



ANNUAL FINANCIAL REPORT
For the Year Ended 30 June 2017





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For the Year Ended 30 June 2017



Hepburn Shire Council

Financial Report

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Comprehensive Income Statement For the Year Ended 30 June 2017

| | Note | 2017 \$ | 2016 \$ |
|--|------|--------------------------|--------------------------|
| Income | | | |
| Rates and charges | 3 | 18,668,341 | 17,982,062 |
| Statutory fees and fines | 4 | 799,990 | 645,715 |
| User fees | 5 | 1,005,903 | 907,788 |
| Grants - operating | 6 | 16,509,043 | 3,782,136 |
| Grants - capital | 6 | 4,633,174 | 6,023,187 |
| Contributions - monetary | 7 | 214,697 | 237,877 |
| Contributions - non monetary | 7 | 237,486 | 1,060,183 |
| Net gain (or loss) on disposal of property, infrastructure, plant and equipment | 8 | 47,794 | 204,894 |
| Other income | 9 | 1,650,013 | 1,606,784 |
| Total income | | <u>43,766,441</u> | <u>32,450,625</u> |
| Expenses | | | |
| Employee costs | 10 | 11,308,421 | 11,126,621 |
| Materials and services | 11 | 19,160,628 | 8,596,263 |
| Bad and doubtful debts | 12 | 151,835 | 55,577 |
| Depreciation and amortisation | 13 | 7,058,640 | 6,530,001 |
| Borrowing costs | 14 | 169,624 | 186,463 |
| Other expenses | 15 | 1,328,588 | 839,116 |
| Total expenses | | <u>39,177,736</u> | <u>27,334,041</u> |
| Surplus for the year | | <u>4,588,705</u> | <u>5,116,585</u> |
| Other comprehensive income | | | |
| Items that will not be reclassified to surplus or deficit in future periods | | | |
| Net asset revaluation increment | 22 | 2,959,462 | 4,097,672 |
| Total comprehensive result | | <u>7,548,166</u> | <u>9,214,257</u> |

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

Balance Sheet As at 30 June 2017

| | Note | 2017 \$ | 2016 \$ |
|--|------|---------------------------|---------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 16 | 5,863,801 | 3,929,554 |
| Trade and other receivables | 18 | 8,260,122 | 2,820,705 |
| Other financial assets | 17 | 4,154,171 | 9,327,000 |
| Inventories | 19 | 19,471 | 17,612 |
| Non-current assets classified as held for sale | 20 | 545,000 | - |
| Other assets | 21 | 121,441 | 108,363 |
| Total current assets | | <u>18,964,006</u> | <u>16,203,235</u> |
| Non-current assets | | | |
| Property, infrastructure, plant and equipment | 22 | 232,237,230 | 223,439,222 |
| Intangible assets | 23 | 567,567 | 629,550 |
| Total non-current assets | | <u>232,804,798</u> | <u>224,068,772</u> |
| Total assets | | <u>251,768,804</u> | <u>240,272,006</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 24 | 2,048,361 | 1,585,580 |
| Trust funds and deposits | 25 | 1,049,018 | 1,033,636 |
| Provisions | 26 | 2,473,712 | 1,929,895 |
| Interest-bearing loans and borrowings | 27 | 728,664 | 414,670 |
| Other liabilities | 28 | 110,621 | 104,772 |
| Total current liabilities | | <u>6,410,375</u> | <u>5,068,552</u> |
| Non-current liabilities | | | |
| Provisions | 26 | 524,975 | 501,036 |
| Interest-bearing loans and borrowings | 27 | 4,901,082 | 2,300,357 |
| Other liabilities | 28 | 98,214 | 116,071 |
| Total non-current liabilities | | <u>5,524,271</u> | <u>2,917,464</u> |
| Total liabilities | | <u>11,934,647</u> | <u>7,986,016</u> |
| Net assets | | <u>239,834,157</u> | <u>232,285,990</u> |
| Equity | | | |
| Accumulated surplus | | 146,226,629 | 141,468,248 |
| Reserves | 29 | 93,607,528 | 90,817,742 |
| Total Equity | | <u>239,834,157</u> | <u>232,285,990</u> |

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

Statement of Changes in Equity For the Year Ended 30 June 2017

| 15 | Note | Accumulated | | Revaluation | Other |
|---|-------|--------------------|--------------------|-------------------|------------------|
| | | Total | Surplus | Reserve | Reserves |
| 2017 | | \$ | \$ | \$ | \$ |
| Balance at beginning of the financial year | | 232,285,990 | 141,468,248 | 88,288,553 | 2,529,189 |
| Surplus/(deficit) for the year | | 4,588,705 | 4,588,705 | - | - |
| Net asset revaluation increment/(decrement) | 29(a) | 2,959,462 | - | 2,959,462 | - |
| Transfers to other reserves | 29(b) | - | (760,700) | - | 760,700 |
| Transfers from other reserves | 29(b) | - | 930,376 | - | (930,376) |
| Balance at end of the financial year | | 239,834,157 | 146,226,629 | 91,248,015 | 2,359,513 |

| 2016 | Note | Accumulated | | Revaluation | Other |
|---|-------|--------------------|--------------------|-------------------|------------------|
| | | Total | Surplus | Reserve | Reserves |
| | | \$ | \$ | \$ | \$ |
| Balance at beginning of the financial year | | 223,071,733 | 137,067,319 | 84,190,881 | 1,813,534 |
| Surplus/(deficit) for the year | | 5,116,585 | 5,116,585 | - | - |
| Net asset revaluation increment/(decrement) | 29(a) | 4,097,672 | - | 4,097,672 | - |
| Transfers to other reserves | 29(b) | - | (1,159,650) | - | 1,159,650 |
| Transfers from other reserves | 29(b) | - | 443,995 | - | (443,995) |
| Balance at end of the financial year | | 232,285,990 | 141,468,248 | 88,288,553 | 2,529,189 |

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

Statement of Cash Flows
For the Year Ended 30 June 2017

| | Note | 2017 Inflows/ (Outflows) \$ | 2016 Inflows/ (Outflows) \$ |
|---|------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Rates and charges | | 18,451,254 | 17,515,208 |
| Statutory fees and fines | | 707,376 | 565,351 |
| User fees | | 1,004,592 | 852,631 |
| Grants - operating | | 11,339,076 | 3,782,136 |
| Grants - capital | | 4,633,174 | 6,023,187 |
| Contributions - monetary | | 214,697 | 237,877 |
| Interest received | | 399,794 | 372,217 |
| Rent received | | 1,119,697 | 721,616 |
| Trust funds and deposits taken | | 2,276,416 | 2,183,817 |
| Other receipts | | 339,755 | 291,133 |
| Net GST refund/(payment) | | (302,666) | 139,598 |
| Employee costs | | (11,342,938) | (11,134,879) |
| Materials and services | | (18,753,547) | (9,260,618) |
| Trust funds and deposits repaid | | (2,269,340) | (2,689,115) |
| Other payments | | (706,094) | (839,116) |
| Net cash provided by/(used in) operating activities | 30 | <u>7,111,246</u> | <u>8,761,040</u> |
| Cash flows from investing activities | | | |
| Payments for property, infrastructure, plant and equipment | 22 | (13,204,106) | (9,981,150) |
| Proceeds from sale of property, infrastructure, plant and equipment | | 109,181 | 301,120 |
| Payments for investments | | (7,977,171) | (11,014,000) |
| Proceeds from sale of investments | | 13,150,000 | 3,000,000 |
| Net cash provided by/(used in) investing activities | | <u>(7,922,095)</u> | <u>(17,694,030)</u> |
| Cash flows from financing activities | | | |
| Finance costs | | (169,624) | (186,463) |
| Proceeds from borrowings | | 3,405,000 | - |
| Repayment of borrowings | | (490,280) | (390,255) |
| Net cash provided by/(used in) financing activities | | <u>2,745,096</u> | <u>(576,717)</u> |
| Net increase (decrease) in cash and cash equivalents | | 1,934,247 | (9,509,707) |
| Cash and cash equivalents at the beginning of the financial year | | 3,929,554 | 13,439,262 |
| Cash and cash equivalents at the end of the financial year | | <u>5,863,801</u> | <u>3,929,554</u> |
| Financing arrangements | 31 | | |
| Restrictions on cash assets | 16 | | |

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

**Statement of Capital Works
For the Year Ended 30 June 2017**

| | Note | 2017 \$ | 2016 \$ |
|--|------|-------------------|------------------|
| Property | | | |
| Land improvements | | 81,271 | 64,507 |
| Total land | | <u>81,271</u> | <u>64,507</u> |
| Buildings | | 6,790,532 | 2,081,349 |
| Building improvements | | 951,175 | 852,235 |
| Total buildings | | <u>7,741,707</u> | <u>2,933,584</u> |
| Total property | | <u>7,822,978</u> | <u>2,998,091</u> |
| Plant and equipment | | | |
| Plant, machinery and equipment | | 413,446 | 975,204 |
| Computers and telecommunications | | 74,900 | 180,930 |
| Library books | | 43,181 | 105,040 |
| Total plant and equipment | | <u>531,526</u> | <u>1,261,174</u> |
| Infrastructure | | | |
| Roads | | 3,457,563 | 4,424,233 |
| Bridges | | 167,708 | 74,984 |
| Footpaths and cycleways | | 211,855 | 214,010 |
| Drainage | | 43,218 | 126,244 |
| Recreational, leisure and community facilities | | 262,586 | 312,087 |
| Parks, open space and streetscapes | | 657,536 | 523,712 |
| Other infrastructure | | 16,775 | 46,614 |
| Total infrastructure | | <u>4,817,240</u> | <u>5,721,885</u> |
| Total capital works expenditure | | <u>13,171,745</u> | <u>9,981,150</u> |
| Represented by: | | | |
| New asset expenditure | | 6,598,139 | 449,962 |
| Asset renewal expenditure | | 5,153,255 | 6,602,839 |
| Asset upgrade/expansion expenditure | | 1,420,350 | 2,928,349 |
| Total capital works expenditure | | <u>13,171,745</u> | <u>9,981,150</u> |

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

Introduction

The Hepburn Shire Council was established by an Order of the Governor in Council on 19 January 1995 and is a body corporate.
The Council's main office is located at 76 Vincent Street, Daylesford.

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 the 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 (j))
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 1 (k))
- the determination of employee provisions (refer to Note 1 (q)).

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 the 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) Revenue recognition

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

Rates and Charges

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

Statutory fees and fines

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

User fees

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

Note 1 Significant accounting policies (cont.)

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.

(e) 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.

(f) 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.

(g) Trade and other receivables

Short term receivables are carried at invoice amount as amortised cost using the effective interest rate method would not impact the carrying value. A provision for doubtful debts is recognised when there is objective evidence that an impairment has occurred. Long term receivables are carried at amortised cost using the effective interest rate method.

Note 1 Significant accounting policies (cont.)

(h) 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.

(i) Inventories

Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.

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.

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

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the price that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the time of the 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 (k) 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 of 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 two to five 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 acquired after 30 June 2008 at fair value. Council does not recognise land under roads that it controlled prior to that period in this financial report.

Note 1 Significant accounting policies (cont.)

(k) Depreciation and amortisation of property, infrastructure, plant and equipment and intangibles

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

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

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

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

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

| <i>Asset recognition thresholds and depreciation periods</i> | Depreciation Period | Threshold Limit \$ |
|--|--------------------------------|-----------------------------------|
| Property | | |
| land | - | 1,000 |
| land improvements | 20-100 years | 1,000 |
| Buildings | | |
| buildings | 25-150 years | 1,000 |
| building improvements | 25-150 years | 1,000 |
| Plant and Equipment | | |
| plant, machinery and equipment | 3-10 years | 1,000 |
| fixtures, fittings and furniture | 3-20 years | 1,000 |
| computers and telecommunications | 3-10 years | 1,000 |
| library books | 10 years | 1,000 |
| Infrastructure | | |
| road pavements and seals | 10-80 years | 1,000 |
| road substructure | 10-80 years | 1,000 |
| road formation and earthworks | 10-80 years | 1,000 |
| road kerb, channel and minor culverts | 10-65 years | 1,000 |
| bridges deck | 50-100 years | 1,000 |
| bridges substructure | 50-100 years | 1,000 |
| footpaths and cycleways | 10-65 years | 1,000 |
| drainage | 5-80 years | 1,000 |
| recreational, leisure and community facilities | 5-80 years | 1,000 |
| parks, open space and streetscapes | 5-80 years | 1,000 |
| off street car parks | 5-80 years | 1,000 |
| art works | - | 1,000 |
| Intangible assets | | |
| intangible assets | 10 years | 1,000 |

(l) 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.

(m) Investment property

Investment property 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.

Note 1 Significant accounting policies (cont.)

(n) 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 of disposal 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.

(o) 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).

(p) 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 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. 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, interest on borrowings, and finance lease charges.

(q) 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 the 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.

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.

Note 1 Significant accounting policies (cont.)

(r) Landfill rehabilitation provision

Council is obligated to restore landfill sites to a particular standard. Hepburn Shire Council currently does not have any landfill sites in operation. 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 based on EPA financial assurance liability calculations. Accordingly, the estimation of the provision required is dependent on the accuracy of the work required and related costs.

(s) 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.

(t) 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.

(u) Financial guarantees

Financial guarantee contracts are not recognised as a liability in the balance sheet unless the lender has exercised their right to call on the guarantee or Council has other reasons to believe that it is probable that the 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.

(v) 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.

(w) Pending accounting standards

The following new AAS's have been issued that are not mandatory for the 30 June 2017 reporting period. Council has assessed these pending standards and has identified the following potential impacts will flow from the application of these standards in future reporting periods.

Revenue from contracts with customers (AASB 15) (applies 2019/20)

The standard shifts the focus from the transaction-level to a contract-based approach. Recognition is determined based on what the customer expects to be entitled to (rights and obligations), while measurement encompasses estimation by the entity of the amount expected to be entitled for performing under the contract. The full impact of this standard is not known however it is most likely to impact where contracts extend over time, where there are rights and obligations that may vary the timing or amount of the consideration, or where there are multiple performance elements. This has the potential to impact on the recognition of certain grant income.

Leases (AASB 16) (applies 2019/20)

The classification of leases as either finance leases or operating leases is eliminated for lessees. Leases will be recognised in the Balance Sheet by capitalising the present value of the minimum lease payments and showing a 'right-of-use' asset, while future lease payments will be recognised as a financial liability. The nature of the expense recognised in the profit or loss will change. Rather than being shown as rent, or as leasing costs, it will be recognised as depreciation on the 'right-of-use' asset, and an interest charge on the lease liability. The interest charge will be calculated using the effective interest method, which will result in a gradual reduction of interest expense over the lease term.

(x) Rounding

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

Notes to the Financial Report For the Year Ended 30 June 2017

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 ten percent or \$100,000 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 21 June 2016. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

(a) Income and Expenditure

| | Budget 2017 \$ | Actual 2017 \$ | Variance 2017 \$ | Ref |
|--|----------------------|----------------------|------------------------|-----|
| Income | | | | |
| Rates and charges | 18,463,650 | 18,668,341 | 204,691 | 1 |
| Statutory fees and fines | 554,100 | 799,990 | 245,890 | 2 |
| User fees | 791,564 | 1,005,903 | 214,339 | 3 |
| Grants - operating | 4,753,129 | 16,509,043 | 11,755,914 | 4 |
| Grants - capital | 6,562,070 | 4,633,174 | (1,928,896) | 5 |
| Contributions - monetary | 122,000 | 214,697 | 92,697 | 6 |
| Contributions - non monetary | 218,000 | 237,486 | 19,486 | |
| Net gain/(loss) on disposal of property, infrastructure, plant and | 426,299 | 47,794 | (378,505) | 7 |
| Other income | 1,531,409 | 1,650,013 | 118,604 | 8 |
| Total income | 33,422,220 | 43,766,441 | 10,344,220 | |
| Expenses | | | | |
| Employee costs | 11,353,847 | 11,308,421 | 45,426 | |
| Materials and services | 8,949,415 | 19,160,628 | (10,211,213) | 9 |
| Bad and doubtful debts | 5,850 | 151,835 | (145,985) | 10 |
| Depreciation and amortisation | 6,694,000 | 7,058,640 | (364,640) | |
| Borrowing costs | 144,648 | 169,624 | (24,976) | |
| Other expenses | 696,570 | 1,328,588 | (632,018) | 11 |
| Total expenses | 27,844,330 | 39,177,736 | (11,333,406) | |
| Surplus/(deficit) for the year | 5,577,890 | 4,588,705 | (989,186) | |

(i) Explanation of material variations

| Variance Ref | Item | Explanation |
|-----------------|-----------------------------|---|
| 1 | Rates and charges | Interest on overdue rates now classified under Rates and Charges as per Model Financial Statements |
| 2 | Statutory fees and fines | Additional town planning fees of \$106K and Infringements up \$105K. |
| 3 | User fees | Transfer station fees up \$110K and building services fees up by \$60K. |
| 4 | Grants - operating | 50% (\$1.4 million) of 2017/18 General purpose grant from Victorian Grants Commission received in this financial year. Natural disaster assistance funding for flood restoration (\$9.85 million) |
| 5 | Grants - capital | Unsuccessful grant applications for two projects, two further projects delayed until 2017/18 |
| 6 | Contributions | Developer contributions received \$108K greater than budget. |
| 7 | Net gain/(loss) on disposal | Sale of surplus land delayed until 2017/18. |
| 8 | Other income | Additional rental income of \$69K and interest on investments of \$44K. |
| 9 | Materials and services | \$10 million expended on flood restoration works to restore road infrastructure to pre-event conditions following September 2016 flooding. Refer also Note 6, Note 11 and Note 18. |
| 10 | Bad and doubtful debts | Infringements not followed up within statutory timeframes |
| 11 | Other Expenses | Additional \$622K provision for landfill restoration recognised |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 2 Budget comparison (cont)

(b) Capital Works

| | Budget 2017 \$ | Actual 2017 \$ | Variance 2017 \$ | Ref |
|--|----------------------|----------------------|------------------------|-----|
| Property | | | | |
| Land improvements | 98,000 | 81,271 | (16,729) | 1 |
| Total Land | 98,000 | 81,271 | (16,729) | |
| Buildings | 4,297,500 | 6,790,532 | 2,493,032 | 2 |
| Building improvements | 1,751,068 | 951,175 | (799,893) | 3 |
| Total Buildings | 6,048,568 | 7,741,707 | 1,693,139 | |
| Total Property | 6,146,568 | 7,822,978 | 1,676,410 | |
| Plant and Equipment | | | | |
| Plant, machinery and equipment | 755,000 | 413,446 | (341,554) | 4 |
| Computers and telecommunications | 156,828 | 74,900 | (81,928) | 5 |
| Library books | 53,000 | 43,181 | (9,819) | |
| Total Plant and Equipment | 964,828 | 531,526 | (433,302) | |
| Infrastructure | | | | |
| Roads | 3,785,000 | 3,457,563 | (327,437) | 6 |
| Bridges | 153,000 | 167,708 | 14,708 | |
| Footpaths and cycleways | 295,000 | 211,855 | (83,145) | 7 |
| Drainage | 165,000 | 43,218 | (121,782) | 8 |
| Recreational, leisure and community facilities | 694,800 | 262,586 | (432,214) | 9 |
| Parks, open space and streetscapes | 1,691,500 | 657,536 | (1,033,964) | 10 |
| Other infrastructure | 40,000 | 16,775 | (23,225) | 11 |
| Total Infrastructure | 6,824,300 | 4,817,240 | (2,007,060) | |
| Total Capital Works Expenditure | 13,935,696 | 13,171,745 | (763,951) | |
| Represented by: | | | | |
| New asset expenditure | 4,784,500 | 6,598,139 | 1,813,639 | |
| Asset renewal expenditure | 7,396,196 | 5,153,255 | (2,242,941) | |
| Asset upgrade/expansion expenditure | 1,755,000 | 1,420,350 | (334,650) | |
| Total Capital Works Expenditure | 13,935,696 | 13,171,745 | (763,951) | |

(i) Explanation of material variations

| Variance Ref | Item | Explanation |
|-----------------|---------------|---|
| 1 | Land | Town and Shire Road Signage project incomplete, to be carried forward to 2017/18 |
| 2 | Buildings | Grant application unsuccessful for Trentham Hub. "The Rex" building was purchased |
| 3 | Build Improv. | Community Hub works at Daylesford Town Hall delayed until after staff relocate to The Rex. |
| 4 | Plant | Bio-energy facility not commenced due to grant funding, and plant replacement not completed |
| 5 | Info Tech | Acquisition of storage area network not finalised until August 2017 |
| 6 | Roads | Funding application for East Street bridge underpass unsuccessful |
| 7 | Footpaths | Two projects not commenced, carry forward to 2017/18 |
| 8 | Drainage | Works in progress, carry forward to 2017/18 |
| 9 | Recreational | Two projects not completed/commenced, carry forward to 2017/18 |
| 10 | Streetscapes | Works not progressed on various projects, projects carried forward to 2017/18 |
| 11 | Other | Public Art project commissioned for completion in 2017/18 |

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|---|--------------------------|--------------------------|
| Note 3 Rates and charges | | |
| Council uses Capital Improved Value (CIV) as the basis of valuation of all properties within the municipal district. The CIV of a property is its market value. | | |
| The valuation base used to calculate general rates for 2016/17 was \$4,136.961 million (2015/16 \$3,777.413 million). | | |
| General Rates | 15,945,151 | 15,455,226 |
| Waste management charge | 1,159,430 | 1,143,411 |
| Garbage and recycling charges | 1,210,805 | 1,167,134 |
| Supplementary rates and rate adjustments | 196,779 | 86,458 |
| Interest on rates and charges | 140,359 | 114,233 |
| Revenue in lieu of rates | 15,817 | 15,599 |
| Total rates and charges | <u>18,668,341</u> | <u>17,982,062</u> |

The date of the latest general revaluation of land for rating purposes within the municipal district was 01/01/2016, and the valuation will be first applied in the rating year commencing 01/07/2016.

Valuation of properties within the shire are completed by an independent contract valuer in accordance with state-wide Valuation Best Practice Specifications.

Note 4 Statutory fees and fines

| | | |
|---------------------------------------|-----------------------|-----------------------|
| Infringements and costs | 188,413 | 108,463 |
| Permits | 69,363 | 64,251 |
| Registration fees | 217,551 | 221,689 |
| Town planning fees | 312,982 | 241,298 |
| Other fees and fines | 11,680 | 10,014 |
| Total statutory fees and fines | <u>799,990</u> | <u>645,715</u> |

Note 5 User fees

| | | |
|--|-------------------------|-----------------------|
| Aged and health services | 334,648 | 369,319 |
| Aquatic centre fees | 57,971 | 60,977 |
| Building services | 211,412 | 160,899 |
| Facility hire | 22,729 | 21,555 |
| Photocopier Usagae | 14,409 | 13,025 |
| Visitor information centre memberships | 18,892 | 17,183 |
| Waste management services | 252,913 | 199,163 |
| Other fees and charges | 92,928 | 65,668 |
| Total user fees | <u>1,005,903</u> | <u>907,788</u> |

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|---|-------------------|------------------|
| Note 6 Grants | | |
| Grants were received in respect of the following : | | |
| Summary of grants | | |
| Commonwealth funded grants | 18,743,942 | 5,583,161 |
| State funded grants | 2,398,274 | 4,222,162 |
| Total grants received | <u>21,142,217</u> | <u>9,805,323</u> |
| Operating Grants | | |
| Recurrent - Commonwealth Government | | |
| General Purpose Grants - Victoria Grants Commission | 4,395,156 | 1,460,096 |
| Aged care | 1,021,292 | 769,228 |
| Community health | 42,040 | 56,049 |
| Recurrent - State Government | | |
| Aged care | 288,346 | 521,576 |
| Emergency management | - | 13,253 |
| Libraries | 154,761 | 153,083 |
| Maternal and child health | 132,550 | 117,681 |
| School crossing supervisors | 20,367 | 19,870 |
| Youth | 11,745 | 21,123 |
| Other | 51,512 | 94,090 |
| Total recurrent operating grants | <u>6,117,770</u> | <u>3,226,050</u> |
| Non-recurrent - Commonwealth Government | | |
| Natural Disaster Financial Assistance * | 9,601,790 | 198,701 |
| Non-recurrent - State Government | | |
| Commerce and tourism | 321,950 | - |
| Emergency management | 120,000 | 120,000 |
| Family and children services | 5,000 | - |
| Recreation | 23,000 | 43,000 |
| Transport | 28,500 | 47,500 |
| Waste and environment | 280,005 | 120,794 |
| Other | 11,028 | 26,091 |
| Total non-recurrent operating grants | <u>10,391,273</u> | <u>556,086</u> |
| Total operating grants | <u>16,509,043</u> | <u>3,782,136</u> |
| Capital Grants | | |
| Recurrent - Commonwealth Government | | |
| Local Road Funding - Victorian Grants Commission | 2,133,049 | 696,101 |
| Roads to recovery | 1,415,615 | 2,123,313 |
| Total recurrent capital grants | <u>3,548,664</u> | <u>2,819,414</u> |
| Non-recurrent - Commonwealth Government | | |
| Infrastructure | 135,000 | 165,000 |
| Flood recovery | - | 313,373 |
| Non-recurrent - State Government | | |
| Buildings | 120,000 | 1,912,800 |
| Infrastructure | 45,000 | 92,600 |
| Recreation | 784,510 | 720,000 |
| Total non-recurrent capital grants | <u>1,084,510</u> | <u>3,203,773</u> |
| Total capital grants | <u>4,633,174</u> | <u>6,023,187</u> |
| Unspent grants received on condition that they be spent in a specific manner | | |
| Balance at start of year | 1,347,852 | 2,317,822 |
| Received during the financial year and remained unspent at balance date | 2,741,750 | 1,339,365 |
| Received in prior years and spent during the financial year | (693,085) | (2,309,335) |
| Balance at year end | <u>3,396,517</u> | <u>1,347,852</u> |

Note * Natural Disaster Financial Assistance represents reimbursement to Council for eligible works undertaken to restore road infrastructure to pre-existing conditions following August 2016 flooding events. At balance date, \$5.9 million of this income was not received and is recognised under Trade and other receivables, refer Note 18. Council is confident of receiving this income in 2017/2018.

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|---|----------------|------------------|
| Note 7 Contributions | | |
| Monetary | 214,697 | 237,877 |
| Non-monetary | 237,486 | 1,060,183 |
| Total contributions | <u>452,183</u> | <u>1,298,061</u> |
| <i>Contributions of non monetary assets were received in relation to the following asset classes.</i> | | |
| Land | - | 276,000 |
| Buildings | 237,486 | 528,000 |
| Roads | - | 256,183 |
| Total non-monetary contributions | <u>237,486</u> | <u>1,060,183</u> |

Note 8 Net gain/(loss) on disposal of property, infrastructure, plant and equipment

| | | |
|---|---------------|----------------|
| Proceeds of sale | 109,181 | 301,120 |
| Written down value of assets disposed | (36,833) | (96,226) |
| Impairment of Assets | (24,555) | - |
| Total net gain/(loss) on disposal of property, infrastructure, plant and equipment | <u>47,794</u> | <u>204,894</u> |

Note 9 Other income

| | | |
|---------------------------|------------------|------------------|
| Interest | 238,892 | 273,684 |
| Reimbursements | 236,815 | 108,464 |
| Rental income | 1,071,365 | 1,041,967 |
| Sale of materials | 74,092 | 121,900 |
| Other | 28,849 | 60,769 |
| Total other income | <u>1,650,013</u> | <u>1,606,784</u> |

Note 10 (a) Employee costs

| | | |
|-----------------------------|-------------------|-------------------|
| Wages and salaries | 9,272,125 | 9,004,048 |
| WorkCover | 229,367 | 117,793 |
| Casual staff | 867,997 | 1,046,813 |
| Superannuation | 876,628 | 862,867 |
| Fringe benefits tax | 62,303 | 95,100 |
| Total employee costs | <u>11,308,421</u> | <u>11,126,621</u> |

Note 10 (b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

| | | |
|--|---------------|---------------|
| Employer contributions to Local Authorities Superannuation Fund (Vision Super) | 65,626 | 60,914 |
| | <u>65,626</u> | <u>60,914</u> |
| Employer contributions payable at reporting date. | - | - |

Accumulation funds

| | | |
|--|----------------|----------------|
| Employer contributions to Local Authorities Superannuation Fund (Vision Super) | 465,160 | 499,848 |
| Employer contributions - other funds | 345,841 | 302,105 |
| | <u>811,001</u> | <u>801,953</u> |
| Employer contributions payable at reporting date. | - | - |

Refer to note 34 for further information relating to Council's superannuation obligations.

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|---|--------------------------|-------------------------|
| Note 11 Materials and services | | |
| Contract payments + | 13,873,865 | 3,713,911 |
| Building maintenance | 60,938 | 112,166 |
| Materials and services | 2,438,923 | 2,185,697 |
| Utilities | 569,745 | 541,597 |
| Office administration | 454,400 | 536,646 |
| Information technology | 283,545 | 249,114 |
| Insurance | 330,453 | 320,529 |
| Consultants | 1,148,760 | 936,603 |
| Total materials and services | <u>19,160,628</u> | <u>8,596,263</u> |
| <p>Note + Contract payments includes \$9.8 million expended to restore flood damaged road infrastructure. These works were to restore Council's assets to pre existing conditions and have therefore been expensed rather than being capitalised.</p> | | |
| Note 12 Bad and doubtful debts | | |
| Compliance Debtors | 146,581 | - |
| Rent debtors | - | 9,432 |
| Other debtors | 5,254 | 46,145 |
| Total bad and doubtful debts | <u>151,835</u> | <u>55,577</u> |
| Note 13 Depreciation and amortisation | | |
| Property | 1,398,662 | 1,046,572 |
| Plant and equipment | 813,008 | 773,382 |
| Infrastructure | 4,752,626 | 4,615,704 |
| Total depreciation | <u>6,964,297</u> | <u>6,435,658</u> |
| Intangible assets | 94,343 | 94,343 |
| Total depreciation and amortisation | <u>7,058,640</u> | <u>6,530,001</u> |
| <p>Refer to note 22 and 23 for a more detailed breakdown of depreciation and amortisation charges</p> | | |
| Note 14 Borrowing costs | | |
| Interest - Borrowings | 169,624 | 186,463 |
| Total borrowing costs | <u>169,624</u> | <u>186,463</u> |
| Note 15 Other expenses | | |
| Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals | 52,500 | 46,000 |
| Auditors' remuneration - Internal | 28,555 | 22,725 |
| Councillors' allowances | 169,874 | 199,764 |
| Community grants | 291,179 | 410,569 |
| Council pension rebate | 38,735 | 38,619 |
| Tourism board membership | 81,608 | 79,568 |
| Landfill Restoration Provision Expense | 622,494 | - |
| Other | 43,642 | 41,871 |
| Total other expenses | <u>1,328,588</u> | <u>839,116</u> |

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Note 16 Cash and cash equivalents | | |
| Cash on hand | 6,430 | 17,429 |
| Cash at bank | 435,190 | 2,358,654 |
| Term deposits | 5,422,182 | 1,553,472 |
| | <u>5,863,801</u> | <u>3,929,554</u> |
| Councils cash and cash equivalents are subject to external restrictions that limit amounts available for discretionary use. These include: | | |
| - Trust funds and deposits (Note 25) | 1,049,018 | 1,033,636 |
| - Statutory reserves (Note 29) | 830,953 | 1,135,528 |
| Total restricted funds | <u>1,879,971</u> | <u>2,169,164</u> |
| Total unrestricted cash and cash equivalents | <u>3,983,831</u> | <u>1,760,391</u> |
| Intended allocations | | |
| Although not externally restricted the following amounts have been allocated for specific future purposes by Council: | | |
| - Cash held to fund carried forward capital works | 3,004,000 | 1,680,600 |
| - Unexpended grants received | 3,396,517 | 1,347,852 |
| - Discretionary reserves (Note 29) | 1,528,560 | 1,393,661 |
| Total funds subject to intended allocations | <u>7,929,077</u> | <u>4,422,113</u> |
| Refer also to Note 17 for details of other financial assets held by Council and Note 18 for current receivables. | | |

| | \$ | \$ |
|---------------------------------------|------------------|------------------|
| Note 17 Other financial assets | | |
| Term deposits | <u>4,154,171</u> | <u>9,327,000</u> |
| Total other financial assets | <u>4,154,171</u> | <u>9,327,000</u> |

All other financial assets comprise term deposits with an original maturity of greater than three months. Council utilises term deposits to manage its cash flow requirements and maximise interest earned. Term deposits with a maturity date greater than 90 days at the time of placing the deposit are recognised as other financial assets, while term deposit placed for a term of 90 days or less are recorded under cash and cash equivalents.

Note 18 Trade and other receivables

Current

| | | |
|--|------------------|------------------|
| <i>Statutory receivables</i> | | |
| Rates debtors | 1,586,872 | 1,510,145 |
| Fire service levy debtors | 202,557 | 194,251 |
| Infringement debtors | 89,286 | 131,709 |
| Provision for doubtful debts - infringements | (51,782) | (35,776) |
| GST receivable | 456,765 | 154,099 |
| <i>Non statutory receivables</i> | | |
| Other debtors - rental | 2,291 | 88,775 |
| Other debtors - government grants * | 5,869,277 | 572,410 |
| Other debtors - miscellaneous | 102,151 | 205,429 |
| Provision for doubtful debts - other debtors | - | (3,981) |
| Other | 2,703 | 3,645 |
| Total current trade and other receivables | <u>8,260,122</u> | <u>2,820,705</u> |

Non-current

| | | |
|---|------------------|------------------|
| <i>Statutory receivables</i> | | |
| Special rate scheme | - | - |
| <i>Non statutory receivables</i> | | |
| Loans and advances to community organisations | - | - |
| Total non-current trade and other receivables | <u>-</u> | <u>-</u> |
| Total trade and other receivables | <u>8,260,122</u> | <u>2,820,705</u> |

Note * Other debtors - government grants includes Natural Disaster Financial Assistance reimbursable to Council for eligible works undertaken to restore road infrastructure to pre-existing conditions following August 2016 flooding events. At balance date, \$5.7 million of the total \$9.6 million income recognised was not received and has been recorded under Trade and Other Receivables. Subsequent to balance date, Council has received \$5.2 million of the \$5.9 receivable from government grants.

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|--|------------------|-----------------|
| Note 18 Trade and other receivables (cont.) | | |
| (a) Ageing of Receivables | | |
| At balance date other debtors representing financial assets were past due but not impaired. The ageing of the Council's trade & other receivables (excluding statutory receivables) was: | | |
| Current (not yet due) | 5,922,126 | 611,003 |
| Past due by up to 30 days | 15,961 | 30,301 |
| Past due between 31 and 180 days | 4,762 | 12,620 |
| Past due between 181 and 365 days | 29,386 | 200,896 |
| Past due by more than 1 year | 4,189 | 15,438 |
| Total trade & other receivables | <u>5,976,423</u> | <u>870,259</u> |
| (b) Movement in provisions for doubtful debts | | |
| Balance at the beginning of the year | (39,757) | (398,147) |
| New Provisions recognised during the year | (51,782) | - |
| Amounts already provided for and written off as uncollectible | 39,757 | 339,969 |
| Amounts provided for but recovered during the year | - | 18,420 |
| Balance at end of year | <u>(51,782)</u> | <u>(39,757)</u> |
| Note 19 Inventories | | |
| Inventories held for sale | <u>19,471</u> | <u>17,612</u> |
| Total inventories | <u>19,471</u> | <u>17,612</u> |
| Note 20 Non current assets classified as held for sale | | |
| Cost of acquisition | 545,000 | - |
| Total non current assets classified as held for sale | <u>545,000</u> | <u>-</u> |
| Capitalisation rate used in the allocation of borrowing costs | Nil | Nil |
| Note 21 Other assets | | |
| Prepayments | 104,927 | 71,306 |
| Accrued income | 16,514 | 37,057 |
| Total other assets | <u>121,441</u> | <u>108,363</u> |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 22 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

| | At Fair Value 30 June 2016 | Acquisitions | Contributions | Revaluation | Depreciation | Disposal | Transfers | At Fair Value 30 June 2017 |
|---------------------|-------------------------------|-------------------|----------------|------------------|--------------------|-----------------|------------------|-------------------------------|
| Land | 41,836,835 | - | - | (190,000) | (485,662) | - | (389,167) | 40,772,005 |
| Buildings | 49,972,185 | 6,345,000 | 229,636 | - | (913,000) | - | 1,178,990 | 56,812,811 |
| Plant and Equipment | 3,652,678 | 527,006 | - | - | (813,008) | (36,833) | - | 3,329,844 |
| Infrastructure | 126,454,142 | - | 7,850 | 3,149,462 | (4,752,626) | (24,555) | 3,547,988 | 128,382,260 |
| Work in progress | 1,523,382 | 6,299,739 | - | - | - | - | (4,882,810) | 2,940,310 |
| | <u>223,439,222</u> | <u>13,171,745</u> | <u>237,486</u> | <u>2,959,462</u> | <u>(6,964,297)</u> | <u>(61,388)</u> | <u>(545,000)</u> | <u>232,237,230</u> |

Summary of Work in Progress

| | Opening WIP | Additions | Transfers | Write Offs | Closing WIP |
|---------------------|------------------|------------------|--------------------|------------|------------------|
| Land Improvements | 168,860 | 237,104 | (155,833) | - | 250,131 |
| Buildings | 303,222 | 1,396,432 | (1,178,990) | - | 520,664 |
| Plant and Equipment | - | 5,060 | - | - | 5,060 |
| Infrastructure | 1,051,301 | 4,661,143 | (3,547,988) | - | 2,164,455 |
| Total | <u>1,523,382</u> | <u>6,299,739</u> | <u>(4,882,810)</u> | <u>-</u> | <u>2,940,310</u> |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 22 Property, infrastructure, plant and equipment (cont'd)

| Land and Buildings | Note | Land - specialised | Land - non specialised | Land improvements | Total Land | Buildings - specialised | Buildings - non specialised | Building improvements | Total Buildings | Work In Progress | Total Property |
|--|------|--------------------|------------------------|-------------------|--------------------|-------------------------|-----------------------------|-----------------------|---------------------|------------------|---------------------|
| At fair value 1 July 2016 | | 18,671,727 | 13,438,000 | 12,233,187 | 44,342,914 | 96,064,350 | 8,432,900 | - | 104,497,250 | 472,082 | 149,312,246 |
| Accumulated depreciation at 1 July 2016 | | - | - | (2,506,080) | (2,506,080) | (50,952,127) | (3,572,938) | - | (54,525,065) | - | (57,031,145) |
| | | 18,671,727 | 13,438,000 | 9,727,108 | 41,836,835 | 45,112,223 | 4,859,962 | - | 49,972,185 | 472,082 | 92,281,101 |
| Movements in fair value | | | | | | | | | | | |
| Acquisition of assets at fair value | | - | - | - | - | 6,345,000 | - | - | 6,345,000 | 1,633,536 | 7,978,536 |
| Contributed assets | | - | - | - | - | 229,636 | - | - | 229,636 | - | 229,636 |
| Revaluation increments/decrements | | - | (190,000) | - | (190,000) | - | - | - | - | - | (190,000) |
| Fair value of assets disposed | | - | - | - | - | - | - | - | - | - | - |
| Transfers | | - | (545,000) | 155,833 | (389,167) | 1,178,990 | - | - | 1,178,990 | (1,334,822) | (545,000) |
| | | - | (735,000) | 155,833 | (579,167) | 7,753,626 | - | - | 7,753,626 | 298,713 | 7,473,172.02 |
| Movements in accumulated depreciation | | | | | | | | | | | |
| Depreciation and amortisation | | - | - | (485,662) | (485,662) | (793,899) | (119,101) | - | (913,000) | - | (1,398,662) |
| Accumulated depreciation of disposals | | - | - | - | - | - | - | - | - | - | - |
| Revaluation increments/decrements | | - | - | - | - | - | - | - | - | - | - |
| Transfers | | - | - | - | - | - | - | - | - | - | - |
| | | - | - | (485,662) | (485,662) | (793,899) | (119,101) | - | (913,000) | - | (1,398,662) |
| At fair value 30 June 2017 | | 18,671,727 | 12,703,000 | 12,389,020 | 43,763,747 | 103,817,976 | 8,432,900 | - | 112,250,876 | 770,795 | 156,785,418 |
| Accumulated depreciation at 30 June 2017 | | - | - | (2,991,742) | (2,991,742) | (51,746,026) | (3,692,039) | - | (55,438,065) | - | (58,429,807) |
| | | 18,671,727 | 12,703,000 | 9,397,278 | 40,772,005 | 52,071,950 | 4,740,862 | - | 56,812,811 | 770,795 | 98,355,611 |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 22 Property, infrastructure, plant and equipment (cont'd)

| Plant and Equipment | Note | Plant machinery and equipment | Fixtures fittings and furniture | Computers and telecomms | Library books | Work In Progress | Total plant and equipment |
|--|------|-------------------------------|---------------------------------|-------------------------|---------------|------------------|---------------------------|
| At fair value 1 July 2016 | | 6,124,807 | 828,271 | 329,244 | 623,306 | - | 7,905,627 |
| Accumulated depreciation at 1 July 2016 | | (2,984,693) | (676,753) | (119,047) | (472,456) | - | (4,252,949) |
| | | 3,140,114 | 151,518 | 210,197 | 150,850 | - | 3,652,678 |
| Movements in fair value | | | | | | | |
| Acquisition of assets at fair value | | 408,925 | - | 74,900 | 43,181 | 5,060 | 532,066 |
| Revaluation increments/decrements | | - | - | - | - | - | - |
| Fair value of assets disposed | | (308,362) | - | - | (49,489) | - | (357,851) |
| Transfers | | - | - | - | - | - | - |
| | | 100,563 | - | 74,900 | (6,308) | 5,060 | 174,215 |
| Movements in accumulated depreciation | | | | | | | |
| Depreciation and amortisation | | (660,106) | (30,766) | (59,805) | (62,331) | - | (813,008) |
| Accumulated depreciation of disposals | | 271,530 | - | - | 49,489 | - | 321,018 |
| Revaluation increments/decrements | | - | - | - | - | - | - |
| Transfers | | - | - | - | - | - | - |
| | | (388,576) | (30,766) | (59,805) | (12,842) | - | (491,990) |
| At fair value 30 June 2017 | | 6,225,370 | 828,271 | 404,144 | 616,998 | 5,060 | 8,079,843 |
| Accumulated depreciation at 30 June 2017 | | (3,373,269) | (707,519) | (178,853) | (485,298) | - | (4,744,939) |
| | | 2,852,101 | 120,752 | 225,291 | 131,700 | 5,060 | 3,334,904 |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 22 Property, infrastructure, plant and equipment (cont'd)

| Infrastructure | Note | Roads | Bridges | Footpaths and cycleways | Drainage | Recreational, leisure and community | Parks open spaces and streetscapes | Off street car parks | Other Infrastructure | Work In Progress | Total Infrastructure |
|--|------|--------------|--------------|-------------------------|-------------|-------------------------------------|------------------------------------|----------------------|----------------------|------------------|----------------------|
| At fair value 1 July 2016 | | 188,079,060 | 23,226,153 | 6,249,930 | 16,924,945 | 1,157,410 | 319,090 | 44,358 | 5,910,614 | 1,051,301 | 242,962,862 |
| Accumulated depreciation at 1 July 2016 | | (91,627,439) | (10,510,876) | (2,805,764) | (8,371,377) | (543,720) | - | - | (1,598,243) | - | (115,457,419) |
| | | 96,451,621 | 12,715,277 | 3,444,166 | 8,553,568 | 613,690 | 319,090 | 44,358 | 4,312,371 | 1,051,301 | 127,505,442 |
| Movements in fair value | | | | | | | | | | | |
| Acquisition of assets at fair value | | - | - | - | - | - | - | - | - | 4,661,143 | 4,661,143 |
| Contributed assets | | - | - | - | - | - | - | - | 7,850 | - | 7,850 |
| Revaluation increments/decrements | | (30,360,360) | - | 663,778 | 4,414,145 | - | - | - | - | - | (25,282,437) |
| Fair value of assets disposed | | - | (45,195) | - | - | - | - | - | - | - | (45,195) |
| Transfers | | 3,183,513 | 113,070 | 204,898 | - | - | - | - | 46,507 | (3,547,988) | - |
| | | (27,176,847) | 67,875 | 868,676 | 4,414,145 | - | - | - | 54,357 | 1,113,155 | (20,658,639) |
| Movements in accumulated depreciation | | | | | | | | | | | |
| Depreciation and amortisation | | (3,920,362) | (246,850) | (145,016) | (250,418) | (42,437) | - | - | (147,545) | - | (4,752,626) |
| Accumulated depreciation of disposals | | - | 20,640 | - | - | - | - | - | - | - | 20,640 |
| Revaluation increments/decrements | | 29,093,883 | - | (513,295) | (148,690) | - | - | - | - | - | 28,431,898 |
| Transfers | | - | - | - | - | - | - | - | - | - | - |
| | | 25,173,522 | (226,210) | (658,311) | (399,108) | (42,437) | - | - | (147,545) | - | 23,699,912 |
| At fair value 30 June 2017 | | 160,902,213 | 23,294,028 | 7,118,607 | 21,339,090 | 1,157,410 | 319,090 | 44,358 | 5,964,971 | 2,164,455 | 222,304,223 |
| Accumulated depreciation at 30 June 2017 | | (66,453,917) | (10,737,085) | (3,464,075) | (8,770,485) | (586,157) | - | - | (1,745,788) | - | (91,757,508) |
| | | 94,448,296 | 12,556,942 | 3,654,531 | 12,568,605 | 571,253 | 319,090 | 44,358 | 4,219,183 | 2,164,455 | 130,546,715 |

Notes to the Financial Report For the Year Ended 30 June 2017

Note 22 Property, infrastructure, plant and equipment cont'd

Valuation of land and buildings

Valuation of land and buildings were undertaken by a qualified independent valuer Vincent John Bourke, AAPI, of Rating Valuation Services. The valuation of land and buildings 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 movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets.

The date of the current valuation is detailed in the following table. A full revaluation of these assets will be conducted in 2017/18.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2017 are as follows:

| | Level 1 | Level 2 | Level 3 | DoV |
|-------------------|---------|------------|------------|--------|
| Land | - | 12,703,000 | - | Jan/17 |
| Specialised land | - | - | 18,671,727 | Jan/17 |
| Land improvements | - | - | 9,397,278 | - |
| Buildings | - | 11,085,862 | 45,722,430 | Jan/17 |
| Total | - | 23,788,862 | 73,791,434 | |

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with an in-house valuation undertaken by Mahmud Kaiser, Asset Coordinator of Hepburn Shire Council.

The valuation is at fair value based on replacement cost less accumulated depreciation as at the date of valuation.

Movement in infrastructure assets has been assessed against the ABS Road and Bridges Construction Index Victoria (3101), which for the past four years to 30 June 2016 was a cumulative 1.1% increase.

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2017 are as follows:

| | Level 1 | Level 2 | Level 3 | DoV |
|--|---------|---------|-------------|--------|
| Roads | - | - | 94,448,296 | Jun/17 |
| Bridges | - | - | 12,556,642 | Jun/14 |
| Footpaths and cycleways | - | - | 3,654,531 | Jun/17 |
| Drainage | - | - | 12,568,605 | Jun/17 |
| Recreational, leisure and community facilities | - | - | 571,253 | - |
| Parks, open space and streetscapes | - | - | 319,090 | - |
| Off street car parks | - | - | 44,358 | - |
| Other infrastructure | - | - | 4,219,184 | - |
| Total | - | - | 128,382,260 | |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 22 Property, infrastructure, plant and equipment cont'd

2017
\$

2016
\$

Description of significant unobservable inputs into level 3 valuations

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 \$782 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 \$10 to \$10,340 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 15 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 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 5 years to 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

Reconciliation of specialised land

| | | |
|-------------------------------|-------------------|-------------------|
| Land under roads | 86,327 | 86,327 |
| Parks and reserves | 18,585,400 | 18,585,400 |
| Total specialised land | 18,671,727 | 18,671,727 |

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|--|------------------------|---------------------|
| Note 23 Intangible assets | | |
| Software | 567,567 | 629,550 |
| Total intangible assets | <u>567,567</u> | <u>629,550</u> |
| | Software \$ | Total \$ |
| Gross carrying amount | | |
| Balance at 1 July 2016 | 959,940 | 959,940 |
| Additions from internal developments | 32,361 | 32,361 |
| Other additions | - | - |
| Balance at 1 July 2017 | <u>992,301</u> | <u>992,301</u> |
| Accumulated amortisation and impairment | | |
| Balance at 1 July 2016 | 330,391 | 330,391 |
| Amortisation expense | 94,343 | 94,343 |
| Balance at 1 July 2017 | <u>424,734</u> | <u>424,734</u> |
| Net book value at 30 June 2016 | 629,550 | 629,550 |
| Net book value at 30 June 2017 | <u>567,567</u> | <u>567,567</u> |

| | 2017 \$ | 2016 \$ |
|---|------------------|------------------|
| Note 24 Trade and other payables | | |
| Trade payables | 1,313,234 | 941,808 |
| Accrued expenses | 735,127 | 643,772 |
| Total trade and other payables | <u>2,048,361</u> | <u>1,585,580</u> |

| | | |
|---|------------------|------------------|
| Note 25 Trust funds and deposits | | |
| Refundable deposits | 93,939 | 103,401 |
| Fire services levy | 211,746 | 194,251 |
| Retention amounts | 4,972 | 5,204 |
| Other refundable deposits | 738,361 | 730,779 |
| Total trust funds and deposits | <u>1,049,018</u> | <u>1,033,636</u> |

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.

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 26 Provisions

| | Employee | Landfill restoration | Other | Total |
|---|------------------|-------------------------|------------------|------------------|
| | \$ | \$ | \$ | \$ |
| 2017 | | | | |
| Balance at beginning of the financial year | 2,049,490 | 354,440 | 27,000 | 2,430,930 |
| Additional provisions | 848,479 | 622,494 | - | 1,470,973 |
| Amounts used | (880,125) | (20,220) | - | (900,345) |
| Change in the discounted amount arising because of time and the effect of any change in the discount rate | (2,871) | - | - | (2,871) |
| Balance at the end of the financial year | 2,014,973 | 956,714 | 27,000 | 2,998,687 |
| 2016 | | | | |
| Balance at beginning of the financial year | 2,057,749 | 374,660 | 27,000 | 2,459,409 |
| Additional provisions | 885,369 | - | - | 885,369 |
| Amounts used | (900,413) | (20,220) | - | (920,633) |
| Change in the discounted amount arising because of time and the effect of any change in the discount rate | 6,785 | - | - | 6,785 |
| Balance at the end of the financial year | 2,049,490 | 354,440 | 27,000 | 2,430,930 |
| | | | 2017 | 2016 |
| | | | \$ | \$ |
| (a) Employee provisions | | | | |
| Current provisions expected to be wholly settled within 12 months | | | | |
| Annual leave | | | 663,784 | 635,247 |
| Long service leave | | | 141,662 | 56,249 |
| Other | | | 43,173 | 43,173 |
| | | | 848,619 | 734,668 |
| Current provisions expected to be wholly settled after 12 months | | | | |
| Annual leave | | | 28,282 | 43,761 |
| Long service leave | | | 954,097 | 1,131,246 |
| | | | 982,379 | 1,175,006 |
| Total current employee provisions | | | 1,830,998 | 1,909,675 |
| Non-current | | | | |
| Long service leave | | | 183,975 | 139,816 |
| Annual leave | | | - | - |
| Total non-current employee provisions | | | 183,975 | 139,816 |
| Aggregate carrying amount of employee provisions: | | | | |
| Current | | | 1,830,998 | 1,909,675 |
| Non-current | | | 183,975 | 139,816 |
| Total aggregate carrying amount of employee | | | 2,014,973 | 2,049,490 |
| (b) Land fill restoration | | | | |
| Current | | | 642,714 | 20,220 |
| Non-current | | | 314,000 | 334,220 |
| | | | 956,714 | 354,440 |
| (c) Other provisions | | | | |
| Current | | | - | - |
| Non-current | | | 27,000 | 27,000 |
| | | | 27,000 | 27,000 |

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|---|-------------------------|-------------------------|
| Note 27 Interest-bearing loans and borrowings | | |
| Current | | |
| Borrowings - secured (1) | <u>728,664</u> | <u>414,670</u> |
| | 728,664 | 414,670 |
| Non-current | | |
| Borrowings - secured (1) | <u>4,901,082</u> | <u>2,300,357</u> |
| | 4,901,082 | 2,300,357 |
| Total | <u>5,629,746</u> | <u>2,715,026</u> |
| (1) Borrowings are secured by a deed of charge over council rates | | |
| (a) The maturity profile for Council's borrowings is: | | |
| Not later than one year | 728,664 | 414,670 |
| Later than one year and not later than five years | 3,115,419 | 840,672 |
| Later than five years | <u>1,785,663</u> | <u>1,459,685</u> |
| | <u>5,629,746</u> | <u>2,715,026</u> |

Note 28 Other Liabilities

| | | |
|--------------------|-----------------------|-----------------------|
| Current | | |
| Income in advance | <u>110,621</u> | <u>104,772</u> |
| | 110,621 | 104,772 |
| Non-current | | |
| Income in advance | <u>98,214</u> | <u>116,071</u> |
| | <u>98,214</u> | <u>116,071</u> |
| Total | <u>208,835</u> | <u>220,844</u> |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 29 Reserves

| | Balance at beginning of reporting period | Increment (decrement) | Balance at end of reporting period |
|---|--|--------------------------|--|
| | \$ | \$ | \$ |
| (a) Asset revaluation reserves | | | |
| 2017 | | | |
| Property | | | |
| Land | 22,045,237 | (190,000) | 21,855,237 |
| Buildings | 25,975,969 | | 25,975,969 |
| | 48,021,206 | (190,000) | 47,831,206 |
| Infrastructure | | | |
| Roads | 32,205,774 | 3,149,462 | 35,355,236 |
| Other infrastructure | 8,061,573 | - | 8,061,573 |
| | 40,267,347 | 3,149,462 | 43,416,808 |
| Total asset revaluation reserves | 88,288,553 | 2,959,462 | 91,248,015 |
| 2016 | | | |
| Property | | | |
| Land | 17,855,537 | 4,189,700 | 22,045,237 |
| Buildings | 26,067,997 | (92,028) | 25,975,969 |
| | 43,923,534 | 4,097,672 | 48,021,206 |
| Infrastructure | | | |
| Roads | 32,205,774 | - | 32,205,774 |
| Other infrastructure | 8,061,573 | - | 8,061,573 |
| | 40,267,347 | - | 40,267,347 |
| Total asset revaluation reserves | 84,190,881 | 4,097,672 | 88,288,553 |

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

| | Balance at beginning of reporting period | Transfer from accumulated surplus | Transfer to accumulated surplus | Balance at end of reporting period |
|-------------------------------------|--|---|---------------------------------------|--|
| | \$ | \$ | \$ | \$ |
| (b) Other reserves | | | | |
| 2017 | | | | |
| Car parking reserve * | 21,250 | - | - | 21,250 |
| Clunes caravan park reserve | 6,710 | - | - | 6,710 |
| Debt management reserve | 850,000 | (450,000) | 592,000 | 992,000 |
| Heritage advisory fund | 20,000 | - | - | 20,000 |
| Mineral springs financial reserve * | 373,766 | (149,106) | - | 224,660 |
| Mt Beckworth pit reserve | 27,772 | - | - | 27,772 |
| Resort and recreation reserve * | 740,512 | (324,169) | 168,700 | 585,043 |
| Smeaton Hill pit reserve | 74,419 | - | - | 74,419 |
| Waste management reserve | 414,760 | (7,101) | - | 407,659 |
| Total Other reserves | 2,529,189 | (930,376) | 760,700 | 2,359,513 |
| 2016 | | | | |
| Car parking reserve * | 21,250 | - | - | 21,250 |
| Clunes caravan park reserve | 6,710 | - | - | 6,710 |
| Debt management reserve | - | - | 850,000 | 850,000 |
| Heritage advisory fund | 20,000 | - | - | 20,000 |
| Mineral springs financial reserve * | 226,584 | - | 147,182 | 373,766 |
| Mt Beckworth pit reserve | 27,772 | - | - | 27,772 |
| Resort and recreation reserve * | 1,093,007 | (443,995) | 91,500 | 740,512 |
| Smeaton Hill pit reserve | 74,419 | - | - | 74,419 |
| Waste management reserve | 343,792 | - | 70,968 | 414,760 |
| Total Other reserves | 1,813,534 | (443,995) | 1,159,650 | 2,529,189 |

* Indicates Statutory reserve

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Note 30 Reconciliation of cash flows from operating activities to surplus/(deficit) | | |
| Surplus/(deficit) for the year | 4,588,705 | 5,116,585 |
| Depreciation/amortisation | 7,058,640 | 6,530,001 |
| (Profit)/loss on disposal of property, infrastructure, plant and equipment | (47,794) | (204,894) |
| Interest Expense | 169,624 | 186,463 |
| Contributions - Non-monetary assets | (237,486) | (1,060,183) |
| Other | - | 3,391 |
| Change in assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (5,439,417) | (726,837) |
| (Increase) in prepayments | (33,621) | (24,654) |
| Increase/(decrease) in accrued income | 20,543 | (15,700) |
| Increase/(decrease) in trade and other payables | 462,781 | (621,912) |
| (Decrease)/increase in other liabilities | (12,008) | 47,470 |
| (Increase)/decrease in inventories | (1,859) | (960) |
| Increase/(decrease) in provisions | 567,756 | (28,479) |
| Increase/(decrease) in trust funds and deposits | 15,382 | (439,250) |
| Net cash provided by/(used in) operating activities | <u>7,111,246</u> | <u>8,761,040</u> |
| Note 31 Financing arrangements | | |
| Bank overdraft | 1,000,000 | 1,000,000 |
| Credit card facilities | 40,000 | 38,500 |
| Total facilities | <u>1,040,000</u> | <u>1,038,500</u> |
| Used facilities | 7,941 | 7,951 |
| Unused facilities | <u>1,032,059</u> | <u>1,030,549</u> |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 32 Commitments

The Council has entered into the following commitments

| 2017 | Not later than 1 year \$ | Later than 1 year and not later than 2 years \$ | Later than 2 years and not later than 5 years \$ | Later than 5 years \$ | Total \$ |
|--|-----------------------------|--|---|--------------------------|------------------|
| Operating | | | | | |
| Waste and recycling | 1,606,400 | 1,642,600 | - | - | 3,249,000 |
| Transfer stations | 377,000 | 377,000 | - | - | 754,000 |
| Maternal and child health | 362,963 | - | - | - | 362,963 |
| Cleaning contracts for council buildings | 360,000 | - | - | - | 360,000 |
| Property revaluations | 153,582 | - | - | - | 153,582 |
| Library services | 159,577 | - | - | - | 159,577 |
| Swimming pools | 136,000 | - | - | - | 136,000 |
| Other | 207,623 | 102,357 | 8,571 | - | 318,551 |
| Total | 3,363,145 | 2,121,957 | 8,571 | - | 5,493,673 |
| Capital | | | | | |
| Infrastructure | 948,285 | 800,000 | 800,000 | - | 2,548,285 |
| Total | 948,285 | 800,000 | 800,000 | - | 2,548,285 |

| 2016 | Not later than 1 year \$ | Later than 1 year and not later than 2 years \$ | Later than 2 years and not later than 5 years \$ | Later than 5 years \$ | Total \$ |
|--|-----------------------------|--|---|--------------------------|------------------|
| Operating | | | | | |
| Waste and recycling | 1,587,200 | 1,606,400 | 1,642,600 | - | 4,836,200 |
| Transfer stations | 377,000 | 377,000 | 377,000 | - | 1,131,000 |
| Maternal and child health | 355,846 | 362,963 | - | - | 718,809 |
| Cleaning contracts for council buildings | 203,300 | - | - | - | 203,300 |
| Local government elections | 187,871 | - | - | - | 187,871 |
| Library Services | 167,506 | - | - | - | 167,506 |
| Other | 209,424 | 50,100 | 50,100 | - | 309,624 |
| Total | 3,088,147 | 2,396,463 | 2,069,700 | - | 7,554,310 |
| Capital | | | | | |
| Buildings | 120,000 | - | - | - | 120,000 |
| Roads | 1,111,772 | - | - | - | 1,111,772 |
| Other | 70,021 | - | - | - | 70,021 |
| Total | 1,301,793 | - | - | - | 1,301,793 |

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 | 2016 |
|--|----------|---------------|
| | \$ | \$ |
| Note 33 Operating leases | | |
| (a) Operating lease commitments | | |
| At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities): | | |
| Not later than one year | - | 26,923 |
| Later than one year and not later than five years | - | - |
| Later than five years | - | - |
| | <u>-</u> | <u>26,923</u> |

(b) Operating lease receivables

The Council has entered into commercial property leases on several properties, consisting of surplus freehold office accommodation, commercial buildings and caravan parks. These properties held under operating leases have remaining non-cancellable lease terms of between 1 and 18 years. All leases include a provision for review of the rental charge annually.

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

| | | |
|---|-------------------|-------------------|
| Not later than one year | 1,079,459 | 1,000,538 |
| Later than one year and not later than five years | 4,105,001 | 4,057,058 |
| Later than five years | 7,720,409 | 8,733,157 |
| | <u>12,904,869</u> | <u>13,790,753</u> |

Note 34 Superannuation

Council makes the 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 2017, 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.

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 2016, 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 102.0%. 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 |

Notes to the Financial Report For the Year Ended 30 June 2017

Note 34 Superannuation (cont'd)

Vision Super has advised that the estimated VBI at June 2017 was 103.1%. The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2016 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 2016 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 2017, this rate was 9.5% of members' salaries (9.5% in 2015/2016). 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.

2016 Interim actuarial investigation surplus amounts

The Fund's interim actuarial investigation as at 30 June 2016 identified the following in the defined benefit category of which Council is a contributing employer:

- A VBI surplus of \$40.3 million; and
- A total service liability surplus of \$156 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 2016. 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 2016 VBI during August 2016.

2017 Full triennial actuarial investigation

A full actuarial investigation is being conducted for the Fund's position as at 30 June 2017. It is anticipated that this actuarial investigation will be completed in December 2017.

Future superannuation contributions

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2018 are \$56,184.

Notes to the Financial Report For the Year Ended 30 June 2017

Note 35 Contingent liabilities and contingent assets

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 34. 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.

Guarantees for loans to other entities

Nil

Contingent assets

Nil

Note 36 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 council financial instruments will fluctuate because of changes in market prices. The Council's exposure 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. Council's interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes council 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 rates.

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

- diversification of investment product;
- monitoring of return on investment; and
- 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.

Notes to the Financial Report For the Year Ended 30 June 2017

Note 36 Financial instruments (cont'd)

(c) Credit risk

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

- council have a policy for establishing credit limits for the entities Council deal with;
- council may require collateral where appropriate; and
- council only invest surplus funds with financial institutions which have a recognised credit rating specified in council's financial management 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.

Council may also be subject to credit risk for transactions which are not included in the balance sheet, such as when Council provide a guarantee for another party. Details of our contingent liabilities are disclosed in Note 35.

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 council's operational liquidity requirements it will not have sufficient funds to settle a transaction when required or will be forced to sell a financial asset at below value or may be unable to settle or recover a financial asset.

To help reduce these risks Council:

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

The Council's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed on the face of the balance sheet and the amounts related to financial guarantees disclosed in Note 35, 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

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 + 2.0% and -0.5% in market interest rates (AUD) from year-end rates of 1.50%.

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.

Notes to the Financial Report
For the Year Ended 30 June 2017

| | 2017 No. |
|---|----------------|
| Note 37 Related party disclosures | |
| (i) Key Management Personnel | |
| Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are: | |
| Councillors | |
| Councillor Sebasitan Klein (Mayor 08/11/2016 to 30/06/2017) | |
| Councillor Neil Newitt (Mayor 01/07/2016 to 21/10/2016) | |
| Councillor Bill McClenaghan (01/07/2016 to 21/10/2016) | |
| Councillor Don Henderson | |
| Councillor Fiona Robson (08/11/2016 to 30/06/2017) | |
| Councillor Greg May | |
| Councillor John Cottrell (08/11/2016 to 30/06/2017) | |
| Councillor Kate Redwood | |
| Councillor Pierre Niclas (01/07/2016 to 21/10/2016) | |
| Total number of Councillors | 9 |
| Chief Executive Officer and other Key Management Personnel | |
| Aaron van Egmond, Chief Executive Officer | |
| Grant Schuster, General Manager Corporate Services | |
| Kathleen Brannigan, General Manager Community Services | |
| Bruce Lucas, General Manager Infrastructure | |
| Total number of Other Key Management Personnel | 4 |
| Total Key Management Personnel | <u>13</u> |
| | 2017 |
| (ii) Remuneration of Key Management Personnel | \$ |
| Total remuneration of key management personnel was as follows: | |
| Short-term benefits | 846,855 |
| Long-term benefits | 57,127 |
| Other long-term benefits | - |
| Termination benefits | - |
| Total | <u>903,982</u> |
| The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands: | |
| | 2017 |
| | No. |
| \$1 - \$9,999 | 2 |
| \$10,000 - \$19,999 | 2 |
| \$20,000 - \$29,999 | 3 |
| \$30,000 - \$39,999 | 1 |
| \$40,000 - \$49,999 | 1 |
| \$140,000 - \$149,999 | 1 |
| \$150,000 - \$159,999 | 1 |
| \$160,000 - \$169,999 | 1 |
| \$240,000 - \$249,999 | 1 |
| | <u>13</u> |
| (iii) Transactions with related parties | |
| During the period Council entered into the following disclosable transactions with related parties: | |
| <i>Nil</i> | |
| (iv) Outstanding balances with related parties | |
| The following balances are outstanding at the end of the reporting period in relation to transactions with related parties: | |
| <i>Nil</i> | |
| (v) Loans to/from related parties | |
| The aggregate amount of loans in existence at balance date that have been made, guaranteed or secured by the council to a related party as follows: | |
| <i>NIL</i> | |

Notes to the Financial Report
For the Year Ended 30 June 2017

Note 37 Related party disclosures (cont'd)

(vi) **Commitments to/from related parties**

The aggregate amount of commitments in existence at balance date that have been made, guaranteed or secured by the council to a related party are as follows:

NIL

Note 38 Senior Officers Remuneration

A Senior Officer is an officer of Council, other than Key Management Personnel, who:

- a) has management responsibilities and reports directly to the Chief Executive; or
- b) whose total annual remuneration exceeds \$142,000

The number of Senior Officers are shown below in their relevant income bands:

| | 2017 No. | 2016 No. |
|---|-------------|-------------|
| Income Range: | | |
| < \$142,000 | <u>1</u> | <u>1</u> |
| | <u>1</u> | <u>1</u> |
| Total Remuneration for the reporting year for Senior Officers included above, amounted to | \$118,427 | \$117,577 |

Note 39 Events occurring after balance date

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

Certification of the Financial Statements

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.



Trafford Thompson CPA
Principal Accounting Officer

Date : 25 September 2017
Daylesford

In our opinion the accompanying financial statements present fairly the financial transactions of Hepburn Shire Council for the year ended 30 June 2017 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 and by the *Local Government (Planning and Reporting) Regulations 2014* to certify the financial statements in their final form.



Cr Don Henderson
Councillor

Date : 25 September 2017
Daylesford



Cr John Cottrell
Councillor

Date : 25 September 2017
Daylesford



Aaron van Egmond
Chief Executive Officer

Date : 25 September 2017
Daylesford

Independent Auditor's Report

To the Councillors of Hepburn Shire Council

| | |
|---|--|
| Opinion | <p>I have audited the financial report of Hepburn Shire Council (the council) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2017 • comprehensive income statement for the year then ended • statement of changes in equity for the year then ended • statement of cash flows for the year then ended • statement of capital works for the year then ended • notes to the financial statements, including a summary of significant accounting policies • certification of the financial statements. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the council as at 30 June 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 6 of the <i>Local Government Act 1989</i> and applicable Australian Accounting Standards.</p> |
| Basis for Opinion | <p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p> |
| Councillors' responsibilities for the financial report | <p>The Councillors of the council are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Local Government Act 1989</i>, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Councillors are responsible for assessing the council's ability to continue as a going concern, and using the going concern basis of accounting unless it is inappropriate to do so.</p> |

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Councillors
- conclude on the appropriateness of the Councillors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



MELBOURNE
26 September 2017

Tim Loughnan
as delegate for the Auditor-General of Victoria



PERFORMANCE STATEMENT
For the Year Ended 30 June 2017

Description of Municipality

Hepburn Shire was created in January 1995 by the amalgamation of the former Shires of Creswick, Daylesford and Glenlyon, the Clunes portion of the Shire of Talbot and Clunes and the Trentham portion of the Shire of Kyneton.

Hepburn Shire is located in the Central Highlands region of Victoria, about 110 kilometres north-west of Melbourne. It is bounded by Central Goldfields and Mount Alexander Shires in the north, Macedon Ranges Shire in the east, Moorabool Shire in the south, and the City of Ballarat and Pyrenees Shire in the west

Hepburn Shire is a predominantly rural area, with many townships, villages and rural-residential areas. The main townships are Daylesford, Hepburn Springs, Creswick, Clunes and Trentham. The shire encompasses a total land area of about 1,470 square kilometres. rural land is used largely for agriculture (particularly sheep and cattle grazing and potato and crop growing) and forestry, with some viticulture. Tourism is important to the region, with the Shire containing 80% of Australia's mineral spring reserves.

Hepburn is named after Captain John Hepburn, an overlander and pastoralist who founded the rural town of Smeaton and also established the Smeaton Hill Run on 15 April 1838.

The original inhabitants of the Hepburn area were the Jaara (Dja Dja Wurrung) Aboriginal people. European settlement dates from the late 1830's, with land used mainly for grazing and crop growing. Gold was first discovered in the area in 1851, prompting the establishment of many townships and rapid growth. When gold supplies waned and many mines were closed, some population loss was experienced in the region. land was then used mainly for timber milling and grazing. The townships of Daylesford and Hepburn Springs benefited from tourism during the late 1800s and early 1900's¹, due to the mineral springs and spa resorts.

Gradual growth took place during the 1970's and 1980's, due largely to resurgence in tourism and people seeking alternative lifestyles. The Shire's population increased marginally during the 1990's, rising from about 13,300 in 1991 to about 13,800 in 2001. The resident population of Hepburn Shire at 30 June 2016 was 15,560¹.

¹ Source: Australian Bureau of Statistics - Population Estimates by Local Government Area (ASGS 2016) 2006 to 2016 32180ds0002_2006-16

Performance Statement
For the Year Ended 30 June 2017

Sustainable Capacity Indicators

| <i>Indicator / measure</i> | | Results 2015 | Results 2016 | Results 2017 | Material Variations / Comments |
|----------------------------|---|-----------------|-----------------|-----------------|---|
| Population | | | | | |
| C1 | 68 <i>Expenses per head of municipal population</i> [Total expenses / Municipal population] | \$1,814 | \$1,842 | \$2,518 | \$10.2 million (\$658 per head) expended on flood restoration works |
| C2 | 69 <i>Infrastructure per head of municipal population</i> [Value of infrastructure / Municipal population] | \$11,837 | \$12,237 | \$12,305 | No significant change |
| C3 | 70 <i>Population density per length of road</i> [Municipal population / Kilometres of local roads] | 10.6 | 10.5 | 11.0 | No significant change |
| Own-source revenue | | | | | |
| C4 | 66 <i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population] | \$1,369 | \$1,438 | \$1,425 | No significant change |
| Recurrent grants | | | | | |
| C5 | 67 <i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population] | \$621 | \$407 | \$621 | An advanced payment of \$2.1 million of 2015/2016 Financial Assistance Grants received on 30 June 2015 overinflated the 2015 result and understated the 2016 result. 50% of 2017/18 financial assistance grant received in advance, once again overstating the 2017 result. |
| Disadvantage | | | | | |
| C6 | 71 <i>Relative Socio-Economic Disadvantage</i> [Index of Relative Socio-Economic Disadvantage by decile] | 4 | 4 | 4 | No Change |

Definitions

"adjusted underlying revenue" means total income other than:

- (a) non-recurrent grants used to fund capital expenditure; and
- (b) non-monetary asset contributions; and
- (c) contributions to fund capital expenditure from sources other than those referred to above

"infrastructure" means non-current property, plant and equipment excluding land

"local road" means a sealed or unsealed road for which the council is the responsible road authority under the Road Management Act 2004

"population" means the resident population estimated by council

"own-source revenue" means adjusted underlying revenue other than revenue that is not under the control of council (including government grants)

"relative socio-economic disadvantage", in relation to a municipality, means the relative socio-economic disadvantage, expressed as a decile for the relevant financial year, of the area in which the municipality is located according to the Index of Relative Socio-Economic Disadvantage (Catalogue Number 2033.0.55.001) of SEIFA

"SEIFA" means the Socio-Economic Indexes for Areas published from time to time by the Australian Bureau of Statistics on its Internet website

"unrestricted cash" means all cash and cash equivalents other than restricted cash.

Performance Statement
For the Year Ended 30 June 2017

| Service Performance Indicators | | | | | |
|--------------------------------|--|--------------|--------------|--------------|---|
| Service /indicator /measure | | Results 2015 | Results 2016 | Results 2017 | Material Variations / Comments |
| AF6 33 | Aquatic Facilities Utilisation <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population] | 0.4 | 1.3 | 0.9 | Pool attendance is largely weather dependant. Attendance at our Daylesford, Trentham and Clunes pools decreased from 18,795 in 2015/2016 to 14,121 in 2016/2017. Attendance was still more than double that achieved in 2014/2015. |
| AM4 37 | Animal Management Health and safety <i>Animal management prosecutions</i> [Number of successful animal management prosecutions] | 0 | 0 | 0 | There were no successful or unsuccessful animal management prosecutions |
| FS4 41 | Food Safety Health and safety <i>Critical and major non-compliance outcome notifications</i> [Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100 | 29% | 50% | 60% | From 1 July 2016, 'Critical and major non-compliance outcome notifications' is reported by calendar year. Previously this indicator was reported by financial year. This has been implemented to better align reporting with the Department of Health and Human Services. This may result in some variances year on year. More major non-compliances were followed up in 2016. No critical non-compliances were identified. |
| G5 5 | Governance Satisfaction <i>Satisfaction with council decisions</i> [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community] | 43 | 48 | 45 | No Significant change , however a decrease from last year due to ongoing discussions in relation to the Daylesford Community Cinema at time of survey. |

Performance Statement
For the Year Ended 30 June 2017

| Service Performance Indicators | | | | | |
|--|---|--------------|--------------|---------------------------------|---|
| Service /indicator /measure | | Results 2015 | Results 2016 | Results 2017 | Material Variations / Comments |
| Home and Community Care (HACC) Participation | | | | | |
| HC6 47 | <i>Participation in HACC service</i> [Number of people that received a HACC service / Municipal target population for HACC services] x100 | 24% | 25% | Reporting Ceased 1 July 2016 | Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's NDIS and CHSP programs |
| HC7 48 | Participation <i>Participation in HACC service by CALD people</i> [Number of CALD people who receive a HACC service / Municipal target population in relation to CALD people for HACC services] x100 | 15% | 19% | Reporting Ceased 1 July 2016 | Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's NDIS and CHSP programs |
| Libraries Participation | | | | | |
| LB4 22 | <i>Active library members</i> [Number of active library members / Municipal population] x100 | 25% | 22% | 21% | No significant change |
| Maternal and Child Health (MCH) Participation | | | | | |
| MC4 52 | <i>Participation in the MCH service</i> [Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100 | 83% | 79% | 82% | No significant change |
| MC5 53 | Participation <i>Participation in the MCH service by Aboriginal children</i> [Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100 | 88% | 69% | 84% | Hepburn Shire has a small Aboriginal community and individual family movements can impact this indicator. This data was provided by MAV. |
| Roads Satisfaction | | | | | |
| R5 18 | <i>Satisfaction with sealed local roads</i> [Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads] | 43 | 43 | 37 | Decrease from last year reflects flood damage incurred on both Council and VicRoads' managed sealed roads in September 2016. Most repair work occurred later in 2017 after the satisfaction survey was conducted. |

Performance Statement
For the Year Ended 30 June 2017

| Service Performance Indicators | | | | | |
|--------------------------------|---|--------------|--------------|--------------|---|
| Service /indicator /measure | | Results 2015 | Results 2016 | Results 2017 | Material Variations / Comments |
| SP4 9 | Statutory Planning Decision making Council planning decisions upheld at VCAT [Number of VCAT decisions that did not set aside council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100 | 86% | 40% | 100% | No Council decisions were set aside by VCAT |
| WC5 27 | Waste Collection Waste diversion Kerbside collection waste diverted from landfill [Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100 | 40% | 41% | 43% | Continual improvement |

Definitions

"Aboriginal child" means a child who is an Aboriginal person

"Aboriginal person" has the same meaning as in the Aboriginal Heritage Act 2006

"active library member" means a member of a library who has borrowed a book from the library

"annual report" means an annual report prepared by a council under sections 131, 132 and 133 of the Act

"CALD" means culturally and linguistically diverse and refers to persons born outside Australia in a country whose national language is not English

"class 1 food premises" means food premises, within the meaning of the Food Act 1984, that have been declared as class 1 food premises under section 19C of that Act

"class 2 food premises" means food premises, within the meaning of the Food Act 1984, that have been declared as class 2 food premises under section 19C of that Act

"Community Care Common Standards" means the Community Care Common Standards for the delivery of HACC services, published from time to time by the Commonwealth

"critical non-compliance outcome notification" means a notification received by council under section 19N(3) or (4) of the Food Act 1984, or advice given to council by an authorised officer under that Act, of a deficiency that poses an immediate serious threat to public health

"food premises" has the same meaning as in the Food Act 1984

"HACC program" means the Home and Community Care program established under the Agreement entered into for the purpose of the Home and Community Care Act 1985 of the Commonwealth

"HACC service" means home help, personal care or community respite provided under the HACC program

"local road" means a sealed or unsealed road for which the council is the responsible road authority under the Road Management Act 2004

"major non-compliance outcome notification" means a notification received by a council under section 19N(3) or (4) of the Food Act 1984, or advice given to council by an authorized officer under that Act, of a deficiency that does not pose an immediate serious threat to public health but may do so if no remedial action is taken

"MCH" means the Maternal and Child Health Service provided by a council to support the health and development of children within the municipality from birth until school age

"population" means the resident population estimated by council

"target population" has the same meaning as in the Agreement entered into for the purposes of the Home and Community Care Act 1985 of the Commonwealth

"WorkSafe reportable aquatic facility safety incident" means an incident relating to a council aquatic facility that is required to be notified to the Victorian WorkCover Authority under Part 5 of the Occupational Health and Safety Act 2004.

Performance Statement
For the Year Ended 30 June 2017

| Financial Performance Indicators | | | | | | | | | |
|----------------------------------|---|--------------|--------------|--------------|---------|-----------|---------|--------------------------------|--|
| Dimension /indicator /measure | | Results 2015 | Results 2016 | Results 2017 | 2018 | Forecasts | | Material Variations / Comments | |
| | | | | | | 2019 | 2020 | 2021 | |
| Efficiency | | | | | | | | | |
| Revenue level | | | | | | | | | |
| E1 | 64 Average residential rate per residential property assessment [Residential rate revenue / Number of residential property assessments] | \$1,589 | \$1,651 | \$1,668 | \$1,685 | \$1,701 | \$1,718 | \$1,735 | No significant change |
| Expenditure level | | | | | | | | | |
| E2 | 63 Expenses per property assessment [Total expenses / Number of property assessments] | \$2,501 | \$2,491 | \$3,532 | \$2,597 | \$2,504 | \$2,514 | \$2,548 | \$10.2 million (\$923 per property) expended on flood restoration works |
| Workforce turnover | | | | | | | | | |
| E3 | 65 Resignations and terminations compared to average staff [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100 | 15% | 15% | 15% | 15% | 15% | 15% | 15% | No change |
| Liquidity | | | | | | | | | |
| Working capital | | | | | | | | | |
| L1 | 55 Current assets compared to current liabilities [Current assets / Current liabilities] x100 | 279% | 320% | 296% | 218% | 226% | 228% | 190% | No significant change to prior years. The lower forecast figures reflects no capital projects budgeted to be carried forward |
| Unrestricted cash | | | | | | | | | |
| L2 | 56 Unrestricted cash compared to current liabilities [Unrestricted cash / Current liabilities] x100 | 133% | 159% | 27% | 133% | 140% | 142% | 125% | \$10.2 million has been expended on flood restoration works during the 2016/17, reducing the unrestricted cash balance. \$5.7 million (99% of current liabilities) is receivable for Natural Disaster Financial Assistance |
| Obligations | | | | | | | | | |
| Asset renewal | | | | | | | | | |
| O1 | 60 Asset renewal compared to depreciation [Asset renewal expense / Asset depreciation] x100 | 105% | 103% | 74% | 123% | 105% | 140% | 107% | \$10.2 million has been expended on flood restoration works during the 2016/17. This amount has been expensed through the financial statement and is not included the current year calculation for asset renewal expenditure |
| Loans and borrowings | | | | | | | | | |
| O2 | 57 Loans and borrowings compared to rates [Interest bearing loans and borrowings / Rate revenue] x100 | 18% | 15% | 30% | 26% | 23% | 20% | 18% | New \$3.4 million loan drawn down for building acquisition. Declining forecasts represent annual repayment of loan principal |
| O3 | 58 Loans and borrowings repayments compared to rates [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100 | 16% | 3% | 4% | 5% | 4% | 3% | 3% | No significant change. Significant reduction from 2014/2105 was due to the refinancing of a short term loan for the \$1.4m Defined Benefits Superannuation call in 2014/2015. There are no material variations forecast |

Performance Statement
For the Year Ended 30 June 2017

| Financial Performance Indicators | | | | | | | | | | | |
|----------------------------------|----|---|--------------|--------------|-------|-----------|-------|--------------------------------|-------|-------|---|
| Dimension /indicator /measure | | Results 2015 | Results 2016 | Results 2017 | 2018 | Forecasts | | Material Variations / Comments | | | |
| | | | | | | 2019 | 2020 | 2021 | | | |
| O4 | 59 | Indebtedness Non-current liabilities compared to own source revenue [Non-current liabilities / Own source revenue] x100 | | 16% | 14% | 25% | 22% | 20% | 17% | 10% | Non-current liabilities increased due to additional borrowings in 2016/17 for a building acquisition. Declining forecasts represent annual repayment of loan principal |
| OP1 | 54 | Operating position Adjusted underlying result Adjusted underlying surplus (or deficit) [Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100 | | 9.9% | 3.0% | 7.6% | 7.6% | 4.3% | 4.7% | 4.3% | An advanced payment of \$2.1 million of 2015/2016 Financial Assistance Grants received on 30 June 2015 overinflated the 2015 result and understated the 2016 result. 50% of 2017/18 financial assistance grant received in advance, once again overstating the 2017 result. |
| S1 | 61 | Stability Rates concentration Rates compared to adjusted underlying revenue [Rate revenue / Adjusted underlying revenue] x100 | | 57% | 63% | 44% | 61% | 66% | 66% | 66% | Decrease is due to \$9.6 million Natural Disaster Financial Assistance received to reinstate eligible flood damaged infrastructure |
| S2 | 62 | Rates effort Rates compared to property values [Rate revenue / Capital improved value of rateable properties in the municipality] x100 | | 0.45% | 0.47% | 0.44% | 0.44% | 0.45% | 0.43% | 0.42% | No significant change |

Definitions

"adjusted underlying revenue" means total income other than:

- (a) non-recurrent grants used to fund capital expenditure; and
- (b) non-monetary asset contributions; and
- (c) contributions to fund capital expenditure from sources other than those referred to above

"adjusted underlying surplus (or deficit)" means adjusted underlying revenue less total expenditure

"asset renewal expenditure" means expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability

"current assets" has the same meaning as in the AAS

"current liabilities" has the same meaning as in the AAS

"non-current assets" means all assets other than current assets

"non-current liabilities" means all liabilities other than current liabilities

"non-recurrent grant" means a grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a council's Strategic Resource Plan

"own-source revenue" means adjusted underlying revenue other than revenue that is not under the control of council (including government grants)

"population" means the resident population estimated by council

"rate revenue" means revenue from general rates, municipal charges, service rates and service charges

"recurrent grant" means a grant other than a non-recurrent grant

"residential rates" means revenue from general rates, municipal charges, service rates and service charges levied on residential properties

"restricted cash" means cash and cash equivalents, within the meaning of the AAS, that are not available for use other than for a purpose for which it is restricted, and includes cash to be used to fund capital works expenditure from the previous financial year

"unrestricted cash" means all cash and cash equivalents other than restricted cash.

Other Information

1. Basis of preparation

Council is required to prepare and include a performance statement within its annual report. The performance statement includes the results of the prescribed sustainable capacity, service performance and financial performance indicators and measures together with a description of the municipal district and an explanation of material variations in the results. This statement has been prepared to meet the requirements of the Local Government Act 1989 and Local Government (Planning and Reporting) Regulations 2014.

The Victorian Government developed the new performance reporting framework to ensure that all councils are measuring and reporting on their performance in a consistent way. The framework became mandatory from 1 July 2014 and all councils will need to report results as part of their annual report. This is the third year for reporting in this manner and as such there is three years' data to compare to. The previous years results will be used to compare and also highlight any material variations. In future years we will be comparing our results to the previous three years.

Where applicable the results in the performance statement have been prepared on accounting bases consistent with those reported in the Financial Statements. The other results are based on information drawn from council information systems or from third parties (e.g. Australian Bureau of Statistics).

The performance statement presents the actual results for the current year and for the prescribed financial performance indicators and measures, the results forecast by the council's strategic resource plan. The Local Government (Planning and Reporting) Regulations 2014 requires explanation of any material variations in the results contained in the performance statement. Council has adopted materiality thresholds relevant to each indicator and measure and explanations have not been provided for variations below the materiality thresholds unless the variance is considered to be material because of its nature.

The forecast figures included in the performance statement are those adopted by council in its strategic resource plan on 20 June 2017 and which forms part of the council plan. The strategic resource plan includes estimates based on key assumptions about the future that were relevant at the time of adoption and aimed at achieving sustainability over the long term. Detailed information on the actual financial results is contained in the General Purpose Financial Statements. The strategic resource plan can be obtained by contacting council.

Certification of the performance statement

In my opinion, the accompanying performance statement has been prepared in accordance with the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.



Trafford Thompson CPA
Principal Accounting Officer

Date : 25 September 2017

In our opinion, the accompanying performance statement of Hepburn Shire Council for the year ended 30 June 2017 presents fairly the results of council's performance in accordance with the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.

The performance statement contains the relevant performance indicators, measures and results in relation to service performance, financial performance and sustainable capacity.

At the date of signing, we are not aware of any circumstances that would render any particulars in the performance statement to be misleading or inaccurate.

We have been authorised by the council and by the *Local Government (Planning and Reporting) Regulations 2014* to certify this performance statement in its final form.



Cr Don Henderson
Councillor

Date : 25 September 2017



Cr John Cottrell
Councillor

Date : 25 September 2017



Aaron van Egmond
Chief Executive Officer

Date : 25 September 2017

Independent Auditor's Report

To the Councillors of Hepburn Shire Council

Opinion

I have audited the accompanying performance statement of Hepburn Shire Council (the council) which comprises the:

- description of municipality for the year ended 30 June 2017
- sustainable capacity indicators for the year ended 30 June 2017
- service performance indicators for the year ended 30 June 2017
- financial performance indicators for the year ended 30 June 2017
- other information and
- the certification of the performance statement.

In my opinion, the performance statement of Hepburn Shire Council in respect of the year ended 30 June 2017 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 6 of the *Local Government Act 1989*.

Basis for Opinion

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Standards on Assurance Engagements. My responsibilities under the Act are further described in the *Auditor's responsibilities for the audit of the performance statement* section of my report.

My independence is established by the *Constitution Act 1975*. I and my staff are independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the performance statement in Australia and have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Councillors' responsibilities for the performance statement

The Councillors is responsible for the preparation and fair presentation of the performance statement in accordance with the performance reporting requirements of the *Local Government Act 1989* and for such internal control as the Councillors determines is necessary to enable the preparation and fair presentation of the statement of performance that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the performance statement

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the performance statement based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the performance statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Standards on Assurance Engagements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Standards on Assurance Engagements, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of performance statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control
- evaluate the overall presentation, structure and content of the statement of performance, including the disclosures, and whether the statement of performance represents the underlying events and results in a manner that achieves fair presentation.

I communicate with the Councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
26 September 2017



Tim Loughnan
as delegate for the Auditor-General of Victoria