

Mosman Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016

*Proud to be Mosman
Protecting our Heritage
Planning our Future
Involving our Community*

Mosman
COUNCIL

Mosman Council

General Purpose Financial Statements for the year ended 30 June 2016

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Overview

(i) These financial statements are General Purpose Financial Statements and cover the consolidated operations for Mosman Council.

(ii) Mosman Council is a body politic of NSW, Australia – being constituted as a local government area by proclamation and is duly empowered by the *Local Government Act 1993* (LGA).

Council's Statutory Charter is detailed in Paragraph 8 of the LGA and includes giving Council;

- the ability to provide goods, services and facilities, and to carry out activities appropriate to the current and future needs of the local community and of the wider public,
- the responsibility for administering regulatory requirements under the LGA and
- a role in the management, improvement and development of the resources in the area.

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

(iii) All figures presented in these financial statements are presented in Australian currency.

(iv) These financial statements were authorised for issue by the Council on 09 September 2016. Council has the power to amend and reissue these financial statements.

Mosman Council

General Purpose Financial Statements for the year ended 30 June 2016

Understanding Council's financial statements

Introduction

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

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2016.

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

About the Councillor/Management Statement

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

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

This statement summarises Council's financial performance for the year, listing all income and expenses.

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

2. The Statement of Comprehensive Income

This statement primarily records changes in the fair values of Council's infrastructure, property, plant and equipment.

3. The Statement of Financial Position

An end of year snapshot of Council's financial position indicating its assets, liabilities and equity ('net wealth').

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

Council's financial statements are required to be audited by external accountants (that generally specialise in local government). In NSW, the auditor provides 2 audit reports:

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

Who uses the financial statements?

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

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

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

Mosman Council

General Purpose Financial Statements for the year ended 30 June 2016

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

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

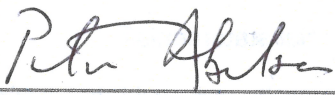
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

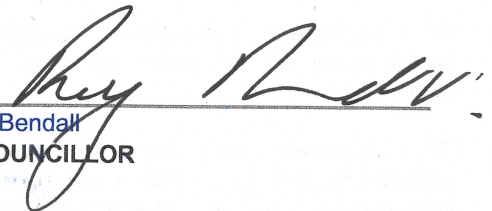
- present fairly the Council's operating result and financial position for the year, and
- accord with Council's accounting and other records.

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

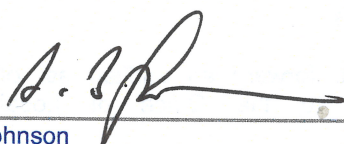
Signed in accordance with a resolution of Council made on 06 September 2016.



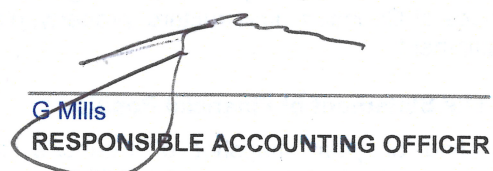
P Abelson
MAYOR



R Bendall
COUNCILLOR



D Johnson
ACTING GENERAL MANAGER



G Mills
RESPONSIBLE ACCOUNTING OFFICER

Mosman Council

Income Statement

for the year ended 30 June 2016

Budget ¹ 2016	\$ '000	Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
25,273	Rates and annual charges	3a	25,354	23,680
10,518	User charges and fees	3b	10,755	10,023
425	Interest and investment revenue	3c	526	503
4,432	Other revenues	3d	4,871	6,115
2,119	Grants and contributions provided for operating purposes	3e,f	2,919	2,545
1,780	Grants and contributions provided for capital purposes	3e,f	1,920	2,264
Other income:				
–	Net share of interests in joint ventures and associates using the equity method	19	167	150
44,547	Total income from continuing operations		46,512	45,280
Expenses from continuing operations				
17,227	Employee benefits and on-costs	4a	16,874	15,925
431	Borrowing costs	4b	502	612
13,897	Materials and contracts	4c	14,291	11,911
5,387	Depreciation and amortisation	4d	5,415	5,166
–	Impairment	4d	–	–
5,728	Other expenses	4e	10,914	6,430
–	Net losses from the disposal of assets	5	–	20
42,670	Total expenses from continuing operations		47,996	40,064
1,877	Operating result from continuing operations		(1,484)	5,216
Discontinued operations				
–	Net profit/(loss) from discontinued operations	24	–	–
1,877	Net operating result for the year²		(1,484)	5,216
1,877	Net operating result attributable to Council		(1,484)	5,216
–	Net operating result attributable to non-controlling interests		–	–
97	Net operating result for the year before grants and contributions provided for capital purposes²		(3,404)	2,952

¹ Original budget as approved by Council – refer Note 16

² Operating result heavily influence by asset revaluation decrements (Note 4e). Operating Performance Ratio, measuring underlying ability to maintain expenditure within revenues, remains robust and improved in reporting period (Note 13).

Mosman Council

Statement of Comprehensive Income

for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
Net operating result for the year (as per Income Statement)		(1,484)	5,216
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	8,398	749
Total items which will not be reclassified subsequently to the operating result		8,398	749
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		8,398	749
Total comprehensive income for the year		6,914	5,965
Total comprehensive income attributable to Council		6,914	5,965
Total comprehensive income attributable to non-controlling interests		—	—

Mosman Council

Statement of Financial Position
as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
ASSETS			
Current assets			
Cash and cash equivalents	6a	12,725	13,160
Investments	6b	2,000	–
Receivables	7	3,440	3,685
Inventories	8	148	163
Other	8	227	60
Non-current assets classified as 'held for sale'	22	–	–
Total current assets		18,540	17,068
Non-current assets			
Investments	6b	–	–
Receivables	7	122	82
Inventories	8	–	–
Infrastructure, property, plant and equipment	9	433,963	423,281
Investments accounted for using the equity method	19	898	792
Investment property	14	44,963	48,950
Intangible assets	25	282	298
Total non-current assets		480,228	473,403
TOTAL ASSETS		498,768	490,471
LIABILITIES			
Current liabilities			
Payables	10	11,954	9,770
Borrowings	10	1,746	1,913
Provisions	10	4,735	3,895
Total current liabilities		18,435	15,578
Non-current liabilities			
Payables	10	–	–
Borrowings	10	5,819	7,166
Provisions	10	159	286
Total non-current liabilities		5,978	7,452
TOTAL LIABILITIES		24,413	23,030
Net assets		474,355	467,441
EQUITY			
Retained earnings	20	254,006	255,490
Revaluation reserves	20	220,349	211,951
Council equity interest		474,355	467,441
Non-controlling equity interests		–	–
Total equity		474,355	467,441

Mosman Council

Statement of Changes in Equity
for the year ended 30 June 2016

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total equity
2016						
Opening balance (as per last year's audited accounts)		296,019	211,951	507,970	—	507,970
a. Correction of prior period errors	20 (c)	—	—	—	—	—
b. Changes in accounting policies (prior year effects)	20 (d)	(40,529)	—	(40,529)	—	(40,529)
Revised opening balance (as at 1/7/15)		255,490	211,951	467,441	—	467,441
c. Net operating result for the year		(1,484)	—	(1,484)	—	(1,484)
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	8,398	8,398	—	8,398
– Revaluations: other reserves	20b (ii)	—	—	—	—	—
– Transfers to Income Statement	20b (ii)	—	—	—	—	—
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—	—	—	—
– Joint ventures and associates	19b	—	—	—	—	—
Other comprehensive income		—	8,398	8,398	—	8,398
Total comprehensive income (c&d)		(1,484)	8,398	6,914	—	6,914
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
Equity – balance at end of the reporting period		254,006	220,349	474,355	—	474,355

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
2015						
Opening balance (as per last year's audited accounts)		290,803	211,202	502,005	—	502,005
a. Correction of prior period errors	20 (c)	—	—	—	—	—
b. Changes in accounting policies (prior year effects)	20 (d)	(40,529)	—	(40,529)	—	(40,529)
Revised opening balance (as at 1/7/14)		250,274	211,202	461,476	—	461,476
c. Net operating result for the year		5,216	—	5,216	—	5,216
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	749	749	—	749
– Revaluations: other reserves	20b (ii)	—	—	—	—	—
– Transfers to Income Statement	20b (ii)	—	—	—	—	—
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—	—	—	—
– Joint ventures and associates	19b	—	—	—	—	—
Other comprehensive income		—	749	749	—	749
Total comprehensive income (c&d)		5,216	749	5,965	—	5,965
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
Equity – balance at end of the reporting period		255,490	211,951	467,441	—	467,441

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

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Statement of Cash Flows
for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
Cash flows from operating activities				
Receipts:				
25,244	Rates and annual charges		25,299	23,512
10,448	User charges and fees		10,843	9,835
421	Investment and interest revenue received		510	515
3,995	Grants and contributions		5,057	5,193
–	Bonds, deposits and retention amounts received		3,283	1,809
4,373	Other		4,765	4,421
Payments:				
(16,619)	Employee benefits and on-costs		(16,678)	(15,266)
(13,163)	Materials and contracts		(13,602)	(12,092)
(439)	Borrowing costs		(513)	(621)
–	Bonds, deposits and retention amounts refunded		(2,259)	(1,077)
(6,405)	Other		(6,659)	(6,304)
7,855	Net cash provided (or used in) operating activities	11b	10,046	9,925
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		31,000	19,350
–	Sale of infrastructure, property, plant and equipment		28	–
–	Distributions received from joint ventures and associates		61	32
Payments:				
–	Purchase of investment securities		(33,000)	(19,350)
(6,260)	Purchase of infrastructure, property, plant and equipment		(7,056)	(5,060)
(6,260)	Net cash provided (or used in) investing activities		(8,967)	(5,028)
Cash flows from financing activities				
Receipts:				
400	Proceeds from borrowings and advances		400	–
Payments:				
(2,028)	Repayment of borrowings and advances		(1,914)	(1,887)
(1,628)	Net cash flow provided (used in) financing activities		(1,514)	(1,887)
(33)	Net increase/(decrease) in cash and cash equivalents		(435)	3,010
9,600	Plus: cash and cash equivalents – beginning of year	11a	13,160	10,150
9,567	Cash and cash equivalents – end of the year	11a	12,725	13,160
Additional Information:				
plus:	Investments on hand – end of year	6b	2,000	–
	Total cash, cash equivalents and investments		14,725	13,160

Please refer to Note 11 for additional cash flow information.

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

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Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies

The principal accounting policies adopted by Council in the preparation of these consolidated financial statements are set out below in order to assist in its general understanding.

Under Australian Accounting Standards (AASBs), accounting policies are defined as those specific principles, bases, conventions, rules and practices applied by a reporting entity (in this case Council) in preparing and presenting its financial statements.

(a) Basis of preparation

(i) Background

These financial statements are general purpose financial statements, which have been prepared in accordance with:

- Australian Accounting Standards and Australian Accounting Interpretations issued by the Australian Accounting Standards Board,
- the *Local Government Act (1993)* and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

For the purpose of preparing these financial statements, Council has been deemed to be a not-for-profit entity.

(ii) Compliance with International Financial Reporting Standards (IFRSs)

Because AASBs are sector neutral, some standards either:

- (a) have local Australian content and prescription that is specific to the not-for-profit sector (including local government) which are not in compliance with IFRSs, or
- (b) specifically exclude application by not-for-profit entities.

Accordingly, in preparing these financial statements and accompanying notes, Council has been unable to comply fully with International Accounting Standards, but has complied fully with Australian Accounting Standards.

Under the *Local Government Act (LGA)*, Regulation and Local Government Code of Accounting Practice and Financial Reporting, it should be noted that Councils in NSW only have a requirement to comply with AASBs.

(iii) New and amended standards adopted by Council

There have been no new accounting standards adopted in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(iv) Early adoption of accounting standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015, except for AASB2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities, which has reduced the fair value disclosures for Level 3 assets.

For summary information relating to the effects of standards with future operative dates refer further to paragraph (y).

(v) Basis of accounting

These financial statements have been prepared under the **historical cost convention** except for:

- (i) certain financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets, which are all valued at fair value,
- (ii) the write down of any asset on the basis of impairment (if warranted), and
- (iii) certain classes of non-current assets (eg. infrastructure, property, plant and equipment and investment property) that are accounted for at fair valuation.

The accrual basis of accounting has also been applied in their preparation.

(vi) Changes in accounting policies

Council's accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

(vii) Critical accounting estimates

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

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

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

(b) Revenue recognition

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

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

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

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

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

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

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

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of s94 of the *EPA Act 1979*.

Whilst Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon their physical receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and accordingly would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required but the Council may apply contributions according to the priorities established in work schedules.

A detailed note relating to developer contributions can be found at Note 17.

User charges, fees and other income

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

A provision for the impairment of these receivables is recognised when collection in full is no longer probable.

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

Sale of infrastructure, property, plant and equipment

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

Interest and rents

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

Interest income from cash and investments is accounted for using the effective interest rate at the date that interest is earned.

Dividend income

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

Other Income

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

(c) Principles of consolidation

These consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

(i) The Consolidated Fund

In accordance with the provisions of section 409(1) of the LGA 1993, all money and property received by Council is held in the Council's consolidated fund unless it is required to be held in the Council's trust fund.

The consolidated fund and other entities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The following entities have been included as part of the consolidated fund:

- General Purpose Operations
- Kimbriki

(ii) The trust fund

In accordance with the provisions of section 411 of the *Local Government Act 1993* (as amended), a separate and distinct trust fund is maintained to account for all money and property received by the Council in trust that must be applied only for the purposes of or in accordance with the trusts relating to those monies.

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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

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

(iii) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

Council has no interest in any joint arrangements.

Joint ventures

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

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

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

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

Associates

Council has no interest in any associates.

County councils

Council is not a member of any county councils.

Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

(d) Leases

All leases entered into by Council are reviewed and classified on inception date as either a finance lease or an operating lease.

Finance leases

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

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in borrowings.

Each lease payment is allocated between the liability outstanding and the recognition of a finance charge.

The interest element of the finance charge is costed to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of each leased asset's useful life and the lease term.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(e) Cash and Cash Equivalents

For Statement of Cash Flows (and Statement of Financial Position) presentation purposes, cash and cash equivalents includes;

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

- cash on hand,
- deposits held **at call** with financial institutions,
- other short-term, highly liquid investments **with original maturities of three months or less** that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value, and
- bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet but are incorporated into cash and cash equivalents for presentation of the Cash Flow Statement.

(f) Investments and other financial assets

Council (in accordance with AASB 139) classifies each of its investments into one of the following categories for measurement purposes:

- **financial assets at fair value through profit or loss,**
- **loans and receivables,**
- **held-to-maturity investments,** and
- **available-for-sale financial assets.**

Each classification depends on the purpose or intention for which the investment was acquired and at the time it was acquired.

Management determines each investment classification at the time of initial recognition and re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss include financial assets that are 'held for trading'.

A financial asset is classified in the 'held for trading' category if it is acquired principally for the purpose of selling in the short term.

Assets in this category are primarily classified as current assets as they are primarily held for trading and/or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They arise when the Council provides money, goods or services directly to a debtor with no intention (or in some cases ability) of selling the resulting receivable.

They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

In contrast to the 'loans and receivables' classification, these investments are generally quoted in an active market.

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

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

Accordingly, this classification principally comprises marketable equity securities, but can include all types of financial assets that could otherwise be classified in one of the other investment categories.

They are generally included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or the term to maturity from the reporting date is less than 12 months.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Financial assets – reclassification

Council may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Council may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if it has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

General accounting and measurement of financial instruments:

(i) Initial recognition

Investments are initially recognised (and measured) at fair value, plus in the case of investments not at 'fair value through profit or loss', directly attributable transactions costs.

Purchases and sales of investments are recognised on trade-date – the date on which the Council commits to purchase or sell the asset.

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

(ii) Subsequent measurement

Available-for-sale financial assets and **financial assets at fair value through profit and loss** are subsequently carried at fair value.

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

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets classified as '**fair value through profit or loss**' category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as '**available-for-sale**' are recognised in equity in the available-for-sale investments revaluation reserve.

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

Impairment

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(iii) Types of investments

Council has an approved Investment Policy in order to invest in accordance with (and to comply with) section 625 of the *Local Government Act* and s212 of the LG (General) Regulation 2005.

Investments are placed and managed in accordance with the policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order.

Council maintains its Investment Policy in compliance with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments that Council holds are no longer prescribed (eg. managed funds, CDOs, and equity linked notes), however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(g) Fair value estimation – financial instruments

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.

If the market for a financial asset is not active (and for unlisted securities), the Council establishes fair value by using valuation techniques.

These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(h) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Receivables (excluding rates and annual charges) are generally due for settlement no more than 30 days from the date of recognition.

The collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off in accordance with Council's policy.

A provision for impairment (i.e. an allowance account) relating to receivables is established when objective evidence shows that Council will not be able to collect all amounts due according to the original terms of each receivable.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Impairment losses are recognised in the Income Statement within other expenses.

When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

(i) Inventories

Raw materials and stores, work in progress and finished goods

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

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs.

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

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

(j) Infrastructure, property, plant and equipment (I,PP&E)

Acquisition of assets

Council's non-current assets are continually revalued (over a 5-year period) in accordance with the fair valuation policy as mandated by the Office of Local Government.

At balance date, the following classes of I,PP&E were stated at their fair value:

- **Investment Properties** – refer Note 1(o)
- **Operational Land** (External Valuation)
- **Buildings – Specialised/Non Specialised** (External Valuation)
- **Plant and Equipment** (as approximated by depreciated historical cost)
- **Roads Assets incl. roads, bridges and footpaths** (Internal Valuation)
- **Drainage Assets** (External Valuation)
- **Community Land** (External Valuation and where appropriate internal)
- **Land Improvements** (Internal Valuation)
- **Other Structures** (External Valuations)
- **Other Assets** (as approximated by depreciated historical cost)

Initial recognition

On initial recognition, an asset's cost is measured at its fair value, plus all expenditure that is directly attributable to the acquisition.

Where settlement of any part of an asset's cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of recognition (i.e. date of exchange) of the asset to arrive at fair value.

The discount rate used is the Council's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where infrastructure, property, plant and equipment assets are acquired for no cost or for an amount other than cost, the assets are recognised in the financial statements at their fair value at acquisition date – being the amount that the asset could have been exchanged between knowledgeable willing parties in an arm's length transaction.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Asset revaluations (including indexation)

In accounting for asset revaluations relating to infrastructure, property, plant and equipment:

- increases in the combined carrying amounts of asset classes arising on revaluation are credited to the asset revaluation reserve,
- to the extent that a net asset class increase reverses a decrease previously recognised via the profit or loss, then increase is first recognised in profit or loss,
- net decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset, with all other decreases charged to the Income Statement.

For all other assets, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date.

If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount.

Full revaluations are undertaken for all assets on a 5-year cycle.

Capitalisation thresholds

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

Land

- council land	100% Capitalised
- open space	100% Capitalised
- land under roads (purchases after 30/6/08)	100% Capitalised

Plant and Equipment

Office Furniture	> \$1,000
Office Equipment	> \$1,000
Other Plant and Equipment	> \$1,000

Buildings and Land Improvements

Park Furniture and Equipment	> \$5,000
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Building

- construction/extensions	100% Capitalised
- renovations	> \$5,000
Other Structures	> \$5,000

Stormwater Assets

Drains and Culverts	> \$5,000
Other	> \$5,000

Transport Assets

Road construction and reconstruction	> \$5,000
Reseal/Re-sheet and major repairs	> \$5,000

Other Infrastructure Assets

Swimming Pools	> \$10,000
Other Open Space/Recreational Assets	> \$10,000
Other Infrastructure	> \$10,000

Depreciation

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

Land is not depreciated.

Estimated useful lives for Council's I,PP&E include:

Plant and Equipment

- Office Equipment	5 to 10 years
- Office furniture	5 to 10 years
- Computer Equipment	4 years
- Other plant and equipment	5 to 10 years

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Other Equipment

- Playground equipment	5 to 15 years
- Benches, seats etc	10 to 20 years

Buildings

- Buildings	50 to 100 years
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Stormwater Drainage

- Drainage Infrastructure	125 years
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Transportation Assets

- Sealed Roads: Surface	50 years
- Sealed Roads: Structure	100 years
- Unsealed roads	100 years
- Road Pavements	100 years
- Kerb, Gutter and Paths	95 to 100 years

Other Infrastructure Assets

- Other Open Space/ Recreational Assets	10 to 40 years
- Retaining Walls	150 years

All asset residual values and useful lives are reviewed and adjusted (if appropriate) at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount – refer Note 1 (s) on asset impairment.

Disposal and derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Council's Income Statement in the year the asset is derecognised.

(k) Land

Land (other than land under roads) is in accordance with Part 2 of Chapter 6 of the *Local Government*

Act (1993) classified as either operational or community.

This classification of land is disclosed in Note 9 (a).

(l) Land under roads

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

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

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

(m) Intangible assets

Council's interest in Kimbriki Waste Services Access rights is recognised as an Intangible Asset and will be amortised over the 25 year expected life of the Asset.

(n) Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council.

While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

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

Representations are currently being sought across state and local government to develop a consistent accounting treatment for Crown Reserves across both tiers of government.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(o) Investment property

Investment property comprises land and/or buildings that are principally held for long-term rental yields, capital gains or both, that is not occupied by Council. Investment property is carried at fair value, representing an open-market value determined annually by external valuers.

Annual changes in the fair value of investment properties are recorded in the Income Statement as part of 'other income'.

Full revaluations are carried out every year.

(p) Impairment of assets

All Council's I,PP&E is subject to an annual assessment of impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

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

Goodwill and other intangible assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment.

(q) Payables

These amounts represent liabilities and include goods and services provided to the Council prior to the end of financial year that are unpaid.

The amounts for goods and services are unsecured and are usually paid within 30 days of recognition.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortised cost.

Amortisation results in any difference between the proceeds (net of transaction costs) and the redemption amount being recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

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

(s) Borrowing costs

Borrowing costs are expensed

(t) Provisions

Provisions for legal claims, service warranties and other like liabilities are recognised when:

- Council has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in the provision due to the passage of time is recognised as interest expense.

(u) Employee benefits

(i) Short-term obligations

Short-term employee benefit obligations include liabilities for wages and salaries (including non-monetary benefits), annual leave and vesting sick leave expected to be wholly settled within the 12 months after the reporting period.

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

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

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

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

Wages and salaries, annual leave and vesting sick leave are all classified as current liabilities.

(ii) Other long-term obligations

The liability for all long service and annual leave in respect of services provided by employees up to the reporting date (which is not expected to be wholly settled within the 12 months after the reporting period) are recognised in the provision for employee benefits.

These liabilities are measured at the present value of the expected future payments to be made using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are then discounted using market yields at the reporting date based on national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

Due to the nature of when and how long service leave can be taken, all long service leave for employees with 4 or more years of service has been classified as current, as it has been deemed that Council does not have the unconditional right to defer settlement beyond 12 months – even though it is not anticipated that all employees with more than 4 years service (as at reporting date) will apply for and take their leave entitlements in the next 12 months.

(iii) Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death.

Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Defined benefit plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the balance sheet, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

However, when this information is not reliably available, Council can account for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans – i.e. as an expense when they become payable.

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named the 'Local Government Superannuation Scheme – Pool B'.

This scheme has been deemed to be a 'multi-employer fund' for the purposes of AASB 119.

Sufficient information is not available to account for the Scheme as a defined benefit plan (in accordance with AASB 119) because the assets to the scheme are pooled together for all Councils.

The last valuation of the scheme was performed by Richard Boyfield on 24 February 2016 and covers the period ended 30 June 2015.

However the position is monitored annually and the actuary has estimated that as at 30 June 2016 the prior period deficit still exists.

Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$308,199.

The amount of additional contributions included in the total employer contribution advised above is \$313,151.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$225,157 as at 30 June 2016.

Council's share of that deficiency cannot be accurately calculated as the scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils.

For this reason, no liability for the deficiency has been recognised in these financial statements.

Council has, however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the scheme require immediate payment to correct the deficiency.

Defined contribution plans

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

(iv) Employee benefit on-costs

Council has recognised at year end the aggregate on-cost liabilities arising from employee benefits, and in particular those on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation and workers compensation expenses which will be payable upon the future payment of certain leave liabilities accrued as at 30/06/16.

(v) Self-insurance

Council does not self-insure.

(w) Allocation between current and non-current assets and liabilities

In the determination of whether an asset or liability is classified as current or non-current, consideration is given to the time when each asset or liability is expected to be settled.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle.

Exceptions

In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months (such as vested long service leave), the liability is classified as current even if it is not expected to be settled within the next 12 months.

In the case of inventories that are 'held for trading', these are also classified as current even if not expected to be realised in the next 12 months.

(x) Taxes

The Council is exempt from both Commonwealth Income Tax and Capital Gains Tax.

Council does, however, have to comply with both Fringe Benefits Tax and Goods and Services Tax (GST).

Goods and Services Tax (GST)

Income, expenses and assets are all recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

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

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

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

Operating cash flows within the Cash Flow Statement are on a gross basis, i.e. they are inclusive of GST where applicable.

Investing and financing cash flows are treated on a net basis (where recoverable from the ATO), i.e. they are exclusive of GST. Instead, the GST component of investing and financing activity cash

flows that are recoverable from or payable to the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from (or payable to) the ATO.

(y) New accounting standards and Interpretations issued (not yet effective)

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2016.

Council has not adopted any of these standards early.

Apart from the AASB disclosures below, there are no other standards that are 'not yet effective' that are expected to have a material impact on Council in the current or future reporting periods and on foreseeable future transactions.

Council's assessment of the impact of upcoming new standards and interpretations that are likely to have an effect are set out below.

AASB 9 – Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and has an effective date for reporting periods beginning on or after 1 January 2018 (and must be applied retrospectively).

The overriding impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets and financial liabilities.

These requirements are designed to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories:

- fair value, and

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

- amortised cost (where financial assets will only be able to be measured at amortised cost when very specific conditions are met).

Council is yet to undertake a detailed assessment of the impact of AASB 9.

AASB 15 – Revenue from Contracts with Customers and associated amending standards

AASB 15 will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

AASB 15 will introduce a 5-step process for revenue recognition with the core principle of the new standard being that entities recognise revenue so as to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

The changes in revenue recognition requirements in AASB 15 may cause changes to accounting policies relating to the timing and amount of revenue recorded in the financial statements, as well as additional disclosures.

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

Council is yet to undertake a detailed assessment of the impact of AASB 15.

AASB ED 260 Income of Not-for-Profit Entities

The AASB previously issued exposure draft AASB ED 260 on Income of Not-for-Profit Entities in April 2015.

The exposure draft proposed specific not-for-profit entity requirements and guidance when applying the principles of AASB 15 to income from certain transactions.

Much of the material in AASB 1004 is expected to be replaced by material included in AASB ED 260.

Specific revenue items that may considerably change are Grants and Contributions.

The most likely financial statement impact is the deferred recognition of Grants and Contributions (i.e.

recognition as unearned revenue [liability]) until Council has met the associated performance obligation/s relating to the Grants or Contribution.

At this stage there is no specific date of release for a standard or a date of applicability.

AASB16 – Leases

AASB 116 Leases replaces AASB 117 Leases and some associated lease-related Interpretations.

AASB 16 introduces a single lease accounting model (for lessees) that will require all leases to be accounted for on the balance sheet (ie. recognition of both a right-of-use asset and a corresponding lease) for all leases with a term of more than 12 months unless the underlying assets are determined to be of 'low value'. There will also be detailed disclosure requirements for all lessees.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2019.

Council is yet to undertake a detailed assessment of the accounting impacts from AASB 16. However, based on preliminary assessments, impacts from the first time adoption of the standard are likely to include:

- a significant increase in lease assets and financial liabilities recognised on the balance sheet,
- a reduction in reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities,
- lower operating cash outflows and higher financing cash flows in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

AASB2015-6 – Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities

From 1 July 2016, AASB 124 Related Party Disclosures will apply to Council.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

This means that Council will be required to disclose information about related parties and Council transactions with those related parties.

Related parties will more than likely include the Mayor, Councillors and certain Council staff. In addition, the close family members of those people and any organisations that they control or are associated with will be classified as related parties (and fall under the related party reporting requirements).

AASB 2014 – 3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]

This Standard amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

The amendments require:

- (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11, and
- (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2016.

If a joint operation is acquired during the reporting period, then this standard clarifies the accounting for the acquisition to be in accordance with AASB 3, i.e. assets and liabilities acquired to be measured at fair value.

(z) Rounding of amounts

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

(aa) Comparative figures

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

(ab) Disclaimer

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current & non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2016	2016	2015	2016	2016	2015	2016	2016	2015	2016	2015	2016	2015
Governance	–	–	–	1,770	1,773	1,597	(1,770)	(1,773)	(1,597)	–	–	705	270
Community wellbeing	1,784	1,851	1,790	3,026	2,901	2,857	(1,242)	(1,050)	(1,067)	888	868	4,437	4,275
Library and information	179	176	182	2,190	2,179	2,120	(2,011)	(2,003)	(1,938)	82	96	7,326	7,377
Arts and culture ²	560	883	645	1,605	1,550	1,244	(1,045)	(667)	(599)	343	75	5,253	4,441
Built environment	3,096	3,246	2,073	7,429	7,969	6,877	(4,333)	(4,723)	(4,804)	522	512	183,577	181,711
Community spaces ³	5,563	6,102	7,981	7,242	8,770	7,475	(1,679)	(2,668)	506	27	53	215,487	211,996
Healthy environment	6,563	6,507	6,344	5,355	4,945	5,153	1,208	1,562	1,191	134	112	726	690
Transport and traffic	6,233	6,612	5,863	2,146	2,029	1,565	4,087	4,583	4,298	65	60	58,964	58,940
Leadership and engagement	–	–	69	2,478	2,573	2,585	(2,478)	(2,573)	(2,516)	–	–	15	20
Corporate and risk ^{*4}	695	960	1,591	9,429	13,307	8,591	(8,734)	(12,347)	(7,000)	–	180	21,380	19,959
Total functions and activities	24,673	26,337	26,538	42,670	47,996	40,064	(17,997)	(21,659)	(13,526)	2,061	1,956	497,870	489,679
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	167	150	–	–	–	–	167	150	–	–	898	792
General purpose income ¹	19,874	20,008	18,592	–	–	–	19,874	20,008	18,592	910	914	–	–
Operating result from continuing operations	44,547	46,512	45,280	42,670	47,996	40,064	1,877	(1,484)	5,216	2,971	2,870	498,768	490,471

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

Explanations of variances greater than 10%:

2. Actual income includes art donations of \$238k.

3. Actual Income Includes \$94 contributions \$400k greater than budgeted. Expenses include revaluation decrements to Community Land (ref Note 4 E)

4. 2016 Income has unbudgeted return on Joint Ventures (Note 19) 2015 Actual income includes revaluation increment to Investment Property (N14) 2016 Actual Expenses includes decrement to Investment Property (N14)

* The activities "Governance" and "Corporate and risk" are aggregated in Council's strategic plan (MOSPLAN) as "Governance and risk".

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

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

GOVERNANCE

Costs relating to the Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of council and policy making committees, area representation and public disclosure and compliance.

COMMUNITY WELLBEING

Community Connection and Volunteering, Children/Family, Youth, Older People, People with a disability, Healthy Lifestyle and Fitness, Aboriginal Culture, Heritage and Reconciliation and Culturally and Linguistically Diverse People.

LIBRARY AND INFORMATION

Library Resources, Library Services, Information Technology, Building Education, Local Studies, Website.

ARTS AND CULTURE

Cultural Development, Gallery, Community Arts and Crafts, Civic Events, Friendship Agreements.

BUILT ENVIRONMENT

Development Assessment and Regulation. Zoning Framework, Planning Policy Development, Heritage Housing Strategy. Roads. Stormwater Drainage.

COMMUNITY SPACES

Parks, Gardens, Playgrounds and Civic Spaces, Recreational Facilities, Beaches, Sea Pools and Foreshores. Council Owned Buildings and Facilities.

HEALTHY ENVIRONMENT

Atmospheric Environment, Biodiversity, Trees, Land and Coastal Management, Noise, Environmental/Sustainability Education, Environmental Health, Waste Management and Cleaning and Environmental Services.

TRANSPORT AND TRAFFIC

Facilities, Traffic Management, Pedestrians, Bicycles, Public Transport.

LOCAL AND REGIONAL ECONOMY

Business & Employment, Marketing Mosman, Regional Economic Development.

LEADERSHIP AND ENGAGEMENT

Council Secretariat and Civic Involvement, Governance and Communication.

CORPORATE AND RISK

Finance and Corporate Assets, Information and Communication Systems, Insurance and Risk Management, Human Resources, Strategic Asset and Property Management.

Mosman Council

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

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Rates and annual charges			
Ordinary rates			
Residential		16,899	15,666
Business		1,782	1,600
Total ordinary rates		18,681	17,266
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		6,406	6,150
Stormwater management services		236	236
Section 611 charges		31	28
Total annual charges		6,673	6,414
TOTAL RATES AND ANNUAL CHARGES		25,354	23,680
(b) User charges and fees			
Specific user charges (per s.502 – specific ‘actual use’ charges)			
Domestic waste management services		85	81
Total user charges		85	81
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Planning and building regulation		819	798
Regulatory fees		94	62
Section 149 certificates (EPA Act)		149	168
Section 603 certificates		105	111
Total fees and charges – statutory/regulatory		1,167	1,139

Mosman Council

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

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(b) User charges and fees (continued)			
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Advertising-bridgepoint bridge		439	439
Art prize fees		45	39
Children's leisure and learning		13	9
Community restaurant		30	32
Cultural centre		148	113
Dinghy storage racks		51	32
Filming permits		4	9
Footpath occupation		217	220
Hoarding fees		197	208
Kidzone – vacation		92	85
Lease rentals (property)		1,414	1,249
Leaseback fees – Council vehicles		8	8
Market days (stall holders)		110	88
Meals on wheels		64	82
Merchant fee recovery		81	71
Mini skips		46	51
Mosman Occasional Child Care		204	245
Out of school care		398	379
Oval rents		284	287
Parking fees – foreshore		1,374	1,277
Parking fees – foreshore (stickers)		281	261
Parking fees – on street		2,267	2,221
Parking fees – resident parking scheme permits		53	48
Photocopying – civic centre		1	2
Photocopying – library		7	7
Reserve rents		111	72
Restoration charges		483	292
Section 153 land leases		52	35
Stand plant permits		148	189
Vacation care		33	21
Vehicular crossing		124	91
Vehicular crossing – inspection fees		38	9
Work zone fees		347	342
Other		339	290
Total fees and charges – other		9,503	8,803
TOTAL USER CHARGES AND FEES		10,755	10,023

Mosman Council

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

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		52	48
– Interest earned on investments (interest and coupon payment income)		474	455
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>526</u>	<u>503</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		52	48
General Council cash and investments		365	364
Restricted investments/funds – external:			
Development contributions			
– Section 94		109	91
<u>Total interest and investment revenue recognised</u>		<u>526</u>	<u>503</u>
(d) Other revenues			
Fair value increments – investment properties	14	–	2,129
Rental income – investment properties	14	1,913	1,800
Fines		2,583	1,998
Commissions and agency fees		22	14
Legal Recoupment		10	–
Workers Compensation Insurance incentives		179	–
Art Gallery Sponsorship and Donations		48	–
Other		116	174
<u>TOTAL OTHER REVENUE</u>		<u>4,871</u>	<u>6,115</u>

Mosman Council

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

Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
(e) Grants				
General purpose (untied)				
Financial assistance – general component	615	616	–	–
Financial assistance – local roads component	229	232	–	–
Pensioners' rates subsidies – general component	66	66	–	–
Total general purpose	910	914	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Domestic waste management	30	30	–	–
Aged care	537	520	–	–
Child care	391	348	–	–
Environmental protection	20	64	–	–
Excess weight subsidy	11	12	–	–
Housing and community amenities	122	112	–	–
Library – per capita	56	55	–	–
Library – special projects	26	34	–	–
LIRS subsidy	72	125	–	–
Recreation and culture	112	75	–	–
Traffic route subsidy	99	97	–	–
Transport (roads to recovery)	315	–	–	110
Transport (other roads and bridges funding)	–	–	270	374
Total specific purpose	1,791	1,472	270	484
Total grants	2,701	2,386	270	484
Grant revenue is attributable to:				
– Commonwealth funding	1,485	1,469	–	110
– State funding	1,212	917	270	374
– Other funding	4	–	–	–
	2,701	2,386	270	484

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 3. Income from continuing operations (continued)

\$ '000		2016 Operating	2015 Operating	2016 Capital	2015 Capital
(f) Contributions					
Developer contributions:					
(s93 & s94 – EP&A Act, s64 of the LGA):					
S 94A – fixed development consent levies		–	–	1,409	1,589
Total developer contributions	17	–	–	1,409	1,589
Other contributions:					
Art collection donations		–	–	238	185
Recreation and culture		–	–	–	6
RMS contributions (regional roads, block grant)		175	159	–	–
Other (Youth Programs)		43	–	–	–
Other		–	–	3	–
Total other contributions		218	159	241	191
Total contributions		218	159	1,650	1,780
TOTAL GRANTS AND CONTRIBUTIONS		2,919	2,545	1,920	2,264

\$ '000		Actual 2016	Actual 2015
(g) Restrictions relating to grants and contributions			
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:			
Unexpended at the close of the previous reporting period		3,826	3,080
Add: grants and contributions recognised in the current period but not yet spent:		909	1,871
Less: grants and contributions recognised in a previous reporting period now spent:		(309)	(1,125)
Net increase (decrease) in restricted assets during the period		600	746
Unexpended and held as restricted assets		4,426	3,826
Comprising:			
– Specific purpose unexpended grants		81	309
– Developer contributions		4,345	3,517
		4,426	3,826

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
(a) Employee benefits and on-costs			
Salaries and wages		12,555	11,982
Employee termination costs (where material – other than vested leave paid)		32	–
Travel expenses		324	292
Employee leave entitlements (ELE)		1,937	1,767
Superannuation – defined contribution plans		1,150	1,070
Superannuation – defined benefit plans		321	331
Workers' compensation insurance		272	363
Fringe benefit tax (FBT) ⁽¹⁾		130	32
Training costs (other than salaries and wages)		138	77
Other		15	11
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>		<u>16,874</u>	<u>15,925</u>
⁽¹⁾ FBT was affected in each year by timing changes in benefit payments. Comparative does not reflect proportionate increase in benefit payments			
Number of 'full-time equivalent' employees (FTE) at year end		168	167
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)		175	174
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		502	612
<u>Total interest bearing liability costs expensed</u>		<u>502</u>	<u>612</u>
(ii) Other borrowing costs			
Nil			
<u>TOTAL BORROWING COSTS EXPENSED</u>		<u>502</u>	<u>612</u>

Mosman Council

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

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Materials and contracts			
Raw materials and consumables *		144	170
Contractor and consultancy costs			
– Aged services		130	118
– Art Gallery and Community Centre *		59	–
– Bushcare #		459	355
– Childrens Services *		101	–
– Cleansing #		255	444
– Communications and Events *		105	–
– Conduct complaints		–	23
– Development assessment and urban planning		181	194
– Fit for the future consultant		–	20
– Infrastructure #		2,037	1,785
– Internal audit		72	91
– Library *		242	–
– Swim Centre Management *		150	–
– Parks, gardens and civic spaces *		1,590	1,241
– Plant running		81	101
– Recreational facilities #		720	607
– Save Mosman information campaign *		61	–
– Structures #		1,270	1,241
– Temp Staff and Agency Casuals **		467	109
– Youth Services *		83	–
– Waste management		3,104	3,103
– Other contractor and consultancy costs *		900	1,288
Auditors remuneration ⁽¹⁾		38	36
Infringement notice contract costs (SEINS)		318	263
Legal expenses:			
– Legal expenses: planning and development ##		913	325
– Legal expenses: Save Mosman campaign		244	–
– Legal expenses: other ##		212	131
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		245	109
Printing *		110	157
TOTAL MATERIALS AND CONTRACTS		14,291	11,911

* Several contracts were reclassified from generic categories to functional categories

Changes in these categories reflect overall maintenance increase due to Special Rate Variation and differing maintenance priorities

** Reflects difficulty recruiting staff in amalgamation environment

Changes in comparative Legal Fees due to 710 Military, Independence, Compliance and Tree matters

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Materials and contracts (continued)			
1. Auditor remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor (and the Auditors of other consolidated entities):			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		38	36
Remuneration for audit and other assurance services		38	36
Total Auditor remuneration		38	36
2. Operating lease payments are attributable to:			
Computers		245	109
		245	109

2014/15 Operating Lease amount lower due to delay in introduction of new leasing arrangements

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
(d) Depreciation, amortisation and impairment					
Plant and equipment		—	—	196	180
Office equipment		—	—	132	130
Furniture and fittings		—	—	29	25
Land improvements (depreciable)		—	—	7	13
Infrastructure:					
– Buildings – non-specialised		—	—	512	483
– Buildings – specialised		—	—	284	281
– Other structures		—	—	6	6
– Roads		—	—	2,424	2,336
– Footpaths		—	—	244	178
– Stormwater drainage		—	—	372	379
– Other open space/recreational assets		—	—	952	896
Other assets					
– Library books		—	—	237	239
– Other		—	—	4	4
Intangible assets	25	—	—	16	16
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		—	—	5,415	5,166

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(e) Other expenses			
Other expenses for the year include the following:			
Advertising		173	200
Bad and doubtful debts		31	49
Bad and doubtful debts parking fines		444	195
Bank charges		176	141
Catering		79	76
Computer software charges		975	877
Contributions/levies to other levels of government			
– Department of Planning levy		201	196
– Local Government NSW		33	25
– NSW Fire Brigade levy		966	959
Councillor expenses – mayoral fee		36	38
Councillor expenses – councillors' fees		126	123
Councillors' expenses (incl. mayor) – other (excluding fees above)		32	38
Donations, contributions and assistance to other organisations (Section 356)		237	269
Electricity and heating ⁽¹⁾		269	429
Equipment maintenance		12	16
Fair value decrements – I,PP&E	9(a)	1,223	–
Fair value decrements – investment properties	14	3,219	–
Insurance		838	781
Leases – photocopiers		98	90
Leases – property		57	50
Postage		82	71
Street lighting ⁽²⁾		127	431
Subscriptions and publications		98	53
Telephone and communications		117	144
Waste disposal and recycling centre		887	808
Water		139	169
Other		239	202
<u>TOTAL OTHER EXPENSES</u>		<u>10,914</u>	<u>6,430</u>

(1) Savings from joint SSROC contract

(2) Maintenance component transferred to Infrastructure Contractors

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2016	Actual 2015
Property (excl. investment property)			
Proceeds from disposal – property		28	–
Less: carrying amount of property assets sold/written off		(13)	–
Net gain/(loss) on disposal		15	–
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(15)	(20)
Net gain/(loss) on disposal		(15)	(20)
Financial assets *			
Proceeds from disposal/redemptions/maturities – financial assets		31,000	19,350
Less: carrying amount of financial assets sold/redeemed/matured		(31,000)	(19,350)
Net gain/(loss) on disposal		–	–
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>–</u>	<u>(20)</u>

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		725	–	70	–
Cash-equivalent assets ¹					
– Deposits at call		–	–	1,090	–
– Short-term deposits		12,000	–	12,000	–
Total cash and cash equivalents		12,725	–	13,160	–
Investments (Note 6b)					
– Long term deposits		2,000	–	–	–
Total investments		2,000	–	–	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		14,725	–	13,160	–

¹ Those investments where time to maturity (from date of purchase) is < 3 mths.

Cash, cash equivalents and investments were classified at year end in accordance with AASB 139 as follows:

Cash and cash equivalents

a. 'At fair value through the profit and loss'		12,725	–	13,160	–
--	--	---------------	----------	---------------	----------

Investments

a. 'Held to maturity'	6(b-i)	2,000	–	–	–
Investments		2,000	–	–	–

Note 6(b-i)

Reconciliation of investments classified as 'held to maturity'

Additions		33,000	–	19,350	–
Disposals (sales and redemptions)		(31,000)	–	(19,350)	–
Balance at end of year		2,000	–	–	–

Comprising:

– Long term deposits		2,000	–	–	–
Total		2,000	–	–	–

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
Total cash, cash equivalents and investments	14,725	–	13,160	–
attributable to:				
External restrictions (refer below)	5,877	–	5,262	–
Internal restrictions (refer below)	6,476	–	5,287	–
Unrestricted	2,372	–	2,611	–
	14,725	–	13,160	–

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

External restrictions – included in liabilities

Nil

External restrictions – other

Developer contributions – general	(D)	3,517	1,518	(690)	4,345
Specific purpose unexpended grants	(F)	309	81	(309)	81
Domestic waste management	(G)	1,436	15	–	1,451
External restrictions – other		5,262	1,614	(999)	5,877
Total external restrictions		5,262	1,614	(999)	5,877

Internal restrictions

Plant and vehicle replacement		140	59	(129)	70
Infrastructure replacement		853	–	(853)	–
Employees leave entitlement		840	139	–	979
Deposits, retentions and bonds		2,000	2,500	–	4,500
IT reserve		157	–	(157)	–
Swim centre		416	163	–	579
Youth film festival unspent contributions		18	–	(18)	–
Youth services IT project reserve		13	–	(13)	–
VPA reserve		850	439	(941)	348
Total internal restrictions		5,287	3,300	(2,111)	6,476
TOTAL RESTRICTIONS		10,549	4,914	(3,110)	12,353

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

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

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

Mosman Council

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

Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		446	122	431	82
Interest and extra charges		19	–	17	–
User charges and fees		1,688	–	1,588	–
Accrued revenues					
– Interest on investments		41	–	27	–
– Other income accruals		1,025	–	1,013	–
Government grants and subsidies		11	–	467	–
Net GST receivable		554	–	446	–
Total		3,784	122	3,989	82
Less: provision for impairment					
User charges and fees		(135)	–	(109)	–
Other debtors		(209)	–	(195)	–
Total provision for impairment – receivables		(344)	–	(304)	–
<u>TOTAL NET RECEIVABLES</u>		<u>3,440</u>	<u>122</u>	<u>3,685</u>	<u>82</u>
Externally restricted receivables					
Domestic waste management		129	–	124	–
Total external restrictions		129	–	124	–
Internally restricted receivables					
Nil					
Unrestricted receivables		3,311	122	3,561	82
TOTAL NET RECEIVABLES		3,440	122	3,685	82

Notes on debtors above:

- (i) Rates and annual charges outstanding are secured against the property.
- (ii) Doubtful rates debtors are provided for where the value of the property is less than the debt outstanding.
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates and charges at 8.50% (2015 8.50%).
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Stores and materials		87	–	78	–
Trading stock		61	–	85	–
Total inventories at cost		148	–	163	–
(ii) Inventories at net realisable value (NRV)					
Nil					
<u>TOTAL INVENTORIES</u>		<u>148</u>	<u>–</u>	<u>163</u>	<u>–</u>
(b) Other assets					
Prepayments		227	–	60	–
<u>TOTAL OTHER ASSETS</u>		<u>227</u>	<u>–</u>	<u>60</u>	<u>–</u>

Externally restricted assets

There are no restrictions applicable to the above assets.

Mosman Council

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

Note 9a. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2015					Asset movements during the reporting period									as at 30/6/2016				
	At cost	At fair value	Accumulated depreciation	impairment	Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Tfrs from/(to) investment properties	Revaluation decrements to P&L	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated depreciation	impairment	Carrying value
Capital work in progress	317	–	–	–	317	194	–	–	–	(106)	–	–	–	–	405	–	–	–	405
Plant and equipment	–	2,018	1,240	–	778	330	53	(17)	(196)	–	–	–	–	–	–	2,023	1,075	–	948
Office equipment	–	975	675	–	300	77	–	–	(132)	–	–	–	–	–	–	1,032	787	–	245
Furniture and fittings	–	332	215	–	117	23	–	–	(29)	–	–	–	–	–	–	354	243	–	111
Art collection	–	4,621	–	–	4,621	–	293	–	–	–	–	–	–	304	–	5,218	–	–	5,218
Land:																			
– Operational land	–	112,190	–	–	112,190	–	–	–	–	–	277	557	–	–	–	113,024	–	–	113,024
– Community land	–	62,159	–	–	62,159	–	–	–	–	–	(277)	–	(1,223)	–	–	60,659	–	–	60,659
Land improvements – depreciable	–	831	154	–	677	46	–	–	(7)	–	(87)	–	–	–	–	735	106	–	629
Infrastructure:																			
– Buildings – non-specialised	–	44,739	17,118	–	27,621	422	32	–	(512)	–	–	211	–	–	–	45,404	17,630	–	27,774
– Buildings – specialised	–	21,799	6,930	–	14,869	183	53	–	(284)	–	(246)	–	–	–	–	21,720	7,145	–	14,575
– Other structures	–	605	229	–	376	–	–	–	(6)	–	(370)	–	–	–	–	–	–	–	–
– Roads	–	207,877	91,554	–	116,323	2,718	596	–	(2,424)	17	–	–	–	–	–	211,208	93,978	–	117,230
– Footpaths	–	15,657	4,453	–	11,204	918	–	–	(244)	–	–	–	–	–	–	16,574	4,696	–	11,878
– Stormwater drainage	–	64,827	14,714	–	50,113	528	–	–	(372)	–	–	–	–	–	–	65,355	15,086	–	50,269
– Other open space/recreational assets	–	37,996	17,260	–	20,736	1,368	105	(11)	(952)	89	703	–	–	8,094	–	46,348	16,216	–	30,132
Other assets:																			
– Heritage collections	–	23	10	–	13	–	–	–	–	–	–	–	–	–	–	23	10	–	13
– Library books	–	2,155	1,339	–	816	227	–	–	(237)	–	–	–	–	–	–	2,377	1,571	–	806
– Other	–	60	9	–	51	–	–	–	(4)	–	–	–	–	–	–	60	13	–	47
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	317	578,864	155,900	–	423,281	7,034	1,132	(28)	(5,399)	–	–	768	(1,223)	8,398	405	592,114	158,556	–	433,963

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Community Land was valued in 2010/11 using the available Valuer General rating values at the time. An average \$/sqm meter figure was applied to significant non-valued parcels. VG has subsequently issued values for most of these parcels less than these estimates

Refer to Note 27. Fair value measurement for information regarding the fair value of other infrastructure, property, plant and equipment.

Mosman Council

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

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

\$ '000

Council has no externally restricted infrastructure, property, plant and equipment.

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

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

Mosman Council

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

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		1,744	–	1,070	–
Goods and services – capital expenditure		2,507	–	1,635	–
Payments received In advance		598	–	436	–
Accrued expenses:					
– Borrowings		36	–	47	–
– Salaries and wages		–	–	517	–
– Other expenditure accruals		–	–	20	–
Security bonds, deposits and retentions		7,069	–	6,045	–
Total payables		11,954	–	9,770	–
Borrowings					
Loans – secured ¹		1,746	5,819	1,913	7,166
Total borrowings		1,746	5,819	1,913	7,166
Provisions					
Employee benefits:					
Annual leave		1,766	–	1,560	–
Long service leave		2,969	159	2,335	286
Sub-total – aggregate employee benefits		4,735	159	3,895	286
Total provisions		4,735	159	3,895	286
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		18,435	5,978	15,578	7,452

(i) Liabilities relating to restricted assets

	2016		2015	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Domestic waste management	129	–	124	–
Current borrowings funded by S94	248	–	235	–
Liabilities relating to externally restricted assets	377	–	359	–
Internally restricted assets				
Nil				
Total liabilities relating to restricted assets	377	–	359	–
Total liabilities relating to unrestricted assets	18,058	5,978	15,219	7,452
TOTAL PAYABLES, BORROWINGS AND PROVISIONS	18,435	5,978	15,578	7,452

¹ Loans are secured over the general rating income of Council

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 15.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

	Actual 2016	Actual 2015
\$ '000		

(ii) Current liabilities not anticipated to be settled within the next twelve months

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	2,788	2,254
Payables – security bonds, deposits and retentions	5,523	5,350
	8,311	7,604

Note 10b. Description of and movements in provisions

Class of provision	2015	2016				Closing balance as at 30/6/16
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Annual leave	1,560	1,282	(1,076)	–	–	1,766
Long service leave	2,621	635	(128)	–	–	3,128
TOTAL	4,181	1,917	(1,204)	–	–	4,894

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2016	Actual 2015
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	12,725	13,160
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		12,725	13,160
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		(1,484)	5,216
Adjust for non-cash items:			
Depreciation and amortisation		5,415	5,166
Net losses/(gains) on disposal of assets		–	20
Non-cash capital grants and contributions		(238)	(185)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment properties		3,219	(2,129)
– Write offs relating to the fair valuation of I,PP&E		1,223	–
Share of net (profits) or losses of associates/joint ventures		(167)	(150)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		165	341
Increase/(decrease) in provision for doubtful debts		40	242
Decrease/(increase) in inventories		15	1
Decrease/(increase) in other assets		(167)	126
Increase/(decrease) in payables		674	(182)
Increase/(decrease) in accrued interest payable		(11)	(9)
Increase/(decrease) in other accrued expenses payable		(537)	517
Increase/(decrease) in other liabilities		1,186	809
Increase/(decrease) in employee leave entitlements		713	142
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		10,046	9,925

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Non-cash investing and financing activities			
Other dedications artworks		238	185
Total non-cash investing and financing activities		238	185
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		90	90
Credit cards/purchase cards		55	55
Total financing arrangements		145	145

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.
Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

(ii) Secured loan liabilities

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

Mosman Council

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

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, plant and equipment			
Infrastructure		–	116
Total commitments		–	116
These expenditures are payable as follows:			
Within the next year		–	116
Total payable		–	116
Sources for funding of capital commitments:			
Internally restricted reserves		–	116
Total sources of funding		–	116

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

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

Within the next year	384	190
Later than one year and not later than 5 years	544	350
Total non-cancellable operating lease commitments	928	540

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

Office Equipment with an average lease term of 3 years.

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

Conditions relating to operating leases:

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

(d) Investment property commitments

Nil

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	871	1.96%	1.70%	0.31%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	44,425			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	41,506	89.56%	88.82%	88.29%
Total continuing operating revenue ⁽¹⁾	46,345			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	12,534	1.29x	1.53x	1.40x
Current liabilities less specific purpose liabilities ^(3, 4)	9,747			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	6,788	2.81x	2.59x	2.38x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	2,416			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	587	2.26%	2.20%	1.55%
Rates, annual and extra charges collectible	25,936			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	14,725	4.25 mths	4.2 mths	3.3 mths
Payments from cash flow of operating and financing activities	3,469			

Notes

⁽¹⁾ Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

⁽³⁾ Refer to Note 10(a).

⁽⁴⁾ Refer to Note 10(a)(ii) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

Mosman Council

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

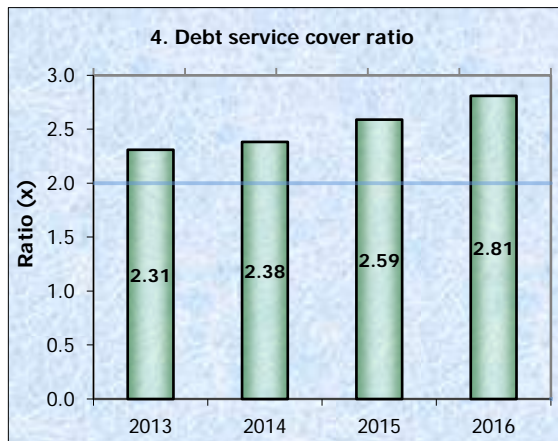
Note 13a(ii). Local government industry indicators – graphs (consolidated)

<p>1. Operating performance ratio</p> <p>Benchmark: — Minimum $\geq 0.00\%$ Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of operating performance ratio</p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 ratio 1.96%</p> <p>Continued improvement demonstrates Council's ability to contain operating expenditure within operating revenue. By this measure Council is Fit for the Future despite deficit result caused by one-off asset decrements</p>
<p>2. Own source operating revenue ratio</p> <p>Benchmark: — Minimum $\geq 60.00\%$ Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of own source operating revenue ratio</p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 ratio 89.56%</p> <p>A moderate improvement is noted in Council's own source income ratio. The ratio comfortably exceeds the Office of Local Government's (OLG) benchmark.</p>
<p>3. Unrestricted current ratio</p> <p>Benchmark: — Minimum ≥ 1.50 Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of unrestricted current ratio</p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 ratio 1.29x</p> <p>The 2015 ratio was unusually high due to one-off factors. Much of the cash held at that time was revoted for expenditure in 2016. The ratio stands at a level close to that forecast in the Long Term Financial Plan. In that Plan the ratio is forecast to meet benchmark in FY 2023</p>

Mosman Council

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

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

Benchmark: — Minimum ≥ 2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of debt service cover ratio

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

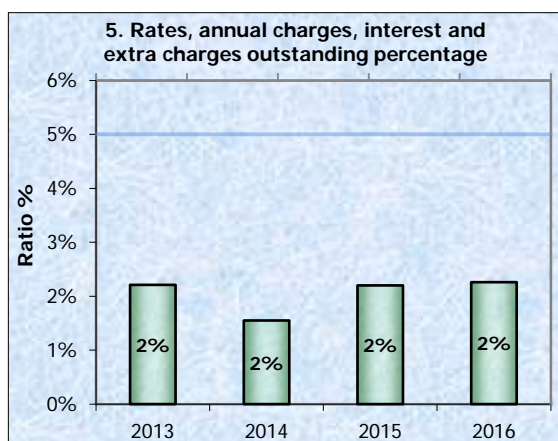
Commentary on 2015/16 result**2015/16 ratio 2.81x**

In the reporting period Council took out one new \$400k loan while greater amounts off existing loans.



Ratio achieves benchmark

Ratio is outside benchmark

Benchmark: — Maximum $< 5.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of rates and annual charges outstanding ratio

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

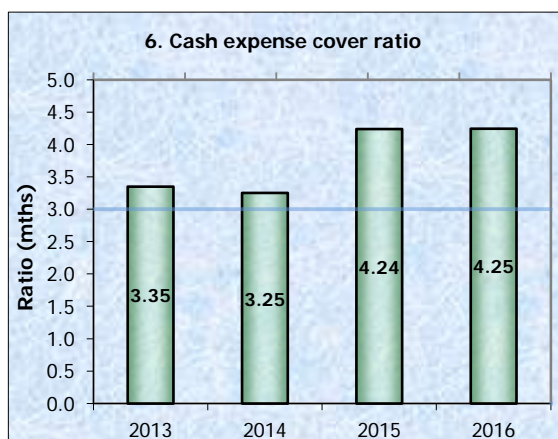
Commentary on 2015/16 result**2015/16 ratio 2.26%**

Council continues to maintain a ratio well within the OLG benchmark and is amongst the lowest in NSW



Ratio is within Benchmark

Ratio is outside Benchmark

Benchmark: — Minimum ≥ 3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of cash expense cover ratio

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

Commentary on 2015/16 result**2015/16 ratio 4.25 mths**

No substantial change on the prior reporting year. The ratio meets the relevant benchmark.



Ratio achieves benchmark

Ratio is outside benchmark

Mosman Council

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

Note 14. Investment properties

\$ '000	Notes	Actual 2016	Actual 2015
(a) Investment properties at fair value			
<u>Investment properties on hand</u>		<u>44,963</u>	<u>48,950</u>
Reconciliation of annual movement:			
Opening balance		48,950	46,821
– Net gain/(loss) from fair value adjustments		(3,219)	2,129
– Transfers from/(to) owner occupied (Note 9)		(768)	–
CLOSING BALANCE – INVESTMENT PROPERTIES		44,963	48,950

(b) Valuation basis

The basis of valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2016 revaluations were based on independent assessments made by:
Scott Fullarton Valuations Pty Ltd Registered Valuer No. 2144

Significant decrement was due to valuer reassessing the impact of heritage listing on Bathers Pavilion and the usage of Boronia House. The decrement does not effect the rental income Council has from the sites or its policies on the use of the sites.

(c) Contractual obligations at reporting date

Refer to Note 12 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements

Details of leased investment properties are as follows;

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	1,538	1,744
Later than 1 year but less than 5 years	2,214	3,449
Later than 5 years	266	550
Total minimum lease payments receivable	4,018	5,743

Council links leases to market reviews and the Sydney All Groups CPI. Leases of retail premises have historically been granted on a three plus three year basis while the restaurant premises are a longer term of between 10 and 21 years, although there are exceptions due to extenuating circumstances.

The short term leases provide for rent reviews by CPI annually and to market in the first year of the term of the lease or term pursuant to exercise of an option (that is every three years). The longer term leases for the restaurants provide for market and CPI reviews every year on an alternate basis.

Mosman Council

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

Note 14. Investment properties (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(e) Investment property income and expenditure – summary			
Rental income from investment properties:			
– Minimum lease payments		1,913	1,800
Direct operating expenses on investment properties:			
– that generated rental income		(215)	(271)
Net revenue contribution from investment properties		1,698	1,529
plus:			
Fair value movement for year		(3,219)	2,129
Total income attributable to investment properties		(1,521)	3,658

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

Note 15. Financial risk management

Risk management

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

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	12,725	13,160	12,725	13,160
Investments				
– 'Held to maturity'	2,000	–	2,000	–
Receivables	3,562	3,767	3,562	3,767
Total financial assets	18,287	16,927	18,287	16,927
Financial liabilities				
Payables	11,356	9,334	11,356	9,334
Loans/advances	7,565	9,079	7,565	9,079
Total financial liabilities	18,921	18,413	18,921	18,413

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

Fair value (for the table on the previous page) is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity** investments – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Refer to Note 27. Fair value measurement for information regarding the fair value of financial assets and liabilities.

(a) Cash & Cash Equivalents, Financial assets 'at fair value through the profit & Loss' "Available-for-sale" financial assets & "Held-to-maturity" Investments

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

Council has an investment policy which complies with the *Local Government Act 1993* and Minister's investment order. This policy is regularly reviewed by Council and it's staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

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

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

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2016				
Possible impact of a 1% movement in interest rates	140	140	(140)	(140)
2015				
Possible impact of a 1% movement in interest rates	132	132	(100)	(100)

Mosman Council

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

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

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

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

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

		2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		100%	100%	100%	100%
		100%	100%	100%	100%
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables				
Current	Current	–	2,323	–	2,015
< 1 year overdue	0 – 30 days overdue	568	570	513	788
2 – 5 years overdue	60 – 90 days overdue	–	186	–	313
> 5 years overdue	> 90 days overdue	–	259	–	442
		568	3,338	513	3,558
(iii) Movement in provision for impairment of receivables				2016	2015
Balance at the beginning of the year				304	62
+ new provisions recognised during the year				45	251
– amounts already provided for and written off this year				(17)	(8)
– amounts provided for but recovered during the year				12	(1)
Balance at the end of the year				344	304

Mosman Council

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

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2016									
Trade/other payables	7,069	4,287	–	–	–	–	–	11,356	11,356
Loans and advances	–	1,746	1,225	1,145	1,146	882	1,421	7,565	7,565
Total financial liabilities	7,069	6,033	1,225	1,145	1,146	882	1,421	18,921	18,921
2015									
Trade/other payables	6,045	3,289	–	–	–	–	–	9,334	9,334
Loans and advances	–	1,913	1,713	1,190	1,109	1,109	2,045	9,079	9,079
Total financial liabilities	6,045	5,202	1,713	1,190	1,109	1,109	2,045	18,413	18,413

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

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

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	11,356	0.00%	9,334	0.00%
Loans and advances – fixed interest rate	7,565	6.05%	9,079	6.29%
	<u>18,921</u>		<u>18,413</u>	

Mosman Council

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

Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 02 June 2015.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2016 Budget	2016 Actual	2016 Variance* -----		
REVENUES					
Rates and annual charges	25,273	25,354	81	0%	F
User charges and fees	10,518	10,755	237	2%	F
Interest and investment revenue	425	526	101	24%	F
Late finishing works and ongoing large holdings of Bonds and Deposits contributed to larger than expected cash balances and therefore interest income.					
Other revenues	4,432	4,871	439	10%	F
Parking Fines income \$187k over budget due to unseasonal warm Autumn weather. Unbudgeted income from Kimbriki Investment \$106k.					
Operating grants and contributions	2,119	2,919	800	38%	F
Childcare Benefit Grants budgeted in User Fees but classified Grants \$168k. LIRS interest subsidy budgeted in Borrowing Costs expenses but correctly classified Operating Grants \$71k. "Windfall" off-grants for Community Services \$130k. Higher than expected RMS Operating Contributions \$20k. Roads to Recovery grant \$315k was budgeted as Capital Grant but is now correctly recognised as an Operating Grant.					
Capital grants and contributions	1,780	1,920	140	8%	F
Joint ventures and associates - net profits	–	167	167	0%	F

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 Variance* -----	
EXPENSES				
Employee benefits and on-costs	17,227	16,874	353	2% F
Borrowing costs	431	502	(71)	(16%) U
\$71k LIRS interest subsidy (Grant Income) net-budgeted as borrowing costs. This has been changed for 16/17 budget.				
Materials and contracts	13,897	14,291	(394)	(3%) U
Depreciation and amortisation	5,387	5,415	(28)	(1%) U
Other expenses	5,728	10,914	(5,186)	(91%) U
Unbudgeted revaluation decrements have been recognised. \$1,223k decrement to Community Land due to Valuer General reassessing values due to zoning. This physical character of the land has not changed and its use in service delivery is unchanged. \$3,217 decrement to Investment Properties due to professional valuer reassessing impact of heritage listing on Bather's Pavilion and usage of Boronia site. Rental income and use of sites not affected				
Joint ventures and associates – net losses	–	–	–	0% F

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

Cash flows from operating activities	7,855	10,046	2,191	27.9% F
Unbudgeted net inflow of \$1,024k from Bonds and Deposits. Grants and Contributions exceed budget by \$1,062k for reasons outlined above at Grant Income, Income Statement positive variance				
Cash flows from investing activities	(6,260)	(8,967)	(2,707)	43.2% U
This is due to Council holding two \$1M dollar term deposits at 30 June which are classified as investments rather than cash equivalent. Also Council's capital budget was increased during the year by revotes and quarterly reviews.				
Cash flows from financing activities	(1,628)	(1,514)	114	(7.0%) F

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 17. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Open space	68	–	–	–	(68)	–	–	–
S94 contributions – under a plan	68	–	–	–	(68)	–	–	–
S94A levies – under a plan	3,449	1,409	–	109	(622)	–	4,345	–
Total S94 revenue under plans	3,517	1,409	–	109	(690)	–	4,345	–
Total contributions	3,517	1,409	–	109	(690)	–	4,345	–

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Open space	68	–	–	–	(68)	–	–	–
Total	68	–	–	–	(68)	–	–	–

S94A LEVIES – UNDER A PLAN

CONTRIBUTION PLAN - OPEN SPACE & CAR PARKING

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Open space	3,449	1,409	–	109	(622)	–	4,345	–
Total	3,449	1,409	–	109	(622)	–	4,345	–

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

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

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

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

(iv) Other guarantees

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

Mosman Council

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

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other liabilities

(i) Third party claims

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

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

(ii) S94 plans

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

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

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

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

ASSETS NOT RECOGNISED:

(i) Land under roads

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities

\$ '000

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

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

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

Controlled entities (subsidiaries)

Note 19(a)

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

Joint ventures and associates

Note 19(b)

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

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

Joint operations

Note 19(c)

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

Unconsolidated structured entities

Note 19(d)

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

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

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

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

	Council's share of net income		Council's share of net assets	
	Actual	Actual	Actual	Actual
	2016	2015	2016	2015
Joint ventures	(15)	(3)	24	39
Associates	182	153	874	753
Total	167	150	898	792

Mosman Council

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

Note 19. Interests in other entities (continued)

\$ '000

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

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

(b) Joint ventures and associates

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

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2016	2015
Kimbriki Environmental Enterprises P/L	Associate	Equity	874	753
Shorelink Library Network	Joint Venture	Equity	24	39
Total carrying amounts – material joint ventures and associates			898	792

(b) Details

Name of entity	Principal activity	Place of business
Kimbriki Environmental Enterprises P/L	Waste Management and Disposal	Terry Hills, NSW
Shorelink Library Network	Sharing of Library Infrastructure	North Sydney, NSW

(c) Relevant interests and fair values

Name of entity	Interest in outputs		Interest in ownership		Proportion of voting power	
	2016	2015	2016	2015	2016	2015
Kimbriki Environmental Enterprises P/L		4%		4%	25%	25%
Shorelink Library Network	12%	13%	17%	17%	20%	20%

Mosman Council

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

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates (continued)

(d) Summarised financial information for joint ventures and associates

	Kimbriki Environmental Enterprises P/L		Shorelink Library Network	
	2016	2015	2016	2015
Statement of financial position				
Current assets				
Cash and cash equivalents	1,729	4,403	220	296
Other current assets	17,420	17,730	–	–
Total current assets	19,149	22,133	220	296
Non-current assets	14,708	7,265	6	15
Current liabilities				
Other current liabilities	6,879	5,307	87	82
Total current liabilities	6,879	5,307	87	82
Non-current liabilities	4,217	4,480	–	–
Net assets	22,761	19,611	139	229
Reconciliation of the carrying amount				
Opening net assets (1 July)	19,611	16,432	229	251
Profit/(loss) for the period	4,743	3,983	(90)	(22)
Dividends paid	(1,593)	(804)	–	–
Closing net assets	22,761	19,611	139	229
Council's share of net assets (%)	3.8%	3.8%	17.1%	17.0%
Council's share of net assets (\$)	874	753	24	39
Statement of comprehensive income				
Income	36,672	31,584	615	608
Interest income	384	406	5	–
Depreciation and amortisation	(515)	(458)	–	(17)
Other expenses	(31,798)	(27,549)	(708)	(613)
Profit/(loss) for period	4,743	3,983	(88)	(22)
Total comprehensive income	4,743	3,983	(88)	(22)
Share of income – Council (%)	3.8%	3.8%	11.9%	13.0%
Profit/(loss) – Council (\$)	182	153	(10)	(3)
Profit/(loss) due to change interest in outputs	–	–	(5)	–
Total comprehensive income – Council (\$)	182	153	(15)	(3)
Dividends received by Council	61	31	–	–

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates (continued)

(e) The nature and extent of significant restrictions relating to joint ventures and associates

Council has no day to day access to cash or investments of either entity. Council, as a shareholder, participates in cash dividends as declared by Kimbriki's Board. All interactions with Kimbriki P/L are regulated by the Kimbriki Shareholder Agreement

Shorelink is a committee formed under Section 355 of the *Local Government Act* NSW 1993. Interactions are governed by a deed of agreement. Shorelink does not generate positive cash flows and relies on annual cash contributions from member Councils

(c) Joint operations

Council has no interest in any joint operations.

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

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

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		296,019	290,803
a. Net operating result for the year		(1,484)	5,216
Balance at end of the reporting period		<u>254,006</u>	<u>255,490</u>

(b) Revaluation reserves

(i) Reserves are represented by:

– Infrastructure, property, plant and equipment revaluation reserve	220,349	211,951
Total	<u>220,349</u>	<u>211,951</u>

(ii) Reconciliation of movements in reserves:

Infrastructure, property, plant and equipment revaluation reserve

– Opening balance	211,951	211,202
– Revaluations for the year	9(a) 8,398	749
– Balance at end of year	<u>220,349</u>	<u>211,951</u>
TOTAL VALUE OF RESERVES	<u>220,349</u>	<u>211,951</u>

(iii) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

- The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrement of non-current asset values due to their revaluation.

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

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

(d) Voluntary changes in accounting policies

Council changed the valuation method for Community Land in the current reporting period. Prior valuations relied heavily on a calculated \$/sqm figure for parcels with no Valuer General rating valuation. The Valuer General subsequently issued values for most of these parcels and these have replaced \$/sqm calculations. The effect is a \$40,529k reduction in the measured values. As Council can not deal in this land (it is Crown Land) and the land's characteristics remain unchanged there is no real effect on Council's financial sustainability or service delivery.

In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above changes in accounting policy have been recognised retrospectively.

These amounted to the following equity adjustments:

	2016	2015
– Adjustments to opening equity – 1/7/15 (relating to adjustments for the 30/6/14 reporting year end and prior periods)	(40,529)	–
Total prior period adjustments – accounting policy changes	<u>(40,529)</u>	<u>–</u>

Mosman Council

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

Note 21. Financial result and financial position by fund

\$ '000

Council utilises only a general fund for its operations.

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

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

Note 23. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2016) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

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

Accordingly, the 'authorised for issue' date is 09/09/16.

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

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

These financial statements (and the figures therein) incorporate all 'adjusting events' that provided evidence of conditions that existed at 30 June 2016.

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

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2016 and which are only indicative of conditions that arose after 30 June 2016.

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

Note 24. Discontinued operations

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

Mosman Council

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

Note 25. Intangible assets

	Actual 2016	Actual 2015
\$ '000		
Intangible assets represent identifiable non-monetary assets without physical substance.		
Intangible assets are as follows:		
Opening values:		
Gross book value (1/7)	392	392
Accumulated amortisation (1/7)	(94)	(78)
Accumulated impairment (1/7)	–	–
Net book value – opening balance	298	314
Movements for the year		
– Amortisation charges	(16)	(16)
Closing values:		
Gross book value (30/6)	392	392
Accumulated amortisation (30/6)	(110)	(94)
Accumulated impairment (30/6)	–	–
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE 1</u>	<u>282</u>	<u>298</u>

¹. The net book value of intangible assets represent:

– Rights to participate in Kimbriki Environmental Enterprises Pty Ltd.	282	298
	282	298

Note 26. Reinstatement, rehabilitation and restoration liabilities

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

Mosman Council

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

Note 27. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- Investment property

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

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

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

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

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

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

Fair value measurements		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Investment properties					
Retail, commercial office and residential	30/06/16	—	—	44,963	44,963
Total investment properties		—	—	44,963	44,963
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	—	—	948	948
Office equipment	30/06/16	—	—	245	245
Furniture and fittings	30/06/16	—	—	111	111
Art collection	30/06/16	—	—	5,218	5,218
Operational land	30/06/13	—	—	113,024	113,024
Community land	30/06/16	—	—	60,659	60,659
Land improvements – depreciable	30/06/16	—	—	629	629
Buildings non-specialised	30/06/13	—	—	27,774	27,774
Buildings specialised	30/06/13	—	—	14,575	14,575
Roads	30/06/15	—	—	117,230	117,230
Footpaths	30/06/15	—	—	11,878	11,878
Stormwater drainage	30/06/13	—	—	50,269	50,269
Other open space/recreational assets	30/06/16	—	—	30,132	30,132
Heritage collections	30/06/16	—	—	13	13
Library books	30/06/16	—	—	806	806
Other assets	30/06/16	—	—	47	47
Total infrastructure, property, plant and equipment		—	—	433,558	433,558

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2015		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Investment properties					
Retail, commercial office and residential	30/06/16	—	—	48,950	48,950
Total investment properties		—	—	48,950	48,950
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/15	—	—	778	778
Office equipment	30/06/15	—	—	300	300
Furniture and fittings	30/06/15	—	—	117	117
Art collection	25/10/12	—	—	4,621	4,621
Operational land	30/06/13	—	—	112,190	112,190
Community land	1/07/11	—	—	62,159	62,159
Land improvements – depreciable	30/06/14	—	—	677	677
Buildings non-specialised	30/06/13	—	—	27,621	27,621
Buildings specialised	30/06/13	—	—	14,869	14,869
Other structures	30/06/11	—	—	376	376
Roads	30/06/15	—	—	116,323	116,323
Footpaths	30/06/15	—	—	11,204	11,204
Stormwater drainage	30/06/13	—	—	50,113	50,113
Other open space/recreational assets	30/06/11	—	—	20,736	20,736
Heritage collections	30/06/14	—	—	13	13
Library books	30/06/14	—	—	816	816
Other assets	30/06/14	—	—	51	51
Total infrastructure, property, plant and equipment		—	—	422,964	422,964

(2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

(3) Valuation techniques used to derive Level 2 and Level 3 Fair Values

Where Council is unable to derive Fair Valuations using quoted market prices of identical assets (i.e. Level 1 inputs), Council instead utilises a spread of both observable inputs (Level 2 inputs) and unobservable inputs (Level 3 inputs).

For all infrastructure assets Council uses a straight line pattern of consumption and brownfield approach.

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

Investment Properties

Council obtains independent valuations of its investment property on an annual basis and at the end of each reporting period to ensure the financial statements reflect the most up-to-date valuation. The best evidence of fair value is the current price in an active market for similar assets. The key observable inputs to the valuation are:

- Current rental incomes,
- Rent reviews,
- Capitalisation rates,
- Price per square meter,
- Direct comparison to sales evidence,
- Zoning,
- Location,
- Land area and configuration, and
- Planning controls.

The assessment of the independent valuer is that the potential impact on value, due to unobservable market inputs, is considered to be 5%.

The fair value of the investment property is determined by an independent, qualified valuer on an annual basis who has experience in the location of the property. The Council reviews the valuation report and discusses significant movements with the valuer. As at 30 June 2016 the valuation of the investment property was performed by Scott Fullarton Valuations Pty Ltd, Director Scott Fullarton, FAPI, Certified Practicing Valuer, Registered Valuer No. 2144.

There has been no change in the valuation process during the reporting period.

Infrastructure, Property, Plant & Equipment

Plant and Equipment, Office Equipment and Furniture and Fittings.

Plant and Equipment, Office Equipment and Furniture and Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows:

- Plant and Equipment: Motor vehicles, depot tools and machinery, parking meters and domestic waste service bins.
- Office Equipment: Computer Hardware.
- Furniture and Fittings: Chairs, desks and display systems.

The key unobservable input to the valuation is the remaining useful life. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

the pattern of consumption and estimated remaining useful life. There has been no change to the valuation process during the reporting period.

Art Collection

This class comprises Council's collection of art works. The collection was valued in June 2016 by Stella Downer Fine Art. Stella Downer is a member of the Australian Commercial Galleries association and is approved by the Department of Prime Minister and Cabinet's Cultural Gifts Program to value art works.

While it is possible to observe the broad market for works (such as auction house results or retrospective exhibitions) the valuations depend significantly on unobservable inputs such as the aesthetic value and quality of the individual works and its significance in the individual artist's oeuvre.

Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. The last valuation was undertaken at 30 June 2013 and was performed by Scott Fullarton Valuations Pty Ltd, Director Scott Fullarton, FAPI, Certified Practicing Valuer, Registered Valuer No. 2144.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal.

There has been no change to the valuation process during the reporting period.

Community Land

Valuations of all Council's Community Land and Council managed land are based on either the land value provided by the Valuer-General or an average unit rate based on the land value for similar properties where the Valuer-General did not provide a land value having regard to the highest and best use for this land. As these rates were not considered to be observable market evidence they have been classified as Level 3.

When this method was first employed for the 2010/11 Financial Statements the Valuer General had not issued values on the majority of the Community Land class. The Valuer General has subsequently issued values for most of this land at amounts significantly less than the unit rate previously estimated. There has therefore been a significant decrement to this asset class.

Land Improvements – Depreciable

This asset class largely comprises trees, plantings and landscaping not captured in the Open Space and Recreational Assets class. These assets may be located on parks, reserves and also within road reserves.

These assets are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of estimated remaining useful life.

There has been no change to the valuation process during the reporting period.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Buildings: Non-Specialised and Specialised

Buildings were valued by Scott Fullarton Valuations Pty Ltd in June 2013 using the cost approach. The approach estimated the replacement cost for each building by componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While all buildings were physically inspected and the unit rates based on square metres could be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption) required extensive professional judgement and impacted significantly on the final determination of fair value.

Inputs include:

- Gross replacement cost,
- A breakdown of building component costs (such as structure, equipment, fittings and finishes),
- Useful lives, and
- Conditions

As such these assets were classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Typical useful lives and unit rates (includes overheads):

Buildings Asset Component	Average Useful Life (Years)	Average Unit Rate
Amenities/Public Toilets – Structure	78	\$110,323/each
Council Offices – Structure	95	\$5,490,030/each
Amenities/Public Toilets – Roof	50	\$40,509/each
Childcare Centres – Roof	47	\$97,600/each
Multistorey Carparks – Services	20	\$1,032,200/each
Community and Cultural Centres – Fixtures and Fittings	20	\$249,709/each

Public Roads, Footpaths and Carparks

Includes: Road pavements and formations, steps, footpaths, pram ramps and vehicle crossings, retaining walls and kerb and gutter, physical traffic devices, lines and signs and street furniture and road related carparks.

Gross replacement cost for Mosman road assets were valued by Complete Urban Pty Ltd as at 30 June 2010. The condition and useful lives of the assets were assessed and calculated by Complete Urban based on site observations.

An initial generic infrastructure deterioration profile was developed from limited available asset data and relevant asset management/industry information and was used to assess the rate of deterioration, remaining useful life and renewal intervention of Mosman road assets. The profile was based on the assumption that infrastructure assets generally deteriorate slightly more rapidly in its initial years after construction, with deterioration becoming reasonably constant over its mid-life, and finally deteriorating reasonably rapidly in the latter period of its life. Unit rate costs for various brownfield construction works to provide asset components were estimated based Council's Civil Works contract current at that time.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Fair values have been generated every subsequent financial year based on the cost approach, 'straight line' pattern of consumption and the gross replacement cost calculated by Complete Urban, with the exception of the following changes in the valuation process:

Assets identified by Complete Urban as requiring priority renewal were inspected by Council staff in 2012 and 2013 to verify accuracy of remaining life estimates. Useful lives were reevaluated based on site observations and professional engineering judgment.

Unit rates were refined in 2012 using Council's updated Civil Works contract so as to reflect market rates current at the time,

For the reporting period of 2011/12, a 1% per annum depreciation was applied across all road assets. This was endorsed by the Asset Management Reference Group and Council Audit Committee.

In this reporting period, condition inspections were carried out on the following road asset types to verify asset remaining useful life:

- Road Pavements
- Footpaths and Steps
- Kerb and Gutter
- Retaining Walls
- Street Furniture
- Physical Traffic Devices
- Lines and Signs

Further the unit rates where applicable for roads assets were also updated to reflect the new 2015 'SHOROC – Minor Capital Works' Contract.

This process was peer reviewed and endorsed by AMCL Pty Ltd and resulted in some of the useful life values being updated to reflect current asset performance.

Typical useful lives and unit rates (includes overheads):

Public Road and Footpath Asset Component	Useful Life (Years)	Unit Rate
Concrete Road Pavement (Reinforced 200mm thick)	120	\$181.00/m ²
Asphalt Road Pavement	50	\$82.00/m ²
Sandstone Kerb & Gutter	100	\$295/m
Concrete Roundabout	40	\$360/m ²
Gabion Retaining Wall	150	630/m ²
Double Barrier Line	5	\$0.72/m
'Warning' Traffic Sign	25	\$141.75/ each
Concrete Footpath (75 mm thick)	95	\$73.90/m ²
Asphalt Footpath (25 mm thick)	40	\$36.58/m ²

Carpark Asset Component	Useful Life (Years)	Unit Rate
Lane and parking space line marking	5	\$1.03/m
Pay and Display	20	\$8,600.00/each
Kerb Wheelstops	15	\$160.00/m

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Stormwater Drainage

Includes: Converters, headwalls, endwalls, pits and access-holes (collectively categorised as 'nodes'), pipes, culverts, drains, Stormwater Quality Improvement Devices (SQIDs) and rainwater re-use tanks.

Gross replacement cost for stormwater drainage assets were valued by Cardno (NSW/ACT) Pty Ltd as at 30 June 2013. The condition and useful lives of the assets were assessed and calculated by Cardno based on site observations, including CCTV surveys, and Cardno's experience in valuation projects for various Australian water utilities.

It has been assumed that relining would be the principle method of renewing pipes, rather than replacing the whole section as no collapsed or significantly deformed pipes were found during CCTV inspections. This new method of pipe renewal allows for the replacement costs of the pipes to be 'optimised' downwards

SQID unit rates were developed based on first principles estimating and takes into account excavation, site establishment as well as the supply and installation costs. It also includes an additional 20% to the base unit rate to allow for 'normal' construction and installation overheads.

Drains are also valued directly from first principles estimating. There is no single unit rate applied as each drain contains different dimensions. Fair value has been generated this financial year based on the cost approach and the gross replacement cost calculated by Cardno.

In this reporting period, stormwater pipes were updated to reflect the requirements of AASB in regards to residual values.

Stormwater Drainage Asset Component	Useful Life (Years)	Unit Rate
Stormwater Quality Improvement Devices (Model Type: Rocla Cleansall 1200)	100	\$208,641.03/each
Concrete Pipe (375mm diameter, 0-1m length) based on trenching method	125	\$439.92/m
Concrete Pipe (375mm diameter) based on relining method	125	\$336/m
Converter (600mm length)	100	\$734/each
Kerb Inlet Pit (450mmx450mm, 1 m depth)	100	\$1,546/each
Rainwater Re-use Tank	80	Average \$624,739.00/each

Other Open Space/Recreational Assets

Includes:

- Jetties and seawalls (collectively categorised as 'marine assets'),
- Parks, bushlands, reserves, playgrounds, unmade roads and sporting fields (collectively categorised as 'parks and open space assets')

Gross replacement cost for marine assets were valued by Opus International Consultants (NSW) Pty Ltd as at 30 June 2011, in accordance with accepted Australian Accounting Practices. The condition and useful lives of the assets were assessed and calculated by Opus personnel based on site observations, including diving inspections. In this reporting period, condition inspections were carried on all Marine Assets and the useful lives were updated to reflect current asset performance. The gross replacement costs were increased by CPI for the period 2011 - 2016.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

Unit rates for marine assets were estimated using Rawlinson's Estimation Handbook Edition 28 (2010). These rates were then compared with the contract rates provided by Council and market rate benchmarks. Where contract rates were not available, market rates were established from market reference published rates and industry knowledge. An overhead factor was applied to all replacement cost unit rates that were estimated to allow for supervision, design and site establishment fee components of replacing service provision. Unit rates were updated in 2016 to reflect the current contracts.

Gross replacement cost for Mosman parks and open space assets were valued by Complete Urban Pty Ltd as at 30 June 2011. The condition and useful lives of the assets were assessed and calculated by Complete Urban and suitably qualified Council staff based on site observations, officer knowledge and history of local issues. Unit rates for parks and open space assets were estimated based on Complete Urban's industry experience. In this reporting period, condition inspections were carried on all Open Space Assets. Useful lives were updated to reflect current asset performance. The gross replacement costs were increased by CPI for the period 2011 - 2016 where current contract rates were not available.

Fair values for Open Space/Recreational assets have been generated every subsequent financial year based on the cost approach and the gross replacement cost calculated by Opus and Complete Urban.

In this reporting period, biodiversity, gardens, lawns, outfields and turf wickets were removed from the depreciation model to be consistent with assets of a similar nature. This change was documented in the Audit Committee report of 16 July 2015.

Typical useful lives and unit rates (includes overheads):

Open Space/Recreational and Other Structures Asset Component	Useful Life (Years)	Unit Rate
Timber Deck	40	\$200/m ²
Concrete Deck	60	\$550/m ²
Concrete/Sandstone Seawall	50	Varies \$1,000 - \$2,500/m
Steel Turning Board	18	\$55,000/each
Irrigation	30	\$8/m ²
Softfall	5	\$49.5/m ²
Cenotaph	200	\$88,000/each
Dinghy Racks	20	\$16,500/each

Heritage Collections and Library Books

Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption and estimated remaining useful life.

There has been no change to the valuation process during the reporting period.

Other Assets

Other assets are banner poles erected on Military Road and side streets. They are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. The key unobservable input to the valuation is the remaining useful life. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption and estimated remaining useful life. There has been no change to the valuation process during the reporting period.

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Plant and equipment	Office equipment	Furniture and fittings	Art collection	Total
Opening balance – 1/7/14	667	353	95	4,401	5,516
Purchases (GBV)	105	77	47	220	449
Depreciation and impairment	(180)	(130)	(25)	–	(335)
Other movement (transfers from WIP)	186	–	–	–	186
Closing balance – 30/6/15	778	300	117	4,621	5,816
Purchases (GBV)	383	77	23	293	776
Disposals (WDV)	(17)	–	–	–	(17)
Depreciation and impairment	(196)	(132)	(29)	–	(357)
FV gains – Income Statement ¹	–	–	–	304	304
Closing balance – 30/6/16	948	245	111	5,218	6,522

	Operational land	Community land	Land improve- ments depreciable	Buildings non- specialised	Total
Opening balance – 1/7/14	112,190	62,159	675	27,186	202,210
Purchases (GBV)	–	–	15	859	874
Disposals (WDV)	–	–	–	(20)	(20)
Depreciation and impairment	–	–	(13)	(483)	(496)
Other movement (transfers from WIP)	–	–	–	79	79
Closing balance – 30/6/15	112,190	62,159	677	27,621	202,647
Transfers from/(to) another asset class	834	(277)	(87)	211	681
Purchases (GBV)	–	–	46	454	500
Depreciation and impairment	–	–	(7)	(512)	(519)
Other movement (FV Decrements to Income Statment)	–	(1,223)	–	–	(1,223)
Closing balance – 30/6/16	113,024	60,659	629	27,774	202,086

Mosman Council

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

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Buildings specialised	Other structures	Roads	Footpaths	Total
Opening balance – 1/7/14	15,080	382	112,103	14,597	142,162
Purchases (GBV)	70	–	2,289	303	2,662
Depreciation and impairment	(281)	(6)	(2,336)	(178)	(2,801)
FV gains – other comprehensive income	–	–	4,267	(3,518)	749
Closing balance – 30/6/15	14,869	376	116,323	11,204	142,772
Transfers from/(to) another asset class	(246)	–	17	–	(229)
Purchases (GBV)	236	(370)	3,314	918	4,098
Depreciation and impairment	(284)	(6)	(2,424)	(244)	(2,958)
Closing balance – 30/6/16	14,575	–	117,230	11,878	143,683

	Stormwater drainage	Other open space recreational	Heritage collections	Library books	Total
Opening balance – 1/7/14	50,132	21,228	13	843	72,216
Purchases (GBV)	360	404	–	212	976
Depreciation and impairment	(379)	(896)	–	(239)	(1,514)
Closing balance – 30/6/15	50,113	20,736	13	816	71,678
Transfers from/(to) another asset class	–	792	–	–	792
Purchases (GBV)	528	1,473	–	227	2,228
Disposals (WDV)	–	(11)	–	–	(11)
Depreciation and impairment	(372)	(952)	–	(237)	(1,561)
FV gains – other comprehensive income	–	8,094	–	–	8,094
Closing balance – 30/6/16	50,269	30,132	13	806	81,220

	Other assets	Total
Opening balance – 1/7/14	55	55
Depreciation and impairment	(4)	(4)
Closing balance – 30/6/15	51	51
Depreciation and impairment	(4)	(4)
Closing balance – 30/6/16	47	47

Mosman Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 27. Fair value measurement (continued)

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

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

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

I,PP&E

Class	Fair value (30/6/16) \$'000	Valuation technique/s	Unobservable inputs
Plant and equipment	948	Cost approach	<ul style="list-style-type: none"> Gross replacement cost. Remaining useful life.
Office equipment	245	Cost approach	<ul style="list-style-type: none"> Gross replacement cost. Remaining useful life.
Furniture and fittings	111	Cost approach	<ul style="list-style-type: none"> Gross replacement cost. Remaining useful life.
Art collection	5,218	Cost approach	<ul style="list-style-type: none"> Aesthetic value and quality of the work. Significance of a piece in the artist's oeuvre. Recent auction house results. Survey of retrospective exhibitions.
Operational land	113,024	Cost approach	<ul style="list-style-type: none"> Price per square metre
Community land	60,659	Cost approach	<ul style="list-style-type: none"> Unimproved capital value (price per square metre)
Land improvements-depreciable	629	Cost approach	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life
Buildings non-specialised	27,774	Cost approach	<ul style="list-style-type: none"> Gross replacement cost % Breakdown of building component groups Useful life Condition

Mosman Council

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

Note 27. Fair value measurement (continued)

Class	Fair value (30/6/16) \$'000	Valuation technique/s	Unobservable inputs
Buildings specialised	14,575	Cost approach	<ul style="list-style-type: none"> • Gross replacement cost • % Breakdown of building component groups • Useful life • Condition
Roads and footpaths	129,108	Cost approach	<ul style="list-style-type: none"> • Gross replacement cost • Useful life • Condition
Stormwater drainage	50,269	Cost approach	<ul style="list-style-type: none"> • Gross replacement cost • Useful life • Condition
Other open space / recreational assets	30,132	Cost approach	<ul style="list-style-type: none"> • Gross replacement cost • Useful life • Condition
Library books and heritage collections	819	Cost approach	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Useful life
Other assets	47	Cost approach	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life

(5). Highest and best use

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

Mosman Council

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

Note 28. Council information and contact details

Principal place of business:

Civic Centre

Mosman Square, Spit Junction, 2088

Contact details
Mailing address:

PO Box 211

SPIT JUNCTION NSW 2088

Opening hours:

Monday to Friday 8.30 am to 5pm

Telephone: 02 9978 4000

Facsimile: 02 9978 4132

Internet: www.mosman.nsw.gov.au

Email: council@mosman.nsw.gov.au

Officers
ACTING GENERAL MANAGER

D Johnson

RESPONSIBLE ACCOUNTING OFFICER

G Mills

PUBLIC OFFICER

M Glyde

AUDITORS

Hill Rogers

Level 5

1 Chifley Square

Sydney NSW 2000

Elected members
MAYOR

P Abelson

COUNCILLORS

R Bendall

C Corrigan

P S Menzies

L Moline

T Sherlock

P White

Other information

ABN: 94 414 022 939



MOSMAN COUNCIL

GENERAL PURPOSE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

REPORT ON THE FINANCIAL STATEMENTS

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

Responsibility of Council for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1993. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. Our audit responsibility does not extend to the original budget information disclosed in the Income Statement, Statement of Cash Flows, and Note 2(a) or the budget variation explanations disclosed in Note 16. Accordingly, no opinion is expressed on these matters.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements. Our audit did not involve an analysis of the prudence of business decisions made by Council or management.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In our opinion,

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

HILL ROGERS



BRETT HANGER
Partner

Dated at Sydney this 9th day of September 2016



9 September 2016

The Mayor
Mosman Council
PO Box 211
SPIT JUNCTION NSW 2088

Mayor,

Audit Report - Year Ended 30 June 2016

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

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

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

1. RESULTS FOR THE YEAR

1.1 *Operating Result*

The operating result for the year was a deficit of \$1.484 million as compared with a surplus of \$5.216 million in the previous year.

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

	2016	% of Total	2015	% of Total	Increase (Decrease)
	\$000		\$000		\$000
Revenues before capital items					
Rates & annual charges	25,354	57%	23,680	55%	1,674
User charges, fees & other revenues	15,793	35%	16,288	38%	(495)
Grants & contributions provided for operating purposes	2,919	7%	2,545	6%	374
Interest & investment revenue	526	1%	503	1%	23
	44,592	100%	43,016	100%	1,576
Expenses					
Employee benefits & costs	16,874	35%	15,925	40%	949
Materials, contracts & other expenses	25,205	53%	18,361	46%	6,844
Depreciation, amortisation & impairment	5,415	11%	5,166	13%	249
Borrowing costs	502	1%	612	2%	(110)
	47,996	100%	40,064	100%	7,932
Surplus (Deficit) before capital items	(3,404)		2,952		(6,356)
Grants & contributions provided for capital purposes	1,920		2,264		(344)
Net Surplus (Deficit) for the year	(1,484)		5,216		(6,700)
Performance Measures	2016		2015		
Operating Performance	1.96%		1.70%		
Own Source Operating Revenue	89.56%		88.82%		

The above table shows an overall decrease of \$6.7 million which can be primarily attributed to the revaluation of assets. The value of investments properties was reduced by \$3.219 million; compared to an increase of \$2.129 million in the previous year. Additionally, the revaluation of community land resulted in a decrement of \$1.223 million being recognised in the operating result.

Operating Performance measures the ability to contain operating expenditure within operating revenue excluding capital amounts. For 2016, this indicator was 1.96% and exceeded the benchmark of 0%.

Own Source Operating Revenue measures the degree of reliance on external funding sources such as grants and contributions. For 2016, this indicator was 89.56% and exceeded the benchmark of 60%.

1.2 Funding Result

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

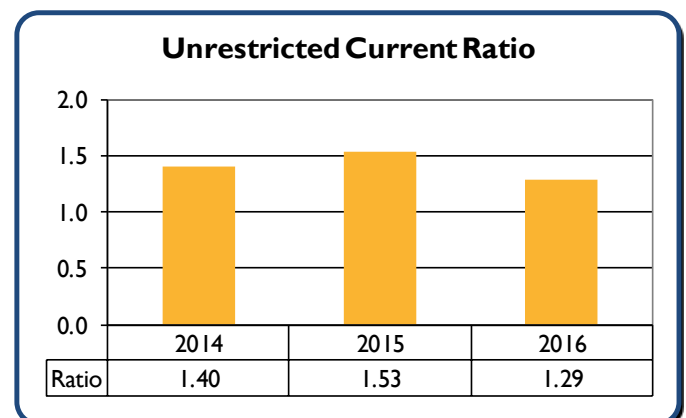
	2016	2015
	\$000	\$000
Funds were provided by:-		
Operating Result (as above)	(1,484)	5,216
Add back non funding items:-		
- Depreciation, amortisation & impairment	5,415	5,166
- Revaluation decrements (fair valuation of I,P,P&E)	1,223	0
- Book value of non-current assets sold	28	20
- Non-cash contributions of assets acquired	(238)	(185)
- (Gain)/Loss of fair value to investment properties	3,219	(2,129)
- (Surplus)/Deficit in joint ventures	(167)	(150)
	7,996	7,938
New loan borrowings	400	0
Transfers from internal reserves (net)	1,311	0
Distributions from joint ventures	61	32
Net Changes in current/non-current assets & liabilities	1,697	819
	11,465	8,789
Funds were applied to:-		
Purchase and construction of assets	(7,928)	(4,914)
Principal repaid on loans	(1,914)	(1,887)
Transfers to externally restricted assets (net)	(602)	(632)
Transfers to internal reserves (net)	0	(925)
	(10,444)	(8,358)
Increase/(Decrease) in Available Working Capital	1,021	431

2. FINANCIAL POSITION

2.1 Unrestricted Current Ratio

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

After eliminating externally restricted assets and current liabilities not expected to be paid within the next 12 months net current assets amounted to \$2.787 million representing a factor of 1.29 to 1.



2.2 Available Working Capital – (Working Funds)

At the close of the year the Available Working Capital of Council stood at \$4.05 million as detailed below;

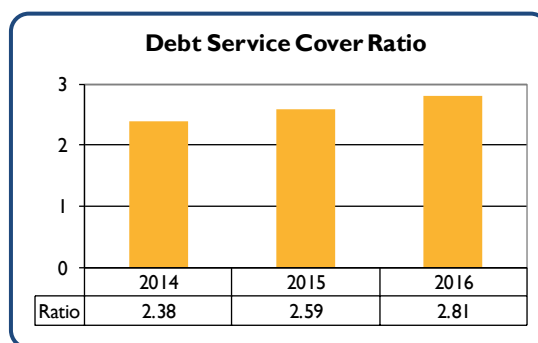
	2016	2015	Change
	\$000	\$000	\$000
Net Current Assets (Working Capital) as per Accounts	105	1,490	(1,385)
Add: Payables & provisions not expected to be realised in the next 12 months included above	8,311	7,604	707
Adjusted Net Current Assets	8,416	9,094	(678)
Add: Budgeted & expected to pay in the next 12 months			
- Borrowings	1,746	1,913	(167)
- Employees leave entitlements	1,947	1,641	306
- Deposits & retention moneys	1,546	695	851
Less: Externally restricted assets	(5,629)	(5,027)	(602)
Less: Internally restricted assets	(3,976)	(5,287)	1,311
Available Working Capital as at 30 June	4,050	3,029	1,021

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

2.3 Debt

After repaying principal and interest of \$2.416 million and taking up new borrowings of \$400,000, total debt as at 30 June 2016 stood at \$7.565 million (2015 - \$9.079 million).

The debt service cover ratio measures the availability of operating cash to service debt repayments. For 2016, the ratio indicated that operating results before capital, interest and depreciation covered payments required to service debt by a factor of 2.81 to 1.



2.4 Summary

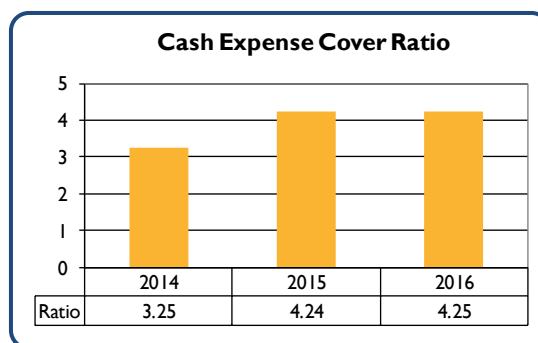
Council's overall financial position, when taking into account the above financial indicators was, in our opinion, satisfactory.

3. CASH ASSETS

3.1 Cash Expense Cover Ratio

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

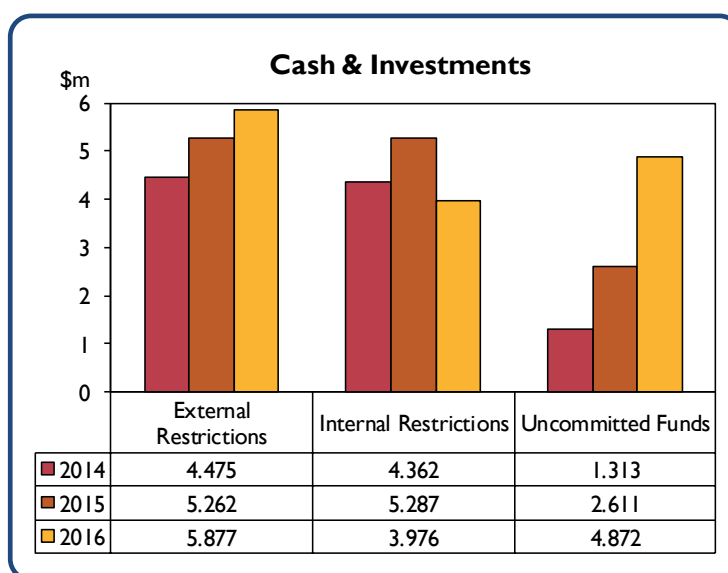
For 2016, this ratio stood at 4.25 months compared to the benchmark of 3.



3.2 Cash & Investment Securities

Cash and investments amounted \$14.725 million at 30 June 2016 as compared with \$13.16 million in 2015 and \$10.15 million in 2014.

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



Externally restricted cash and investments are restricted in their use by externally imposed requirements and consisted of unexpended specific purpose grants (\$81,000), developer contributions (\$4.345 million) and domestic waste management charges (\$1.451 million).

Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect forward plans, identified programs of works, and are, in fact, Council's **"Reserves"**. These Reserves totalled \$3.976 million and their purposes are more fully disclosed in Notes 6 of the financial statements.

Unrestricted cash and investments amounted to \$4.872 million, which is available to provide liquidity for day to day operations.

3.3 Cash Flows

The Statement of Cash Flows illustrates the flow of cash (highly liquid cash and investments) moving in and out of Council during the year and reveals that cash decreased by \$435,000 to \$12.725 million at the close of the year.

In addition to operating activities which contributed net cash of \$10.046 million were the redemption of investments (\$31 million), distributions from associates (\$61,000), and new borrowings (\$400,000). Cash outflows other than operating activities were used to repay debt (\$1.914 million), purchase investments (\$33 million), and to purchase and construct assets (\$7.056 million).

4. RECEIVABLES

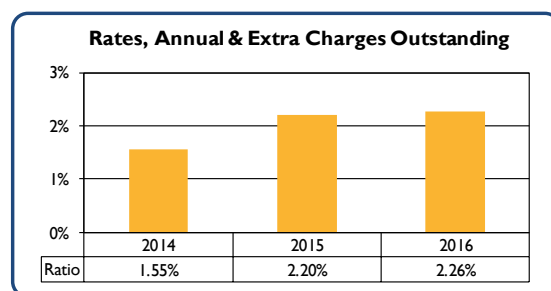
4.1 Rates & Annual Charges (excluding interest & extra charges)

Net rates and annual charges levied during the year totalled \$25.354 million and represented 55% of Council's total revenues.

Including arrears, the total rates and annual charges collectible was \$25.867 million of which \$25.299 million (98%) was collected.

4.2 Rates, Annual & Extra Charges

Arrears of rates, annual and extra charges stood at \$587,000 at the end of the year and represented 2.26% of those receivables.



4.3 Other Receivables

Receivables (other than Rates & Annual Charges) totalled \$3.319 million and mainly consisted of user charges, fees and revenue accruals (\$2.754 million) and amounts due from other levels of government (\$565,000). Those considered to be uncertain of collection have been provided for as doubtful debts and this provision amounted to \$344,000.

5. PAYABLES

5.1 Employees Leave Entitlements

Council's provision for its liability toward employees leave entitlements and associated on costs amounted to \$4.894 million. A cash reserve of \$979,000 was held at year end representing 20% of this liability and was, in our opinion, sufficient to meet unbudgeted and unanticipated retirements.

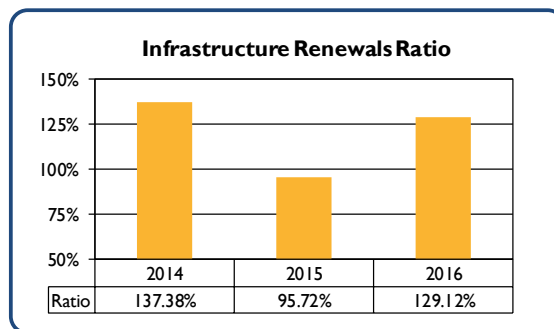
5.2 Deposits, Retentions & Bonds

Deposits, retentions and bonds held at year end amounted to \$7.069 million and a cash reserve was held amounting to \$2 million representing 28% of this liability and was sufficient to meet anticipated repayments in the near future.

6. INFRASTRUCTURE RENEWALS

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

Special Schedule No. 7 discloses that asset renewals for 2016 represented 129% of the depreciation charges for these assets. An industry benchmark is considered to be 100%, measured annually over the long term.



7. REVALUATION OF ASSETS

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

During the year, community land, open space assets, and the art collection were revalued. This resulted in a direct reduction to equity of \$32.131 million. A further decrement of \$1.223 million was recognised in the operating result in respect to the revaluation of community land. Notes 1(j), 9, and 20 of the financial statements provide further details.

8. MANAGEMENT LETTER

An audit management letter addressing the findings from our interim audit was issued on 5 April 2016 and included our recommendations on possible ways to strengthen and/or improve procedures. A written response was received on 12 April 2016 detailing management's comments and proposed actions.

9. CONCLUSION

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

Yours faithfully,

HILL ROGERS

BRETT HANGER

Partner

Mosman Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016

*Proud to be Mosman
Protecting our Heritage
Planning our Future
Involving our Community*

Mosman
COUNCIL

Mosman Council

Special Purpose Financial Statements

for the year ended 30 June 2016

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2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	n/a
Income Statement – Sewerage Business Activity	n/a
Income Statement – Other Business Activities	3
Statement of Financial Position – Water Supply Business Activity	n/a
Statement of Financial Position – Sewerage Business Activity	n/a
Statement of Financial Position – Other Business Activities	4
3. Notes to the Special Purpose Financial Statements	5
4. Auditor's Report	9

Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Mosman Council

Special Purpose Financial Statements for the year ended 30 June 2016

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

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

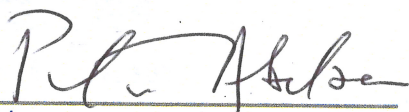
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,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

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

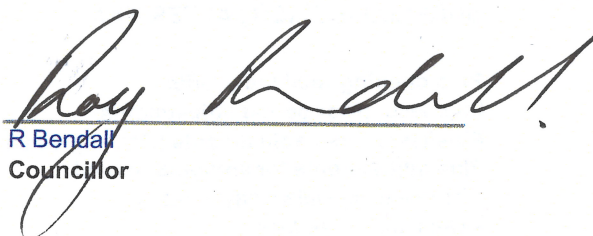
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

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

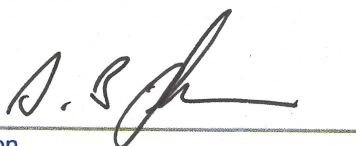
Signed in accordance with a resolution of Council made on 06 September 2016.



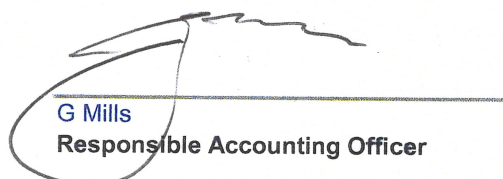
P Abelson
Mayor



R Bendall
Councillor



D Johnson
Acting General Manager



G Mills
Responsible Accounting Officer

Mosman Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

Commercial Property
Management

Category 1

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	–	–
User charges	1,414	1,249
Fees	–	–
Interest	–	–
Grants and contributions provided for non-capital purposes	–	–
Profit from the sale of assets	–	–
Other income	1,913	3,930
Total income from continuing operations	3,327	5,179
Expenses from continuing operations		
Employee benefits and on-costs	60	60
Borrowing costs	–	–
Materials and contracts	62	118
Depreciation and impairment	93	93
Loss on sale of assets	–	–
Calculated taxation equivalents	520	116
Debt guarantee fee (if applicable)	–	–
Other expenses	3,219	–
Total expenses from continuing operations	3,954	387
Surplus (deficit) from continuing operations before capital amounts	(627)	4,792
Grants and contributions provided for capital purposes	–	–
Surplus (deficit) from continuing operations after capital amounts	(627)	4,792
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	(627)	4,792
Less: corporate taxation equivalent (30%) [based on result before capital]	–	(1,438)
SURPLUS (DEFICIT) AFTER TAX	(627)	3,354
Plus opening retained profits	56,635	54,598
Plus/less: prior period adjustments	–	–
Plus/less: other adjustments (Carrying Value to Operational)	(768)	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	520	116
– Debt guarantee fees	–	–
– Corporate taxation equivalent	–	1,438
Add:		
– Subsidy paid/contribution to operations	–	–
Less:		
– TER dividend paid	–	–
– Dividend paid	(3,157)	(2,871)
Closing retained profits	52,603	56,635
Return on capital %	-1.2%	8.5%
Subsidy from Council	791	–

Mosman Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

Commercial Property
Management

Category 1

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	–	–
Investments	–	–
Receivables	411	295
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total Current Assets	411	295
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	7,567	7,660
Investments accounted for using equity method	–	–
Investment property	44,963	48,950
Other	–	–
Total non-current assets	52,530	56,610
TOTAL ASSETS	52,941	56,905
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	329	270
Borrowings	–	–
Provisions	9	–
Total current liabilities	338	270
Non-current liabilities		
Payables	–	–
Borrowings	–	–
Provisions	–	–
Other Liabilities	–	–
Total non-current liabilities	–	–
TOTAL LIABILITIES	338	270
NET ASSETS	52,603	56,635
EQUITY		
Retained earnings	52,603	56,635
Revaluation reserves	–	–
Council equity interest	52,603	56,635
Non-controlling equity interest	–	–
TOTAL EQUITY	52,603	56,635

Mosman Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

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

Mosman Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Office of Local Government.

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in the SPFS, unless otherwise stated, have been prepared in accordance with:

- the recognition and measurement criteria of relevant Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and
- Australian Accounting Interpretations.

The disclosures in the SPFS have been prepared in accordance with:

- the Local Government Act (1993) NSW,
- the Local Government (General) Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis, based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

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

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

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide standards for disclosure. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

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

Category 1

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

a. Commercial Property Management

Takes into account Council's Commercial Property portfolio and includes properties such as Mosman Square & Library Walk shops, Boronia House, Library Walk flats and Balmoral Bathurst.

It being noted that an Independent Fair Valuation of Investment Properties in 2015 resulted in an increase to the portfolio of \$2.129 M. Revaluations of operational land & buildings also impacted positively on the balance of Infrastructure, Property, Plant & Equipment within the Balance Sheet.

Category 2

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

Council has no Category 2 Declared Business Activities

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars.

(i) Taxation-equivalent charges

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

Mosman Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council-nominated business activities and are reflected in these financial statements.

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

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, a premium marginal rate of **2.0%** applies.

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

Income tax

An income tax equivalent has been applied on the profits of each reported business activity.

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

Accordingly, the return on capital invested is set at a pre-tax level (gain or loss from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

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

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

internal charges in Council's General Purpose Financial Statements.

The 30% rate applied is the equivalent company tax rate prevalent as at balance date.

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

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

(iii) Return on investments (rate of return)

The policy statement requires that councils with category 1 businesses 'would be expected to generate a return on capital funds employed that is

Mosman Council

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

Note 1. Significant accounting policies (continued)

comparable to rates of return for private businesses operating in a similar field'.

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

The rate of return on capital is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.17% at 30/6/16.

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

(iv) Dividends

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



MOSMAN COUNCIL

SPECIAL PURPOSE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying special purpose financial statements of Mosman Council, which comprises the Statement of Financial Position as at 30 June 2016, Income Statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Statement by Councillors and Management.

Responsibility of Council for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with the Local Government Act 1993 and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the financial reporting requirements of the Division of Local Government. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements. Our audit did not involve an analysis of the prudence of business decisions made by Council or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Assurance Partners

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Member of Morison KSi, an association of global independent accounting firms. Liability limited by a scheme approved under Professional Standards Legislation.



Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In our opinion, the special purpose financial statements of the Council are presented fairly in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Office of Local Government. As a result, the financial statements may not be suitable for another purpose.

HILL ROGERS

A handwritten signature in black ink, appearing to read "B. Hanger".

BRETT HANGER

Partner

Dated at Sydney this 9th day of September 2016

Mosman Council

SPECIAL SCHEDULES
for the year ended 30 June 2016

*Proud to be Mosman
Protecting our Heritage
Planning our Future
Involving our Community*

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Mosman Council

Special Schedules for the year ended 30 June 2016

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Special Schedule 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
Special Schedule 3	Water Supply Operations – incl. Income Statement	n/a
Special Schedule 4	Water Supply – Statement of Financial Position	n/a
Special Schedule 5	Sewerage Service Operations – incl. Income Statement	n/a
Special Schedule 6	Sewerage Service – Statement of Financial Position	n/a
Notes to Special Schedules 3 and 5		n/a
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¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

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

Mosman Council

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,773	–	–	(1,773)
Administration	10,557	748	–	(9,809)
Public order and safety				
Fire service levy, fire protection, emergency services	969	–	–	(969)
Beach control	–	–	–	–
Enforcement of local government regulations	356	50	–	(306)
Animal control	46	26	–	(20)
Other	–	–	–	–
Total public order and safety	1,371	76	–	(1,295)
Health	86	32	–	(54)
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	392	153	–	(239)
Solid waste management	4,420	6,535	–	2,115
Street cleaning	327	–	–	(327)
Drainage	204	–	–	(204)
Stormwater management	371	–	–	(371)
Total environment	5,714	6,688	–	974
Community services and education				
Administration and education	688	–	–	(688)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	1,038	765	–	(273)
Children's services	1,355	1,087	–	(268)
Total community services and education	3,081	1,852	–	(1,229)
Housing and community amenities				
Public cemeteries	–	–	–	–
Public conveniences	80	–	–	(80)
Street lighting	490	99	–	(391)
Town planning	2,586	987	–	(1,599)
Other community amenities	–	–	–	–
Total housing and community amenities	3,156	1,086	–	(2,070)
Water supplies	–	–	–	–
Sewerage services	–	–	–	–

Mosman Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	2,637	174	3	(2,460)
Museums	–	–	–	–
Art galleries	1,584	581	238	(765)
Community centres and halls	472	–	–	(472)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	290	69	–	(221)
Sporting grounds and venues	414	277	–	(137)
Swimming pools	194	328	–	134
Parks and gardens (lakes)	5,447	137	–	(5,310)
Other sport and recreation	–	–	–	–
Total recreation and culture	11,038	1,566	241	(9,231)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	711	600	–	(111)
Other mining, manufacturing and construction	–	–	–	–
Total mining, manufacturing and const.	711	600	–	(111)
Transport and communication				
Urban roads (UR) – local	4,196	1,534	246	(2,416)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	–	–	–	–
Sealed rural roads (SRR) – regional	–	–	–	–
Unsealed rural roads (URR) – local	–	–	–	–
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	–	–	–	–
Bridges on regional roads	–	–	–	–
Parking areas	1,856	6,312	–	4,456
Footpaths	429	38	–	(391)
Aerodromes	–	–	–	–
Other transport and communication	207	–	–	(207)
Total transport and communication	6,688	7,884	246	1,442
Economic affairs				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	3,821	3,950	1,429	1,558
Total economic affairs	3,821	3,950	1,429	1,558
Totals – functions	47,996	24,482	1,916	(21,598)
General purpose revenues ⁽¹⁾		20,008		20,008
Share of interests – joint ventures and associates using the equity method	–	167		167
NET OPERATING RESULT ⁽²⁾	47,996	44,657	1,916	(1,423)

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

Mosman Council

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

for the year ended 30 June 2016

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
Loans (by source)											
Commonwealth government	–	–	–	–	–	–	–	–	–	–	–
Treasury corporation	–	–	–	–	–	–	–	–	–	–	–
Other state government	–	–	–	–	–	–	–	–	–	–	–
Public subscription	–	–	–	–	–	–	–	–	–	–	–
Financial institutions	1,913	7,166	9,079	400	1,914	–	–	502	1,746	5,819	7,565
Other	–	–	–	–	–	–	–	–	–	–	–
Total loans	1,913	7,166	9,079	400	1,914	–	–	502	1,746	5,819	7,565
Other long term debt											
Ratepayers advances	–	–	–	–	–	–	–	–	–	–	–
Government advances	–	–	–	–	–	–	–	–	–	–	–
Finance leases	–	–	–	–	–	–	–	–	–	–	–
Deferred payments	–	–	–	–	–	–	–	–	–	–	–
Total long term debt	–	–	–	–	–	–	–	–	–	–	–
Total debt	1,913	7,166	9,079	400	1,914	–	–	502	1,746	5,819	7,565

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

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

Mosman Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – specialised	–	–	193	416	14,821	21,931	75%	22%	3%	0%	0%
	Council offices	–	–	125	263	7,562	12,447	0%	100%	0%	0%	0%
	Council works depot	–	–	18	3	1,210	2,043	0%	100%	0%	0%	0%
	Library	–	–	57	7	3,899	8,442	0%	0%	100%	0%	0%
	Cultural facilities	–	–	101	196	6,110	9,267	0%	100%	0%	0%	0%
	Other buildings	–	–	8	43	418	555	67%	25%	8%	0%	0%
	Childcare centres	–	–	18	4	1,323	2,110	42%	58%	0%	0%	0%
	Multistorey car park	–	–	82	53	6,795	10,329	0%	100%	0%	0%	0%
	Sub-total	–	–	602	985	42,349	67,124	26.5%	59.9%	13.5%	0.0%	0.0%
Roads	Sealed roads	138	138	277	1,188	72,063	128,288	10%	70%	20%	0%	0%
	Footpaths	13	13	196	354	11,877	16,574	25%	56%	19%	0%	0%
	Other road assets	289	289	56	39	8,381	18,820	21%	54%	22%	2%	0%
	Kerb and Gutter	10	10	41	22	15,510	23,557	23%	61%	16%	0%	0%
	Retaining Walls	1,564	1,564	49	13	19,298	36,413	21%	51%	26%	2%	0%
	Physical Traffic Devices	–	–	106	31	1,639	3,043	58%	33%	9%	0%	0%
	Lines and Signs	44	44	32	12	340	1,087	47%	41%	10%	1%	0%
	Street Furniture	243	243	17	3	–	–	21%	54%	22%	2%	–
	Sub-total	2,301	2,301	774	1,662	129,108	227,782	15.9%	63.0%	20.2%	0.7%	0.3%

Mosman Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater quality improvement devices	10	10	60	47	2,723	3,247	99%	0%	1%	0%	0%
	Open conduits (drains)	965	965	33	27	906	2,401	39%	11%	45%	3%	2%
	Closed conduits (pipes)	266	266	59	49	40,834	51,183	6%	54%	40%	0%	0%
	Nodes (pits)	39	39	60	115	4,724	7,275	3%	95%	2%	0%	0%
	Sub-total	1,280	1,280	228	238	50,269	65,355	12.0%	54.2%	33.3%	0.2%	0.2%
Open space/recreational assets	Marine structures	106	106	15	17	5,957	12,278	12%	0%	88%	0%	0%
	Sporting fields	675	675	406	343	3,126	5,137	13%	25%	49%	13%	0%
	Parks & reserves	989	989	562	651	6,649	9,275	38%	18%	39%	3%	3%
	Other	836	836	598	612	15,054	19,658	6%	37%	48%	8%	1%
	Sub-total	2,606	2,606	1,581	1,623	30,132	46,348	14.8%	22.1%	56.8%	5.5%	0.9%
	TOTAL – ALL ASSETS	6,187	6,187	3,185	4,508	251,858	406,609	16.9%	56.4%	25.4%	1.0%	0.3%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Mosman Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	6,190	129.12%	95.72%	137.38%
Depreciation, amortisation and impairment	4,794			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	6,187	2.45%	2.88%	3.58%
Carrying value of infrastructure assets	252,487			
3. Asset maintenance ratio				
Actual asset maintenance	4,508	1.42	0.97	0.94
Required asset maintenance	3,185			
4. Capital expenditure ratio				
Annual capital expenditure	8,138	1.50	0.98	1.41
Annual depreciation	5,415			

Notes

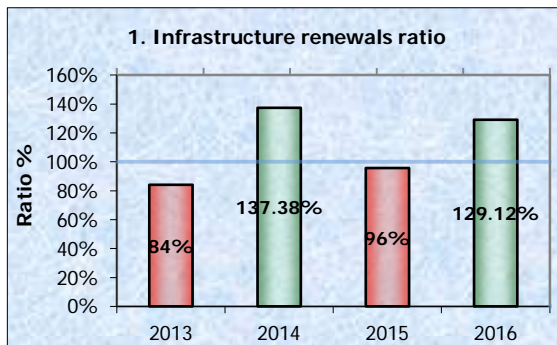
* All asset performance indicators are calculated using the asset classes identified in the previous table.

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

Mosman Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016



Benchmark: — Minimum $\geq 100.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of asset renewals ratio

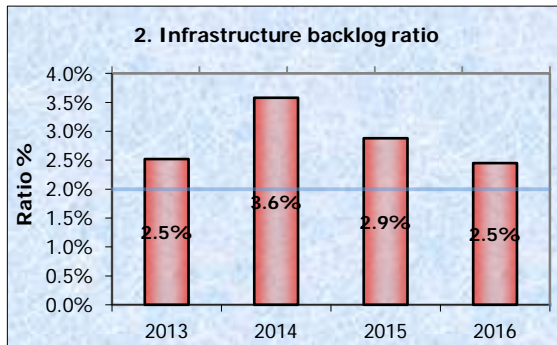
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2015/16 result

2015/16 Ratio 129.12%

Council has exceeded the benchmark and started to address the infrastructure backlog, as planned, with new Special Rate Variation monies

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of infrastructure backlog ratio

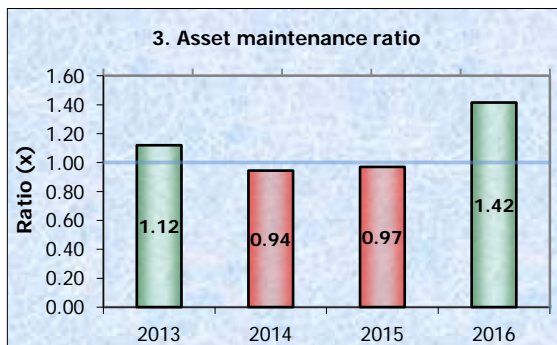
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2015/16 result

2015/16 Ratio 2.45%

The ratio has improved with additional Special Rate Variation monies. Council forecasts that it will meet the ratio in FY 2017/18 and reduce the backlog to zero in FY 2024/25

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Minimum > 1.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of asset maintenance ratio

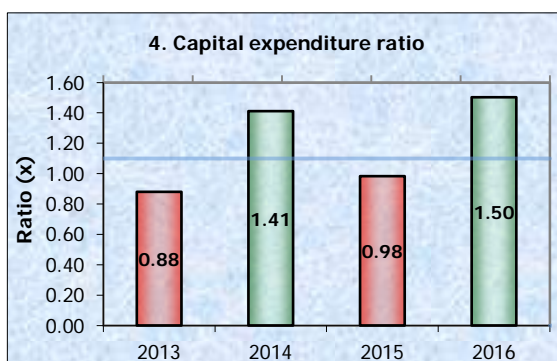
Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2015/16 result

2015/16 Ratio 1.42 x

Council has exceeded the ratio, as planned, with new Special Rate Variation monies

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Minimum > 1.10

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Purpose of capital expenditure ratio

To assess the extent to which a Council is expanding its asset base thru capital expenditure on both new assets and the replacement and renewal of existing assets.

Commentary on 2015/16 result

2015/16 Ratio 1.50 x

Council has exceeded the benchmark, as planned, with new Special Rate Variation monies. In addition to renewals Council has added \$1,132k of new assets including the new assisted parking technologies, donated art works and sports ground storage facilities

Ratio achieves benchmark
Ratio is outside benchmark

Mosman Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	17,498	18,879
Plus or minus adjustments ⁽²⁾	b	2	29
Notional general income	c = (a + b)	17,500	18,908
Permissible income calculation			
Special variation percentage ⁽³⁾	d	13.00%	0.00%
Or rate peg percentage	e	0.00%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	(802)	—
Plus special variation amount	h = d x (c - g)	2,171	—
Or plus rate peg amount	i = c x e	—	340
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—
Sub-total	k = (c + g + h + i + j)	18,869	19,248
Plus (or minus) last year's carry forward total	l	0	(7)
Less valuation objections claimed in the previous year	m	(1)	(4)
Sub-total	n = (l + m)	(1)	(11)
Total permissible income	o = k + n	18,868	19,237
Less notional general income yield	p	18,879	19,225
Catch-up or (excess) result	q = o - p	(11)	12
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	4	—
Less unused catch-up ⁽⁵⁾	s	—	—
Carry forward to next year	t = q + r - s	(7)	12

Notes

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



MOSMAN COUNCIL

SPECIAL SCHEDULE NO. 8

INDEPENDENT AUDITORS' REPORT

REPORT ON SPECIAL SCHEDULE NO. 8

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Mosman Council for the year ending 30 June 2017.

Responsibility of Council for Special Schedule No. 8

The Council is responsible for the preparation and fair presentation of Special Schedule No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 24. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on Special Schedule No. 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No. 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 8.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 8 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 entity's internal control.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In our opinion, Special Schedule No. 8 of Mosman Council for 2016/17 is properly drawn up in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

Basis of Accounting

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.

HILL ROGERS



BRETT HANGER

Partner

Dated at Sydney this 9th day of September 2016