



SOUTHERN METROPOLITAN REGIONAL COUNCIL
REGIONAL RESOURCE RECOVERY CENTRE

SOUTHERN METROPOLITAN REGIONAL COUNCIL

ANNUAL FINANCIAL REPORT 2015-2016

Our Vision:

We deliver innovative and sustainable waste management solutions for the benefit of our communities and the environment

Discussion and Analysis of the Financial Report

Statement of Comprehensive Income

The Council's total comprehensive income is a deficit of \$8.9 million (\$1.1 million deficit in FY 15). Compared to the last year, the operating revenues decreased by \$0.7 million while the operating expenses decreased by \$0.9 million.

The deficit also relates to the asset revaluation decrements of \$8 million consisting of the following:

- a. RRRC Digester equipment repairs of \$5 million capitalised and written down due to fair valuation
- b. RRRC Plant and equipment fair values decrease of \$3 million.

The operating revenues is \$28.2 million (\$28.9 million FY 15). Lower gate fee from Members due to discounts and lower sales revenue due to lower commodity prices resulted in a reduction of income by \$1.1 million. This is partly compensated to the extent of \$0.4 million by recoveries related to Lehman Brothers' Collateralised Debt Obligation (CDO) investment of \$0.5 million (a recovery of 86%) previously written off.

The operating expenses is \$29.1 million (\$30.0 million FY 15). The decrease is due to savings in employment cost (\$0.4 million) due to lower staff, reduction in contracted services (\$0.3 million) and lower insurance premiums (\$0.2 million).

Statement of Financial Position

The Council's net assets and total equity is \$44.8 million (\$54.6 million FY 15). The decrease of \$9.8 million is predominately due to decrease in the property, plant and equipment (\$10.3 million).

The additions to the property, plant and equipment are at \$3.7 million (\$2.5 million FY 15). However, the impact of revaluation of plant and equipment (\$8.0 million) and depreciation (\$6.0 million) explain the reasons for the decrease in the value of the property, plant and equipment.

The SMRC has two borrowing arrangements with its participants;

- RRRC Project outstanding balance of \$23.2 million (\$26.7 million FY 15) and;
- Office Accommodation Project, Head office building in Booragoon \$1.8 million (\$1.8 million FY 15).

No new loans are raised during the year. RRRC project loans repaid during the year amounted to \$3.5 million (\$3.3 million FY 15). The RRRC Project borrowings will be fully repaid by 30 June 2023.

Statement of Changes in Equity

During the financial year, the net deficit result from statement of comprehensive income of \$9.2 million is reduced from the retained surplus. Net amount of \$0.3 million is transferred from the retained surplus to cash backed reserves. Also, the MRF loans of \$0.9 million are paid from the retained surplus. An amount of \$0.1 million is transferred from revaluation surplus to the retained surplus on sale of mobile plants.

All the above transactions resulted in reduction of retained surplus in the financial year from \$35.8 million to \$25.5 million.

The cash backed reserve closing balance is \$6.2 million (\$5.9 million FY15). The net movement between the reserves is \$0.3 million. The reserve accounts are for the purposes of funding the asset renewal program, contingency &

development initiatives, insurance replacement caused from damages or losses to RRRC assets, restoration costs associated with the RRRC lease conditions and provision for travel and conferences.

A newly created cash backed reserve fund (RRRC Restoration Reserve) was established for the purposes of setting aside money for a future financial year to meet obligations at the expiry of the ground lease held by the SMRC. \$1 million is transferred to the reserve with further fund requirements to be determined in FY 17.

The revaluation surplus is credited with asset revaluation increments of \$0.3 million. Due to sale of two mobile plants, an amount of \$0.1 million is transferred from revaluation surplus to the retained surplus. This resulted in net increase in revaluation surplus by \$0.2 million.

Statement of Cash Flows

The cash receipts from operations is \$29.9 million (\$32.2 million FY 15). The reduction is mainly due to reduced gate fees, lower sales of recovered products and increase in debtors.

The cash payments for operations is \$26.0 million (\$26.5 million FY 15).

This resulted in net cash generation from operating activities of \$3.9 million (\$5.7 million FY 15).

The cash used in investing activities is \$3.7 million (\$2.5 million in FY 15). The increase is due to the capital expenditure on WCF digester works.

The cash used in financing activities, which represents repayment of MRF Loans, is \$0.8 million (\$0.8 million FY 15).

The above activities resulted in net decrease in the cash balances by \$0.6 million. The cash balances at the end of the financial year is \$10.1 million.

Financial Ratios

Current Ratio			
Measures the liquidity position of a local government.			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	1.0 Higher is better	1.25	The SMRC is in a solvent position and has ability to meet its short term financial obligations out of unrestricted assets. (nb: Cash reserves are not included in the ratio)
<u>Current assets minus restricted current assets</u> Current liabilities minus restricted liabilities associated with restricted assets $\$22.0 - \$6.7 = \$15.3 \text{ million}$ $\$12.7 - \$0.5 = \$12.2 \text{ million}$ [Numbers taken from statement of financial position and cash and cash equivalents note]			

Asset Sustainability Ratio			
Measures whether assets are being replaced/renewed at the rate they are wearing out.			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	1.10 Higher is better	0.06	The SMRC's annual depreciation charge is approx. \$6M. It includes assets that will never be replaced within the 20 year life of the project and therefore an annual replacement program of \$6M is not required. This ratio has little meaning for the SMRC because the annual asset renewal program considers the RRRC Project life to 2023.
<u>Capital renewal and replacement expenditure</u> Depreciation Expense $\$0.4 \text{ million}$ $\$6.0 \text{ million}$ [Numbers taken capital expenditure & statement of comprehensive Income]			

Debt Service Cover			
measures a local government's ability to repay its debt including lease payments			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	5.0 Higher is better	1.32	The RRRC Project loan is guaranteed and repaid by Participants. Therefore this ratio is not a true financial performance for the SMRC
<u>Annual Operating Surplus before interest and depreciation</u> Principal and Interest <u>(\$1.0) + \$7.4 = \$6.4 million</u> \$3.5 + \$1.4 = \$4.9 million [Numbers taken from statement of comprehensive income and statement of cash flows]			

Operating Surplus Ratio			
This ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	0.15 Higher is better	(0.03)	The reason for the SMRC's negative ratio is due to the financial structure of the SMRC. It does not budget to make a surplus or recover the annual \$6 million depreciation charge on its \$50 million assets as revenue from its participants as the participants contribute separately towards the loan borrowings
<u>Operating Revenue minus Operating Expenses</u> Own source operating revenue <u>\$28.2 - \$29.2 = (\$1.0) million</u> \$28.0 million [Numbers taken from statement of comprehensive income by nature or type]			

Own Source Revenue Coverage Ratio			
This ratio measures a local government's ability to cover its costs through its own revenue effort			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	0.90 Higher is better	0.96	The SMRC receives little revenue from government allocations or grants and generates 96% of its revenue for providing a service to its members and commercial customers.
<u>Own source operating revenue</u> Operating expense <u>\$28.1 million</u> \$29.2 Million [Numbers taken from statement of comprehensive income by nature or type]			

Asset Consumption Ratio			
This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	0.75 Higher is better	0.80	An asset re-valuation and depreciation adjustments for plant and equipment was reviewed in 2016.
<p><u>Depreciated Replacement Cost of Depreciable Assets</u> Current Replacement Cost of Depreciable Assets</p> <p><u>\$34.6 million</u> \$43.5 million</p> <p>[Numbers taken from note 6 – Property, Plant & Equipment]</p>			

Asset Renewal Funding			
This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.			
	Target	Actual	Comments
Dept of Local Government Advanced Benchmark	1.05 Higher is better	1.00	Required renewals are determined in the Asset Renewal Plan and are funded from the Plant Reserve Fund based on \$2M pa
<p><u>NPV of Planned Capital Renewals over 10 years</u> NPV of Required Capital Expenditure over 10 years</p> <p><u>\$19.9 Million NPV over 10 years</u> \$19.9 Million NPV over 10 years</p> <p>[Numbers drawn from Long Term Financial Plan (planned renewals) and Asset Management Plan (required renewals)]</p>			

SOUTHERN METROPOLITAN REGIONAL COUNCIL
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

TABLE OF CONTENTS

Statement by Chief Executive Officer	1
Statement of Comprehensive Income by Nature or Type	2
Statement of Comprehensive Income by Program	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to and Forming Part of the Financial Report	7 to 36
Independent Auditor's Report	37 to 38
Supplementary Ratio Information	39

Principal place of Business:
9 Aldous Place
Booragoon WA 6154

SOUTHERN METROPOLITAN REGIONAL COUNCIL

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

**LOCAL GOVERNMENT ACT 1995
LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996**

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Southern Metropolitan Regional Council being the annual financial report and other information for the financial year ended 30 June 2016 are in my opinion properly drawn up to present fairly the financial position of the Southern Metropolitan Regional at 30 June 2016 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and Regulations under that Act.

Signed as authorisation of issue on the 18th day of August 2016



Tim Youé
Chief Executive Officer

SOUTHERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

BY NATURE OR TYPE

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016	2016 Budget	2015
		\$	\$	\$
REVENUE				
Operating Grants, Subsidies and Contributions	21	2,833,027	2,330,080	2,476,010
Fees and Charges	22	25,084,170	25,952,606	26,096,526
Interest Earnings	2(a)	244,584	135,000	305,942
Other Revenues		61,218	99,250	69,814
		<u>28,222,999</u>	<u>28,516,936</u>	<u>28,948,292</u>
EXPENSES				
Employee Costs		(6,531,733)	(7,429,919)	(6,949,889)
Materials and Contracts	2(a)	(12,469,956)	(13,879,798)	(12,621,668)
Utility Charges		(1,450,603)	(1,664,380)	(1,490,399)
Depreciation on Non-current Assets	2(a)	(6,008,518)	(6,303,415)	(5,938,508)
Interest Expenses	29	(1,415,179)	(1,432,654)	(1,511,753)
Insurance Expenses		(1,292,148)	(1,505,700)	(1,510,608)
		<u>(29,168,137)</u>	<u>(32,215,866)</u>	<u>(30,022,825)</u>
		(945,138)	(3,698,930)	(1,074,533)
Loss on asset disposals	24	<u>(21,733)</u>	<u>0</u>	<u>0</u>
Asset Revaluation Decrements				
Specialised Plant and Equipment	6(b)	(8,117,133)	0	0
Information Technology Equipment		<u>(33,285)</u>	<u>0</u>	<u>0</u>
NET RESULT		(9,117,289)	(3,698,930)	(1,074,533)
Other Comprehensive Income				
Asset Revaluation Increments				
Non-specialised Plant and Equipment	6(b)	<u>149,719</u>	<u>0</u>	<u>0</u>
Total Other Comprehensive Income		149,719	0	0
TOTAL COMPREHENSIVE INCOME		<u>(8,967,570)</u>	<u>(3,698,930)</u>	<u>(1,074,533)</u>

This statement is to be read in conjunction with the accompanying notes.

SOUTHERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

BY PROGRAM

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016	2016 Budget	2015
		\$	\$	\$
REVENUE	2(a)			
Governance		329,234	329,234	319,500
Community Amenities		<u>27,893,765</u>	<u>28,187,702</u>	<u>28,628,792</u>
		<u>28,222,999</u>	<u>28,516,936</u>	<u>28,948,292</u>
EXPENSES EXCLUDING FINANCE COSTS	2(a)			
Governance		(217,293)	(329,234)	(285,865)
Community Amenities		<u>(27,535,665)</u>	<u>(30,453,978)</u>	<u>(28,225,207)</u>
		<u>(27,752,958)</u>	<u>(30,783,212)</u>	<u>(28,511,072)</u>
FINANCE COSTS	29			
Governance		(80,023)	(79,920)	(69,120)
Community Amenities		<u>(1,335,156)</u>	<u>(1,352,734)</u>	<u>(1,442,633)</u>
		<u>(1,415,179)</u>	<u>(1,432,654)</u>	<u>(1,511,753)</u>
Loss on asset disposals	24	<u>(21,733)</u>	<u>0</u>	<u>0</u>
Asset Revaluation Decrements				
Community Amenities	6(b)	<u>(8,150,418)</u>	<u>0</u>	<u>0</u>
NET RESULT		(9,117,289)	(3,698,930)	(1,074,533)
Other Comprehensive Income				
Asset Revaluation Increments				
Community Amenities	6(b)	<u>149,719</u>	<u>0</u>	<u>0</u>
Total Other Comprehensive Income		149,719	0	0
TOTAL COMPREHENSIVE INCOME		<u>(8,967,570)</u>	<u>(3,698,930)</u>	<u>(1,074,533)</u>

This statement is to be read in conjunction with the accompanying notes.

SOUTHERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016 \$	2015 \$
CURRENT ASSETS			
Cash and Cash Equivalents	3	10,077,036	10,683,666
Trade and Other Receivables	4	11,366,923	10,375,939
Inventories	5	570,443	422,803
TOTAL CURRENT ASSETS		<u>22,014,402</u>	<u>21,482,408</u>
NON-CURRENT ASSETS			
Other Receivables	4	16,896,486	20,434,470
Property, Plant and Equipment	6	35,618,538	45,957,123
TOTAL NON-CURRENT ASSETS		<u>52,515,024</u>	<u>66,391,593</u>
TOTAL ASSETS		<u>74,529,426</u>	<u>87,874,001</u>
CURRENT LIABILITIES			
Trade and Other Payables	7	3,788,121	3,825,610
Current Portion of Long-term Borrowings	8	8,083,417	8,029,062
Provisions	9	831,321	826,677
TOTAL CURRENT LIABILITIES		<u>12,702,859</u>	<u>12,681,349</u>
NON-CURRENT LIABILITIES			
Long-term Borrowings	8	16,896,486	20,434,470
Provisions	9	162,455	155,258
TOTAL NON-CURRENT LIABILITIES		<u>17,058,941</u>	<u>20,589,728</u>
TOTAL LIABILITIES		<u>29,761,800</u>	<u>33,271,077</u>
NET ASSETS		<u>44,767,626</u>	<u>54,602,924</u>
EQUITY			
Retained Surplus		25,586,999	35,815,325
Reserves- Cash Backed	10	6,250,923	5,905,235
Revaluation Surplus	11	12,929,704	12,882,364
TOTAL EQUITY		<u>44,767,626</u>	<u>54,602,924</u>

This statement is to be read in conjunction with the accompanying notes.

SOUTHERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Retained Surplus	Reserves Cash Backed	Revaluation Surplus	Total Equity
		\$	\$	\$	\$
Balance as at 1 July 2014		39,034,331	4,581,212	12,882,364	56,497,907
Comprehensive Income					
Net Result		(1,074,533)	0	0	(1,074,533)
Changes on Revaluation of Non-current Assets		0	0	0	0
Total Comprehensive Income		(1,074,533)	0	0	(1,074,533)
Loans Repaid from Equity		(820,450)	0	0	(820,450)
Transfer from / (to) Reserves	10	(1,324,023)	1,324,023	0	0
Balance as at 30 June 2015		35,815,325	5,905,235	12,882,364	54,602,924
Comprehensive Income					
Net Result		(9,117,289)	0	0	(9,117,289)
Changes on Revaluation of Non-current Assets	11	0	0	149,719	149,719
Total Comprehensive Income		(9,117,289)	0	149,719	(8,967,570)
Transfer of Revaluation Surplus to Equity on sale of Assets	11	101,043		(101,043)	0
Reversal of Revaluation Surplus to offset reduction in fair value of assets	11	0	0	(1,336)	(1,336)
Loans Repaid from Equity		(866,392)	0	0	(866,392)
Transfer from / (to) Reserves	10	(345,688)	345,688	0	0
Balance as at 30 June 2016		25,586,999	6,250,923	12,929,704	44,767,626

This statement is to be read in conjunction with the accompanying notes.

SOUTHERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016	2016 Budget	2015
		\$	\$	\$
Cash Flows From Operating Activities				
Receipts				
Operating Grants, Subsidies and Contributions		3,025,789	2,330,080	3,084,526
Fees and Charges		23,992,591	26,010,606	26,047,152
Interest Earnings		206,772	135,000	268,130
Goods and Services Tax		2,649,821	2,440,000	2,686,167
Other Revenues		58,995	99,250	72,037
		<u>29,933,968</u>	<u>31,014,936</u>	<u>32,158,012</u>
Payments				
Employee Costs		(6,487,607)	(7,191,785)	(6,759,417)
Materials and Contracts		(13,398,216)	(14,731,444)	(12,513,231)
Utility Charges		(1,450,603)	(1,664,380)	(1,490,399)
Interest Expenses		(1,416,032)	(1,432,654)	(1,512,493)
Insurance Expenses		(1,292,148)	(1,555,700)	(1,510,608)
Goods and Services Tax		(1,935,899)	(2,440,000)	(2,683,634)
		<u>(25,980,505)</u>	<u>(29,015,963)</u>	<u>(26,469,782)</u>
Net Cash Provided By Operating Activities	12(b)	<u>3,953,463</u>	<u>1,998,973</u>	<u>5,688,230</u>
Cash Flows from Investing Activities				
Payments for Purchase of				
Information Technology Equipment	6	(2,428)	(150,735)	(62,025)
Furniture and Fittings	6	0	0	(3,338)
Plant and Equipment	6	(3,698,058)	(4,359,663)	(900,381)
Payments for Construction of				
RRRC Leasehold Improvements	6	0	(415,602)	(93,943)
Payments towards Capital Work In Progress	6	(22,992)	0	(1,464,508)
Proceeds from Sale of Assets	24	<u>29,777</u>	<u>0</u>	<u>0</u>
Net Cash Used In Investing Activities		<u>(3,693,701)</u>	<u>(4,926,000)</u>	<u>(2,524,195)</u>
Cash Flows from Financing Activities				
Repayment of Loans	29	(3,483,629)	(3,481,477)	(3,298,091)
Contributions from Project Participants for Loan Repayments		<u>2,617,237</u>	<u>2,615,992</u>	<u>2,477,641</u>
Net Cash Provided By (Used In) Financing Activities		<u>(866,392)</u>	<u>(865,485)</u>	<u>(820,450)</u>
Net Increase / (Decrease) in Cash Held		<u>(606,630)</u>	<u>(3,792,512)</u>	<u>2,343,585</u>
Cash and Cash Equivalents at Beginning of Year	12(a)	10,683,666	10,683,666	8,340,081
Cash and Cash Equivalents at End of Year	12(a)	<u>10,077,036</u>	<u>6,891,154</u>	<u>10,683,666</u>

This statement is to be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of Australian Accounting Standards Board, the Local Government Act 1995 and accompanying regulations. Material accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise.

Except for the cash flow information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

Critical Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Local Government Reporting Entity

All Funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those funds (for example, loans and transfers between Funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 17 to these financial statements.

The financial report is presented in Australian Dollars.

(b) Goods and Services Tax

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

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Bank overdrafts are reported as short-term borrowings in current liabilities in the statement of financial position.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Trade and Other Receivables

Trade and other receivables include amounts due from service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value.

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.

(f) Fixed Assets

Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Mandatory Requirement to Revalue Non-Current Assets

Effective from 1 July 2012, the Local Government (Financial Management) Regulations were amended and the measurement of non-current assets at Fair Value became mandatory.

During the year ended 30 June 2013, the Council commenced the process of adopting Fair Value in accordance with the Regulations.

Whilst the amendments initially allowed for a phasing in of fair value in relation to fixed assets over three years, as at 30 June 2015 all non-current assets were carried at Fair Value in accordance with the requirements.

Thereafter, each asset class must be revalued in accordance with the regulatory framework established and the Council revalue its asset classes in accordance with this mandatory timetable.

Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary.

Initial recognition and measurement between mandatory revaluation dates

All assets are initially recognised at cost and subsequently revalued in accordance with the mandatory measurement framework detailed above.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework detailed above, are carried at cost less accumulated depreciation as management believes this approximates fair value. They will be subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework detailed above.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) **Fixed Assets (Continued)**

Revaluation

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Major depreciation periods used for each class of depreciable asset are:

Computer Equipment	3 to 5 years
Furniture and Equipment	5 to 10 years
Plant and Equipment	4 to 20 years
Leasehold Improvements	10 to 50 years
Freehold Buildings	40 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

Capitalisation Threshold

Expenditure on items of furniture, computer and electronic equipment under \$5,000, vehicles, mobile plant and equipment under \$5,000 and fixed plant and equipment, building and infrastructure under \$10,000 is not capitalised. Rather, it is recorded on an asset inventory listing.

(g) **Fair Value of Assets and Liabilities**

When performing a revaluation, the Council uses a mix of both independent and management valuations using the following as a guide:

Fair Value is the price that the Council would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair Value of Assets and Liabilities (Continued)

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

Fair Value Hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Council selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Council are consistent with one or more of the following valuation approaches:

Market approach

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) **Fair Value of Assets and Liabilities (Continued)**

Cost approach

Valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Council gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability and considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

As detailed above, the mandatory measurement framework imposed by the Local Government (Financial Management) Regulations requires, as a minimum, all assets carried at a revalued amount to be revalued in accordance with the regulatory framework.

(h) **Financial Instruments**

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Council commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or at cost.

Amortised cost is calculated as:

- a) the amount in which the financial asset or financial liability is measured at initial recognition;
- b) less principal repayments and any reduction for impairment; and
- c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method;

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(i) ***Financial assets at fair value through profit and loss***

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss. Assets in this category are classified as current assets.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) **Financial Instruments (Continued)**

Classification and Subsequent Measurement (continued)

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Loans and receivables are included in current assets where they are expected to mature within 12 months after the end of the reporting period.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Council has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Held-to-maturity investments are included in current assets, where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in current assets, where they are expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as non-current.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Impairment

A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which will have an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Continued)
Impairment (continued)

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Council no longer has any significant continual involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(i) Impairment

In accordance with Australian Accounting Standards the Council's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other standard.

For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

(j) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Council prior to the end of the financial year that are unpaid and arise when the Council becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

(k) Employee Benefits
Short-Term Employee Benefits

Provision is made for the Council's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Council's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee Benefits (Continued)
Other Long-Term Employee Benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations or service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(l) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

(m) Provisions

Provisions are recognised when the Council has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(n) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Council, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

(o) Grants, Donations and Other Contributions

Grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

**SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Grants, Donations and Other Contributions (Continued)

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current reporting period.

(p) Superannuation

The Council contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Council contributes are defined contribution plans.

(q) Current and Non-Current Classification

In the determination of whether an asset or liability is 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. In the case of liabilities where the 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 not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months.

(r) Rates

The Council does not levy rates. Accordingly, the rating statement and information as required by the Local Government Act (Financial Management Regulations) has not been presented in these financial reports.

(s) Participants Contribution

The Participants contributions towards the Regional Resource Recovery Centre (RRRC) is treated as an equity contribution. The Participants Equity is also credited when loans are taken which are guaranteed by SMRC or RRRC participants. The corresponding liability of participants is shown as a receivable.

However, when loans are repaid by the Council without seeking funds from the project participants, the receivables and equity are reduced by the amount of loans repaid.

(t) Rounding Off Figures

All figures shown in this annual financial report are rounded to the nearest dollar.

(u) Comparative Figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Council applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statement, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

(v) Budget Comparative Figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the approved revised budget estimate for the relevant item of disclosure. Where required, the budget comparative figures have been adjusted to conform with changes in presentation for the current financial year.

**SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New Accounting Standards and Interpretations for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Council.

Management's assessment of the new and amended pronouncements that are relevant to the Council, applicable to future reporting periods and which have not yet been adopted are set out as follows.

	Title	Issued / Compiled	Applicable ⁽¹⁾	Impact
(i)	AASB 9 Financial Instruments (incorporating AASB 2014-7 and AASB 2014-8)	December 2014	1 January 2018	Nil – The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Council, it is not anticipated the Standard will have any material effect.
(ii)	AASB 15 Revenue from Contracts with Customers	December 2014	1 January 2018	This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The effect of this Standard will depend upon the nature of future transactions the Council has with those third parties it has dealings with. It may or may not be significant.
(iii)	AASB 16 Leases	February 2016	1 January 2019	Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position once AASB 16 is adopted. Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges. Based on the current number of operating leases held by the Council, the impact is expected to be significant.
(iv)	AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	August 2014	1 January 2016	This Standard amends AASB 11: <i>Joint Arrangements</i> to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: <i>Business Combinations</i> , to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. Since adoption of this Standard would impact only acquisitions of interests in joint operations on or after 1 January 2016, management believes it is impracticable at this stage to provide a reasonable estimate of such impact on the Council's financial statements.
(v)	AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & 138]	August 2014	1 January 2016	This Standard amends AASB 116 and AASB 138 to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. It also clarifies the use of revenue-based methods to calculate the depreciation of an asset is not appropriate nor is revenue generally an appropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. Given the Council currently uses the expected pattern of consumption of the future economic benefits of an asset as the basis of calculation of depreciation, it is not expected to have a significant impact.
(vi)	AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	December 2014	1 January 2017	Consequential changes to various Standards arising from the issuance of AASB 15. It is not anticipated it will have any significant impact.

Note: (1) Applicable to reporting periods commencing on or after the given date.

**SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New Accounting Standards and Interpretations for Application in Future Periods (Continued)

	Title	Issued / Compiled	Applicable ⁽¹⁾	Impact
(vii)	AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, 101, 134 & 1049]	January 2015	1 January 2016	This Standard amends AASB 101 to provide clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements. This Standard also makes editorial and consequential amendments as a result of amendments to the Standards listed in the title column. It is not anticipated it will have any significant impact on disclosures as they currently exist and any changes will relate to presentation.
(viii)	AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, 124 & 1049]	March 2015	1 July 2016	The objective of this Standard is to extend the scope of AASB 124 <i>Related Party Disclosures</i> to include not-for-profit sector entities. The Standard is expected to have a significant disclosure impact on the financial report of the Council as both Elected Members and Senior Management will be deemed to be Key Management Personnel and resultant disclosures will be necessary.

Note: (1) Applicable to reporting periods commencing on or after the given date.

(x) Adoption of New and Revised Accounting Standards

During the current year, the Council adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.

These new and revised standards were as follows:

- (i) AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality
- (ii) AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

2 REVENUES AND EXPENSES

(a) Result from Ordinary Activities

The Result from Ordinary Activities includes:

(i) Charging as Expenses:

Auditors Remuneration

- Audit of Financial Report
- Assistance with Finalisation of Annual Financial Report

2016 \$	2015 \$
12,500	20,000
0	4,500
<u>12,500</u>	<u>24,500</u>

Amortisation

- Leasehold Improvements

2,944,145	2,934,751
<u>2,944,145</u>	<u>2,934,751</u>

Depreciation

- Computer Equipment
- Furniture and Equipment
- Plant and Equipment
- Freehold Buildings

17,635	8,356
3,771	7,157
3,015,367	2,960,644
27,600	27,600
<u>3,064,373</u>	<u>3,003,757</u>

Total Amortisation and Depreciation

<u>6,008,518</u>	<u>5,938,508</u>
------------------	------------------

Rental Charges - Operating Leases

<u>957,780</u>	<u>1,052,477</u>
----------------	------------------

Materials and Contracts

- Advertising and Promotion
- Consultants Costs
- Consumables and Process Costs
- Contracted Services
- Disposal Costs
- Equipment Hire
- Maintenance Expenses- Non-routine
- Maintenance Expenses- Routine
- Site Lease Rent
- Site Maintenance
- Other Costs

243,814	188,234
419,878	207,575
196,041	295,149
282,961	618,370
7,246,764	6,211,301
274,990	376,582
303,465	0
1,863,970	2,913,335
650,000	650,000
247,723	233,782
740,350	927,340
<u>12,469,956</u>	<u>12,621,668</u>

(ii) Crediting as Revenues:

Interest Earnings

- Reserve Funds
- Other Funds

2016 \$	2016 Budget \$	2015 \$
213,684	105,000	258,053
30,900	30,000	47,889
<u>244,584</u>	<u>135,000</u>	<u>305,942</u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

2. REVENUES AND EXPENSES (Continued)

(b) Statement of Objective

The regional purposes for which the Regional Local Government is established are:

- (a) to plan, coordinate and implement the removal, processing, treatment and disposal of waste for the benefit of the communities of the participants;
- (b) to influence local, state and federal governments in the development of regional waste management policies and legislation.

The objectives of the Regional Local Government shall be:

- (a) without loss being incurred by the Regional Local Government, to carry out the regional purposes so that services and facilities are provided to the consumer at a reasonable cost and with due regard for community needs;
- (b) to reduce the quantity of waste disposed at landfill sites in accordance with targets set by the Regional Local Government.

The Council operations as disclosed in this report encompass the following service orientated programs:

GOVERNANCE

Administration and operation facilities and services to Members of Council, other costs that relate to tasks of assisting the member councils and the public on matters which do not concern specific council services. In accordance with legislative changes effective 1 July 1997, the General Administration costs have been allocated to the various programs of the Council to reflect the true cost of the services provided. Directly attributable administration costs have been recorded in the relevant program while indirect costs have been allocated on the basis of Administration staff timesheets.

COMMUNITY AMENITIES

To provide environmentally friendly waste management facilities to consumers at a competitive cost, mindful of community requirements, whilst aiming to greatly reduce the quantity of waste disposed at landfill sites. This includes the Regional Resource Recovery Centre at Canning Vale which is a Major Commercial Business Undertaking.

	2016 \$	2015 \$
(c) Conditions Over Grants / Contributions		
Grants which were recognised as revenues in the previous reporting period, which were not expended at the close of the previous reporting period :		
Zero Waste Plan	0	76,462
Educational Grant for Recycle Right in Avon Region	8,347	54,660
Educational Grant for Perth Royal Show	0	10,000
Waste Educational Regional Funding Grant	6,461	0
	<u>14,808</u>	<u>141,122</u>
Add: New Grants which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.		
Zero Waste Plan	0	0
Educational Grant for Recycle Right in Avon Region	0	0
Educational Grant for Perth Royal Show	0	0
Waste Educational Regional Funding Grant	0	34,166
Less: Grants which were recognised as revenues in the previous reporting period and which were expended in the current reporting period in the manner specified by the contributor.		
Zero Waste Plan	0	76,462
Educational Grant for Recycle Right in Avon Region	8,347	46,313
Educational Grant for Perth Royal Show	0	10,000
Waste Educational Regional Funding Grant	6,461	27,705
Closing Balance of Unspent Grants	<u>0</u>	<u>14,808</u>
Comprises:		
Zero Waste Plan	0	0
Educational Grant for Recycle Right in Avon Region	0	8,347
Educational Grant for Perth Royal Show	0	0
Waste Educational Regional Funding Grant	0	6,461
	<u>0</u>	<u>14,808</u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	\$	\$
3. CASH AND CASH EQUIVALENTS		
Cash on Hand	650	650
Cash at Bank	1,474,558	976,930
Call Deposits	360,000	1,060,000
Short Term Deposits	8,241,828	8,646,086
	<u>10,077,036</u>	<u>10,683,666</u>
Unrestricted	3,321,849	4,559,747
Restricted	6,755,187	6,123,919
	<u>10,077,036</u>	<u>10,683,666</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:		
Unspent Grants	0	14,808
Retention and Bonds	504,264	203,876
RRRC Plant Reserve	2,139,556	3,117,961
RRRC Contingency & Development Reserve	2,311,367	2,068,367
Travel and Conference Reserve	50,000	50,000
Office Accommodation Reserve	250,000	209,907
Property Insurance Reserve	500,000	459,000
RRRC Restoration Reserve	1,000,000	0
	<u>6,755,187</u>	<u>6,123,919</u>
4. TRADE AND OTHER RECEIVABLES		
Current		
Sundry Debtors	3,177,684	2,086,105
Accrued Income	85,961	240,911
Prepaid Expenses	19,861	19,861
Loan Debtors - Project Participants	8,083,417	8,029,062
	<u>11,366,923</u>	<u>10,375,939</u>
Non-Current		
Loan Debtors - Project Participants	16,896,486	20,434,470
	<u>16,896,486</u>	<u>20,434,470</u>
5. INVENTORIES		
Stock on Hand - Fuel	4,968	2,824
Stock on Hand - RRRC Critical Spares	565,475	419,979
	<u>570,443</u>	<u>422,803</u>
6 (a). PROPERTY, PLANT AND EQUIPMENT		
Freehold Land - Independent Valuation - June 2013	950,000	950,000
Freehold Building - Independent Valuation - June 2013	1,200,000	1,200,000
Less Accumulated Depreciation	(82,800)	(55,200)
Total Freehold Land and Buildings	<u>2,067,200</u>	<u>2,094,800</u>
RRRC Leasehold Improvements - Independent Valuation - June 2013	26,201,300	26,201,300
Additions after valuation - Cost	959,868	959,868
Less Accumulated Amortisation	(8,752,338)	(5,808,193)
	<u>18,408,830</u>	<u>21,352,975</u>
Information Technology Equipment - Independent Valuation - June 2016	32,000	0
Information Technology Equipment - Independent Valuation - July 2013	0	8,078
Additions after valuation - Cost	0	87,175
Less Accumulated Depreciation	0	(13,425)
	<u>32,000</u>	<u>81,828</u>
Furniture and Equipment - Independent Valuation - June 2016	8,216	0
Furniture and Equipment - Independent Valuation - July 2013	0	22,297
Additions after valuation - Cost	0	3,338
Less Accumulated Depreciation	0	(13,648)
	<u>8,216</u>	<u>11,987</u>
Plant and Equipment - Independent Valuation - June 2016	15,079,300	0
Plant and Equipment - Independent Valuation - June 2013	0	25,284,102
Additions after valuation - Cost	0	1,504,048
Disposals	0	0
Less Accumulated Depreciation	0	(5,837,125)
	<u>15,079,300</u>	<u>20,951,025</u>
Capital Work In Progress - Cost	22,992	1,464,508
Total Property, Plant and Equipment	<u>35,618,538</u>	<u>45,957,123</u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Balance at the Beginning of the Year \$	Additions \$	(Disposals) \$	Revaluation Increments/ (Decrements) \$	Impairment (Losses)/ Reversals \$	Depreciation (Expense) \$	Reclassification \$	Carrying Amount at the End of Year \$
Freehold land	950,000	0	0	0	0	0	0	950,000
Total land	950,000	0	0	0	0	0	0	950,000
Non-specialised buildings	1,144,800	0	0	0	0	(27,600)	0	1,117,200
Specialised buildings	21,352,975	0	0	0	0	(2,944,145)	0	18,408,830
Total buildings	22,497,775	0	0	0	0	(2,971,745)	0	19,526,030
Total land and buildings	23,447,775	0	0	0	0	(2,971,745)	0	20,476,030
Information Technology Equipment	81,828	2,428	0	(34,621)	0	(17,635)	0	32,000
Furniture and Equipment	11,987	0	0	0	0	(3,771)	0	8,216
Non-specialised Plant and Equipment	1,209,188	154,203	(51,510)	149,719	0	(381,727)	22,727	1,102,600
Specialised Plant and Equipment	19,741,837	3,543,855	0	(8,117,133)	0	(2,633,640)	1,441,781	13,976,700
Capital Work In Progress	1,464,508	22,992	0	0	0	0	(1,464,508)	22,992
Total property, plant and equipment	45,957,123	3,723,478	(51,510)	(8,002,035)	0	(6,008,518)	0	35,618,538

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of valuation	Date of last Valuation	Inputs used
Land and buildings					
Freehold land	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2013	Observable open market value of assets, condition, comparison and highest and best use.
Non-specialised buildings	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2013	Observable open market value of assets, condition, comparison and highest and best use.
Specialised buildings	Level 3	Cost approach using depreciated replacement cost	Independent Valuation	30 June 2013	Cost to reproduce or replace similar assets in new condition, depreciation accrued wear and tear, economic and functional obsolescence.
Information Technology Equipment	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2016	Observable open market value of assets, condition and comparison.
Furniture and Equipment	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2016	Observable open market value of assets, condition and comparison.
Non-specialised Plant and Equipment	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2016	Observable open market value of assets, condition and comparison.
Specialised Plant and Equipment	Level 3	Cost approach using depreciated replacement cost	Independent Valuation	30 June 2016	Cost to reproduce or replace similar assets in new condition, depreciation accrued wear and tear, economic and functional obsolescence.

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

7. TRADE AND OTHER PAYABLES	2016	2015
	\$	\$
Current		
Sundry Creditors	2,959,957	3,146,124
Accrued Expenses	254,351	435,270
Accrued Salaries and Wages	66,789	34,504
Accrued Loan Interest	2,760	3,613
Income in Advance	0	2,223
Retention and Bonds	504,264	203,876
	<u>3,788,121</u>	<u>3,825,610</u>

8. LONG TERM BORROWINGS

Current		
Debentures	8,083,417	8,029,062
	<u>8,083,417</u>	<u>8,029,062</u>
Non Current		
Debentures	16,896,486	20,434,470
	<u>16,896,486</u>	<u>20,434,470</u>

Additional detail on Debentures is provided in Note 29 (a) and (b)

The Council has two lending facilities for the following projects:

(a). The Regional Resource Recovery Centre Loan Limit \$55 Million

The RRRC Project Participants have guaranteed by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for the share of any outstanding debenture borrowings provided for the RRRC Project. Project Participants' limit of its share of the loan liability is as follows:

	2016	2015		
City of Cockburn	42.53%	42.20%	9,858,413	11,252,011
Town of East Fremantle	3.06%	3.10%	709,305	826,569
City of Fremantle	12.27%	12.23%	2,844,174	3,260,950
City of Melville	42.14%	42.47%	9,768,011	11,324,002
			<u>23,179,903</u>	<u>26,663,532</u>

(b). Administration Building (9 Aldous Place, Booragoon) Loan Limit \$2 Million

The SMRC Participants have guaranteed by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for the share of any outstanding debenture borrowings provided for the SMRC Administration building at 9 Aldous Place, Booragoon. WA 6154. Participants' limit of its share of the loan liability is as follows:

	2016	2015		
City of Cockburn	37.09%	36.91%	667,620	664,380
Town of East Fremantle	2.67%	2.71%	48,060	48,780
City of Fremantle	10.70%	10.70%	192,600	192,600
Town of Kwinana	12.80%	12.52%	230,400	225,360
City of Melville	36.74%	37.16%	661,320	668,880
			<u>1,800,000</u>	<u>1,800,000</u>

9. PROVISIONS

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Total \$
Opening balance as at 1 July 2015			
Current provisions	403,761	422,916	826,677
Non-current provisions	0	155,258	155,258
	<u>403,761</u>	<u>578,174</u>	<u>981,935</u>
Additional Provisions	0	63,820	63,820
Amounts used	(51,979)	0	(51,979)
Balance as at 30 June 2016	<u>351,782</u>	<u>641,994</u>	<u>993,776</u>
Comprises			
Current	351,782	479,539	831,321
Non-current	0	162,455	162,455
	<u>351,782</u>	<u>641,994</u>	<u>993,776</u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

10. RESERVES- CASH BACKED

In accordance with the Council resolutions in relation to each reserve account, the purpose for which the funds are set aside are as follows:

RRRC Plant Reserve- to be used to fund the purchase of plant and equipment for the Canning Vale RRRC Project as per the adopted budget - Ongoing

RRRC Contingency & Development Reserve- to be used to fund the capital expenditure requirements and/or loan borrowings for the Canning Vale RRRC Project and to be utilised as per the adopted budget- Ongoing

Travel and Conference Reserve- to be used to fund the requirements for staff and Councillors' travel and conference attendance- Ongoing

Office Accommodation Reserve- to be used for funding capital renewal expenditure and non-recurrent maintenance expenditure for the SMRC property located at 9 Aldous Place Booragoon- Ongoing

Property Insurance Reserve- to be used fund repair and replacement expenses resulting from an event causing damage or loss to RRRC assets up to the value of \$1 million- Ongoing

RRRC Restoration Reserve - to be used to meet lease obligations resulting from an early termination of the Ground Lease or at the expiry of the Ground Lease - Ongoing

	2016	2016	2015
	\$	Budget	\$
	\$	\$	
(a) RRRC Plant Reserve			
Balance as at 1 July	3,117,961	3,117,961	3,075,723
Transfers to Reserve	2,447,000	2,647,000	1,836,000
Transfers from Reserve	(3,425,405)	(3,765,000)	(1,793,762)
Balance as at 30 June	<u>2,139,556</u>	<u>1,999,961</u>	<u>3,117,961</u>
(b) RRRC Contingency & Development Reserve			
Balance as at 1 July	2,068,367	2,068,367	1,268,367
Transfers to Reserve	243,000	0	800,000
Transfers from Reserve	0	0	0
Balance as at 30 June	<u>2,311,367</u>	<u>2,068,367</u>	<u>2,068,367</u>
(c) Travel and Conference Reserve			
Balance as at 1 July	50,000	50,000	50,000
Transfers to Reserve	0	0	0
Transfers from Reserve	0	0	0
Balance as at 30 June	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
(d) Office Accommodation Reserve			
Balance as at 1 July	209,907	209,907	187,122
Transfers to Reserve	40,093	0	22,785
Transfers from Reserve	0	0	0
Balance as at 30 June	<u>250,000</u>	<u>209,907</u>	<u>209,907</u>
(e) Property Insurance Reserve			
Balance as at 1 July	459,000	459,000	0
Transfers to Reserve	41,000	0	459,000
Transfers from Reserve	0	0	0
Balance as at 30 June	<u>500,000</u>	<u>459,000</u>	<u>459,000</u>
(f) RRRC RRRC Restoration Reserve			
Balance as at 1 July	0	0	0
Transfers to Reserve	1,000,000	0	0
Transfers from Reserve	0	0	0
Balance as at 30 June	<u>1,000,000</u>	<u>0</u>	<u>0</u>
Total Reserves- Cash backed	<u>6,250,923</u>	<u>4,787,235</u>	<u>5,905,235</u>

All of the reserve accounts are supported by money held in financial institutions and match the amount shown as restricted cash in Note 3 to this financial report.

SUMMARY OF RESERVE TRANSFERS

Transfers To Reserves- Cash Backed

RRRC Plant Reserve	2,447,000	2,647,000	1,836,000
RRRC Contingency & Development Reserve	243,000	0	800,000
Travel and Conference Reserve	0	0	0
Office Accommodation Reserve	40,093	0	22,785
Property Insurance Reserve	41,000	0	459,000
RRRC Restoration Reserve	1,000,000	0	0
	<u>3,771,093</u>	<u>2,647,000</u>	<u>3,117,785</u>

SUMMARY OF RESERVE TRANSFERS

Transfers From Reserves- Cash Backed

RRRC Plant Reserve	(3,425,405)	(3,765,000)	(1,793,762)
RRRC Contingency & Development Reserve	0	0	0
Travel and Conference Reserve	0	0	0
Office Accommodation Reserve	0	0	0
Property Insurance Reserve	0	0	0
RRRC Restoration Reserve	0	0	0
	<u>(3,425,405)</u>	<u>(3,765,000)</u>	<u>(1,793,762)</u>

Net Reserve Movement (Cash Backed)	<u>345,688</u>	<u>(1,118,000)</u>	<u>1,324,023</u>
------------------------------------	----------------	--------------------	------------------

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

11. REVALUATION SURPLUS	2016 \$	2016 Budget \$	2015 \$
In accordance with the Council resolution, the Revaluation Surplus cannot be used except for adjustment to fixed assets on their revaluation, disposal or write-off.			
(a) Land and Buildings			
Balance as at 1 July	597,933	597,933	597,933
Increments / (Decrements)	<u>0</u>	<u>0</u>	<u>0</u>
Balance as at 30 June	<u><u>597,933</u></u>	<u><u>597,933</u></u>	<u><u>597,933</u></u>
(b) Leasehold Improvements			
Balance as at 1 July	11,438,809	11,438,809	11,438,809
Increments / (Decrements)	<u>0</u>	<u>0</u>	<u>0</u>
Balance as at 30 June	<u><u>11,438,809</u></u>	<u><u>11,438,809</u></u>	<u><u>11,438,809</u></u>
(c) Non-Specialised Plant and Equipment			
Balance as at 1 July	844,286	844,286	844,286
Increments / (Decrements)	<u>48,676</u>	<u>0</u>	<u>0</u>
Balance as at 30 June	<u><u>892,962</u></u>	<u><u>844,286</u></u>	<u><u>844,286</u></u>
(d) Information Technology Equipment			
Balance as at 1 July	1,336	1,336	1,336
Increments / (Decrements)	<u>(1,336)</u>	<u>0</u>	<u>0</u>
Balance as at 30 June	<u><u>0</u></u>	<u><u>1,336</u></u>	<u><u>1,336</u></u>
Total Revaluation Surplus	<u><u>12,929,704</u></u>	<u><u>12,882,364</u></u>	<u><u>12,882,364</u></u>

12. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

Cash on Hand	650	650	650
Cash at Bank	1,474,558	50,000	976,930
Call Deposits	360,000	1,000,000	1,060,000
Short Term Deposits	<u>8,241,828</u>	<u>5,840,504</u>	<u>8,646,086</u>
	<u><u>10,077,036</u></u>	<u><u>6,891,154</u></u>	<u><u>10,683,666</u></u>

(b) Reconciliation of Net Cash Provided By Operating Activities to Change in Net Assets Resulting from Operations

Net result	(9,117,289)	(3,698,930)	(1,074,533)
Add / (Less):			
Depreciation	3,064,373	3,337,534	3,003,757
Amortisation	2,944,145	2,965,881	2,934,751
Asset revaluation decrements	8,150,418	0	0
(Increase)/Decrease in Receivables	(1,091,579)	(942,193)	(46,841)
(Increase)/Decrease in Accrued Income	154,950	140,911	570,704
(Increase)/Decrease in Prepaid Expenses	0	(80,139)	54,167
(Increase)/Decrease in Inventories	(147,640)	(177,197)	(121,822)
Increase/(Decrease) in Creditors and Accruals	(37,489)	453,106	177,479
Increase/(Decrease) in Employee Provisions	11,841	0	190,568
Loss on sale of assets	<u>21,733</u>	<u>0</u>	<u>0</u>
Net Cash from Operating Activities	<u><u>3,953,463</u></u>	<u><u>1,998,973</u></u>	<u><u>5,688,230</u></u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

12. NOTES TO THE CASH FLOW STATEMENT (Continued)

	2016	2015
	\$	\$
(c) Credit Standby Arrangements		
Credit Card limit	20,000	20,000
Credit Card balance at reporting date	<u>(8,400)</u>	<u>(5,700)</u>
Total Amount of Credit Unused	<u><u>11,600</u></u>	<u><u>14,300</u></u>
(d) Loan Facilities		
Loan Facilities - Current	8,083,417	8,029,062
Loan Facilities - Non-Current	<u>16,896,486</u>	<u>20,434,470</u>
Total Facilities in Use at reporting date	<u><u>24,979,903</u></u>	<u><u>28,463,532</u></u>
Unused Loan Facilities at reporting date	<u><u>0</u></u>	<u><u>0</u></u>

13. CAPITAL AND LEASING COMMITMENTS

(a) Capital Expenditure Commitments

Capital expenditure commitments contracted for as at the reporting date and which have not been recognised as liabilities in the Statement of Financial Position as follows:

Regional Resource Recovery Centre Contracts	<u>0</u>	<u>3,057,065</u>
Payable:		
- not later than one year	<u>0</u>	<u>3,057,065</u>
	<u>0</u>	<u>3,057,065</u>

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts.

Payable:		
- not later than one year	853,888	869,817
- later than one year but not later than two years	810,026	833,680
- later than two years but not later than five years	2,078,622	2,185,680
- later than five years	<u>10,000,000</u>	<u>10,000,000</u>
	<u><u>13,742,536</u></u>	<u><u>13,889,177</u></u>

14. CONTINGENT LIABILITIES

There were no claims or pending claims or any other contingent liabilities as at the reporting date (2015- Nil).

15. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

Community Amenities	<u>74,529,426</u>	<u>87,874,001</u>
	<u><u>74,529,426</u></u>	<u><u>87,874,001</u></u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2016	2015
	\$	Budget	\$
		\$	
16. COUNCILLORS' REMUNERATION			
The following fees, expenses and allowances were paid to the Council members, the Chairman and Deputy Chairman.			
Meeting Fees	56,650	58,350	56,650
Chairman Allowance	19,570	20,000	19,570
Deputy Chairman Allowance	4,893	5,197	4,893
Other Allowances	17,500	18,565	17,500
Other reimbursements	1,455	1,888	0
	<u>100,068</u>	<u>104,000</u>	<u>98,613</u>

17. TRUST FUNDS

The Council does not have any trust funds on hand as at 30 June 2016 (2015- Nil).

18. BUDGET COMPARISON

(a) Operating Income and Expenditure

		2016	2016
		\$	\$
			Budget
Recycling Facility Surplus / (Deficit)	1	300,741	439,485
Waste Composting Facility Surplus / (Deficit)	2	3,945,962	2,055,000
Green Waste Facility Surplus / (Deficit)	3	258,192	162,000
RRRC Administration Surplus / (Deficit)	4	275,197	60,000
Depreciation on non-current assets		(6,008,518)	(6,303,415)
Others	5	261,555	(112,000)
		<u>(966,871)</u>	<u>(3,698,930)</u>

Comments - Reasons for variations from budgeted amounts:

1. Lower volumes
2. Savings maintenance expenses
3. Higher volumes
4. Higher interest income and savings in expenses
5. Savings in expenses

(b) Non Operating Income and Expenditure

The following is a comparison of non-operating income and expenditure not included in the operating statement:

Non Operating Income			
Loan Principal Contributions		2,617,237	2,615,992
Non Operating Expenditure			
Principal repayment of loans		3,483,629	3,481,477
Asset revaluation decrements	1	8,150,418	0
Construction/purchase of assets			
Information Technology Equipment	2	2,428	150,735
Furniture and Fittings		0	0
Plant and Equipment	2	3,698,058	4,359,663
Leasehold Improvements	2	0	415,602
Capital Work-in-progress		22,992	0

Comments - Reasons for variations from budgeted amounts:

1. Impact of revaluation of plant and equipment
2. Deferred to FY 2016-17

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

19. MAJOR TRADING UNDERTAKING

REGIONAL RESOURCE RECOVERY CENTRE (RRRC), CANNING VALE

This project is undertaken on behalf of the SMRC's four participating councils. The \$55 million project funded by borrowings and payable over 10-20 years by the four participants, involves the construction of an administration and visitors centre, weighbridge, greenwaste processing and waste composting and recycling facility. Operating revenues is received from gate fees from participants / the private sector and sale of materials. Accounting for this undertaking is in accordance with the Local Government (Financial Management) Amendment Regulations 9 & 45.

STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
	\$	\$
Revenues from Ordinary Activities		
Education & Marketing	435,843	289,275
RRRC Admin & Weighbridge	356,868	400,904
Recycling	5,924,563	6,622,320
Greenwaste	1,461,775	2,015,787
Waste Compost	17,861,587	17,160,769
Business Development	221,704	296,790
Waste Audit Service	48,042	73,514
Contributions for interest on loans	1,221,973	1,277,113
	<u>27,532,355</u>	<u>28,136,472</u>
Less Expenses from Ordinary Activities		
Education & Marketing	(440,780)	(386,871)
RRRC Admin & Weighbridge	(339,706)	(494,594)
Recycling	(7,628,244)	(7,840,217)
Greenwaste	(1,312,048)	(1,381,190)
Waste Compost	(17,493,219)	(17,880,952)
Business Development	(274,602)	0
Waste Audit Service	(94,813)	(98,315)
Loss on sale of Assets	(21,733)	0
	<u>(27,605,145)</u>	<u>(28,082,139)</u>
Less Borrowing Cost Expense		
RRRC Property	(1,221,275)	(1,276,495)
Net Profit or (Loss)	<u>(1,294,065)</u>	<u>(1,222,162)</u>

STATEMENT OF FINANCIAL POSITION

Current Assets		
Cash and Cash Equivalents	7,498,196	8,585,375
Trade and Other Receivables	11,363,474	10,333,174
Inventories	570,443	422,803
Total Current Assets	<u>19,432,113</u>	<u>19,341,352</u>
Non-Current Assets		
Trade and Other Receivables	15,096,486	18,634,470
Property, Plant and Equipment	15,111,267	22,429,078
Leasehold Improvements	18,408,830	21,352,975
Total Non-Current Assets	<u>48,616,583</u>	<u>62,416,523</u>
Total Assets	<u>68,048,696</u>	<u>81,757,875</u>
Current Liabilities		
Trade and Other Payables	3,712,001	3,743,841
Borrowings - Current Portion	8,083,417	8,029,062
Provisions	412,577	459,557
Total Current Liabilities	<u>12,207,995</u>	<u>12,232,460</u>
Non-Current Liabilities		
Borrowings - Non-current Portion	15,096,486	18,634,470
Provisions	143,614	127,853
Total Non-Current Liabilities	<u>15,240,100</u>	<u>18,762,323</u>
Total Liabilities	<u>27,448,095</u>	<u>30,994,783</u>
Net Assets	<u>40,600,601</u>	<u>50,763,092</u>
Equity		
Opening Balance	50,763,092	52,805,704
RRRC Participants Contribution towards Equity	0	0
Retained Surplus/(Deficit) for year	(1,294,065)	(1,222,162)
Fair value adjustment to Non-Current assets	(8,002,034)	0
Less: Loans repaid from Equity	(866,392)	(820,450)
Total Equity	<u>40,600,601</u>	<u>50,763,092</u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

20. ECONOMIC DEPENDENCY

A significant portion of revenue is received from the members as contributions as disclosed in note 21 and also in form of RRRC Gate fees as indicated in the note 22.

21. GRANTS, SUBSIDIES AND CONTRIBUTIONS

	2016	2015
	\$	\$
Grants, Subsidies and Contributions are included as in the Statement of Comprehensive Income		
By Programme:		
Governance		
Annual Member's Contributions	329,234	319,500
Reimbursements	0	0
Community Amenities		
Annual Member's Contributions	505,267	509,659
Member's Contributions towards interest	1,221,973	1,277,113
Grants	169,041	82,816
Reimbursements	607,512	286,922
	<u>2,833,027</u>	<u>2,476,010</u>
By Nature or Type:		
Operating Grants, Subsidies and Contributions	<u>2,833,027</u>	<u>2,476,010</u>
	<u>2,833,027</u>	<u>2,476,010</u>

22. FEES AND CHARGES

Community Amenities		
RRRC Gate Fees from Members	18,987,431	19,216,551
RRRC Gate Fees from Non-Members	2,757,063	2,851,186
Sale of Products	3,291,634	3,955,276
Others	48,042	73,513
	<u>25,084,170</u>	<u>26,096,526</u>

23. FINANCIAL RATIOS

	2016	2015	2014
Current Ratio	1.25	1.23	1.15
Asset Sustainability Ratio	0.06	0.17	0.08
Debt Service Cover Ratio	1.32	1.33	1.29
Operating Surplus Ratio	(0.03)	(0.04)	(0.05)
Own Source Revenue Coverage Ratio	0.96	0.96	0.95

The above ratios are calculated as follows:

Current Ratio	<u>Current assets minus restricted current assets</u> Current liabilities minus liabilities associated with restricted assets
Asset Sustainability Ratio	<u>Capital Renewal and Replacement Expenditure</u> Depreciation Expense
Debt Service Cover Ratio	<u>Annual Operating Surplus before interest and depreciation</u> Principal and Interest
Operating Surplus Ratio	<u>Operating Revenue minus Operating Expense</u> Own Source Operating Revenue
Own Source Revenue Coverage Ratio	<u>Own Source Operating Revenue</u> Operating Expense

Note: Information relating to Asset Consumption Ratio and Asset Renewal Funding Ratio can be found at Supplementary Ratio Information on Page 73 of this document.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

24. DISPOSALS OF ASSETS - 2015/16 FINANCIAL YEAR

The following assets were disposed of during the year.

	Actual Net Book Value \$	Actual Sale Proceeds \$	Actual Loss \$	Budget Net Book Value \$	Budget Sale Proceeds \$	Budget Loss \$
Plant and Equipment						
Community Amenities						
Elevated Work Platform	8,601	3,622	(4,979)	0	0	0
Iveco Acco Hook Lift Truck	42,909	26,155	(16,754)	0	0	0
	<u>51,510</u>	<u>29,777</u>	<u>(21,733)</u>	<u>0</u>	<u>0</u>	<u>0</u>

25. RATING INFORMATION

Being a Regional Council, no rates were raised during the year ended 30 June 2016 and in the year ended 30 June 2015.

26. MEMBERS WITHDRAWAL FROM THE SMRC

(a) City of Canning's withdrawal from the SMRC

Pursuant to a resolution of the City of Canning on 19 February 2009, the City of Canning, as a Participant under the Establishment Agreement and Project Agreements, gave notice of its intention to withdraw from the SMRC effective from 30 June 2010. In line with the Agreements the City of Canning withdrew from SMRC with effect from that date.

A settlement agreement in September 2012 was agreed between the remaining Participants and the City of Canning to allow the City of Canning to separate its share of the RRRC outstanding loans resulting in a separate loan agreement with the Western Australian Treasury Corporation.

The loan liability was reduced by terminating loans amounting to \$43,440,979, which included the share of the City of Canning and replacing loans that do not have a share of the City of Canning's liability amounting to \$31,286,786.

RRRC Project Agreement states that the assets acquired from borrowings are to be valued only when the borrowings are fully repaid. The appropriate share of City of Canning in these assets is valued at current book values. The share of City of Canning in these assets is still shown as a part of Equity as the City of Canning is not currently entitled for the amount as per the RRRC Project Agreement.

(b) City of Rockingham 's withdrawal from the SMRC

Pursuant to a resolution of the City of Rockingham on 27 April 2011, the City of Rockingham, as a Participant under the Establishment Agreement and Office Accommodation Project Agreement, gave a notice of its intention to withdraw from the SMRC effective from 30 June 2012. In line with the Agreements, the City of Rockingham withdrew from SMRC on 30 June 2012.

(c) City of Cockburn's withdrawal from the Regional Resource Recovery Centre (RRRC) Project

Pursuant to a resolution of the City of Cockburn on 9 June 2016, the City of Cockburn as a participant under the RRRC Project Agreement, has given notice of its intention to withdraw from the RRRC Project effective from 30 June 2017. It has not withdrawn from the SMRC Establishment Agreement or the Office Accommodation Project Agreement. In accordance with the RRRC Project Agreement, the SMRC is to prepare an amended business plan of the RRRC Project having regard to the effect of the withdrawal. The Amended business plans are expected to be finalised by December 2016.

27. MRF BUSINESS PLAN ON SALE/ LEASE OF THE FACILITY.

In accordance with Section 3.59 of the Local Government Act 1995 (WA), a major trading undertaking and major land transaction business plan for the disposal, by tender, of Materials Recovery Facility (MRF) was made available on 8 August 2015 for inspection and members of the public were invited to make submissions up to 22 September 2015 in relation to the business plan. No submissions were received and the Council resolved to adopt the plan on 14 October 2015.

The public tender was closed on 1 March 2016 and at the time of preparing these statements the tender evaluation panel had yet to recommend a preferred tenderer to the Regional Council and its Project Participant Local Governments for a decision to reject or award the tender,

28. RRRC LICENCE

In April 2016, the Department of Environment Regulation amended our operating licence for the Regional Resource Recovery Centre by extending the expiry date till 30 March 2033. SMRC is complying with all the conditions and believes that the licence will be renewed when it is due for renewal.

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

29. INFORMATION ON BORROWINGS

(a) Loan Repayments

Particulars	Principal 1-Jul-15	New / Rollover Loans	Interest Repayments		Principal Repayments		Principal 30 Jun 16
			Budget	Actual	Budget	Actual	
Community Amenities							
RRRC							
Loan No. 3-28	322,593	0	19,363	19,368	46,406	46,406	276,187
Loan No. 3-29	321,084	0	18,965	18,965	321,084	321,084	0
Loan No. 3-30	324,097	0	19,236	19,236	324,098	324,097	0
Loan No. 3-31	661,548	0	39,834	39,845	95,115	95,115	566,433
Loan No. 3-33	626,636	0	37,726	38,025	90,332	90,332	536,304
Loan No. 3-40	343,997	0	10,651	10,743	343,997	343,997	0
Loan No. 3-52	1,356,801	0	75,817	77,870	657,838	657,838	698,963
Loan No. 3-63	927,574	0	61,459	61,700	927,574	927,574	0
Loan No. 3-64	422,232	0	14,104	14,151	422,232	422,232	0
Loan No. 3-65	983,794	0	65,184	65,443	983,795	983,794	0
Loan No. 3-66	1,850,187	0	124,209	124,493	184,143	184,143	1,666,044
Loan No. 3-67	735,941	0	47,330	47,400	74,049	74,049	661,892
Loan No. 3-68	719,692	0	47,195	47,329	72,061	72,062	647,630
Loan No. 3-73	755,533	0	39,274	39,120	79,706	79,707	675,826
Loan No. 3-74	2,880,422	0	149,729	149,142	303,875	303,875	2,576,547
Loan No. 3-76	870,630	0	39,272	39,071	94,284	94,284	776,346
Loan No. 3-80	1,337,320	0	59,869	59,539	156,210	156,210	1,181,110
Loan No. 3-81	2,357,194	0	105,527	104,945	275,340	275,340	2,081,854
Loan No. 3-83	979,383	0	44,083	43,802	106,121	106,121	873,262
Loan No. 3-85	1,456,600	0	71,061	70,606	155,519	155,519	1,301,081
Loan No. 3-87	1,135,624	0	48,152	47,762	124,251	124,251	1,011,373
Loan No. 3-88	1,831,352	0	31,092	31,068	1,831,352	1,831,352	0
Loan No. 3-89	1,959,199	0	78,523	71,932	218,704	218,704	1,740,495
Loan No. 3-90	1,504,099	0	55,790	55,816	167,903	167,902	1,336,197
Loan No. 3-91 (3-40, 64)		720,881	20,045	11,378	42,729	43,981	676,900
Loan No. 3-92 (3-88 MRF)		1,728,237	29,244	27,204	104,532	105,439	1,622,798
Loan No. 3-93 (3- 29, 30, 63, 65)		2,272,661	0	44	0	0	2,272,661
Office Accommodation							
Loan No. 2-5	1,800,000	0	79,920	80,033	0	0	1,800,000
	28,463,532	4,721,779	1,432,654	1,416,030	8,203,250	8,205,408	24,979,903
Add: Accrued Interest			0	(851)			
Net Interest			1,432,654	1,415,179			
Less: Rollover of Loans		(4,721,779)			(4,721,773)	(4,721,779)	
Net Borrowings / Repayments		0			3,481,477	3,483,629	

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

29. INFORMATION ON BORROWINGS (Continued)

(b) New / Rollover of Borrowings

Particulars/Purpose	Amount Borrowed		Institution	Loan Type	Term (Years)	Total Interest & Charges	Interest Rate	Amount Used		Balance Unspent
	Budget	Actual						Budget	Actual	
Community Amenities	\$	\$						\$	\$	\$
RRRC Project										
Loan No. 3.91 (Rollover)	720,881	720,881	WATC	Debenture	1.00	17,197	2.50%	720,881	720,881	0
Loan No. 3.92 (Rollover)	1,728,237	1,728,237	WATC	Debenture	1.00	41,227	2.50%	1,728,237	1,728,237	0
Loan No. 3.93 (Rollover)	2,272,661	2,272,661	WATC	Debenture	1.00	43,388	2.01%	2,272,661	2,272,661	0
	4,721,779	4,721,779				101,812		4,721,779	4,721,779	0

(c) Unspent Loans

An amount of \$ Nil (2015- Nil) remained unspent out of the amount borrowed on the reporting date and is shown as a part of restricted cash.

(d) Overdraft

Council does not have an overdraft facility with its bankers.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management 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 the finance area under policies approved by the Council.

The Council held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2016	2015	2016	2015
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	10,077,036	10,683,666	10,077,036	10,683,666
Receivables	28,263,409	30,810,409	28,428,881	29,185,992
	<u>38,340,445</u>	<u>41,494,075</u>	<u>38,505,917</u>	<u>39,869,658</u>
Financial Liabilities				
Payables	3,788,121	3,825,610	3,788,121	3,825,610
Borrowings	24,979,903	28,463,532	25,145,375	26,839,115
	<u>28,768,024</u>	<u>32,289,142</u>	<u>28,933,496</u>	<u>30,664,725</u>

Fair value is determined as follows:

- Cash and Cash Equivalents, Receivables, Payables – estimated to the carrying value which approximates net market value.
- Borrowings – estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.

(a) Cash and Cash Equivalents

Council's objective is to maximise its return on cash portfolio whilst maintaining an adequate level of liquidity and preserving capital. Council has an investment policy and the policy is subject to review by Council. An Investment Report is provided to Council on a monthly basis setting out the make-up and performance of the portfolio.

Cash is subject to interest rate risk – the risk that movements in interest rates could affect returns. Another risk associated with cash is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by investing its funds with recognised Australian Banks.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents (Continued)

	2016	2015
	\$	\$
Impact of a 1% (*) movement in interest rates on cash and cash equivalents		
- Equity	93,583	102,856
- Income Statement	93,583	102,856

Notes:

(*) Sensitivity percentages based on management's expectation of future possible market movements. Recent market volatility has seen large market movements for certain types of investments.

(b) Receivables

Council's major receivables comprise gate fees, sale of materials and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. Council manages this risk by monitoring outstanding debt and employing debt recovery policies.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. The Council has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial loss from defaults.

The Council makes suitable provision for doubtful receivables as required.

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

The profile of the Council's credit risk at balance date was:

	2016	2015
Percentage of Receivables		
- Current	91.04%	99.49%
- Overdue	8.96%	0.51%

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (continued)

(c) Payables and Borrowings

Payables and borrowings are both subject to liquidity risk – that is 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.

The contractual undiscounted cash flows of Council's Payables and Borrowings are set out in the Liquidity Sensitivity Table below:

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
<u>2016</u>					
Payables	3,788,121	0	0	3,788,121	3,788,121
Borrowings	9,159,477	14,638,458	4,271,877	28,069,812	24,979,903
	<u>12,947,598</u>	<u>14,638,458</u>	<u>4,271,877</u>	<u>31,857,933</u>	<u>28,768,024</u>
<u>2015</u>					
Payables	3,825,610	0	0	3,825,610	3,825,610
Borrowings	9,241,078	16,551,176	6,536,749	32,329,003	28,463,532
	<u>13,066,688</u>	<u>16,551,176</u>	<u>6,536,749</u>	<u>36,154,613</u>	<u>32,289,142</u>

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (continued)

(d) Payables and Borrowings (continued)

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs. Council manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation.

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	<1 year \$	>1<2 years \$	>2<3 years \$	>3<4 years \$	>4<5 years \$	>5 years \$	Total \$	Weighted Average Effective Interest Rate %
<u>2016</u>								
Borrowings								
Fixed Rate								
Debentures	5,837,755	4,389,861	1,198,196	0	0	13,554,091	24,979,903	4.77%
Weighted Average Effective Interest Rate	3.75%	5.87%	6.54%			4.69%		
<u>2015</u>								
Borrowings								
Fixed Rate								
Debentures	5,154,130	2,018,349	4,692,472	1,362,577	0	15,236,004	28,463,532	5.28%
Weighted Average Effective Interest Rate	5.53%	6.66%	5.93%	6.53%		4.69%		

INDEPENDENT AUDITOR'S REPORT TO SOUTHERN METROPOLITAN REGIONAL COUNCIL

Report on the Financial Report

We have audited the accompanying financial report of the Southern Metropolitan Regional Council, which comprises the statement of financial position as at 30 June 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by the Chief Executive Officer.

Council's Responsibility for the Financial Report

Council is responsible for the preparation of the financial report which gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report 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 report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Regional Council's preparation of the financial report which gives a true and fair view 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 Regional Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

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 have complied with the independence requirements of the Australian professional accounting bodies.

Auditor's Opinion

In our opinion, the financial report of Southern Metropolitan Regional Council is in accordance with the underlying records of the Council, including:

- a) giving a true and fair view of the Regional Council's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

- b) complying with Australian Accounting Standards (including Australia Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

Emphasis of Matter

Without modifying our opinion, we draw attention to page 39 of the financial report "Supplementary Ratio Information", which describes certain ratio information relating to the financial report. Management's calculation of these ratios includes assumptions about future capital expenditure and hence falls outside our audit scope. We do not therefore express an opinion on these ratios.

However, we have reviewed the calculations as presented and in our opinion these are based on verifiable information and appear reasonable.

Reporting on Other Legal and Regulatory Requirements

We did not, during the course of our audit, become aware of any instances where the Regional Council did not comply with the statutory requirements of the Local Government Act (1995) (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

In accordance with the Local Government (audit) Regulations 1996, we also report that:

- a) Apart from various ratios that do not meet the minimum benchmark, there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Regional Council.
- b) The Regional Council substantially complied with Part 6 of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).
- c) All information and explanations required were obtained by us.
- d) All audit procedures were satisfactorily completed in conducting our audit.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA
Director
Date: 18 August 2016

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

SUPPLEMENTARY RATIO INFORMATION

The following information relates to those ratios which only require attestation that they have been checked and are supported by verifiable information.

	2016	2015	2014
Asset Consumption Ratio	0.80	0.79	0.89
Asset Renewal Funding Ratio	1.00	1.00	1.00

The above ratios are calculated as follows:

Asset Consumption Ratio	$\frac{\text{Depreciated Replacement Cost of Assets}}{\text{Current Replacement Cost of Depreciated Assets}}$
Asset Renewal Funding Ratio	$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$