



**AGENDA APPENDIX**  
**Council Meeting**  
**Wednesday 28 September 2016**

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.2 UNAUDITED FINANCIAL STATEMENTS & PERFORMANCE STATEMENTS 2015/16**

Appendix 1 – Draft Financial Statements for Year Ended 2016

**SOUTH GIPPSLAND SHIRE COUNCIL**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2016**

**South Gippsland Shire Council  
Annual Financial Report  
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**South Gippsland Shire Council  
Comprehensive Income Statement  
For the Year Ended 30 June 2016**

	<b>Note</b>	<b>2,016 \$'000</b>	<b>2,015 \$'000</b>
<b>Income</b>			
Rates and charges	3	38,584	35,797
Statutory fees and fines	4	518	565
User fees	5	4,155	3,959
Grants - Operating	6	8,299	19,727
Grants - Capital	6	7,711	2,172
Contributions - monetary	7	281	306
Contributions - non monetary	7	629	1,503
Fair value adjustment for investment property	23	13	-
Share of net profits/(losses) of associates	16	119	(24)
Other Income	9	2,872	2,348
<b>Total income</b>		<b><u>63,181</u></b>	<b><u>66,353</u></b>
<b>Expenses</b>			
Employee costs	10	23,135	22,362
Materials and services	11	21,955	20,228
Bad and doubtful debts	12	104	54
Depreciation	13	10,616	10,559
Net loss on disposal of property, infrastructure plant and equipment	8	57	125
Borrowing costs	14	142	122
Other expenses	15	2,938	2,920
<b>Total expenses</b>		<b><u>58,947</u></b>	<b><u>56,370</u></b>
<b>Surplus for the year</b>		<b><u>4,234</u></b>	<b><u>9,983</u></b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to surplus or deficit in future periods</b>			
Net asset revaluation increment	28 (a)	29,435	-
Share of other comprehensive income of associates	16	120	-
<b>Total Comprehensive result</b>		<b><u>33,789</u></b>	<b><u>9,983</u></b>

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

**South Gippsland Shire Council  
Balance Sheet  
As at 30 June 2016**

	Note	2016 \$'000	2015 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	17	2,931	8,419
Trade and other receivables	18	4,203	3,815
Other financial assets	19	15,316	11,312
Inventories	20	195	292
Other assets	21	227	303
<b>Total current assets</b>		<u>22,872</u>	<u>24,141</u>
<b>Non-current assets</b>			
Investments in associates and joint ventures	16	991	752
Property, infrastructure, plant and equipment	22	523,042	487,320
Investment property	23	729	716
<b>Total non-current assets</b>		<u>524,762</u>	<u>488,788</u>
<b>Total assets</b>		<u>547,634</u>	<u>512,929</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	24	2,978	2,531
Trust funds and deposits	25	873	1,065
Provisions	26	5,676	5,332
<b>Total current liabilities</b>		<u>9,527</u>	<u>8,928</u>
<b>Non-current liabilities</b>			
Provisions	26	1,581	1,264
Interest-bearing loans and borrowings	27	3,350	3,350
<b>Total non-current liabilities</b>		<u>4,931</u>	<u>4,614</u>
<b>Total liabilities</b>		<u>14,458</u>	<u>13,542</u>
<b>Net Assets</b>		<u>533,176</u>	<u>499,387</u>
<b>Equity</b>			
Accumulated surplus		201,398	198,371
Asset revaluation reserve	28 (a)	329,540	299,985
Other reserves	28 (b)	2,238	1,031
<b>Total Equity</b>		<u>533,176</u>	<u>499,387</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 2016**

<b>2016</b>	<b>Note</b>	<b>Total \$'000</b>	<b>Accumulated Surplus \$'000</b>	<b>Asset Revaluation Reserve \$'000</b>	<b>Other Reserves \$'000</b>
Balance at beginning of the financial year		499,387	198,371	299,985	1,031
Surplus for the year		4,234	4,234	-	-
Net Asset revaluation increment/(decrement)	28 (a)	29,555	-	29,555	-
Transfers to other reserves	28 (b)	-	(2,332)	-	2,332
Transfers from other reserves	28 (b)	-	1,125	-	(1,125)
<b>Balance at end of the financial year</b>		<b>533,176</b>	<b>201,398</b>	<b>329,540</b>	<b>2,238</b>

<b>2015</b>	<b>Note</b>	<b>Total \$'000</b>	<b>Accumulated Surplus \$'000</b>	<b>Asset Revaluation Reserve \$'000</b>	<b>Other Reserves \$'000</b>
Balance at beginning of the financial year		489,404	189,233	299,985	186
Surplus 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)
<b>Balance at end of the financial year</b>		<b>499,387</b>	<b>198,371</b>	<b>299,985</b>	<b>1,031</b>

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 2016**

	Note	2016 Inflows/ (Outflows) \$'000	2015 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rates and charges		38,545	35,140
Statutory fees and fines		518	565
User fees		4,188	4,978
Grants - operating		8,299	19,727
Grants - capital		7,711	2,172
Contributions - monetary		281	306
Interest received		531	468
Trust funds and deposits taken		21	258
Other receipts		2,236	1,990
Net GST refund		2,849	2,513
Employee costs		(22,569)	(21,713)
Materials and services		(24,572)	(25,017)
Trust funds and deposits repaid		(213)	(35)
Other payments		(2,937)	(2,813)
<b>Net cash provided by operating activities</b>	<b>29</b>	<b>14,888</b>	<b>18,539</b>
<b>Cash flows from investing activities</b>			
Payments for property, infrastructure, plant and equipment		(16,662)	(11,012)
Proceeds from sale of property, infrastructure, plant and equipment		432	555
Payments for investments		(4,004)	(10,961)
<b>Net Cash used in investing activities</b>		<b>(20,234)</b>	<b>(21,418)</b>
<b>Cash flows from financing activities</b>			
Finance costs		(142)	(127)
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
<b>Net cash provided used in financing activities</b>		<b>(142)</b>	<b>(127)</b>
Net (decrease) / increase in cash and cash equivalents		(5,488)	(3,006)
Cash and cash equivalents at the beginning of the financial year		8,419	11,425
<b>Cash and cash equivalents at the end of the financial year</b>	<b>17</b>	<b>2,931</b>	<b>8,419</b>
Financing arrangements	<b>30</b>		
Restrictions on cash assets	<b>17</b>		

**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 2016**

	2016 \$'000	2015 \$'000
<b>Property</b>		
Land	247	217
<b>Total land</b>	<u>247</u>	<u>217</u>
Buildings	3,042	469
<b>Total buildings</b>	<u>3,042</u>	<u>469</u>
<b>Total property</b>	<u>3,289</u>	<u>686</u>
<b>Plant and equipment</b>		
Plant, machinery and equipment	1,601	2,042
Fixtures, fittings and furniture	-	42
Computers and telecommunications	605	569
<b>Total plant and equipment</b>	<u>2,206</u>	<u>2,653</u>
<b>Infrastructure</b>		
Roads	8,322	5,681
Bridges	190	456
Major Culverts	66	-
Footpaths and cycleways	572	253
Kerb and Channel	1	65
Drainage	172	252
Waste management	1,691	29
Off street car parks	4	-
Other infrastructure	252	937
<b>Total infrastructure</b>	<u>11,270</u>	<u>7,673</u>
<b>Total capital works expenditure</b>	<u>16,765</u>	<u>11,012</u>
<b>Represented by:</b>		
New asset expenditure	25	15
Asset renewal expenditure	10,705	8,913
Asset expansion expenditure	3,664	605
Asset upgrade expenditure	2,371	1,479
<b>Total capital works expenditure</b>	<u>16,765</u>	<u>11,012</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 2016**

**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 (k) )
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to note 1 (l) )
- the determination of employee provisions (refer to note 1 (r) )
- the determination of landfill provisions (refer to note 1 (s) )

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) 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.

**(d) 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.

**e) 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.

**South Gippsland Shire Council  
Notes to the Financial Statements  
For the Year Ended 30 June 2016**

**Note 1 Significant accounting policies (cont.)**

**e) Revenue Recognition (cont.)**

**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.

**(f) 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.

**South Gippsland Shire Council**  
**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**Note 1 Significant accounting policies (cont.)**

**(g) 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.

**(h) 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.

**(i) 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.

**(j) 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.

**(k) Recognition and measurement of property, infrastructure plant and equipment**

*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 (l) have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

*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.

**South Gippsland Shire Council**  
**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**Note 1 Significant accounting policies (cont.)**

**(l) Depreciation of property, infrastructure, plant and equipment**

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 have changed compared to previous year. The impact on current value due to change in depreciation period was \$14.99M as detailed below.

Asset Category	Impact \$'000	Average useful life (Years)		Current Value \$'000	
		2016	2015	2016	2015
Roads	4,878	130	100	267,230	262,352
Kerb & Channel	2,030	120	80	17,427	15,397
Bridges	4,127	150	100	20,763	16,636
Major Culverts	935	120	100	8,290	7,355
Footpaths	320	90	80	12,985	12,665
Drainage	2,705	120	100	26,132	23,427
<b>Total</b>	<b>14,995</b>			<b>352,827</b>	<b>337,832</b>

Asset recognition thresholds and depreciation periods

	Depreciation Period	Threshold Limit \$'000
<u>Property</u>		
land	-	No Threshold
land improvements	-	10
<u>Buildings</u>		
heritage buildings	100 years	15
buildings	20 to 50 years	15
building improvements	20 to 50 years	15
<u>Plant and Equipment</u>		
major plant, machinery and equipment	1 to 20 years	No Threshold
fixtures, fittings and furniture	1 to 5 years	15
computers and telecommunications	1 to 5 years	15
<b><u>Infrastructure</u></b>		
road pavements	130 years	No Threshold
road seals	15 years	No Threshold
road formation and earthworks	not depreciated	No Threshold
road kerbs & channel	120 years	15
bridges	150 Years	15
major culverts	120 years	15
footpaths and cycleways	90 years	15
off street car parks pavement	130 years	15
off street car parks seal	15 years	15
drainage	120 Years	15
waste management	4 to 50 years	15
other structures	10 to 40 Years	15

**(m) 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.

**South Gippsland Shire Council**  
**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**Note 1 Significant accounting policies (cont.)**

**(n) 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.

**(o) 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.

**(p) 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).

**(q) 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.

**(r) 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.

*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.

**South Gippsland Shire Council**  
**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**Note 1 Significant accounting policies (cont.)**

**(r) Employee costs and benefits (cont.)**

*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.

**(s) 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.

**(t) 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.

**(u) 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.

**(v) 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 probably 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.

**(w) 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.

**(x) Pending accounting standards**

Certain new AAS's have been issued that are not mandatory for the 30 June 2016 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.

**(y) 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 2016**

**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 24 June 2015. 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 .

<b>a) Income and Expenditure</b>	<b>Budget 2016 \$'000</b>	<b>Actual 2016 \$'000</b>	<b>Variance 2016 \$'000 Ref</b>	
<b>Income</b>				
Rates and charges	38,275	38,584	309	1
Statutory fees and fines	576	518	(58)	2
User fees	4,179	4,155	(24)	
Grants - Operating	13,216	8,299	(4,917)	3
Grants - Capital	5,516	7,711	2,195	4
Contributions - monetary	344	281	(63)	5
Contributions - non monetary	370	629	259	6
Net gain on disposal of property, infrastructure plant and equipment	423		(423)	7
Fair value adjustment for investment property	-	13	13	
Share of net profits / (losses) of associates and joint ventures	-	119	119	8
Other Income	2,179	2,872	693	9
<b>Total income</b>	<b>65,078</b>	<b>63,181</b>	<b>(1,897)</b>	
<b>Expenses</b>				
Employee costs	23,089	23,135	(46)	
Materials and services	22,036	21,955	81	
Bad and doubtful debts	1	104	(103)	10
Depreciation	11,166	10,616	550	11
Net loss on disposal of property, infrastructure plant and equipment	-	57	(57)	7
Borrowing costs	142	142	-	
Other expenses	3,352	2,938	414	12
<b>Total expenses</b>	<b>59,786</b>	<b>58,947</b>	<b>839</b>	
<b>Surplus for the year</b>	<b>5,292</b>	<b>4,234</b>	<b>(1,058)</b>	

**(i) Explanation of material variations**

<b>Variance Ref.</b>	<b>Item</b>	<b>Explanation</b>
1	Rates and charges	Supplementary waste charges were higher by \$207K and supplementary general rates were higher by \$102K
2	Statutory fees and fines	New and amendment applications received for statutory planning fees was below expected numbers. However revenue from fees in local laws was higher than estimate.
3	Grants - Operating	50% of Grants commission allocation (\$4.3M) relating to 2015-16 was received in advance in 2014-15. Further State grants for Agnes falls (\$300K) and Great Southern Rail Trial (\$500K) was not received in 2015-16. This was partly compensated by higher grants for natural disaster and a few other projects.
4	Grants - Capital	New and additional grants received for Federal blackspot program (\$667K), Child care hub (\$160K), Public jetty upgrade (\$113K), Recycling project (\$54K), Roads to recovery (\$1.4M). Grants not received was for Foster Streetscape(\$347K).
5	Contributions - monetary	Contribution expected for Child care hub (\$100K) was not received in 2015-16. This was partly compensated by higher contribution for other projects.
6	Contributions - non monetary	Developer contributed infrastructure assets was higher than estimate by \$259K.
7	Net gain on disposal of property, infrastructure plant and equipment	Most of the land sales budgeted in 2015-16 has been postponed to future years. Fleet sales were also lower than originally planned and has been carried forward to 2016-17.
8	Share of net profits / (losses) of associates and joint ventures	Council share of \$119K surplus from Library was unexpected and not budgeted for.

**Note 2 Budget comparison (cont.)**

**a) Income and Expenditure (cont.)**

**(i) Explanation of material variations (cont.)**

Variance Ref.	Item	Explanation
9	Other Income	Higher income mainly from Interest on investments (\$100K), private works (\$444K), WorkCover & other reimbursements (\$207K) and Fuel tax credits (\$45K). Lower income was mainly in retail sales at Coal Creek (\$90K).
10	Bad and doubtful debts	Unexpected bad debts due to liquidation of a debtor and provision for other doubtful debts.
11	Depreciation	Lower depreciation mainly due to change in useful lives of infrastructure assets.
12	Other expenses	Community grants which were budgeted for payment in 2015-16 were either reduced or carried forward to 2016-17.

**b) Capital Works**

	Budget 2016 \$'000	Actual 2016 \$'000	Variance 2016 \$'000 Ref	
<b>Property</b>				
Land	265	247	18	1
<b>Total land</b>	<b>265</b>	<b>247</b>	<b>18</b>	
Buildings	3,600	3,042	558	2
Heritage Building	237	-	237	3
<b>Total buildings</b>	<b>3,837</b>	<b>3,042</b>	<b>795</b>	
<b>Total property</b>	<b>4,102</b>	<b>3,289</b>	<b>813</b>	
<b>Plant and equipment</b>				
Plant, machinery and equipment	2,020	1,601	419	4
Computers and telecommunications	1,101	605	496	5
<b>Total plant and equipment</b>	<b>3,121</b>	<b>2,206</b>	<b>915</b>	
<b>Infrastructure</b>				
Roads	7,831	8,322	(491)	6
Bridges	279	190	89	7
Major Culverts	64	66	(2)	
Footpaths and cycleways	549	572	(23)	
Kerb and Channel	-	1	(1)	
Drainage	110	172	(62)	8
Waste management	1,898	1,691	207	9
Off street car parks	-	4	(4)	
Other infrastructure	521	252	269	10
<b>Total infrastructure</b>	<b>11,252</b>	<b>11,270</b>	<b>(18)</b>	
<b>Total capital works expenditure</b>	<b>18,475</b>	<b>16,765</b>	<b>1,710</b>	
<b>Represented by:</b>				
New asset expenditure	-	25	(25)	
Asset renewal expenditure	14,623	10,705	3,918	
Asset expansion expenditure	1,665	3,664	(1,999)	
Asset upgrade expenditure	2,187	2,371	(184)	
<b>Total capital works expenditure</b>	<b>18,475</b>	<b>16,765</b>	<b>1,710</b>	

**(i) Explanation of material variations**

Variance Ref.	Item	Explanation
1	Land	Land acquisition costs were marginally higher (\$18K) than budget.
2	Buildings	Caravan park toilet block project (\$377K), and building renewal program (\$376) and certain other projects have been carried forward to 2016-17. This was partly compensated by expenditure on public toilets \$163K.
3	Heritage Building	Capital expenditure budget for Coal Creek was classified as Heritage building .
4	Plant, machinery and equipment	Fleet (\$291K) and Plant (\$97K) purchases were carried forward to 2016-17.
5	Computers and telecommunications	A number of Information technology projects such as network infrastructure (\$359), governance software (\$42K), unified communications (\$103K), and GIS (\$78K) were carried forward to 2016-17.
6	Roads	Expenditure on Re-seals (\$419K), sealed rehabilitation program (\$1.9M) and Foster streetscape (\$832K) were carried forward while new projects such as Grand ridge road (\$1.2M), Princess street (\$630K), A Beckett street (\$331K), Federal Blackspot program (\$674k), Carmondys road (\$505K) and other minor road projects were added.
7	Bridges	Bridges rehabilitation programs were carried forward to future years.
8	Drainage	New programs included in drainage rehabilitation included Hannah rise crescent (\$23K) and Drouin road (\$32K).
9	Waste management	Landfill Cell construction expenditure was carried forward to 2016-17.
10	Other infrastructure	Mainly due to carry forward of expenditure on Splash pool (\$70K), Community infrastructure projects (\$50K) and playground replacement program (\$116K).



**South Gippsland Shire Council  
Notes to the Financial Statements  
For the Year Ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>

**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 2015/16 was \$7,083 million (2014/15 \$6,976 million)  
The rates for each classification was:-

General	20,785	17,023
Industrial	1,197	821
Commercial	1,381	1,133
Farm	9,709	9,240
Rural Residential	87	-
Vacant Land	2,366	1,883
Cultural & Recreational Land	23	17
Municipal Charge	-	3,326
Special Rates	-	145
Supplementary Rates & Rate Adjustments	598	399
Garbage Charges	2,438	1,810
<b>Total rates and charges</b>	<b>38,584</b>	<b>35,797</b>

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2016, and the valuation first applies to the rating year commencing 1 July 2016.

**Note 4 Statutory fees and fines**

Land Information Certificates	31	24
Local Laws / Animal control	173	151
Building Services	87	87
Town Planning applications	211	244
Supervision Fees	9	53
Others	7	6
<b>Total statutory fees and fines</b>	<b>518</b>	<b>565</b>

**Note 5 User fees**

Aged and health services	701	676
Leisure centre and recreation	100	92
Local Laws	403	367
Waste management services	1,874	1,651
Caravan Parks	934	1,043
Other fees and charges	143	130
<b>Total user fees</b>	<b>4,155</b>	<b>3,959</b>

**Note 6 Grants**

Grants were received in respect of the following:-

**Summary of grants**

Commonwealth funded grants	6,635	1,694
State funded grants	9,375	20,205
<b>Total grants received</b>	<b>16,010</b>	<b>21,899</b>

**South Gippsland Shire Council  
Notes to the Financial Statements  
For the Year Ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Note 6 Grants (cont.)</b>		
<b>Operating Grants</b>		
<b><i>Recurrent - Commonwealth Government</i></b>		
Immunisation	1	1
<b><i>Recurrent - State Government</i></b>		
Victoria Grants Commission	4,496	12,857
Valuation Services	10	274
Community Safety	34	26
Family and children	185	154
Aged care	1,445	1,408
School crossing supervision	34	33
Community building	106	101
Community health	28	32
Maternal & child health	283	286
Other	68	111
<b>Total recurrent operating grants</b>	<b>6,690</b>	<b>15,283</b>
<b><i>Non-recurrent - State Government</i></b>		
Community Safety	60	60
Families & Children	24	17
Youth Services	76	54
Fire Services Levy Administration	46	44
Economic Development	12	57
Sustainability	84	82
Community Building	51	13
Local Roads & Infrastructure	571	534
Natural Disasters	467	2,540
Recreation & Leisure	175	1,009
Others	43	34
<b>Total non-recurrent operating grants</b>	<b>1,609</b>	<b>4,444</b>
<b>Total operating grants</b>	<b>8,299</b>	<b>19,727</b>
<b>Capital Grants</b>		
<b><i>Recurrent - Commonwealth Government</i></b>		
Roads to Recovery - Capital	4,776	1,672
<b>Total recurrent capital grants</b>	<b>4,776</b>	<b>1,672</b>
<b><i>Non-recurrent - Commonwealth Government</i></b>		
Roads	667	-
Building	960	21
Waste	54	-
Bridges	177	-
<b><i>Non-recurrent - State Government</i></b>		
Building	800	20
Other Structures	258	333
Plant, machinery and equipment	19	-
Roads	-	126
<b>Total non-recurrent capital grants</b>	<b>2,935</b>	<b>500</b>
<b>Total capital grants</b>	<b>7,711</b>	<b>2,172</b>
<b>Unspent grants received on condition that they be spent in a specific manner</b>		
Balance at start of year	1,902	1,979
Received during the financial year and remained unspent at balance date	1161	679
Received in prior years and spent during the financial year	-1399	(756)
Balance at year end	<u>1,664</u>	<u>1,902</u>

**South Gippsland Shire Council  
Notes to the Financial Statements  
For the Year Ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Note 7 Contributions</b>		
Monetary	281	306
Non-monetary	629	1,503
<b>Total contributions</b>	<u>910</u>	<u>1,809</u>
<i>Contributions of non monetary assets were received in relation to the following asset classes:</i>		
Roads & Streets	242	559
Drains	220	577
Kerbs & Channel	85	136
Footpaths	82	176
Other Structures	-	55
<b>Total non-monetary contributions</b>	<u>629</u>	<u>1,503</u>
<b>Note 8 Net Loss on Disposal of property, infrastructure, plant and equipment</b>		
<b>Proceeds of Sales</b>		
Proceeds from Land & Building Sales	105	15
Proceeds from Plant & Equipment Sales	327	540
Total Proceeds from Sale of Assets	<u>432</u>	<u>555</u>
<b>Written Down Value of Items sold</b>		
Carrying Amount of Land & Building Sold	122	-
Carrying Amount of Plant & Equipment Sold	367	680
Total Written Down Value of Assets sold	<u>489</u>	<u>680</u>
<b>Total net loss on disposal of non-current assets</b>	<u>(57)</u>	<u>(125)</u>
<b>Note 9 Other income</b>		
Interest on rates	181	187
Other Interest	440	293
Other rent	166	168
Investment property rent	62	61
Quarries	17	13
Private Works	835	639
Families & Children	30	14
Coal Creek	172	234
Rate Recovery Proceedings	134	94
Insurances	58	63
Fuel Tax Credits	138	189
Work cover	181	111
Vehicle contribution	212	169
Sundry Income	246	113
<b>Total other income</b>	<u>2,872</u>	<u>2,348</u>
<b>Note 10 (a) Employee costs</b>		
Wages & Salaries	18,625	18,098
Casual Staff	698	721
Annual and Long Service Leave	2,530	2,109
Superannuation	1,915	1,846
Work cover	319	233
Fringe benefits tax	44	154
	<u>24,131</u>	<u>23,161</u>
Less Capitalised	(996)	(799)
<b>Total employee cost</b>	<u>23,135</u>	<u>22,362</u>

**South Gippsland Shire Council  
Notes to the Financial Statements  
For the Year Ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Note 10 (b) Superannuation</b>		
Council made contributions to the following funds:		
<b>Defined benefit fund</b>		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	142	133
	<u>142</u>	<u>133</u>
Employer contributions payable at reporting date.	9	-
<b>Accumulation fund</b>		
Employer contributions - Vision Super/Others	1,773	1,713
	<u>1,773</u>	<u>1,713</u>
Employer contributions payable at reporting date.	-	-
Refer to note 33 for further information relating to Council's superannuation obligations.		
<b>Note 11 Materials and services</b>		
Waste Management	2,811	2,159
Leisure Centre Operations	809	793
Contractors General	5,566	4,591
Software Maintenance	805	598
Landfill Rehabilitation	18	488
Great Southern Rail Trail	78	660
Natural disasters	146	124
Materials General	5,617	5,158
Fuel & Oils	746	871
Advertising & Promotion Costs	239	295
Utilities	928	887
Subscriptions, affiliations and conferences	143	116
Leases	249	246
Legal Fees	560	329
Consultancies and projects	704	342
Insurance Premiums	576	569
Plant & Equipment Registrations	126	134
Training expenses	359	356
State levies	732	678
Gippsland Group Training / Labour Hire	669	765
Others	74	69
<b>Total materials and services</b>	<u><b>21,955</b></u>	<u><b>20,228</b></u>
<b>Note 12 Bad and doubtful debts</b>		
General debtors provision	88	53
Other debtors	16	1
<b>Total bad and doubtful debts</b>	<u><b>104</b></u>	<u><b>54</b></u>
<b>Note 13 Depreciation</b>		
Property	2,377	2,308
Plant and equipment	1,800	1,839
Infrastructure	6,439	6,412
<b>Total depreciation</b>	<u><u><b>10,616</b></u></u>	<u><u><b>10,559</b></u></u>
Refer to note 22 for a more detailed breakdown of depreciation		
<b>Note 14 Borrowing costs</b>		
Interest - Borrowings	142	122
<b>Total borrowing costs</b>	<u><b>142</b></u>	<u><b>122</b></u>

**South Gippsland Shire Council  
Notes to the Financial Statements  
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	2016 \$'000	2015 \$'000
<b>Note 15 Other expenses</b>		
Library Contributions	1,310	1,267
Community & Sporting Grants	979	991
Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	59	70
Auditors' remuneration - Internal	39	37
Councillors' allowances	295	282
Bank Fees & Charges	256	273
<b>Total other expenses</b>	<b>2,938</b>	<b>2,920</b>

**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 2015/16 (30.55% in 2014/15).

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	678	702
Reported surplus/(deficit) for year	119	(24)
Council's share of accumulated surplus/(deficit) at end of year	797	678

**Council's share of reserves**

Council's share of reserves at start of year	74	74
Revaluation reserve increment	120	-
Council's share of reserves at end of year	194	74

**Movement in carrying value of specific investment**

Carrying value of investment at start of year	752	776
Transfers to asset revaluation reserve	120	-
Share of surplus/(deficit) for year	119	(24)
<b>Carrying value of investment at end of year</b>	<b>991</b>	<b>752</b>

Council's share of expenditure commitments

Operating leases and rentals

	-	-
	-	-
	-	-

West Gippsland Regional Library Corporation has not disclosed any contingent liabilities other than obligations under defined benefits superannuation scheme and contingent assets for the financial years 2015/16 and 2014/15.

**Note 17 Cash and cash equivalents**

Cash on Hand	2	2
Cash at Bank	1,646	4,436
Money Market Call Account	1,283	2,981
Term Deposits	-	1,000
<b>Total cash and cash equivalents</b>	<b>2,931</b>	<b>8,419</b>

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)

- Reserve funds allocated for specific future purposes (Note 28(b))

**Total restricted funds**

**Total unrestricted cash and cash equivalents**

	1,664	1,902
	873	1,065
	2,238	1,031
<b>Total restricted funds</b>	<b>4,775</b>	<b>3,998</b>
<b>Total unrestricted cash and cash equivalents</b>	<b>(1,844)</b>	<b>4,421</b>

**South Gippsland Shire Council  
Notes to the Financial Statements  
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	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Note 17 Cash and cash equivalents (cont.)</b>		
<b>Intended allocations</b>		
Although not externally restricted the following amounts have been allocated for specific future purposes by Council:		
General Reserve	879	339
Corner Inlet Seawall Reserve	19	22
Loan Reserve	1,340	670
	<b>2,238</b>	<b>1,031</b>
	<b>2,238</b>	<b>1,031</b>

Refer also to Note 19 for details of other financial assets held by Council.

**Note 18 Trade and other receivables**

**Current**

Rates Debtors	2,665	2,524
Other debtors	1,233	836
Special rate assessment	22	125
Net GST Receivable	424	383
Provision for doubtful debts - other debtors	(141)	(53)
<b>Total trade and other receivables</b>	<b>4,203</b>	<b>3,815</b>
	<b>4,203</b>	<b>3,815</b>

**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:

Current (not yet due)	218	493
Past due by up to 30 Days	555	70
Past due between 31 and 180 days	218	197
Past due between 181 and 365 days	126	26
Past due by more than 1 year	116	50
<b>Total Trade &amp; Other Receivables</b>	<b>1,233</b>	<b>836</b>
	<b>1,233</b>	<b>836</b>

**b) Movement in provisions for doubtful debts**

Balance at the beginning of the year	53	-
New provisions recognised during the year	88	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	<b>141</b>	<b>53</b>
	<b>141</b>	<b>53</b>

**c) Ageing of individually impaired Trade and Other Receivables**

At balance date other debtors representing financial assets with a nominal value of \$140,468 (2014/15 - \$ 52,516) were impaired. The amount of provision raised against these debtors was \$140,468 (2014/15 \$ 52,516). 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	14	42
Past due between 181 and 365 days	58	1
Past due by more than 1 year	69	10
<b>Total trade &amp; other receivables</b>	<b>141</b>	<b>53</b>
	<b>141</b>	<b>53</b>

**Note 19 Other financial assets**

Term Deposits	15,316	11,312
<b>Total other financial assets</b>	<b>15,316</b>	<b>11,312</b>
	<b>15,316</b>	<b>11,312</b>

**Note 20 Inventories**

Raw Materials and Stores	195	292
<b>Total inventories</b>	<b>195</b>	<b>292</b>
	<b>195</b>	<b>292</b>

**Note 21 Other assets**

Prepayments	227	303
<b>Total other assets</b>	<b>227</b>	<b>303</b>
	<b>227</b>	<b>303</b>

**South Gippsland Shire Council  
Notes to the Financial Statements  
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**Note 22 Property, Infrastructure, Plant and Equipment**

**Summary of property, infrastructure, plant and equipment**

	At Fair Value 30 June 2016	Accumulated Depreciation	WDV 30 June 2016	At Fair Value 30 June 2015	Accumulated Depreciation	WDV 30 June 2015
Land	78,582	-	78,582	75,437	-	75,437
Buildings	118,528	75,539	42,989	115,802	69,487	46,315
Plant and Equipment	19,454	9,913	9,541	18,611	8,643	9,968
Infrastructure	487,219	105,720	381,499	452,792	100,431	352,361
Work in progress	10,431	-	10,431	3,239	-	3,239
	<u>714,214</u>	<u>191,172</u>	<u>523,042</u>	<u>665,881</u>	<u>178,561</u>	<u>487,320</u>

**Summary of Work in Progress**

	Opening WIP	Additions	Transfers	Write Offs	Closing WIP	
Buildings	705	2,761	-	312	-	3,154
Plant and Equipment	35	501	-	35	-	501
Infrastructure	2,499	5,731	-	1,454	-	6,776
Total	<u>3,239</u>	<u>8,993</u>	<u>(1,801)</u>	<u>-</u>	<u>10,431</u>	

	Land - specialised	Land - Under Roads	Total Land	Heritage Buildings	Buildings - specialised	Total Buildings	Work In Progress	Total Property
<b>Land and Buildings</b>								
At fair value 1 July 2015	43,023	32,414	75,437	5,510	110,292	115,802	705	191,944
Accumulated depreciation at 1 July 2015	-	-	-	4,049	65,438	69,487	-	69,487
	<u>43,023</u>	<u>32,414</u>	<u>75,437</u>	<u>1,461</u>	<u>44,854</u>	<u>46,315</u>	<u>705</u>	<u>122,457</u>
<b>Movements in fair value</b>								
Acquisition of assets at fair value	247	-	247	-	281	281	2,761	3,289
Revaluation increments/decrements	2,247	552	2,799	240	2,114	2,354	-	5,153
Fair value of assets disposed	(122)	-	(122)	-	-	-	-	(122)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
Transfers	221	-	221	-	91	91	(312)	-
	<u>2,593</u>	<u>552</u>	<u>3,145</u>	<u>240</u>	<u>2,486</u>	<u>2,726</u>	<u>2,449</u>	<u>8,320</u>
<b>Movements in accumulated depreciation</b>								
Depreciation and amortisation	-	-	-	57	2,320	2,377	-	2,377
Revaluation increments/decrements	-	-	-	293	3,382	3,675	-	3,675
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>5,702</u>	<u>6,052</u>	<u>-</u>	<u>6,052</u>
At fair value 30 June 2016	45,616	32,966	78,582	5,750	112,778	118,528	3,154	200,264
Accumulated depreciation at 30 June 2016	-	-	-	4,399	71,140	75,539	-	75,539
	<u>45,616</u>	<u>32,966</u>	<u>78,582</u>	<u>1,351</u>	<u>41,638</u>	<u>42,989</u>	<u>3,154</u>	<u>124,725</u>

**South Gippsland Shire Council**  
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**For the Year Ended 30 June 2016**

**Note 22 Property, Infrastructure, Plant and Equipment (cont.)**

<b>Plant and Equipment</b>	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Work In Progress	<b>Total plant and equipment</b>
At fair value 1 July 2015	13,604	200	4,807	35	18,646
Accumulated depreciation at 1 July 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>
<b>Movements in fair value</b>					
Acquisition of assets at fair value	1,601	-	104	501	2,206
Revaluation increments/decrements	-	-	-	-	-
Fair value of assets disposed	(897)	-	-	-	(897)
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	35	-	-	(35)	-
	<u>739</u>	<u>-</u>	<u>104</u>	<u>466</u>	<u>1,309</u>
<b>Movements in accumulated depreciation</b>					
Depreciation and amortisation	1,359	6	435	-	1,800
Revaluation increments/decrements	-	-	-	-	-
Accumulated depreciation of disposals	(530)	-	-	-	(530)
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	-	-	-
	<u>829</u>	<u>6</u>	<u>435</u>	<u>-</u>	<u>1,270</u>
At fair value 30 June 2016	14,343	200	4,911	501	19,955
Accumulated depreciation at 30 June 2016	5,674	162	4,077	-	9,913
	<u>8,669</u>	<u>38</u>	<u>834</u>	<u>501</u>	<u>10,042</u>

<b>Infrastructure</b>	Roads	Bridges	Major Culverts	Footpaths and cycleways	Kerb & Channel	Off street car parks	Drainage	Waste Management	Other Infrastructure	Work In Progress	<b>Total Infrastructure</b>
At fair value 1 July 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 1 July 2015	50,524	12,720	5,107	3,131	5,500	2,834	14,783	2,338	3,494	-	100,431
	<u>266,047</u>	<u>18,154</u>	<u>7,061</u>	<u>13,047</u>	<u>14,750</u>	<u>3,363</u>	<u>23,296</u>	<u>1,626</u>	<u>5,017</u>	<u>2,499</u>	<u>354,860</u>
<b>Movements in fair value</b>											
Acquisition of assets at fair value	4,458	188	66	528	85	-	392	197	252	5,731	11,897
Revaluation increments/decrements	1,981	21,401	1,029	2,618	1,100	267	79	-	(1,668)	-	26,807
Fair value of assets disposed	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-
Transfers	489	372	-	2	-	-	-	-	591	(1,454)	-
	<u>6,928</u>	<u>21,961</u>	<u>1,095</u>	<u>3,148</u>	<u>1,185</u>	<u>267</u>	<u>471</u>	<u>197</u>	<u>(825)</u>	<u>4,277</u>	<u>38,704</u>
<b>Movements in accumulated depreciation</b>											
Depreciation and amortisation	4,167	208	102	182	169	56	320	663	572	-	6,439
Revaluation increments/decrements	1,579	2,487	(534)	(211)	(1,629)	(36)	(1,899)	-	(907)	-	(1,150)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-
	<u>5,746</u>	<u>2,695</u>	<u>(432)</u>	<u>(29)</u>	<u>(1,460)</u>	<u>20</u>	<u>(1,579)</u>	<u>663</u>	<u>(335)</u>	<u>-</u>	<u>5,289</u>
At fair value 30 June 2016	323,499	52,835	13,263	19,326	21,435	6,464	38,550	4,161	7,686	6,776	493,995
Accumulated depreciation at 30 June 2016	56,270	15,415	4,675	3,102	4,040	2,854	13,204	3,001	3,159	-	105,720
	<u>267,229</u>	<u>37,420</u>	<u>8,588</u>	<u>16,224</u>	<u>17,395</u>	<u>3,610</u>	<u>25,346</u>	<u>1,160</u>	<u>4,527</u>	<u>6,776</u>	<u>388,275</u>



**South Gippsland Shire Council**  
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**Note 22 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 unserviced) 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 2016 are as follows:

	Level 1	Level 2	Level 3
Land Specialised	-	-	45,616
Land under roads	-	-	32,966
Heritage buildings	-	-	1,351
Building specialised	-	-	41,638
<b>Total</b>	-	-	<b>121,571</b>

Valuation of infrastructure

Valuation of Council's, infrastructure assets was performed by John Moylan, BE Civil Engineering, MBA(Tech Mgt) (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 2016 are as follows:

	Level 1	Level 2	Level 3
Roads	-	-	267,229
Bridges	-	-	37,420
Major Culverts	-	-	8,588
Footpaths and cycleways	-	-	16,224
Kerb & Channel	-	-	17,395
Off-street car parks	-	-	3,610
Drainage	-	-	25,346
Waste Management	-	-	1,160
Other infrastructure	-	-	4,527
<b>Total</b>	-	-	<b>381,499</b>

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 \$826 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 \$5000 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 4 years to 150 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.

<b>Reconciliation of specialised land</b>	<b>2,016</b>	<b>2,015</b>
Specialised land	45,616	43,023
Land under roads	32,966	32,414
<b>Total specialised land</b>	<b>78,582</b>	<b>75,437</b>

**South Gippsland Shire Council  
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	<b>2016</b>	<b>2015</b>
	\$'000	\$'000
<b>Note 23 Investment Property</b>		
Balance at the beginning of the year	716	716
Fair value adjustment	13	-
<b>Balance at end of financial year</b>	<b>729</b>	<b>716</b>

Valuation of investment property

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.

**Note 24 Trade and other payables**

Payables	1,504	986
Accrued expenses	1,474	1,545
<b>Total trade and other payables</b>	<b>2,978</b>	<b>2,531</b>

**Note 25 Trust funds and deposits**

Refundable deposits	201	221
Fire Services levy	365	379
Retention amounts	25	47
Other Deposits	282	418
<b>Total trust funds and deposits</b>	<b>873</b>	<b>1,065</b>

*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 2016**

**Note 26 Provisions**

	<b>Landfills Restoration \$'000</b>	<b>Other \$'000</b>	<b>Total \$'000</b>
<b>2016</b>			
Balance at beginning of the financial year	698	5,658	6,356
Additional provisions	122	3,170	3,292
Amounts used		(2,427)	(2,427)
Increase in the discounted amount arising because of time and the effect of any changes in the discount rate.		36	36
<b>Balance at the end of the financial year</b>	<b>820</b>	<b>6,437</b>	<b>7,257</b>
<b>2015</b>			
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
<b>Balance at the end of the financial year</b>	<b>698</b>	<b>5,898</b>	<b>6,596</b>
		<b>2016</b>	<b>2015</b>
		\$'000	\$'000
<b>a) Employee provisions</b>			
<b>Current provisions expected to be wholly settled within 12 months</b>			
Annual Leave		1,691	1,583
Rostered Days		199	200
Long Service Leave		1,341	1,314
		<u>3,231</u>	<u>3,097</u>
<b>Current provisions expected to be wholly settled after 12 months</b>			
Annual Leave		765	591
Long Service Leave		1,680	1,644
		<u>2,445</u>	<u>2,235</u>
<b>Total Current Provisions</b>		<u><b>5,676</b></u>	<u><b>5,332</b></u>
<b>Non-current</b>			
Long Service Leave		761	566
<b>Total Non-Current Provisions</b>		<u><b>761</b></u>	<u><b>566</b></u>
<b>Aggregate carrying amount of employee provisions:</b>			
Current		5,676	5,332
Non-current		761	566
Total aggregate carrying amount of employee provisions		<u><b>6,437</b></u>	<u><b>5,898</b></u>
<b>(b) Landfill restoration</b>			
Current		-	-
Non-current		820	698
		<u><b>820</b></u>	<u><b>698</b></u>
<b>Note 27 Interest-bearing loans and borrowings</b>			
<b>Current</b>			
Borrowings - Secured *		-	-
		<u>-</u>	<u>-</u>
<b>Non-Current</b>			
Borrowings - Secured *		3,350	3,350
		<u>3,350</u>	<u>3,350</u>
<b>Total interest-bearing loans and borrowings</b>		<u><b>3,350</b></u>	<u><b>3,350</b></u>
* The loans are secured over the general rates of the Council.			
The maturity profile for Council's borrowings is:			
Not later than one year		-	-
Later than one year and not later than five years		3,350	3,350
<b>Total</b>		<u><b>3,350</b></u>	<u><b>3,350</b></u>

**South Gippsland Shire Council**  
**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**Note 28 Reserves**

	Balance at beginning of reporting period	Increment (decrement)	Share of increment/ (decrement) on revaluation by an associate	Balance at end of reporting period
	\$'000's	\$'000's	\$'000's	\$'000's
<b><u>(a) Asset revaluation reserves</u></b>				
<b><u>2016</u></b>				
<b><i>Property</i></b>				
Land	28,840	2,247	-	31,087
Land under Roads	4,370	552	-	4,922
Investments in associates (Note 16)	74	120	-	194
Buildings	27,190	(1,268)	-	25,922
Heritage buildings	523	(53)	-	470
Plant & Equipment	386	-	-	386
	61,383	1,598	-	62,981
<b><i>Infrastructure</i></b>				
Roads and Streets	200,130	402	-	200,532
Bridges	5,606	18,914	-	24,520
Major Culverts	3,506	1,563	-	5,069
Drainage	10,247	1,978	-	12,225
Footpaths	5,463	2,829	-	8,292
Kerb & Channel	9,573	2,729	-	12,302
Car parks	2,641	303	-	2,944
Other Structures	1,436	(761)	-	675
	238,602	27,957	-	266,559
<b>Total asset revaluation reserves</b>	<b>299,985</b>	<b>29,555</b>	-	<b>329,540</b>
<b><u>2015</u></b>				
<b><i>Property</i></b>				
Land	28,840	-	-	28,840
Land under Roads	4,370	-	-	4,370
Investments in associates	74	-	-	74
Buildings	27,190	-	-	27,190
Heritage buildings	523	-	-	523
Plant & Equipment	386	-	-	386
	61,383	-	-	61,383
<b><i>Infrastructure</i></b>				
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
<b>Total asset revaluation reserves</b>	<b>299,985</b>	-	-	<b>299,985</b>

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  
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	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
<b>Note 28 Reserves (cont.)</b>				
<b><u>(b) Other reserves</u></b>				
<b><u>2016</u></b>				
Public Open Space	-	45	(45)	-
Caravan Parks Reserve	-	1,076	(1,076)	-
General Reserve	339	540	-	879
Corner Inlet Seawall Reserve	22	1	(4)	19
Henry's Road Reserve	-	-	-	-
Loan Reserve	670	670	-	1,340
<b>Total other reserves</b>	<b>1,031</b>	<b>2,332</b>	<b>(1,125)</b>	<b>2,238</b>

**2015**

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
<b>Total other reserves</b>	<b>186</b>	<b>2,584</b>	<b>(1,739)</b>	<b>1,031</b>

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 likely defined benefit superannuation funding calls and 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**  
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	<b>2016</b>	<b>2015</b>
	\$'000	\$'000
<b>Note 29 Reconciliation of cash flows from operating activities to surplus</b>		
Surplus for the year	4,234	9,983
Depreciation	10,616	10,559
Borrowing costs	142	127
Loss on disposal of Property, Plant and Equipment and Infrastructure	57	125
Contributions - non - monetary assets	(629)	(1,503)
Investment in associates (note 16)	(119)	24
Fair value adjustment for investment property	(13)	-
<i>Change in assets and liabilities:</i>		
(Increase)/Decrease in Trade and other receivables	(388)	819
(Increase)/Decrease in prepayments	76	(91)
(Increase)/Decrease in Inventories	97	(44)
Increase/(Decrease) in Trust funds and deposits	(192)	223
Increase/(Decrease) in Payables	344	(1,365)
Increase/(Decrease) in Employee entitlements	539	240
Increase/(Decrease) in Other provisions	124	(558)
<b>Net cash provided by operating activities</b>	<b>14,888</b>	<b>18,539</b>
<b>Note 30 Financing arrangements</b>		
Bank Overdraft	500	500
Credit card facilities	350	350
Total facilities	<b>850</b>	<b>850</b>
Used facilities	36	46
<b>Unused facilities</b>	<b>814</b>	<b>804</b>

**South Gippsland Shire Council**  
**Notes to the Financial Statements**  
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**Note 31 Commitments**

The Council has entered into the following commitments

<b>2016</b>	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	426		2,118
Litter Bins	189	189	189		567
Hall Operations	11				11
Libraries	1,355				1,355
General Materials & Services	2,177				2,177
Equipment Hire	12				12
Maintenance Contracts	761				761
Construction Contracts	101				101
<i>Capital</i>					
Building	1,996				1,996
Computers and telecoms	425				425
Plant machinery & equipment	247				247
Roads	306				306
Drainage	27				27
Footpaths	30				30
Waste Management	234				234
<b>Total</b>	<b>8,717</b>	<b>1,035</b>	<b>615</b>	-	<b>10,367</b>

<b>2015</b>	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
<b>Total</b>	<b>4,271</b>	<b>1,035</b>	<b>1,649</b>	-	<b>6,955</b>

**South Gippsland Shire Council  
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	2016 \$'000	2015 \$'000
<b>Note 32 Operating Leases</b>		
<b>(a) Operating lease commitments</b>		
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	197	116
Later than one year and not later than five years	345	109
Later than five years	1	-
<b>Total operating lease commitments</b>	543	225

**(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	119	154
Later than one year and not later than five years	219	321
Later than five years	428	450
<b>Total operating lease receivables</b>	766	925

**Note 33 Superannuation**

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 the Comprehensive Income Statement when they are made or due.

**Accumulation**

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receive 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 2016, this was 9.5% as required under Superannuation Guarantee legislation).

**Defined Benefit**

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 costs 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 Council in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.



### **Note 33 Superannuation (cont.)**

#### **Funding arrangements**

Council makes employer contributions to the Defined Benefit category of the Fund at rates determined by the Trustee on the advice of the Fund Actuary.

As at 30 June 2015, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which Council is a contributing employer was 105.8%. To determine the VBI, the fund Actuary used the following long-term assumptions:

Net investment returns 7.0% pa

Salary information 4.25% pa

Price inflation (CPI) 2.5% pa.

Vision Super has advised that the estimated VBI at 30 June 2016 was 102 %. The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2015 interim 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 from prior years.

#### **Employer contributions**

##### **Regular contributions**

On the basis of the results of the 2015 interim actuarial investigation conducted by the Fund Actuary, 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 2016, this rate was 9.5% of members' salaries (9.5% in 2014/2015). This rate will increase in line with any increase to the contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

##### **Funding calls**

If the Defined Benefit category is in an unsatisfactory financial position at an 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 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.

**Note 33 Superannuation (cont.)**  
**2015 Interim actuarial investigation surplus amounts**

The Fund's interim actuarial investigation as at 30 June 2015 identified the following in the defined benefit category of which Council is a contributing employer:

A VBI surplus of \$130.8 million; and  
A total service liability surplus of \$239 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 2015. 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. Council was notified of the 30 June 2015 VBI during August 2015.

**Future superannuation contributions**

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2017 is \$145,000.

**Note 34 Contingent liabilities and contingent assets**

**Contingent liabilities**

**Superannuation**

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme, matters relating to this potential obligation are outlined in Note 33. As a result of the 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.

**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:

<b>Description</b>	<b>Favouree</b>	<b>Amount</b>
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
Security Deposit Guarantee	State of Victoria - Environment Protection Authority	\$ 451,296
<b>Total contingent liability as at 30 June 2016</b>		<b>\$ 951,296</b>

**Contingent assets**

Developer contributions to be received by Council in respect of estates currently under development total \$413K (2015 \$749K).

**South Gippsland Shire Council  
Notes to the Financial Statements  
For the Year Ended 30 June 2016**

**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.

**Note 35 Financial instruments (cont.)****(d) Liquidity risk (cont.)**

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.

**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 :-

<b>Councillors</b>	Robert Newton (Mayor from 4 November 2015 to 30 June 2016)
	Jeanette Harding (Mayor from 1 July 2015 to 3 November 2015)
	Mohya Davies
	Kieran Kennedy
	Lorraine Brunt
	Andrew McEwen
	James Fawcett
	Don Hill
	Nigel Hutchinson-Brooks

**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:

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
\$20,000 - \$29,999	7	7
\$40,000 - \$49,999	1	1
\$60,000 - \$69,999	1	1
\$290,000 - \$299,999	1	1
<b>TOTAL</b>	<b>10</b>	<b>10</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Remuneration for the reporting period for Responsible Persons included above, amountec	586	573

**(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 \$139,000 (2014/15 - \$136,000)

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

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Income Range :		
<\$139,000	3	1
\$140,000 - \$149,999	4	4
\$150,000 - \$159,999	1	-
\$160,000 - \$169,999	1	1
\$180,000 - \$189,999	1	3
\$190,000 - \$199,999	1	-
<b>TOTAL</b>	<b>11</b>	<b>9</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Remuneration for the reporting period for Senior Officers included above, amounted to :	1,615	1,336

**Note 36 Related party transactions (cont.)****(iv) Responsible persons retirement benefits**

No retirement benefits have been made by the Council to a Responsible Person (2014/15, 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 (2014/15, 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.

<b>Responsible Officer</b>	<b>Position held (including related parties of responsible officer)</b>	<b>Supplier/entity</b>	<b>Nature of transactions (on normal commercial terms)</b>	<b>Transaction Amount (\$'000)</b>
Director Corporate and Community Services	Board member	West Gippsland Regional Library Corporation	Contribution paid by Council	1,310
Robert Newton ( Mayor)	Board member	West Gippsland Regional Library Corporation	Contribution paid by Council	1,310
Mohya Davies (Councillor)	Board member	South Gippsland Hospital	Payment by Council for goods & services	48
James Fawcett (Councillor)	Board member	South Gippsland Water	Payment by Council for goods & services	99
Director Corporate and Community Services	Board member	Gippsland Southern Health	Payment by Council for goods & services	124

**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  
Certification of Financial Statements  
For the Year Ended 30 June 2016**

In my opinion the accompanying financial statements have been prepared in accordance with the *Local Government Act 1989, the Local Government (Planning and Reporting) Regulations 2014*, Australian Accounting Standards and other mandatory professional reporting requirements.

Finance Manager : Tom Lovass, CPA

Location : Leongatha Dated : 28 / 09 / 2016

In our opinion the accompanying financial statements present fairly the financial transactions of South Gippsland Shire Council for the year ended 30 June 2016 and the financial position of the Council as at that date.

As at the date of signing, we are not aware of any circumstances which would render any particulars in the financial statements to be misleading or inaccurate.

We have been authorised by the Council on 21 September 2016 to certify the financial statements in their final form.

Councillor : Robert Newton

Location : Leongatha Dated : 28 / 09 / 2016

Councillor : Lorraine Brunt

Location : Leongatha Dated : 28 / 09 / 2016

Chief Executive Officer : Tim Tamlin

Location : Leongatha Dated : 28 / 09 / 2016

South Gippsland Shire Council

**AUDITOR-GENERAL'S AUDIT REPORT  
For the Year Ended 30 June 2016**

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