developers for future road improvement works.

Loan Reserve

Reserve created to repay outstanding Loan at the end of its term.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015	2014
	\$'000	\$'000
NOTE 29 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Surplus/(Deficit) for the year	9,983	(1,939)
Depreciation and amortisation	10,559	10,173
Finance costs	127	104
(Gain)/Loss on disposal of Property, Plant and Equipment and Infrastructure	125	42
Contributions - non - monetary assets	(1,503)	(121)
Investment in associates (note 16)	24	(173)
Fair value adjustment for investment property	-	(42)
<i>Change in assets and liabilities:</i>		
(Increase)/Decrease in Trade and other Receivables	819	(278)
(Increase)/Decrease in prepayments	(91)	(99)
(Increase)/Decrease in Inventories	(44)	(29)
Increase/(Decrease) in Trust funds and deposits	223	(3)
Increase/(Decrease) in Payables	(1,365)	802
Increase/(Decrease) in Employee Entitlements	240	337
Increase/(Decrease) in Other Provisions	(558)	58
Net cash provided by operating activities	<u>18,539</u>	<u>8,832</u>

NOTE 30 Reconciliation of cash and cash equivalents

Cash at the end of the year as shown in the statement of cash flow is reconciled to the related items in the Balance Sheet as follows:

Cash and cash equivalents (see note 17)	15,419	11,425
TOTAL CASH AND CASH EQUIVALENT	<u>15,419</u>	<u>11,425</u>

NOTE 31 Financing arrangements

Bank Overdraft

Unused facilities	500	1,000
TOTAL FINANCING ARRANGEMENTS	<u>500</u>	<u>1,000</u>

South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015

NOTE 32 Commitments

The Council has entered into the following commitments

2015	Not Later Than 1 Year \$'000	Later than 1 year and not later than 2 Years \$'000	Later than 2 year and not later than 5 Years \$'000	Later than 5 years \$'000	Total \$'000
<i>Operating</i>					
Transfer Stations	846	846	1,272		2,964
Litter Bins	189	189	377		755
Office Cleaning	78				78
Hall Operations	87				87
Meals on Wheels	2				2
Libraries	1,081				1,081
General Materials & Services	636				636
Equipment Hire	40				40
Maintenance Contracts	26				26
Construction Contracts	724				724
<i>Capital</i>					
Building	183				183
Computers and telecoms	53				53
Fixtures fittings & Furniture	29				29
Other Structures	19				19
Roads	263				263
Waste Management	15				15
Total	4,271	1,035	1,649	-	6,955

2014	Not Later Than 1 Year \$'000	Later than 1 year and not later than 2 Years \$'000	Later than 2 year and not later than 5 Years \$'000	Later than 5 years \$'000	Total \$'000
<i>Operating</i>					
Transfer Stations	846	846	2,118		3,810
Litter Bins	189	189	567		945
Office Cleaning	78	78			156
Hall Operations	87	87			174
Meals on Wheels	50				50
Libraries	1,045				1,045
General Materials & Services	238				238
Equipment Hire	72				72
Maintenance Contracts	3				3
Construction Contracts	757				757
<i>Capital</i>					
Building	17				17
Drainage	2				2
Plant machinery and equipment	154				154
Roads	33				33
Waste Management	26				26
Total	3,597	1,200	2,685	-	7,482

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

	2015 \$'000	2014 \$'000
NOTE 33 Operating Leases		
(a) Operating Lease Commitments		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of plant and equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities).		
Not later than one year	116	220
Later than one year and not later than five years	109	362
Later than five years	-	-
Total operating lease commitments	225	582

(b) Operating Lease Receivables

The Council has entered into commercial property leases on its investment property, consisting of surplus freehold office complexes and a quarry site. These properties held under operating leases have remaining non-cancellable lease terms of between 1 and 10 years. All leases include a CPI based revision of the rental charge annually.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

Not later than one year	154	94
Later than one year and not later than five years	321	179
Later than five years	450	441
Total operating lease receivables	925	714

NOTE 34 Contingent Liabilities and Contingent Assets

Contingent Liabilities

Superannuation

Council has obligation under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme to ensure that the liabilities of the fund are covered by the assets of the fund. As a result of the increased volatility in financial markets, the likelihood of making such contributions in future periods exists. At this point in time it is not known if additional contributions will be required, their timing or potential amount.

Funding arrangements

South Gippsland Shire Council makes employer contributions to the defined benefit category of the Fund at rates determined by the Trustee on the advice of the Fund's Actuary.

The Fund's latest actuarial investigation was held on 30 June 2014 and it was determined that the vested benefit index (VBI) of the defined benefit category of which South Gippsland Shire Council is a contributing employer was 103.4%. To determine the VBI, the fund Actuary used the following long term assumptions:

Net investment returns	7.5% pa.
Salary information	4.25% pa.
Price inflation (CPI)	2.75% pa.

Vision Super has advised that the estimated VBI at 30 June 2015 was 105.8%.

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the actuarial investigation determined the defined benefit category was in a satisfactory financial position and that no change was necessary to the defined benefit category's funding arrangements for prior years.

Employer contributions

Regular contributions

On the basis of the results of the most recent full actuarial investigation conducted by the Fund's Actuary as at 30 June 2014, South Gippsland Shire Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2015, this rate was 9.5% of members' salaries. This rate will increase in line with any increase to the Superannuation Guarantee (SG) contribution rate.

In addition, South Gippsland Shire Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

NOTE 34 Contingent Liabilities and Contingent Assets(cont.)

Funding calls

If the defined benefit category is in an unsatisfactory financial position at actuarial investigation or the defined benefit category's VBI is below its shortfall limit at any time other than the date of the actuarial investigation, the defined benefit category has a shortfall for the purposes of SPS 160 and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97%.

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including South Gippsland Shire Council) are required to make an employer contribution to cover the shortfall.

Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's defined benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up.

If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

Latest actuarial investigation surplus amounts

The Fund's latest actuarial investigation as at 30 June 2014 identified the following in the defined benefit category of which South Gippsland Shire Council is a contributing employer:

A VBI surplus of \$77.1 million; and A total service liability surplus of \$236 million.

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2014.

The total service liability surplus means that the current value of the assets in the Fund's defined benefit category plus expected future contributions exceeds the value of expected future benefits and expenses.

South Gippsland Shire Council was notified of the results of the actuarial investigation during January 2015.

Superannuation contributions

Contributions by South Gippsland Shire Council (excluding any unfunded liability payments) to the above superannuation plans for the financial year ended 30 June 2015 are detailed below:

Scheme	Type of Scheme	Rate	2015 \$'000	2014 \$'000
Vision Super	Defined benefits	9.50%	133	126
Vision Super/Others	Accumulation	9.50%	1,713	1,583

South Gippsland Shire Council has not paid any unfunded liability to Vision super in 2014/15 or 2013/14.

There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2015.

The expected contributions to be paid to the defined benefit category of Vision Super for the year ending 30 June 2016 is \$137,000.

Landfills

Under requirement of the Environmental Protection Authority (EPA), Council has a present obligation to perform site rehabilitation works for landfills that it operates on a progressive basis. At balance date Council has made necessary provisions for rehabilitation of Landfills that are currently in operation (Refer note 26 (b)). However the estimates of provision required is dependent on the accuracy of the forecast, timing of the work, work required, and related costs.

Guarantees

Council has taken out Bank Guarantees with Commonwealth Bank of Australia as per details below:

Description	Favouree	Amount
Contract Performance Guarantee	South Gippsland Regional Water Board	\$ 40,000
Contract Performance Guarantee	Department of Energy and Minerals	\$ 15,000
Contract Performance Guarantee	Department of Natural Resources & Minerals	\$ 20,000
Security Deposit Guarantee	Environment Protection Authority	\$ 425,000
		\$ 451,296
Security Deposit Guarantee	State of Victoria - Environment Protection Authority	
Total contingent liability as at 30 June 2015		\$ 951,296

Contingent Assets

Developer contributions to be received by Council in respect of estates currently under development total \$1.5M (2014 \$0.12M).

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

NOTE 35 Financial Instruments

(a) Objectives and policies

The Council's principal financial instruments comprise cash assets, term deposits, receivables (excluding statutory receivables), payables (excluding statutory payables) and bank borrowings. Details of the significant accounting policies and methods adopted, including the criteria for recognition the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument is disclosed in Note 1 of the financial statements. Risk management is carried out by senior management under policies approved by the Council. These policies include identification and analysis of the risk exposure to Council and appropriate procedures, controls and risk minimisation.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. The Council's exposures to market risk is primarily through interest rate risk with only insignificant exposure to other price risks and no exposure to foreign currency risk.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Our interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes us to fair value interest rate risk / Council does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Council has minimal exposure to cash flow interest rate risk through its cash and deposits that are at floating rate.

Investment of surplus funds is made with approved financial institutions under the Local Government Act 1989. We manage interest rate risk by adopting an investment policy that ensures:

- diversification of investment product,
- monitoring of return on investment,
- benchmarking of returns and comparison with budget.

There has been no significant change in the Council's exposure, or its objectives, policies and processes for managing interest rate risk or the methods used to measure this risk from the previous reporting period.

Interest rate movements have not been sufficiently significant during the year to have an impact on the Council's year end result.

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on some financial assets included in our balance sheet. To help manage this risk:

- we have a policy for establishing credit limits for the entities we deal with;
- we may require collateral where appropriate; and
- we only invest surplus funds with financial institutions which have a recognised credit rating specified in our investment policy.

Receivables consist of a large number of customers, spread across the ratepayer, business and government sectors. Credit risk associated with the Council's financial assets is minimal because the main debtor is secured by a charge over the rateable property.

There are no material financial assets which are individually determined to be impaired.

We may also be subject to credit risk for transactions which are not included in the balance sheet, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 34.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Council does not hold any collateral.

(d) Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements or we will not have sufficient funds to settle a transaction when required, we will be forced to sell a financial asset at below value or may be unable to settle or recover a financial asset.

To help reduce these risks Council:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments;
- monitor budget to actual performance on a regular basis; and
- set limits on borrowings relating to the percentage of loans to rate revenue and percentage of loan principal repayments to rate revenue.

The Council's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed in the face of the balance sheet and the amounts related to financial guarantees disclosed in Note 34, and is deemed insignificant based on prior periods' data and current assessment of risk.

There has been no significant change in Council's exposure, or its objectives, policies and processes for managing liquidity risk or the methods used to measure this risk from the previous reporting period.

With the exception of borrowings, all financial liabilities are expected to be settled within normal terms of trade. Details of the maturity profile for borrowings are disclosed at Note 27.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

e) Fair value

Unless otherwise stated, the carrying amount of financial instruments reflect their fair value

Fair value hierarchy

Council's financial assets and liabilities are not valued in accordance with the fair value hierarchy, Council's financial assets and liabilities are measured at amortised cost.

(f) Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, Council believes the following movements are 'reasonably possible' over the next 12 months:

- A parallel shift of + 1% and -1% in market interest rates (AUD) from year-end rates of 2%.

These movements will not have a material impact on the valuation of Council's financial assets and liabilities, nor will they have a material impact on the results of Council's operations.

**South Gippsland Shire Council
Notes to the Financial Statements
For the Year Ended 30 June 2015**

NOTE 36 Related Party Transactions

(i) Responsible Persons

Names of persons holding the position of a Responsible Person at the South Gippsland Shire Council at any time during the year are :-

Councillors	Jeanette Harding (Mayor from 5 November 2014 to 30 June 2015) Mohya Davies Kieran Kennedy Lorraine Brunt Andrew McEwen Robert (Bob) Newton James (Jim) Fawcett (Mayor from 1 July 2014 to 4 November 2014) Don Hill Nigel Hutchinson-Brooks
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Chief Executive Officer Tim Tamlin

(ii) Remuneration of Responsible Persons

The number of Responsible Officers, whose total remuneration from Council and any related entities fall within the following bands:

	2015 No.	2014 No.
\$20,000 - \$29,999	7	7
\$40,000 - \$49,999	1	1
\$50,000 - \$59,999	-	1
\$60,000 - \$69,999	1	-
\$250,000 - \$259,999	-	1
\$290,000 - \$299,999	1	-
TOTAL	10	10

Total Remuneration for the reporting period for Responsible Persons included above, amounted to :	\$'000	\$'000
	573	529

(iii) Senior Officers Remuneration

A Senior Officer other than a Responsible Person, is an officer of Council who:

- (a) has management responsibilities and reports directly to the Chief Executive Officer; or
- (b) whose total annual remuneration exceeds \$136,000 (2013/14 - \$133,000)

The number of Senior Officers other than the Responsible Persons are shown below in their relevant income bands:

	2015 No.	2014 No.
Income Range :		
<\$136,000	1	2
\$136,000 - \$139,999		2
\$140,000 - \$149,999	4	1
\$160,000 - \$169,999	1	-
\$170,000 - \$179,999		3
\$180,000 - \$189,999	3	
\$210,000 - \$219,999		1
TOTAL	9	9

Total Remuneration for the reporting period for Senior Officers included above, amounted to :	\$'000	\$'000
	1,336	1,219

(iv) Responsible persons retirement benefits

No retirement benefits have been made by the Council to a Responsible Person (2013/14, nil).

(v) Loans to responsible persons

No loans have been made, guaranteed or secured by the Council to a Responsible Person of the Council during the reporting year (2013/14, nil).

(vi) Transactions with responsible persons

Transactions with responsible persons

During the period Council entered into the following transactions with responsible persons or related parties of responsible persons.

Responsible Officer	Position held (including related parties of responsible officer)	Supplier/entity	Nature of transactions (on normal commercial terms)	Transaction Amount (\$'000)
Director Corporate and Community Services	Board member	West Gippsland Regional Library Corporation	Contribution paid by council	1,267
Director Corporate and Community Services	Board member	Gippsland Southern Health	Payment by Council for goods & services	125
Mohya Davies (Councillor)	Board member	South Gippsland Hospital	Payment by Council for goods & services	54

NOTE 37 Events occurring after balance date

No matters have occurred after balance date that require disclosure in the financial report.

South Gippsland Shire Council

AUDITOR-GENERAL'S AUDIT REPORT
For the Year Ended 30 June 2015

To the responsible Ministers , and Councillors' of South Gippsland Shire Council

MELBOURNE

Auditor-General

Yet to be certified

DELIBERATELY LEFT BLANK FOR SIGNED AUDIT REPORT