



HORNSBY SHIRE COUNCIL

general purpose and special purpose

FINANCIAL STATEMENTS

and associated special schedules

30 June 2016



Hornsby Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016



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

Council's 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 13 October 2016. Council has the power to amend and reissue these financial statements.
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Hornsby Shire 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.

Hornsby Shire 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:

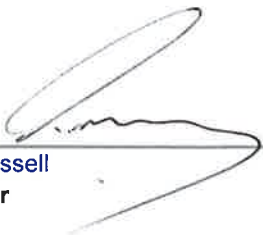
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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 14 September 2016.




S. Russell
Mayor



M. Hutchence
Councillor



R. Stephens
General Manager



G. Magus
Responsible Accounting Officer

Hornsby Shire Council

Income Statement

for the year ended 30 June 2016

Budget 2016	¹ \$ '000	Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
94,991	Rates and annual charges	3a	94,807	94,733
19,241	User charges and fees	3b	16,351	18,143
2,622	Interest and investment revenue	3c	3,778	2,633
6,217	Other revenues	3d	11,066	6,832
11,747	Grants and contributions provided for operating purposes	3e,f	10,467	12,968
34,931	Grants and contributions provided for capital purposes	3e,f	52,110	32,044
Other income:				
870	Net gains from the disposal of assets	5	2,896	2,371
170,619	Total income from continuing operations		191,475	169,724
Expenses from continuing operations				
51,447	Employee benefits and on-costs	4a	47,937	47,724
387	Borrowing costs	4b	680	715
43,214	Materials and contracts	4c	41,234	39,555
20,284	Depreciation and amortisation	4d	18,570	19,429
14,463	Other expenses	4e	13,409	13,115
129,795	Total expenses from continuing operations		121,830	120,538
40,824	Operating result from continuing operations		69,645	49,186
Boundary adjustment				
—	Net profit/(loss) from boundary adjustment	24	(161,381)	—
40,824	Net operating result for the year		(91,737)	49,186
40,824	Net operating result attributable to Council		17,535	17,142
5,893	Net operating result for the year before grants and contributions provided for capital purposes and boundary adjustment		17,535	17,142

¹ Original budget as approved by Council – refer Note 16

Hornsby Shire Council

Statement of Comprehensive Income
for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
Operating result for the year prior to boundary adjustment		69,645	49,186
Net profit/(loss) from boundary adjustment		(161,381)	–
Net operating result for the year (as per Income Statement)		(91,737)	49,186
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	26,003	86,814
Adjustment to correct prior period errors	20c	<u>(75,755)</u>	<u>22,233</u>
Total items which will not be reclassified subsequently to the operating result		(49,752)	109,047
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		(49,752)	109,047
Total comprehensive income for the year		(141,489)	158,233
Total comprehensive income attributable to Council		(141,489)	158,233

Hornsby Shire Council

Statement of Financial Position
as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
ASSETS			
Current assets			
Cash and cash equivalents	6a	20,697	18,112
Investments	6b	103,000	72,300
Receivables	7	10,058	6,601
Inventories	8	159	168
Other	8	234	–
Total current assets		134,148	97,181
Non-current assets			
Investments	6b	4,000	4,000
Receivables	7	216	293
Infrastructure, property, plant and equipment	9	1,430,070	1,595,819
Intangible assets	25	4	6
Total non-current assets		1,434,290	1,600,118
TOTAL ASSETS		1,568,438	1,697,299
LIABILITIES			
Current liabilities			
Payables	10	25,581	11,216
Borrowings	10	2,112	1,523
Provisions	10	13,654	14,325
Total current liabilities		41,347	27,064
Non-current liabilities			
Borrowings	10	3,420	5,302
Provisions	10	536	309
Total non-current liabilities		3,956	5,611
TOTAL LIABILITIES		45,303	32,675
Net assets		1,523,135	1,664,624
EQUITY			
Retained earnings	20	1,050,566	1,158,558
Revaluation reserves	20	472,569	506,066
Council equity interest		1,523,135	1,664,624
Total equity		1,523,135	1,664,624

Hornsby Shire 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)		1,158,558	506,066	1,664,624	–	1,664,624
Revised opening balance (as at 1/7/15)		1,158,558	506,066	1,664,624	–	1,664,624
a. Net operating result for the year		(91,737)	–	(91,737)	–	(91,737)
b. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	26,003	26,003	–	26,003
– Correction of error - community land	20c	(75,755)	(1,131)	(76,886)	–	(76,886)
Other comprehensive income		(75,755)	26,003	(49,752)	–	(49,752)
Total comprehensive income (c&d)		(167,492)	26,003	(141,489)	–	(141,489)
c. Transfers between equity		59,500	(59,500)	–	–	–
Equity – balance at end of the reporting period		1,050,566	472,569	1,523,135	–	1,523,135

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total Equity
2015						
Opening balance (as per last year's audited accounts)		1,072,236	434,155	1,506,391	–	1,506,391
Revised opening balance (as at 1/7/14)		1,072,236	434,155	1,506,391	–	1,506,391
a. Net operating result for the year		49,186	–	49,186	–	49,186
b. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	86,814	86,814	–	86,814
– Transfer of Land from Operating to Community	20b (ii)	–	(13,898)	(13,898)	–	(13,898)
– Prior years depreciation overstated	20b (ii)	36,131	–	36,131	–	36,131
Other comprehensive income		36,131	72,916	109,047	–	109,047
Total comprehensive income (c&d)		85,317	72,916	158,233	–	158,233
c. Transfers between equity		1,005	(1,005)	–	–	–
Equity – balance at end of the reporting period		1,158,558	506,066	1,664,624	–	1,664,624

Hornsby Shire Council

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:				
94,371	Rates and annual charges		95,213	95,256
18,863	User charges and fees		16,208	19,059
2,619	Investment and interest revenue received		3,361	2,410
31,261	Grants and contributions		63,941	47,817
–	Bonds, deposits and retention amounts received		101	120
6,328	Other		16,626	11,941
Payments:				
(49,902)	Employee benefits and on-costs		(49,706)	(47,148)
(40,668)	Materials and contracts		(44,040)	(45,483)
(375)	Borrowing costs		(387)	(678)
(14,519)	Other		(19,966)	(14,796)
47,978	Net cash provided (or used in) operating activities	11b	81,350	68,499
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		150,325	95,300
1,500	Sale of infrastructure, property, plant and equipment		5,974	6,071
Payments:				
(729)	Purchase of investment securities		(181,025)	(136,400)
(50,807)	Purchase of infrastructure, property, plant and equipment		(52,452)	(22,019)
(50,036)	Net cash provided (or used in) investing activities		(77,178)	(57,048)
Cash flows from financing activities				
Receipts:				
Nil				
Payments:				
(4,861)	Repayment of borrowings and advances		(1,587)	(4,861)
(4,861)	Net cash flow provided (used in) financing activities		(1,587)	(4,861)
(6,919)	Net increase/(decrease) in cash and cash equivalents		2,585	6,590
18,112	Plus: cash and cash equivalents – beginning of year	11a	18,112	11,522
11,193	Cash and cash equivalents – end of the year	11a	20,697	18,112
Additional Information:				
plus: Investments on hand – end of year		6b	107,000	76,300
Total cash, cash equivalents and investments			127,697	94,412

Please refer to Note 11 for additional cash flow information.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

Hornsby Shire Council

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 (z).

(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.

Hornsby Shire 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 infrastructure, property, plant and equipment,
- (ii) Projected Section 94 Commitments – Council has used significant judgement in determining future Section 94 income and expenditure in note 17.
- (iii) 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 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.

Hornsby Shire 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.

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

(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.

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.

Hornsby Shire Council

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

Note 1. Summary of significant accounting policies (continued)

(iii) Joint Arrangements

Council has no interest in any joint arrangements.

(iv) Associates

Council has no interest in any associates.

(v) County Councils

Council is not a member of any county councils.

(vi) 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

Council has no leases classified as Finance Leases.

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;

- 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 its investments as

- **held-to-maturity investments**

(i) 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.

(ii) 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.

Hornsby Shire Council

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

Note 1. Summary of significant accounting policies (continued)

General Accounting & 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

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

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.

(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).

(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 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

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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.

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:

- **Plant and equipment**
(as approximated by depreciated historical cost)
- **Operational land** (external valuation)
- **Community land** (internal valuation)
- **Land improvements**
(as approximated by depreciated historical cost)
- **Buildings – specialised/non-specialised**
(external valuation)
- **Other structures**
(as approximated by depreciated historical cost)
- **Roads assets including roads, bridges and footpaths** (internal valuation)
- **Bulk earthworks** (internal valuation)
- **Stormwater drainage** (internal valuation)
- **Swimming pools** (external valuation)
- **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

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

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.

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 minimum 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

Plant and equipment	
Office furniture	> \$5,000
Office equipment	> \$5,000
Other plant and equipment	> \$5,000

Buildings and land improvements	
Park furniture and equipment	> \$5,000

Building	
- Construction/extensions	100% capitalised
- Renovations	> \$5,000

Other structures	> \$5,000
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Stormwater assets	
Drains and culverts	> \$5,000
Other	> \$5,000

Transport assets	
Road construction and reconstruction	100% capitalised
Bridge construction and reconstruction	100% capitalised

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:

Buildings	20 to 125 years
Plant and equipment	6 to 10 years
Vehicles	5 years
Furniture and fittings	5 to 15 years
Land improvements	35 years

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

Road assets	5 to 100 years
Drainage assets	150 years
Bridges	20 to 80 years
Bulk earthworks	non-depreciable

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 De-recognition

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

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and services, direct payroll and payroll-related costs of employees' time spent on the project.

Amortisation is calculated on a straight line bases over periods generally ranging from 3 to 5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Council has an intention and ability to use 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.

(o) Rural fire service assets

Under section 119 of the *Rural Fires Act 1997*, 'all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed'.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

At present, the accounting for such fire fighting equipment is not treated in a consistent manner across all Councils.

Until such time as discussions on this matter have concluded and the legislation changed, Council will continue to account for these assets as it has been doing in previous years, which is to incorporate some assets, their values and depreciation charges within these financial statements.

(p) Provisions for close down, restoration and for environmental clean-up costs – including tips and quarries

Close down, restoration and remediation costs include the dismantling and demolition of infrastructure, the removal of residual materials and the remediation of disturbed areas.

Council has no provisions for close down, restoration and environmental clean-up costs.

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

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of either (i) their carrying amount and (ii) fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Council has no non-current assets (or disposal groups) classified as held for sale.

A discontinued operation is a component of Council that has been disposed of or is classified as 'held for sale' and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

Council has no discontinued operations for the year ended 30 June 2016.

(r) 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.

(s) 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.

(t) 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.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(u) Borrowing costs

Borrowing costs are expensed.

(v) 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.

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.

(w) 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.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 1. Summary of significant accounting policies (continued)

(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 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.

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 \$1,424,936.

The amount of additional contributions included in the total employer contribution advised above is \$751,360.

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.

Hornsby Shire Council

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

Note 1. Summary of significant accounting policies (continued)

(x) 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.

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.

(y) 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.

(z) 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.

These include the following standards that are anticipated will impact on local government:

AASB 9 – Financial Instruments

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

AASB ED 260 – Income of Not-for-Profit Entities

AASB16 – Leases

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

AASB 2014 – 10 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

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

The full impact of the above standards has yet to be ascertained or quantified but will range from

Hornsby Shire Council

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

Note 1. Summary of significant accounting policies (continued)

additional and/or revised disclosures to changes in how certain transactions and balances are accounted for.

(aa) Rounding of amounts

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

(ab) 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.

(ac) Disclaimer

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

Hornsby Shire 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 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Actual 2016	Actual 2015	Actual 2016	Actual 2015	
Governance	–	–	–	2,065	1,897	1,894	(2,065)	(1,897)	(1,894)	(2)	–	–	1,414	76
General Managers Division	–	81	319	1,804	1,676	2,541	(1,804)	(1,595)	(2,222)	–	–	–	–	46
Corporate Support	6,185	10,409	6,609	33,051	28,734	29,131	(26,866)	(18,325)	(22,522)	22	3	264,272	236,792	
Infrastructure & Recreation	45,919	44,682	42,067	62,582	59,440	55,980	(16,663)	(14,758)	(13,913)	7,486	4,942	1,264,468	1,396,001	
Environment & Human Services	11,195	9,080	13,136	21,515	20,209	22,296	(10,320)	(11,129)	(9,160)	2,182	4,141	37,876	63,934	
Planning	32,091	51,544	34,016	8,778	9,874	8,696	23,313	41,670	25,320	–	30	408	450	
Total functions and activities	95,390	115,796	96,147	129,795	121,830	120,538	(34,405)	(6,034)	(24,391)	9,688	9,116	1,568,438	1,697,299	
General purpose income ¹	75,229	75,679	73,577	–	–	–	75,229	75,679	73,577	5,638	5,716	–	–	–
Operating result from continuing operations	170,619	191,475	169,724	129,795	121,830	120,538	40,824	69,645	49,186	15,326	14,832	1,568,438	1,697,299	

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

Hornsby Shire 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.

GENERAL MANAGERS DIVISION

Costs relating to the General Manager, risk and internal audit.

CORPORATE & COMMUNITY DIVISION

Revenue and costs relating to administration, finance, human resources, information technology, property management, fleet management, records management and customer service.

INFRASTRUCTURE AND RECREATION DIVISION

Revenue and costs relating to roads, bridges, footpaths, stormwater management, emergency services, parks & landscape, waste management, engineering services, swimming centres and sports facilities.

ENVIRONMENT AND HUMAN SERVICES DIVISION

Revenue and costs relating to bushland care and restoration, water catchment remediation, community services, childcare, aged and disabled services, youth services and libraries.

PLANNING DIVISION

Revenue and costs relating to town planning, development assessments, Section 94 Development Contributions, subdivisions, companion animals management and compliance and certification services.

Hornsby Shire 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		60,857	59,284
Farmland		552	541
Business		7,997	7,722
Less: compulsory pensioner rate		(1,288)	(1,318)
Total ordinary rates		68,118	66,229
Special rates			
Catchment remediation rate		3,146	3,071
Hornsby quarry rate		–	3,258
Less: voluntary pensioner rebate		–	(217)
Total special rates		3,146	6,112
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		23,460	22,315
Section 611 charges		83	77
Total annual charges		23,543	22,392
TOTAL RATES AND ANNUAL CHARGES		94,807	94,733

Council has used 2014 year valuations provided by the NSW Valuer General in calculating its rates.

Hornsby Shire 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			
Specific user charges (per s.502 – specific 'actual use' charges)			
Waste management services (non-domestic)		1,438	1,359
Sullage		9	8
Total user charges		1,447	1,367
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Inspection services		647	559
Planning and building regulation		4,935	4,676
Registration fees		67	51
Total fees and charges – statutory/regulatory		5,649	5,286
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Community centres		1,093	1,008
Indoor sports centre stadium – admission fees		584	581
Library fees and charges		151	168
Nursery and preschool hire fees		572	3,185
Other hire fees		101	86
Park and oval hire fees		1,044	965
Restoration charges		1,035	1,196
Swimming centres		4,046	3,534
Tennis/netball hire fees		200	232
Other		429	535
Total fees and charges – other		9,255	11,490
TOTAL USER CHARGES AND FEES		16,351	18,143

Hornsby Shire 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)		139	190
– Interest earned on investments (interest and coupon payment income)		3,639	2,434
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		–	9
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>3,778</u>	<u>2,633</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		139	190
General Council cash and investments		1,772	1,431
Restricted investments/funds – external:			
Development contributions			
– Section 94		1,780	921
Catchments remediation		87	91
<u>Total interest and investment revenue recognised</u>		<u>3,778</u>	<u>2,633</u>
(d) Other revenues			
Rental income – other council properties		2,708	1,921
Ex gratia rates		12	11
Fines – parking		2,117	1,777
Legal fees recovery – rates and charges (extra charges)		130	263
Legal fees recovery – planning		23	52
Legal fees recovery – other		10	6
Bushfire fund income		7	112
Car park management		109	101
Commissions and agency fees		9	9
Florence mall incomes		73	79
Home modification		208	194
Legal settlements		150	–
Income from road closure		41	120
Insurance claim recoveries		17	44
Insurance rebates and incentives		81	319
Prosecutions and infringements		525	224
Property services sundry income		–	8
Recycling income (non-domestic)		1,424	772
Sales – general		331	544
Street furniture advertising		40	29
Vehicular crossing income		31	20
Proceeds - sale of Childcare		2,520	–
Provision of services to neighbouring Council		319	–
Other		181	227
<u>TOTAL OTHER REVENUE</u>		<u>11,066</u>	<u>6,832</u>

Hornsby Shire 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	3,419	3,448	–	–
Financial assistance – local roads component	1,497	1,509	–	–
Pensioners' rates subsidies – general component	722	759	–	–
Total general purpose	5,638	5,716	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Domestic waste management	271	232	–	–
Aged and disabled	529	504	–	–
Bushfire and emergency services	553	562	20	–
Bushland	81	117	77	27
Child care	581	1,783	–	–
Community care	308	421	–	–
Community centres	–	–	–	4
Employment and training programs	22	3	–	–
Environmental protection	138	1,185	–	–
Library	312	309	101	101
Noxious weeds	26	26	–	–
Parks and gardens	–	–	25	140
Recreation and culture	–	–	–	18
Street lighting	353	346	–	–
Transport (other roads and bridges funding)	587	581	5,255	2,511
Youth services	11	18	–	–
Waste and recycling	395	163	–	–
Other	43	65	–	–
Total specific purpose	4,210	6,315	5,478	2,801
Total grants	9,848	12,031	5,478	2,801
Grant revenue is attributable to:				
– Commonwealth funding	1,885	2,338	1,943	603
– State funding	7,963	9,683	3,535	2,198
– Other funding	–	10	–	–
	9,848	12,031	5,478	2,801

Hornsby Shire 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 94 – contributions towards amenities/services	–	–	46,466	28,622
Total developer contributions 17	–	–	46,466	28,622
Other contributions:				
Bushfire services	12	41	–	49
Community facilities	–	232	–	–
Community services	8	9	–	138
Employee vehicle contributions	451	429	–	–
Environment	26	130	–	75
Occupational health and safety incentive	110	60	–	–
Parks and gardens	–	–	123	359
Recreation and culture	7	13	29	–
Roads and bridges	3	2	14	–
Other	2	21	–	–
Total other contributions	619	937	166	621
Total contributions	619	937	46,632	29,243
TOTAL GRANTS AND CONTRIBUTIONS	10,467	12,968	52,110	32,044

\$ '000	Actual 2016	Actual 2015
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(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	46,671	15,428
Add: grants and contributions recognised in the current period but not yet spent:	52,342	36,647
Less: grants and contributions recognised in a previous reporting period now spent:	(33,577)	(5,404)
Net increase (decrease) in restricted assets during the period	18,765	31,243
Unexpended and held as restricted assets	65,436	46,671
Comprising:		
– Specific purpose unexpended grants	4,416	4,887
– Developer contributions	61,020	41,784
	65,436	46,671

Hornsby Shire 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		42,399	42,322
Travel expenses		25	50
Employee leave entitlements (ELE)		895	1,089
Superannuation		4,715	4,675
Workers' compensation insurance		941	777
Fringe benefit tax (FBT)		156	130
Training costs (other than salaries and wages)		484	461
Other		363	107
Total employee costs		49,978	49,611
Less: capitalised costs		(2,041)	(1,887)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>		<u>47,937</u>	<u>47,724</u>
Number of 'full-time equivalent' employees (FTE) at year end		513	571
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		386	671
Total interest bearing liability costs expensed		386	671
(ii) Other borrowing costs			
Amortisation of discount on interest free loan		294	44
Total other borrowing costs		294	44
<u>TOTAL BORROWING COSTS EXPENSED</u>		<u>680</u>	<u>715</u>

Hornsby Shire 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		3,042	3,054
Contractor and consultancy costs			
– Air conditioning		74	126
– Animal pound service		7	32
– Building maintenance		694	475
– Bush regeneration		882	899
– Community centres		163	132
– Computer support		2,676	2,841
– Consultants		1,498	1,603
– Contractor and agency fees		1,466	1,342
– Contracts – bushfire hazard reduction and mitigation		177	120
– Contracts – electrical		462	345
– Contracts – environmental protection		229	260
– Contracts – grass cutting		535	546
– Contracts – plumbing		397	416
– Contracts – property management		43	3
– Contracts – RFS equipment maintenance		209	73
– Contracts – tree work		682	636
– Drainage maintenance		601	854
– External plant and equipment hire		162	161
– Footpath maintenance		306	301
– Foreshore facilities		435	164
– Garbage collection, tipping and recycling		20,559	19,544
– Home modification service		226	169
– Litter control		401	394
– Maintenance of parks		837	733
– Mechanical services		189	180
– Property cleaning		338	393
– Road maintenance		2,105	1,995
– Stormwater asset maintenance		245	215
Auditors remuneration ⁽¹⁾		85	86
Legal expenses:			
– Legal expenses: planning and development		340	373
– Legal expenses: other		414	496
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		202	132
Events management		8	83
Other		545	379
TOTAL MATERIALS AND CONTRACTS		41,234	39,555

Hornsby Shire 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:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		85	86
Remuneration for audit and other assurance services		85	86
Total Auditor remuneration		85	86
2. Operating lease payments are attributable to:			
Computers		202	132
		202	132

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
(d) Depreciation, amortisation and impairment					
Plant and equipment		—	—	1,378	1,343
Office equipment		—	—	206	201
Furniture and fittings		—	—	82	97
Land improvements (depreciable)		—	—	1,045	862
Infrastructure:					
– Buildings – non-specialised		—	—	2,508	2,690
– Buildings – specialised		—	—	2,099	2,323
– Other structures		—	—	847	826
– Roads		—	—	4,749	5,550
– Bridges		—	—	96	124
– Footpaths		—	—	470	829
– Stormwater drainage		—	—	3,830	3,413
– Water supply network		—	—	4	4
– Swimming pools		—	—	724	647
Other assets					
– Library books		—	—	530	518
Intangible assets	25	—	—	2	2
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		—	—	18,570	19,429

Hornsby Shire 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			
Advertising		536	471
Bad and doubtful debts		70	50
Bank charges and cash collection expenses		397	388
Catering		227	298
Contributions/levies to other levels of government			
– Department of Planning levy		300	293
– Emergency Services levy (includes FRNSW, SES, and RFS levies)		280	238
– NSW Fire Brigade levy		1,741	1,657
– NSW Rural Fire Service levy		529	512
– NSW state revenue infringement processing fees		234	194
Councillor expenses – mayoral fee		62	61
Councillor expenses – councillors' fees		235	229
Councillors' expenses (incl. mayor) – other (excluding fees above)		1	16
Donations, contributions and assistance to other organisations (Section 356)		31	100
Electricity and heating		1,201	1,360
Insurance		1,474	1,456
Licences and registration		290	298
Postage		277	212
Printing and stationery		578	533
Property managers fees		26	29
Street lighting		2,798	2,692
Subscriptions and publications		341	351
Subscriptions to local government publications		61	59
Telephone and communications		373	387
Valuation fees		366	319
Veterinary fees		–	2
Water and sewerage		600	536
Other		381	374
<u>TOTAL OTHER EXPENSES</u>		<u>13,409</u>	<u>13,115</u>

Hornsby Shire 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		5,064	5,271
Less: carrying amount of property assets sold/written off		(2,466)	(3,048)
Net gain/(loss) on disposal		2,598	2,223
Plant and equipment			
Proceeds from disposal – plant and equipment		910	800
Less: carrying amount of plant and equipment assets sold/written off		(609)	(652)
Net gain/(loss) on disposal		301	148
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(3)	–
Net gain/(loss) on disposal		(3)	–
Financial assets			
Proceeds from disposal/redemptions/maturities – financial assets		150,325	95,300
Less: carrying amount of financial assets sold/redeemed/matured		(150,325)	(95,300)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		2,896	2,371

Hornsby Shire Council

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

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

		2016	2016	2015	2015
\$ '000	Notes	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		1,685	–	1,830	–
Cash-equivalent assets ¹					
– Deposits at call		16,437	–	16,232	–
– Short-term deposits		2,575	–	50	–
Total cash and cash equivalents		20,697	–	18,112	–
Investments (Note 6b)					
– Long term deposits		103,000	4,000	72,300	4,000
Total investments		103,000	4,000	72,300	4,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		123,697	4,000	90,412	4,000

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'		20,697	–	18,112	–
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Investments

b. 'Held to maturity'	6(b-ii)	103,000	4,000	72,300	4,000
Investments		103,000	4,000	72,300	4,000

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

Hornsby Shire Council

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

Note 6b. investments (continued)

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
Note 6(b-i)				
Reconciliation of investments classified as 'at fair value through the profit and loss'				
Balance at the beginning of the year	–	–	991	–
Revaluations (through the Income Statement)	–	–	9	–
Disposals (sales and redemptions)	–	–	(1,000)	–
Balance at end of year	–	–	–	–
Note 6(b-ii)				
Reconciliation of investments classified as 'held to maturity'				
Balance at the beginning of the year	72,300	4,000	32,200	2,000
Additions	177,025	4,000	132,400	4,000
Disposals (sales and redemptions)	(150,325)	–	(94,300)	–
Transfers between current/non-current	4,000	(4,000)	2,000	(2,000)
Balance at end of year	103,000	4,000	72,300	4,000
Comprising:				
– Long term deposits	103,000	4,000	72,300	4,000
Total	103,000	4,000	72,300	4,000

Hornsby Shire 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	123,697	4,000	90,412	4,000
attributable to:				
External restrictions (refer below)	65,184	4,000	44,012	4,000
Internal restrictions (refer below)	52,769	–	40,788	–
Unrestricted	5,744	–	5,612	–
	123,697	4,000	90,412	4,000

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)	41,784	48,246	(29,010)	61,020
Specific purpose unexpended grants	(F)	2,874	5,274	(5,096)	3,052
Domestic waste management	(G)	2,346	24,070	(25,464)	952
Other		1,008	7,048	(3,896)	4,160
External restrictions – other		48,012	84,638	(63,466)	69,184
Total external restrictions		48,012	84,638	(63,466)	69,184

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.

Hornsby Shire Council

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

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

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Employees leave entitlement	8,144	1,600	(1,373)	8,371
Asset maintenance and renewal	368	101	(129)	340
Buildings – Wallarobba	526	–	(26)	500
Civil works – SRV	1,305	1,549	(741)	2,113
Community centres	1,763	–	(462)	1,301
Corporate systems upgrade	2,686	–	(1,268)	1,418
Council strategic projects	13,888	6,721	(15,047)	5,562
Hornsby aquatic centre	575	–	(319)	256
Hornsby quarry and environs	5,861	1,472	–	7,333
Hornsby Quarry remediation	–	18,985	(40)	18,945
Roads	2,350	529	–	2,879
Proceeds from asset sales (Beecroft)	2,781	–	–	2,781
Proceeds from asset sales (Drainage)	–	616	–	616
Other	541	259	(446)	354
Total internal restrictions	40,788	31,832	(19,851)	52,769
TOTAL RESTRICTIONS	88,800	116,470	(83,317)	121,953

Hornsby Shire 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		1,373	216	1,652	293
Interest and extra charges		188	—	223	—
User charges and fees		390	—	186	—
Contributions to works		146	—	—	—
Accrued revenues					
– Interest on investments		1,093	—	641	—
– Other income accruals		257	—	588	—
Amounts due from other councils		1,123	—	—	—
Government grants and subsidies		1,389	—	1,532	—
Net GST receivable		2,769	—	726	—
Employee vehicle leases paid in advance		—	—	47	—
Facility hire		614	—	376	—
Fines and penalties		45	—	59	—
Licencing		61	—	48	—
Property rentals		245	—	138	—
Restorations		280	—	263	—
Sullage		19	—	23	—
Workers compensation claims		4	—	1	—
Other debtors		154	—	170	—
Total		10,150	216	6,673	293
Less: provision for impairment					
Other debtors		(92)	—	(72)	—
Total provision for impairment – receivables		(92)	—	(72)	—
<u>TOTAL NET RECEIVABLES</u>		<u>10,058</u>	<u>216</u>	<u>6,601</u>	<u>293</u>
Externally restricted receivables					
Domestic waste management		422	—	498	—
Other					
– Catchment remediation rate		63	—	78	—
– Special purpose grants		1,389	—	2,013	—
Total external restrictions		1,874	—	2,589	—
Unrestricted receivables		8,184	216	4,012	293
TOTAL NET RECEIVABLES		10,058	216	6,601	293

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.

Hornsby Shire 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		159	–	168	–
Total inventories at cost		159	–	168	–
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		159	–	168	–
(b) Other assets					
Prepayments		234	–	–	–
TOTAL OTHER ASSETS		234	–	–	–

Externally restricted assets

There are no restrictions applicable to the above assets.

Hornsby Shire 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	Carrying value	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers to retained earnings	Carrying value of assets disposed from boundary adjustment	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated depreciation	Carrying value
Capital work in progress	6,107	–	–	6,107	26,257	–	–	(25,560)	–	–	–	–	6,804	–	–	6,804
Plant and equipment	–	16,127	11,375	4,752	1,803	(589)	(1,378)	–	–	(70)	–	–	–	15,617	11,100	4,517
Office equipment	–	2,239	1,623	616	254	–	(206)	–	–	(20)	–	–	–	2,252	1,608	644
Furniture and fittings	–	1,920	1,483	437	77	(6)	(82)	11	–	(7)	–	–	–	1,734	1,305	429
Land:																
– Operational land	–	124,096	–	124,096	806	(2,225)	–	–	–	(5,444)	–	–	–	117,234	–	117,234
– Community land	–	416,698	–	416,698	21,080	(14)	–	–	(75,755)	(19,628)	–	6,339	–	348,719	–	348,719
Land improvements – depreciable	–	65,538	37,402	28,136	193	–	(1,045)	7,295	–	(2,354)	–	–	–	67,938	35,713	32,225
Infrastructure:																
– Buildings – non-specialised	–	100,575	42,089	58,486	76	(241)	(2,508)	978	–	(5,962)	–	–	–	86,142	35,314	50,828
– Buildings – specialised	–	94,430	38,506	55,924	–	–	(2,099)	759	–	(5,645)	–	–	–	85,481	36,542	48,939
– Other structures	–	19,956	7,197	12,759	6	(3)	(847)	2,272	–	(373)	–	–	–	21,261	7,447	13,814
– Roads	–	383,182	64,219	318,963	–	–	(4,749)	10,189	–	(39,586)	–	2,860	–	339,499	51,822	287,677
– Bridges	–	7,767	1,778	5,989	–	–	(96)	–	–	(1,700)	–	22	–	5,334	1,119	4,215
– Footpaths	–	37,906	14,421	23,485	–	–	(470)	374	–	(2,671)	(1,213)	–	–	33,484	13,979	19,505
– Bulk earthworks (non-depreciable)	–	85,089	–	85,089	–	–	–	–	–	(10,114)	–	1,874	–	76,849	–	76,849
– Stormwater drainage	–	532,968	110,743	422,225	1,143	–	(3,830)	2,635	–	(52,971)	–	16,121	–	483,879	98,556	385,323
– Water supply network	–	128	84	44	–	–	(4)	–	–	–	–	–	–	128	88	40
– Swimming pools	–	38,026	7,365	30,661	–	–	(724)	1,047	–	(20)	–	–	–	33,423	2,458	30,965
Other assets:																
– Library books	–	3,301	1,949	1,352	757	–	(530)	–	–	(236)	–	–	–	2,473	1,130	1,343
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	6,107	1,929,946	340,234	1,595,819	52,452	(3,078)	(18,568)	–	(75,755)	(146,801)	(1,213)	27,216	6,804	1,721,447	298,181	1,430,070

Additions and transfers from WIP are made up of Asset Renewals (\$14,284k) and New Assets (\$37,491k). \$21,080k of expenditure on new assets related to the purchase of community land.

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets). These balances include Asset Additions to Capital Work in Progress not yet capitalised.

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

Hornsby Shire 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.

Hornsby Shire 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		5,049	–	5,824	–
Payments received In advance		954	–	892	–
Accrued expenses:					
– Borrowings		4	–	5	–
– Salaries and wages		654	–	1,895	–
– Other expenditure accruals		3,970	–	2,109	–
Security bonds, deposits and retentions		429	–	328	–
Contributions and bonds		123	–	124	–
Boundary adjustment - payables		14,255	–	–	–
Other		143	–	39	–
Total payables		25,581	–	11,216	–
Borrowings					
Loans – secured ¹		1,112	3,420	1,187	4,532
Interest free loan – panthers group		1,000	–	336	770
Total borrowings		2,112	3,420	1,523	5,302
Provisions					
Employee benefits:					
Annual leave		3,598	–	3,707	–
Sick leave		428	–	445	–
Long service leave		9,467	536	10,016	309
Gratuities		160	–	156	–
Other leave		1	–	1	–
Sub-total – aggregate employee benefits		13,654	536	14,325	309
Total provisions		13,654	536	14,325	309
<u>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</u>					
		41,347	3,956	27,064	5,611
(i) Liabilities relating to restricted assets					
		2016		2015	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Boundary adjustment - transfer of reserves		13,876	–	–	–
Domestic waste		898	–	2,179	–
Liabilities relating to externally restricted assets		14,774	–	2,179	–
Internally restricted assets					
Employee leave entitlements		8,370	–	8,144	–
Liabilities relating to internally restricted assets		8,370	–	8,144	–
Total liabilities relating to restricted assets		23,144	–	10,323	–
Total liabilities relating to unrestricted assets		18,203	3,956	16,741	5,611
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		41,347	3,956	27,064	5,611

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.

Hornsby Shire Council

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

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

\$ '000	Actual 2016	Actual 2015
(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	9,894	9,694
	9,894	9,694

Note 11. Statement of cash flows – additional information

(a) Reconciliation of cash assets

Total cash and cash equivalent assets	6a	20,697	18,112
Balance as per the Statement of Cash Flows		20,697	18,112

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

Net operating result from Income Statement	(91,737)	49,186
Adjust for non-cash items:		
Depreciation and amortisation	18,570	19,429
Net losses/(gains) on disposal of assets	(2,896)	(2,371)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as ‘at fair value’ or ‘held for trading’	–	(9)
Amortisation of premiums, discounts and prior period fair valuations		
– Interest exp. on interest-free loans received by Council (previously fair valued)	294	44
Net Loss from disposal of assets due to Boundary adjustments	146,801	–
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	(3,400)	1,556
Increase/(decrease) in provision for doubtful debts	20	44
Decrease/(increase) in inventories	9	(18)
Decrease/(increase) in other assets	(234)	–
Increase/(decrease) in payables	(775)	(841)
Increase/(decrease) in accrued interest payable	(1)	(7)
Increase/(decrease) in other accrued expenses payable	583	565
Increase/(decrease) in other liabilities	14,521	641
Increase/(decrease) in employee leave entitlements	(444)	280
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	81,350	68,499

Hornsby Shire 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			
Nil			
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		2,000	2,000
Credit cards/purchase cards		29	29
Total financing arrangements		2,029	2,029
Amounts utilised as at balance date:			
– Credit cards/purchase cards		4	4
Total financing arrangements utilised		4	4

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.

(e) Bank guarantees

Westpac Bank - favouree Sydney Water Corporation - security for drainage construction works - \$50K

Hornsby Shire 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			
Buildings		6	69
Plant and equipment		74	59
Land improvements		332	25
Furniture and fittings		–	5
Infrastructure – roads, bridges and footpaths		145	5,383
Office equipment		–	3
Stormwater drainage		3	3
Recreational facilities		2,878	828
Corporate system replacement		1,009	–
Hornsby Quarry remediation		7,333	–
Total commitments		11,780	6,375
These expenditures are payable as follows:			
Within the next year		8,747	6,375
Later than one year and not later than 5 years		3,033	–
Total payable		11,780	6,375
Sources for funding of capital commitments:			
Unrestricted general funds		557	6,375
Externally restricted reserves		2,881	–
Internally restricted reserves		8,342	–
Total sources of funding		11,780	6,375
(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		199	134
Later than one year and not later than 5 years		400	129
Total non-cancellable operating lease commitments		599	263
b. Non-cancellable operating leases include the following assets:			
Computer equipment under a Master Lease Agreement with Macquarie Bank			
c. 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.			

Hornsby Shire 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 20152014	
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	14,639	10.73%	10.91%	5.15%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	136,469			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	126,002	66.82%	73.10%	83.68%
Total continuing operating revenue ⁽¹⁾	188,579			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	67,090	4.02x	3.33x	1.79x
Current liabilities less specific purpose liabilities ^(3, 4)	16,679			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	33,889	14.95x	6.26x	5.60x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	2,267			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	1,777	1.83%	2.22%	2.79%
Rates, annual and extra charges collectible	97,244			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	127,697	13.25 mths	10.0 mths	5.0 mths
Payments from cash flow of operating and financing activities	9,641			

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).

Hornsby Shire 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 10.73%</p> <p>A second consecutive year with an Operating Performance Ratio greater than 10% is a result of restructuring and ongoing efficiency initiatives to reduce costs. Gains from the disposal of assets have also contributed.</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 66.82%</p> <p>Reliance on external funding sources has not changed significantly from prior years and is above the benchmark. Receipt of \$46.4m Section 94 and 94A income (2015: \$28.6m) has caused the ratio to decrease despite own source operating revenue increasing from the prior year.</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 4.02x</p> <p>The ratio has increased as Council's unrestricted cash balance has risen in line with improved surplus results over recent years.</p>

Hornsby Shire Council

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

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

<div><div>4. Debt service cover ratio</div><table><tr><th>Year</th><th>Ratio (x)</th></tr><tr><td>2013</td><td>5.62</td></tr><tr><td>2014</td><td>5.60</td></tr><tr><td>2015</td><td>6.26</td></tr><tr><td>2016</td><td>14.95</td></tr></table><div>Benchmark: <div></div> Minimum ≥ 2.00</div><div>Source for benchmark: Code of Accounting Practice and Financial Reporting #24</div></div>	Year	Ratio (x)	2013	5.62	2014	5.60	2015	6.26	2016	14.95	<div><div>Purpose of debt service cover ratio</div><div>This ratio measures the availability of operating cash to service debt including interest, principal and lease payments</div></div>	<div><div>Commentary on 2015/16 result</div><div><div>2015/16 ratio</div><div>14.95x</div></div><div>The Debt Service Cover Ratio continues to increase due to continued operating surpluses and the repayment of existing debt. No new debt has been taken out within the year (2015 also \$Nil).</div></div>
Year	Ratio (x)											
2013	5.62											
2014	5.60											
2015	6.26											
2016	14.95											
<div><div>5. Rates, annual charges, interest and extra charges outstanding percentage</div><table><tr><th>Year</th><th>Ratio %</th></tr><tr><td>2013</td><td>2.86%</td></tr><tr><td>2014</td><td>2.79%</td></tr><tr><td>2015</td><td>2.22%</td></tr><tr><td>2016</td><td>1.83%</td></tr></table><div>Benchmark: <div></div> Maximum $< 5.00\%$</div><div>Source for Benchmark: Code of Accounting Practice and Financial Reporting #24</div></div>	Year	Ratio %	2013	2.86%	2014	2.79%	2015	2.22%	2016	1.83%	<div><div>Purpose of rates and annual charges outstanding ratio</div><div>To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.</div></div>	<div><div>Commentary on 2015/16 result</div><div><div>2015/16 ratio</div><div>1.83%</div></div><div>Council continues to apply strong debt recovery practices resulting in further improvements to the outstanding percentage, which is now below 2%.</div></div>
Year	Ratio %											
2013	2.86%											
2014	2.79%											
2015	2.22%											
2016	1.83%											
<div><div>6. Cash expense cover ratio</div><table><tr><th>Year</th><th>Ratio (mths)</th></tr><tr><td>2013</td><td>4.83</td></tr><tr><td>2014</td><td>5.05</td></tr><tr><td>2015</td><td>10.03</td></tr><tr><td>2016</td><td>13.25</td></tr></table><div>Benchmark: <div></div> Minimum ≥ 3.00</div><div>Source for benchmark: Code of Accounting Practice and Financial Reporting #24</div></div>	Year	Ratio (mths)	2013	4.83	2014	5.05	2015	10.03	2016	13.25	<div><div>Purpose of cash expense cover ratio</div><div>This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.</div></div>	<div><div>Commentary on 2015/16 result</div><div><div>2015/16 ratio</div><div>13.25 mths</div></div><div>Council continues to maintain a high cash balance. The increase in the ratio is due to the receipt of Section 94 income and improved operating performance.</div></div>
Year	Ratio (mths)											
2013	4.83											
2014	5.05											
2015	10.03											
2016	13.25											

Hornsby Shire Council

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

Note 14. Investment properties

\$ '000

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

Note 15. Financial risk management

Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	20,697	18,112	20,697	18,112
Investments				
– 'Held to maturity'	107,000	76,300	107,000	76,300
Receivables	10,274	6,894	10,274	6,894
Total financial assets	137,971	101,306	137,971	101,306
Financial liabilities				
Payables	24,627	10,324	24,627	10,324
Loans/advances	5,532	6,825	5,532	6,825
Total financial liabilities	30,159	17,149	30,159	17,149

Fair value is determined as follows:

- **Cash** and **cash equivalents**, **receivables**, **payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** and **held-to-maturity** investments – are based upon estimated future cash flows discounted by the current
- 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.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 15. Financial risk management (continued)

\$ '000

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

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

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

The risks associated with the investments held are:

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

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

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

(a) Market risk – price risk and interest rate risk

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2016				
Possible impact of a 10% movement in market values	–	–	–	–
Possible impact of a 1% movement in interest rates	1,277	1,277	(1,277)	(1,277)
2015				
Possible impact of a 10% movement in market values	–	–	–	–
Possible impact of a 1% movement in interest rates	944	944	(944)	(944)

Hornsby Shire 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.

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

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

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

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

		2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		0%	61%	0%	75%
Overdue		100%	39%	100%	25%
		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	–	5,245	–	3,535
< 1 year overdue	0 – 30 days overdue	1,098	2,134	1,387	872
1 – 2 years overdue	30 – 60 days overdue	215	850	244	236
2 – 5 years overdue	60 – 90 days overdue	265	152	297	36
> 5 years overdue	> 90 days overdue	199	208	240	119
		1,777	8,589	2,168	4,798
(iii) Movement in provision for impairment of receivables				2016	2015
Balance at the beginning of the year				72	28
+ new provisions recognised during the year				67	48
– amounts already provided for and written off this year				(47)	(4)
Balance at the end of the year				92	72

Hornsby Shire 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	429	24,198	–	–	–	–	–	24,627	24,627
Loans and advances	–	2,409	1,295	994	699	411	532	6,340	5,532
Total financial liabilities	429	26,607	1,295	994	699	411	532	30,967	30,159
2015									
Trade/other payables	328	9,996	–	–	–	–	–	10,324	10,324
Loans and advances	–	1,974	1,909	1,795	992	700	943	8,313	6,825
Total financial liabilities	328	11,970	1,909	1,795	992	700	943	18,637	17,149

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	24,627	0.00%	10,324	0.00%
Loans and advances – fixed interest rate	5,532	7.27%	6,825	6.30%
	<u>30,159</u>		<u>17,149</u>	

Hornsby Shire 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 10 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	94,991	94,807	(184)	(0%) U
User charges and fees	19,241	16,351	(2,890)	(15%) U
Income from Nursery and Pre School Fees was less than originally budgeted by \$2,613k following closure of Council's Childcare businesses in October 2015.				
Interest and investment revenue	2,622	3,778	1,156	44% F
Funds available for investment were higher than expected, mainly due to \$46,466k of Section 94 and 94A income received throughout the year, \$18,547k greater than budget due to significant development activity. Additionally, Council achieved an annualised return on investments of 3.0%, higher than the base rate of 1.75%.				
Other revenues	6,217	11,066	4,849	78% F
Income from other revenues is greater than expected due to \$2,520k in proceeds from the sale of Council's Childcare businesses and \$318k for services provided to the City of Parramatta Council following the boundary adjustment. Additionally:				
<ul style="list-style-type: none"> - Income from Commercial Rent exceeded the budget by \$762k, partly due to the lease of former Childcare sites. - Income from Prosecutions & Infringements exceeded the budget by \$436k following increased development activity. - Recycling income was \$264k greater than the budget. 				
Operating grants and contributions	11,747	10,467	(1,280)	(11%) U
Funds received exceeded the budget for several of Council's Operating Grants and Contributions. Of note, an additional \$526k was received to fund expenditure for Rural Fire Services, and \$395k for Waste & Recycling.				

Hornsby Shire 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* -----	
REVENUES (continued)				
Capital grants and contributions	34,931	52,110	17,179	49% F
Capital Grants and Contributions income is greater as Section 94 and 94A contributions exceeded the budget by \$18,547k due to significant development activity. This increase is partially offset by income from Capital Grants and Contributions for Transportation (Roads, Bridges & Footpaths), which was less than the budget due to the timing of cash receipts. Further cash receipts are expected to be received in the year ending 30 June 2017.				
Net gains from disposal of assets	870	2,896	2,026	233% F
Council sold five properties during the year, as well as several minor pieces of property plant and equipment. Gains of \$2,896k were realised.				
EXPENSES				
Employee benefits and on-costs	51,447	47,937	3,510	7% F
Borrowing costs	387	680	(293)	(76%) U
Borrowing costs increased by \$294k due to the unwinding of amortisation on Council's interest free loan. The loan was brought to fair value in the current year after being transferred to the City of Parramatta Council following the boundary adjustment proclaimed by the NSW government on 12 May 2016.				
Materials and contracts	43,214	41,234	1,980	5% F
Depreciation and amortisation	20,284	18,570	1,714	8% F
Other expenses	14,463	13,409	1,054	7% F
Boundary adjustment	–	(161,381)	161,381	0% F
As disclosed in Note 24, on 12 May 2016 the NSW government announced an adjustment to Council's boundaries and all assets south of the M2 motorway were transferred to the City of Parramatta Council. This resulted in a \$161,002k loss.				

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

*Budget figures for Council's Cash Flow are sourced from the Long Term Financial Plan

Cash flows from operating activities	47,978	81,350	33,372	69.6% F
Cash Flows from Operating Activities increased as Council received \$46,466k of S94 and S94A income within the year, greater than forecast.				
Cash flows from investing activities	(50,036)	(77,178)	(27,142)	54.2% U
Additional funds were invested as Increased S94 income and the realisation of operating surpluses over the past two years has resulted in a larger amount of funds to purchase investment securities.				
Cash flows from financing activities	(4,861)	(1,587)	3,274	(67.4%) F
Cash flow from financing activities is less than forecast as Council's level of external debt is reducing. No new loan agreements have been entered into in several years.				

Hornsby Shire 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.

Of the \$61,020k Developer Contributions held as an externally restricted asset at 30 June 2016, \$14,079k is payable to the City of Parramatta as a result of the Boundary Adjustment. The amount is expected to be settled in the year ending 30 June 2017.

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	Transfer to rural roads restricted fund	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	3,957	2,869	–	120	(2,594)	(529)	3,823	–
Open space	24,623	32,319	–	1,146	(25,126)	–	32,962	–
Community facilities	11,376	9,783	–	433	(755)	–	20,837	–
S94 administration	194	214	–	–	–	–	408	–
S94 contributions – under a plan	40,150	45,185	–	1,699	(28,475)	(529)	58,030	–
S94A levies – under a plan	1,634	1,281	–	81	(6)	–	2,990	–
Total S94 revenue under plans	41,784	46,466	–	1,780	(28,481)	(529)	61,020	–
Total contributions	41,784	46,466	–	1,780	(28,481)	(529)	61,020	–

Hornsby Shire 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 NUMBER 1 (2012 to 2021)

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Transfer to rural roads restricted fund	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	3,957	2,869	–	120	(2,594)	(529)	3,823	–
Open space	24,623	32,319	–	1,146	(25,126)	–	32,962	–
Community facilities	11,376	9,783	–	433	(755)	–	20,837	–
S94 administration	194	214	–	–	–	–	408	–
Total	40,150	45,185	–	1,699	(28,475)	(529)	58,030	–

S94A LEVIES – UNDER A PLAN

2012 - 2021

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Transfer to rural roads restricted fund	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Other	1,634	1,281	–	81	(6)	–	2,990	–
Total	1,634	1,281	–	81	(6)	–	2,990	–

Hornsby Shire 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 and the bank guarantees detailed on Note 11.

Hornsby Shire 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.

(iii) Potential Land Acquisitions due to Planning Restrictions imposed by Council

Council has classified a number of privately owned land parcels as Local Open Space or Bushland.

(iii) Potential Land Acquisitions due to Planning Restrictions imposed by Council (continued)

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At the reporting date, reliable estimates as to the value of any potential liability (& subsequent land asset) from such potential acquisitions has not been possible.

(iv) Hornsby Quarry Site

Council plan to develop Hornsby Quarry into public recreational space by partially filling the quarry void using spoil material from the Northconnex tunnel.

Council is not legally obliged to remediate the site, therefore a provision for future costs has not been recognised in line with AASB 137. Instead, expenditure will be accounted for as work is completed in future years, which is expected to be capital in nature.

Council has sufficient cash reserves available to carry out all remediation works and these reserves have been internally restricted for this purpose as disclosed in Note 6c.

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 & including 30/6/08.

Hornsby Shire Council

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

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

\$ '000

ASSETS NOT RECOGNISED (continued):

(ii) Infringement Notices/Fines

Fines & Penalty Income, the result of Council issuing Infringement Notices is followed up and collected by the Infringement Processing Bureau.

Councils Revenue Recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at Year End, there is a potential asset due to Council representing issued but unpaid Infringement Notices.

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

LOCAL GOVERNMENT REFORM

The NSW Government's Fit for the Future program has recommended Hornsby Council voluntarily merge with Ku-ring-gai Council.

On 12 May 2016 the NSW Premier and Minister for Local Government announced the creation of 19 new councils across NSW. Although the amalgamation of Hornsby and Ku-ring-gai Councils was not one of the 19, the Minister reconfirmed his in-principle support for such a merger to occur.

Ku-ring-gai Council has entered legal proceedings against the proposal from the NSW State for a forced merger with Hornsby Council. The final outcome of these proceedings is pending at the date of signing the Financial Statements.

Note 19. Interests in other entities

Council has no interest in any controlled entities, joint arrangements or associates.

Hornsby Shire 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)		1,158,558	1,072,236
a. Correction of error/s relating to a previous reporting period	20 (c)	(75,755)	36,131
b. Net operating result for the year		(91,737)	49,186
c. Transfers between equity		59,500	1,005
Balance at end of the reporting period		1,050,566	1,158,558

(b) Revaluation reserves**(i) Reserves are represented by:**

– Infrastructure, property, plant and equipment revaluation reserve	472,569	506,066
Total	472,569	506,066

(ii) Reconciliation of movements in reserves:**Infrastructure, property, plant and equipment revaluation reserve**

– Opening balance	506,066	434,155
– Revaluations for the year	26,003	86,814
– Transfer to retained earnings for asset disposals	(59,500)	(1,005)
– Transfer of land from operating to community	–	(13,898)
– Balance at end of year	472,569	506,066

TOTAL VALUE OF RESERVES

472,569	506,066
----------------	----------------

(iii) Nature and purpose of reserves**Infrastructure, property, plant and equipment revaluation reserve**

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

Hornsby Shire 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 (continued)

\$ '000	Notes	Actual 2016	Actual 2015
---------	-------	----------------	----------------

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

Correction of errors disclosed in this year's financial statements:

Remeasurement of Community Land	(75,755)
Adjustment to Retained Earnings	(75,755)

Revaluation of Community Land

During the current year revaluation of this asset class, land parcels were realigned to Council's Geographic Information System, which detected a historic difference between the system and Council's asset register.

The adjustment reflects a decrease to the opening fair value of Community Land. As a result, Council has reduced retained earnings at 30 June 2016.

Correction of errors as disclosed in last year's financial statements:

Roads - decrease to accumulated depreciation	36,131
Land - transfer from operating to community	(13,898)
Adjustment to Retained Earnings (year ended 30 June 2015)	22,233

Roads - Decrease to Accumulated Depreciation

During the current year revaluation of infrastructure assets Council aligned useful lives for depreciation with strategic asset management systems. This resulted in the cessation of depreciation charged to Road Sub Base as this layer of the road is no longer excavated during renewal due to modern techniques.

The adjustment reflects the reversal of accumulated depreciation expensed in previous years.

Transfer of Land from Operating to Community

The adjustment reflects the reduction in value of a parcel of land re-zoned from operating to community classification in the prior year, remeasured to fair value in the current year.

Sufficient gains on revaluation had been recognised in previous years for the reduction in value to be taken to the revaluation reserve.

(d) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

Hornsby Shire 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 13/10/16.

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.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2016

Note 24. Boundary adjustment

\$ '000	Actual 2016	Actual 2015
---------	----------------	----------------

On 12 May 2016 the NSW government announced the creation of 19 new Councils in NSW. Although Hornsby Shire Council has not yet been merged with another Council, its boundaries were adjusted and all assets south of the M2 motorway were transferred to the City of Parramatta Council.

There is no compensation associated with the boundary adjustment.

Boundary adjustment

Gross profit/(loss) relating to boundary adjustment	(161,381)	–
NET PROFIT/(LOSS) FROM BOUNDARY ADJUSTMENT	(161,381)	–

Reconciliation

Carrying amount of non current assets transferred	9a	(146,801)	–
Carrying amount of liabilities transferred		1,000	–
Carrying amount of developer contributions transferred		(14,079)	–
Carrying amount of waste management external reserves transferred		(176)	–
Transfer of rates income for the year ended 30 June 2016		(1,325)	–
Profit/(loss) on boundary adjustment		(161,381)	–

Note 25. Intangible assets

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

Intangible assets are as follows:

Opening values:	2016	2015
Gross book value (1/7)	8,608	8,608
Accumulated amortisation (1/7)	(8,602)	(8,600)
Net book value – opening balance	6	8
Movements for the year		
– Amortisation charges	(2)	(2)
Closing values:		
Gross book value (30/6)	8,608	8,608
Accumulated amortisation (30/6)	(8,604)	(8,602)
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE¹	4	6

¹ The net book value of intangible assets represent:

– Software	4	6
	4	6

Hornsby Shire Council

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

Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

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

Note 27. Fair value measurement

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

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

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					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/16	—	—	4,517	4,517
Office equipment	30/06/16	—	—	644	644
Furniture and fittings	30/06/16	—	—	429	429
Operational land	30/06/13	—	—	117,234	117,234
Community land	30/04/16	—	—	348,719	348,719
Land improvements	30/06/16	—	—	32,225	32,225
Buildings (specialised and non-specialised)	30/06/14	—	—	99,767	99,767
Other structures	30/06/16	—	—	13,814	13,814
Roads, bridges, footpaths and bulk earthworks	30/06/16	—	—	388,246	388,246
Stormwater drainage	30/06/16	—	—	385,323	385,323
Swimming pools	30/06/14	—	—	30,965	30,965
Water supply network	30/06/16	—	—	40	40
Library books	30/06/16	—	—	1,343	1,343
Total infrastructure, property, plant and equipment		—	—	1,423,266	1,423,266

The reconciliation of movements from 30 June 2015 to 30 June 2016 is disclosed in Note 9(a).

Hornsby Shire 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):

2015		Fair value measurement hierarchy			Total
		Level 1	Level 2	Level 3	
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/15	—	—	4,752	4,752
Office equipment	30/06/15	—	—	616	616
Furniture and fittings	30/06/15	—	—	437	437
Operational land	30/06/13	—	—	124,096	124,096
Community land	30/06/11	—	—	416,698	416,698
Land improvements	30/06/15	—	—	28,136	28,136
Buildings (specialised and non-specialised)	30/06/14	—	—	114,410	114,410
Other structures	30/06/15	—	—	12,759	12,759
Roads, bridges, footpaths and bulk earthworks	30/06/15	—	—	433,526	433,526
Stormwater drainage	30/06/15	—	—	422,225	422,225
Swimming pools	30/06/14	—	—	30,661	30,661
Water supply network	30/06/15	—	—	44	44
Library books	30/06/15	—	—	1,352	1,352
Total infrastructure, property, plant and equipment		—	—	1,589,712	1,589,712

(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.

Hornsby Shire 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

Council's non-current assets are continually remeasured to fair value (over a minimum of a 5 year period) in accordance with the valuation policy as mandated by the Division of Local Government. Further details of the revaluations policy is provided under note 1(j).

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

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Infrastructure, property, plant and equipment

Buildings (Specialised and Non-Specialised)

Council engages an independent, qualified expert, Scott Fullerton Valuations Pty Limited to determine the fair value of buildings, which were last remeasured at 30 June 2014.

In line with AASB 13 fair value is calculated using depreciated replacement cost methodology. Gross replacement cost is calculated from the summation of the current replacement unit cost of the individual components of each building. Accumulated depreciation is calculated from the condition of each component, which is used to determine the amount of economic benefit consumed. Gross replacement cost less accumulated depreciation equates to fair value.

The current replacement unit cost rates of each component are a key unobservable input (level 3) in the calculation. These rates are benchmarked to the construction cost of similar properties to ensure they are appropriate.

Land (Operational and Community)

Council engages an independent, qualified expert to determine the fair value of operational land. Fair value is calculated with reference to current prices in an active market for similar properties and used to calculate square meter unit rates. Where such information is not available the price of different properties in active markets or price of similar properties in less active markets, adjusted to reflect differences are used. Consideration is paid to the inherent features of each property such as usability, fire and flood risk with adjustments made if appropriate.

The valuation of community land is performed internally as there is no active market. Fair value is determined from square meter unit rates supplied by the Valuer General, which are used for rating purposes.

Community and operational land were last remeasured to fair value at 30 June 2016 and 30 June 2013, respectively.

Square meter unit rates are a key unobservable input in each the calculations.

Infrastructure assets

Valuations for infrastructure assets are performed internally as there is no active market for assets of this nature. Gross replacement cost is calculated from the summation of the current replacement unit cost of the individual components of each asset. The cost of each component is determined from the unit rate, usually in square meters multiplied by the dimensions of the component of the asset. All infrastructure assets are subject to ongoing condition assessment. Accumulated depreciation is calculated from the condition of each asset,

Hornsby Shire Council

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

Note 27. Fair value measurement (continued)

which is used to determine the amount of economic benefit consumed. Gross replacement cost less accumulated depreciation equates to fair value.

Square meter unit rates are a key unobservable input in the calculation.

All Other Asset Classes

Historic cost is deemed to represent fair value for all other asset classes.

(4). Highest and best use

All non-financial assets are utilised at their highest and best use except for two commercial properties currently vacant. These properties are to be sold or leased subject to Council resolution and have a written down value of \$2.1m at 30 June 2016. A gain on disposal is expected.

Hornsby Shire Council

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

Note 28. Council information and contact details

Principal place of business:

296 Pacific Highway
Hornsby NSW 2077

Contact details
Mailing address:

PO Box 37
Hornsby NSW 1630

Opening hours:

Monday - Friday
8:30am to 5:00pm

Telephone: 02 9847 6666

Facsimile: 02 9847 6999

Internet: <http://www.hornsby.nsw.gov.au>

Email: hsc@hornsby.nsw.gov.au

Officers
GENERAL MANAGER

R. Stephens

RESPONSIBLE ACCOUNTING OFFICER

G. Magus

Other information

ABN: 20 706 996 972

Elected members
MAYOR

S. Russell

COUNCILLORS

M. Gallagher

N. Tilbury

A. Anisse

N. Berman

R. Browne

G. Singh

M. Hutchence

J. Cox

B. Azizi



Hornsby Shire Council

Independent auditor's report to the Council – s417(2) Report on the general purpose financial statements

Report on the financial statements

We have audited the accompanying financial statements of Hornsby Shire Council (the Council), which comprise the Statement of Financial Position as at 30 June 2016 and the Income Statement, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, accompanying notes to the financial statements and the Statement by Councillors and Management in the approved form as required by Section 413(2) of the Local Government Act 1993.

Councillors' responsibility for the financial statements

The Councillors of the Council are 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 and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. Those 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 judgment, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Councillors, as well as evaluating the overall presentation of the financial statements.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

Our audit responsibility does not extend to the Original Budget Figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in notes 2(a) and 16 and the Projections disclosed in note 17 to the financial statements, nor the attached Special Schedules, and accordingly, we express no opinion on them.

PricewaterhouseCoopers, ABN 52 780 433 757

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

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 (the Division); and
- (b) the financial statements:
 - (i) have been presented, in all material respects, in accordance with the requirements of this Division
 - (ii) are consistent with the Council's accounting records
 - (iii) present fairly, in all material respects, the Council's financial position as at 30 June 2016 and its Financial Performance and its Cash Flows for the year then ended in accordance with Australian Accounting Standards
- (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 have come to light during the course of the audit.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Marc Upcroft'.

Marc Upcroft
Partner

Sydney
13 October 2016



Private & Confidential

The Mayor
Councillor Steve Russell
Hornsby Shire Council
DX 9655
HORNSBY

Dear Councillor Russell

***Report to the conduct of the Audit for year ended 30 June 2016 –
Section 417(3)***

We have completed our audit of the financial reports of the Council for the year ended 30 June 2016, in accordance with Section 415 of the Local Government Act 1993.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial reports are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial reports, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial reports are presented fairly in accordance with Australian Accounting Standards as well as statutory requirements so as to present a view which is consistent with our understanding of the Council's financial position, the results of its operations and its cash flows.

This report should be read in conjunction with our audit opinion on the general purpose financial statements provided under Section 417(2) of the Local Government Act 1993.

Flowing from our audit, there are a number of comments we wish to raise concerning the trends in Council's finances. These are set out below.

Operating result

Council's operating surplus declined from a \$49 million surplus in the previous year to a deficit of \$91 million in the current period. The principal reason for this movement was the loss on boundary adjustment (\$161m) resulting from the transfer of Council asset to the City of Parramatta for no consideration in accordance with the Governor's Proclamation of 12 May 2016. The net operating surplus before capital contributions and the boundary adjustment was \$17.5 million which was consistent with the previous year's result.

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Cash position

Council's overall cash position declined from \$94 million to \$128 million during the period under review. The following table highlights the composition of cash:

	2015 \$m	2016 \$m
Externally restricted	48	69
Internally restricted	41	53
Unrestricted	5	6
Total	94	128

Working capital

Council's net current assets improved from \$70 million to \$93 million during the period under review. The value of net current assets needs to be adjusted in order to establish the available working capital position.

	2015 \$m	2016 \$m
Net current assets	70	93
Less: External restrictions	(44)	(65)
Internal restrictions	(33)	(53)
Add: Current liabilities deferred	16	30
Available working capital	9	5

The effective unrestricted or available working capital upon which Council could build its 2017 budget was \$5 million.

Performance indicators

The financial reports disclose a number of useful indicators in Note 13 and these are detailed below:

	2015 %	2016 %
Operating Performance Ratio	11	11
Own Source Operating Revenue Ration	73	67
Unrestricted Current Ratio	333	402
Debt Service Cover Ratio	626	1495
Rates Outstanding Ratio	2.2	1.8
Cash Expense Cover Ratio	10	13



The Operating Performance Ratio was steady and remained above the industry benchmark of 0%.

The Own Source Operating Revenue Ratio declined to 67% to remain above the industry benchmark of 60%. Higher developer contributions impacted this ratio.

The Unrestricted Current Ratio improved and remained above the industry benchmark of 150%.

The Debt Service Cover Ratio improved and was well above the industry benchmark of 200%.

The Rates Outstanding Ratio improved and remained better than the industry benchmark of 5%.

The Cash Expense Cover Ratio indicated that Council could continue to cover its operating costs for 13 months should cash inflows cease, which is in-line with the industry benchmark of 3 months.

Council is considered to be in a very sound and stable financial position. All financial indicators are better than accepted industry benchmarks.

General

The books of accounts and records inspected by us have been kept in an accurate and conscientious manner. We thank the Acting General Manager and his staff for the cooperation and courtesy extended to us during the course of our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Marc Upcroft', written in a cursive style.

Marc Upcroft
Partner
13 October 2016

Sydney

Hornsby Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016



Hornsby Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

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Background

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

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

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

Hornsby Shire 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 14 September 2016.


 S. Russell
 Mayor


 M. Hutchence
 Councillor


 R. Stephens
 General Manager


 G. Magus
 Responsible Accounting Officer

Hornsby Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

	Nurseries & Preschools *		Aquatic Centres & Sports Stadium	
	Category 2		Category 1	
\$ '000	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Income from continuing operations				
User charges	609	3,185	4,690	4,169
Fees	–	11	–	–
Grants and contributions provided for non-capital purposes	581	1,783	–	–
Profit from the sale of assets	27	–	–	–
Other income	–	16	306	288
Total income from continuing operations	1,217	4,995	4,996	4,457
Expenses from continuing operations				
Employee benefits and on-costs	1,392	3,753	3,806	3,278
Materials and contracts	303	564	686	901
Depreciation and impairment	148	155	1,120	1,004
Calculated taxation equivalents	134	269	253	223
Other expenses	76	221	824	835
Total expenses from continuing operations	2,053	4,962	6,689	6,241
Surplus (deficit) from continuing operations before capital amounts	(836)	33	(1,693)	(1,784)
Surplus (deficit) from continuing operations after capital amounts	(836)	33	(1,693)	(1,784)
Surplus (deficit) from all operations before tax	(836)	33	(1,693)	(1,784)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	(10)	–	–
SURPLUS (DEFICIT) AFTER TAX	(836)	23	(1,693)	(1,784)
Plus opening retained profits	3,588	3,830	33,283	4,180
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	134	269	253	223
– Corporate taxation equivalent	–	10	–	–
Add:				
– Subsidy paid/contribution to operations	–	–	806	1,610
– Capital contributions (Hornsby aquatic centre)	–	–	418	29,054
Less:				
– TER dividend paid	(2,886)	(544)	–	–
Closing retained profits	–	3,588	33,067	33,283
Return on capital %	n/a	0.3%	-4.3%	-4.5%
Subsidy from Council	836	311	2,482	2,979

* On October 5, 2015 Council's Nurseries & Preschools Businesses were closed.

Hornsby Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

	Commercial Waste Category 2		Development Applications Category 2	
\$ '000	Actual 2016	Actual 2015	Actual 2016	Actual 2015
Income from continuing operations				
User charges	1,438	1,359	–	–
Fees	–	–	623	484
Profit from the sale of assets	–	–	–	14
Other income	401	387	–	–
Total income from continuing operations	1,839	1,746	623	498
Expenses from continuing operations				
Employee benefits and on-costs	45	43	761	554
Materials and contracts	1,444	1,326	109	109
Depreciation and impairment	30	23	28	34
Other expenses	1	1	3	2
Total expenses from continuing operations	1,520	1,393	901	699
Surplus (deficit) from continuing operations before capital amounts	319	353	(278)	(201)
Surplus (deficit) from continuing operations after capital amounts	319	353	(278)	(201)
Surplus (deficit) from all operations before tax	319	353	(278)	(201)
Less: corporate taxation equivalent (30%) [based on result before capital]	(96)	(106)	–	–
SURPLUS (DEFICIT) AFTER TAX	223	247	(278)	(201)
Plus opening retained profits	313	208	11	10
Plus adjustments for amounts unpaid:				
– Corporate taxation equivalent	96	106	–	–
Add:				
– Subsidy paid/contribution to operations	–	–	276	202
Less:				
– TER dividend paid	(303)	(248)	–	–
Closing retained profits	329	313	9	11
Return on capital %	261.5%	232.2%	-280.8%	-168.9%
Subsidy from Council	–	–	280	205

Hornsby Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

Property
Services

Category 1

\$ '000	Actual	
	2016	2015
Income from continuing operations		
User charges	531	474
Fees	47	39
Grants and contributions provided for non-capital purposes	–	21
Profit from the sale of assets	–	2,215
Other income	2	8
Total income from continuing operations	580	2,757
Expenses from continuing operations		
Employee benefits and on-costs	172	115
Materials and contracts	49	(48)
Depreciation and impairment	736	819
Calculated taxation equivalents	575	577
Other expenses	–	93
Total expenses from continuing operations	1,532	1,556
Surplus (deficit) from continuing operations before capital amounts	(952)	1,201
Surplus (deficit) from continuing operations after capital amounts	(952)	1,201
Net Loss from Boundary Adjustment	(4,513)	–
Surplus (deficit) from all operations before tax	(5,465)	1,201
Less: corporate taxation equivalent (30%) [based on result before capital]	–	(360)
SURPLUS (DEFICIT) AFTER TAX	(5,465)	841
Plus opening retained profits	27,072	27,891
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	575	577
– Corporate taxation equivalent	–	360
Less:		
– Dividend paid	(576)	(2,597)
Closing retained profits	21,606	27,072
Return on capital %	-2.6%	2.9%
Subsidy from Council	1,685	48

Hornsby Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

	Nurseries & Preschools *		Aquatic Centres & Sports Stadium	
	Category 2		Category 1	
\$ '000	Actual 2016	Actual 2015	Actual 2016	Actual 2015
ASSETS				
Current assets				
Cash and cash equivalents	–	–	256	575
Receivables	–	–	72	58
Inventories	–	–	15	15
Total Current Assets	–	–	343	648
Non-current assets				
Infrastructure, property, plant and equipment	–	11,389	39,644	39,561
Total non-current assets	–	11,389	39,644	39,561
TOTAL ASSETS	–	11,389	39,987	40,209
LIABILITIES				
Current liabilities				
Provisions	–	408	215	221
Total current liabilities	–	408	215	221
TOTAL LIABILITIES	–	408	215	221
NET ASSETS	–	10,981	39,772	39,988
EQUITY				
Retained earnings	–	3,588	33,067	33,283
Revaluation reserves	–	7,393	6,705	6,705
Council equity interest	–	10,981	39,772	39,988
TOTAL EQUITY	–	10,981	39,772	39,988

* On October 5, 2015 Council's Nurseries & Preschools Businesses were closed.

Hornsby Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

	Commercial Waste Category 2		Development Applications Category 2	
\$ '000	Actual 2016	Actual 2015	Actual 2016	Actual 2015
ASSETS				
Current assets				
Receivables	232	186	61	48
Total Current Assets	232	186	61	48
Non-current assets				
Infrastructure, property, plant and equipment	122	152	99	119
Total non-current assets	122	152	99	119
TOTAL ASSETS	354	338	160	167
LIABILITIES				
Current liabilities				
Provisions	25	25	151	156
Total current liabilities	25	25	151	156
TOTAL LIABILITIES	25	25	151	156
NET ASSETS	329	313	9	11
EQUITY				
Retained earnings	329	313	9	11
Council equity interest	329	313	9	11
TOTAL EQUITY	329	313	9	11

Hornsby Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

	Property Services Category 1	
\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Receivables	247	138
Total Current Assets	247	138
Non-current assets		
Infrastructure, property, plant and equipment	36,847	41,364
Total non-current assets	36,847	41,364
TOTAL ASSETS	37,094	41,502
LIABILITIES		
Current liabilities		
Provisions	69	71
Total current liabilities	69	71
TOTAL LIABILITIES	69	71
NET ASSETS	37,025	41,431
EQUITY		
Retained earnings	21,606	27,072
Revaluation reserves	15,419	14,359
Council equity interest	37,025	41,431
TOTAL EQUITY	37,025	41,431

Hornsby Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

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1	Summary of significant accounting policies	10
2	Water Supply Business Best-Practice Management disclosure requirements	n/a
3	Sewerage Business Best-Practice Management disclosure requirements	n/a

Hornsby Shire 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. Aquatic & Sports Centres

Operation of swimming pools, gymnasiums & indoor sports centres

b. Property Services

Rental of Council properties to 3rd parties for residential & commercial purposes

Category 2

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

c. Nurseries & Preschools

Operation of children's nurseries & preschools

On October 5, 2015 Council's Nurseries & Preschools Businesses were closed.

d. Commercial Waste Service

Services provided for the collection of commercial waste and sullage

e. Development Assessments

Development assessment & inspection services

Monetary amounts

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

Hornsby Shire Council

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

Note 1. Significant accounting policies (continued)

(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.

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. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

Hornsby Shire Council

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

Note 1. Significant accounting policies (continued)

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 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 1.99% at 30/6/16.

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



Hornsby Shire Council

Independent auditor's report Report on the special purpose financial statements

Report on the financial statements

We have audited the accompanying financial statements, being the special purpose financial statements, of Hornsby Shire Council (the Council), which comprises the Statement of Financial Position by Business Activity for the year ended 30 June 2016, the Income Statements by Business Activity for the year then ended, notes to the financial statements for the Business Activities identified by Council and the Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting for the year ended 30 June 2016.

Councillors' responsibility for the financial report

The Councillors of the Council are responsible for the preparation and fair presentation of the financial statements 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 requirements of the Local Government Code of Accounting Practice and Financial Reporting. The Councillors responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's 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 judgment, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Councillors, as well as evaluating the overall presentation of the financial statements.

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



Auditor's opinion:

In our opinion, the financial statements presents fairly, in all material respects, the financial position by Business Activity of Hornsby Shire Council as of 30 June 2016 and its financial performance by Business Activity for the year then ended in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 to the financial statements, and the Local Government Code of Accounting Practice and Financial Reporting.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Council.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Marc Upcroft'.

Marc Upcroft
Partner

Sydney
13 October 2016

Hornsby Shire Council

SPECIAL SCHEDULES

for the year ended 30 June 2016



Hornsby Shire Council

Special Schedules for the year ended 30 June 2016

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Special Schedule 2(a)	Statement of Long Term Debt (all purposes)	4
Special Schedule 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
Special Schedule 3	Water Supply Operations – incl. Income Statement	n/a
Special Schedule 4	Water Supply – Statement of Financial Position	n/a
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.

Hornsby Shire 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	1,897	–	–	(1,897)
Administration	15,771	8,896	2,659	(4,216)
Public order and safety				
Fire service levy, fire protection, emergency services	3,288	545	20	(2,723)
Beach control	–	–	–	–
Enforcement of local government regulations	–	–	–	–
Animal control	314	92	–	(222)
Other	–	–	–	–
Total public order and safety	3,602	637	20	(2,945)
Health	524	366	–	(158)
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	5,871	3,539	77	(2,255)
Solid waste management	23,476	27,081	–	3,605
Street cleaning	1,261	22	–	(1,239)
Drainage	5,390	46	–	(5,344)
Stormwater management	–	–	–	–
Total environment	35,998	30,688	77	(5,233)
Community services and education				
Administration and education	1,098	2	–	(1,096)
Social protection (welfare)	997	360	–	(637)
Aged persons and disabled	774	756	–	(18)
Children's services	2,127	1,218	–	(909)
Total community services and education	4,996	2,336	–	(2,660)
Housing and community amenities				
Public cemeteries	–	–	–	–
Public conveniences	–	–	–	–
Street lighting	2,800	353	–	(2,447)
Town planning	9,090	4,620	46,466	41,996
Other community amenities	2,992	8	–	(2,984)
Total housing and community amenities	14,882	4,981	46,466	36,565

Hornsby Shire 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	7,586	519	101	(6,966)
Museums	—	—	—	—
Art galleries	—	—	—	—
Community centres and halls	2,099	1,914	29	(156)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	—	—	—	—
Sporting grounds and venues	2,419	1,776	66	(577)
Swimming pools	5,587	4,287	—	(1,300)
Parks and gardens (lakes)	1,862	260	—	(1,602)
Other sport and recreation	7,904	706	82	(7,116)
Total recreation and culture	27,457	9,462	278	(17,717)
Fuel and energy	—	—	—	—
Agriculture	—	—	—	—
Mining, manufacturing and construction				
Building control	—	—	—	—
Other mining, manufacturing and construction	—	—	—	—
Total mining, manufacturing and const.	—	—	—	—
Transport and communication				
Urban roads (UR) – local	8,738	1,982	1,961	(4,795)
Urban roads – regional	—	—	—	—
Sealed rural roads (SRR) – local	—	—	—	—
Sealed rural roads (SRR) – regional	—	—	—	—
Unsealed rural roads (URR) – local	42	—	—	(42)
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	—	—	—	—
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	5	—	—	(5)
Footpaths	574	—	—	(574)
Aerodromes	—	—	—	—
Other transport and communication	4,351	3,070	649	(632)
Total transport and communication	13,710	5,052	2,610	(6,048)
Economic affairs				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	2,993	1,268	—	(1,725)
Total economic affairs	2,993	1,268	—	(1,725)
Totals – functions	121,830	63,686	52,110	(6,034)
General purpose revenues ⁽¹⁾		75,679		75,679
Share of interests – joint ventures and associates using the equity method	—	—		—
NET OPERATING RESULT ⁽²⁾	121,830	139,365	52,110	69,645

(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

Hornsby Shire 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	1,187	4,532	5,719	–	1,187	–	–	386	1,112	3,420	4,532
Other	–	–	–	–	–	–	–	–	–	–	–
Total loans	1,187	4,532	5,719	–	1,187	–	–	386	1,112	3,420	4,532
Other long term debt											
Ratepayers advances	–	–	–	–	–	–	–	–	–	–	–
Government advances	–	–	–	–	–	–	–	–	–	–	–
Finance leases	–	–	–	–	–	–	–	–	–	–	–
Deferred payments	400	1,000	1,400	–	400	–	–	–	1,000	–	1,000
Total long term debt	400	1,000	1,400	–	400	–	–	–	1,000	–	1,000
Total debt	1,587	5,532	7,119	–	1,587	–	–	386	2,112	3,420	5,532

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).

Hornsby Shire 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 refer (1)	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance refer (2)	2015/16 Actual maintenance refer (3)	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Council Offices / Administration Centres	55	55	273	91	15,725	24,550	26%	23%	46%	2%	3%
	Council Works Depot	–	–	101	113	3,626	8,305	12%	0%	88%	0%	0%
	Council Public Halls	442	442	350	256	24,495	40,561	0%	78%	8%	8%	6%
	Libraries	36	36	134	42	8,075	12,813	0%	43%	49%	5%	3%
	Amenities	174	174	397	450	15,361	27,141	0%	2%	75%	15%	8%
	Commercial/Residential Buildings*	–	–	32	32	16,376	36,894	5%	11%	84%	0%	0%
	Rural Fire Service Buildings	–	–	203	54	8,171	11,526	0%	70%	30%	0%	0%
Other structures	Indoor Sports Stadium	227	227	63	13	7,937	9,831	0%	56%	27%	8%	9%
	Sub-total	934	934	1,553	1,051	99,766	171,621	5.4%	35.5%	49.9%	5.4%	3.8%
	Other structures	215	215	250	45	9,821	16,039	22%	42%	18%	12%	6%
	Wharves, Pontoons & Seawalls	600	600	200	116	3,993	5,222	11%	34%	12%	29%	14%
	Sub-total	815	815	450	161	13,814	21,261	19.3%	40.0%	16.5%	16.2%	8.0%
Roads	Sealed Roads Surface	150	150	3,874	3,974	235,811	267,436	49%	36%	9%	3%	3%
	Unsealed roads	–	–	83	85	3,450	5,724	0%	0%	100%	0%	0%
	Bridges	11	11	77	79	4,215	5,334	0%	89%	9%	2%	0%
	Footpaths	30	30	485	498	19,505	33,484	2%	17%	72%	6%	3%
	Cycle ways	1	1	10	10	474	702	90%	8%	1%	1%	0%
	Kerb and Gutter	20	20	718	736	33,787	49,550	0%	17%	77%	2%	4%
	Traffic Facilities	10	10	129	132	7,867	8,890	9%	85%	2%	3%	1%
	Signs	–	–	36	36	2,452	2,452	83%	17%	0%	0%	0%
	Traffic Barrier Fencing	3	3	51	53	3,274	3,544	27%	71%	0%	2%	0%
	Car Parks	2	2	17	18	563	1,202	5%	0%	94%	1%	0%
	Sub-total	227	227	5,480	5,622	311,398	378,318	36.0%	33.2%	24.8%	3.0%	2.9%

Hornsby Shire 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 refer (1)	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance refer (2)	2015/16 Actual maintenance refer (3)	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater Drainage	Pits	409	409	103	99	42,258	54,066	24%	67%	7%	2%	0%
	Pipes	2,936	2,936	736	711	306,606	388,067	7%	84%	8%	1%	0%
	Culverts	171	171	43	41	19,527	22,619	56%	40%	2%	2%	0%
	Head Walls	18	18	5	4	1,809	2,329	20%	73%	6%	1%	0%
	Channels	23	23	7	6	2,389	3,052	2%	25%	72%	1%	0%
	Other	1	1	0	0	12,734	13,747	6%	82%	11%	1%	0%
	Sub-total	3,558	3,558	893	862	385,323	483,880	11.2%	79.6%	8.1%	1.2%	0.0%
Open Space/ Recreational Assets												
	Acquatic Centres**	–	–	324	56	30,965	33,423	95%	5%	0%	0%	0%
	Sub-total	–	–	324	56	30,965	33,423	95.4%	4.6%	0.0%	0.0%	0.0%
	TOTAL – ALL ASSETS	5,535	5,535	8,700	7,752	841,266	1,088,503	21.6%	53.4%	20.4%	2.7%	1.8%

Notes:

- (1). Satisfactory is defined as "satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate".
The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard.
This estimated cost should not include any planned enhancements (ie.to heighten, intensify or improve the facilities).
Assets in condition 3 or above are considered to be in a satisfactory standard.
- (2). Required Annual Maintenance is "what should be spent to maintain assets in a satisfactory standard.
- (3). Actual Maintenance is what has been spent in the current year to maintain the assets.
Actual Maintenance may be higher or lower than the required annual maintenance due to the timing of when the maintenance actually occurs.

(4). **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

Hornsby Shire 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⁾	14,284	93.22%	84.56%	75.60%
Depreciation, amortisation and impairment	15,323			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	5,535	0.66%	0.76%	0.52%
Carrying value of infrastructure assets	841,266			
3. Asset maintenance ratio				
Actual asset maintenance	7,752	0.89	0.83	0.79
Required asset maintenance	8,700			
4. Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed service level set by Council	5,535	0.51%	0.54%	0.48%
Gross replacement cost	1,088,503			

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.

Hornsby Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016

<p>1. Infrastructure renewals ratio</p> <p>Benchmark: — Minimum $\geq 100.00\%$ Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of asset renewals ratio</p> <p>To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 Ratio 93.22%</p> <p>Depreciation exceeds asset renewals for infrastructure assets. However, the ratio has improved in line with the continued development of strategic asset management systems forecast maintenance requirements are fully budgeted.</p>
<p>2. Infrastructure backlog ratio</p> <p>Benchmark: — Maximum $< 2.00\%$ Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of infrastructure backlog ratio</p> <p>This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 Ratio 0.66%</p> <p>The backlog remains consistently below the benchmark of 2.0% as assets are managed by strategic asset management systems and plans with allocated funding to meet requirements.</p>
<p>3. Asset maintenance ratio</p> <p>Benchmark: — Minimum > 1.00 Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of asset maintenance ratio</p> <p>Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 Ratio 0.89 x</p> <p>The ratio is below the benchmark. However, Council's low level of infrastructure backlog remains consistent, indicating a sufficient amount is spent on maintenance.</p>
<p>4. Cost to bring assets to agreed service level</p> <p>Benchmark: — Minimum > 1.00 Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p>Purpose of agreed service level ratio</p> <p>This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.</p>	<p>Commentary on 2015/16 result</p> <p>2015/16 Ratio 0.51%</p> <p>The ratio indicates Council's assets are maintained at or above agreed service levels.</p>

Hornsby Shire 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	74,011	72,452
Plus or minus adjustments ⁽²⁾	b	271	585
Notional general income	c = (a + b)	74,282	73,037
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	(3,528)	—
Plus special variation amount	h = d x (c - g)	—	—
Or plus rate peg amount	i = c x e	1,698	1,315
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—
Sub-total	k = (c + g + h + i + j)	72,452	74,352
Plus (or minus) last year's carry forward total	l	—	—
Less valuation objections claimed in the previous year	m	—	—
Sub-total	n = (l + m)	—	—
Total permissible income	o = k + n	72,452	74,352
Less notional general income yield	p	72,452	74,322
Catch-up or (excess) result	q = o - p	—	30
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	24
Less unused catch-up ⁽⁵⁾	s	—	—
Carry forward to next year	t = q + r - s	—	54

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.



Hornsby Shire Council

Independent auditor's report Report on the Special Schedule No. 8

Report on the 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 Hornsby Shire Council (the Council) for the year ending 30 June 2017.

Councillors' responsibility for Special Schedule No. 8

The Councillors of the Council are 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.

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.

PricewaterhouseCoopers, ABN 52 780 433 757

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Audit Opinion

In our opinion, Special Schedule No. 8 of the Hornsby Shire Council for the year ending 30 June 2017 is properly drawn up in all material respects in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

Restriction on distribution

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 the total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Council and the Office of Local Government.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Marc Upcroft'.

Marc Upcroft
Partner

Sydney
13 October 2016



Image: Parsley Bay by Damian Shaw Photography