



MINUTES

CERTIFICATION OF CONFIRMATION OF AUDIT COMMITTEE MINUTES

8 SEPTEMBER 2016

I, Cr Steve Wolff hereby certify that the minutes from the Audit Committee Meeting held on 8 September 2016 pages (1) to (96) were confirmed at a Committee meeting held on 17 November 2016.

A handwritten signature in black ink, appearing to read "S. K. Wolff", is written over a horizontal line.

Signature

Cr Steve Wolff
Person presiding at Meeting

AUDIT COMMITTEE

MINUTES

8 September 2016

(REF: D2016/11527)

A meeting of the Audit Committee was held at the EMRC Administration Office, 1st Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 8 September 2016**. The meeting commenced at **5:30pm**.

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1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Chairman opened the meeting at 5:30pm and welcomed Mr Tony Macri and Mr Mit Gudka from EMRC's external auditors Macri Partners to the meeting.

2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

Councillor Attendance

Cr Steve Wolff (Chairman)	EMRC Member	City of Belmont
Cr Bob Perks (Deputy Chairman)	EMRC Member	Shire of Mundaring
Cr Paul Bridges	EMRC Member	Town of Bassendean
Cr Michelle Sutherland	EMRC Member	City of Bayswater
Cr Dylan O'Connor (Deputising for Cr Stallard)	EMRC Member	Shire of Kalamunda
Cr David Färdig	EMRC Member	City of Swan

Apologies

Cr Geoff Stallard	EMRC Member	Shire of Kalamunda
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EMRC Officers

Mr Peter Schneider	Chief Executive Officer
Mr Hua Jer Liew	Director Corporate Services
Mr David Ameduri	Manager Financial Services
Mrs Annie Hughes-d'Aeth	Personal Assistant to Director Corporate Services (Minutes)

Visitors

Mr Tony Macri	Macri Partners
Mr Mit Gudka	Macri Partners

3 DISCLOSURE OF INTERESTS

Nil

4 ANNOUNCEMENTS BY THE CHAIRMAN OR PRESIDING MEMBER WITHOUT DISCUSSION

Nil

5 PETITIONS, DEPUTATIONS AND PRESENTATIONS

Nil



6 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

6.1 MINUTES OF AUDIT COMMITTEE MEETING HELD ON 9 JUNE 2016

That the Minutes of the Audit Committee meeting held 9 June 2016, which have been distributed, be confirmed.

AC RESOLUTION(S)

MOVED CR PERKS

SECONDED CR O'CONNOR

THAT THE MINUTES OF THE AUDIT COMMITTEE HELD ON 9 JUNE 2016, WHICH HAVE BEEN DISTRIBUTED, BE CONFIRMED.

CARRIED UNANIMOUSLY

7 QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

Nil

8 QUESTIONS BY MEMBERS WITHOUT NOTICE

Nil

9 ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH MEETINGS MAY BE CLOSED TO THE PUBLIC

Nil

10 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING

Nil



11 REPORTS OF EMPLOYEES

11.1 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2016

REFERENCE: D2016/11529

PURPOSE OF REPORT

The purpose of this report is to review and adopt Council's Annual Financial Report for the year ended 30 June 2016.

KEY ISSUES AND RECOMMENDATION(S)

- The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which is a requirement for the Committee to:
 - Review Council's draft annual financial report; and
 - Recommend adoption of the Annual Financial Report to Council.
- Council's auditors have completed their audit of the 2015/2016 Financial Report, which is attached for Council adoption.

Recommendation(s)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2016 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2016 forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2015/2016 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

SOURCE OF REPORT

Director Corporate Services

BACKGROUND

It is a requirement under s6.4 of the *Local Government Act 1995* that a Local Government is to prepare an annual financial report and submit it to its auditor by 30 September following each financial year.

The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which (clauses 2.5 (a) (v) and (vi) are requirements for the Committee to:

- (i) Review Council's draft annual financial report, focusing on:
 - Accounting policies and practices;
 - Changes to accounting policies and practices;
 - The process used in making significant accounting estimates;
 - Significant adjustments to the financial report (if any) arising from the audit process;
 - Compliance with accounting standards and other reporting requirements; and
 - Significant variances from prior years.
- (ii) Recommend adoption of the annual financial report to Council.



Item 11.1 continued

REPORT

Council's auditor, Mr Anthony Macri of Macri Partners has completed the audit of the Eastern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2016, which is attached for Council adoption (refer attachment 1).

The following comments are provided on key elements of the financial results for 2015/2016:

Statement of Comprehensive Income (pg 6 - 7 of 65)

Total Revenue of \$43,575,835 for the period ending 30 June 2016 is \$2,549,371 above the 2014/2015 actual revenue and \$4,008,758 below budget for 2015/2016.

Total Expenses of \$32,441,952 is \$1,211,154 above the 2014/2015 actual expenses and \$7,225,754 below budget for 2015/2016.

A profit of \$171,907 was realised from the Disposal of Assets for the period ending 30 June 2016 and is \$373,775 below the 2014/2015 actual profit on disposals of \$545,682 and \$166,134 above the budget for 2015/2016 of \$5,773.

The changes in revaluation of non-current assets have resulted in an increase of \$4,693,856 in 2015/2016 and relates to the revaluation undertaken on the Plant and Equipment classes of assets. This compares with \$4,212,233 in 2014/2015 which related to the revaluation undertaken on the Infrastructure and Artworks classes of assets.

Total Comprehensive Income of \$15,999,646 for the period ending 30 June 2016 is \$1,446,065 above the 2014/2015 result and \$8,076,986 above the 2015/2016 budget.

Statement of Financial Position/Statement of Changes in Equity (pg 8 - 9 of 65)

Current assets as at 30 June 2016 have increased by \$11,364,569 to \$90,515,387 from \$79,150,818 as at 30 June 2015. This is primarily due to the increase in the level of cash and cash equivalents.

The overall impact on cash and investments at the close of the financial year is an increase of \$11,733,481 to \$86,120,828 as at 30 June 2016 compared to the level of cash and investments from the previous year.

Current liabilities as at 30 June 2016 have increased by \$1,275,077 to \$7,261,297 compared to \$5,986,220 as at 30 June 2015.

The balance in the Reserves has increased by \$4,067,499 to \$62,674,377 over the past 12 months.

Overall equity has increased during the 2015/2016 financial year by \$15,999,646 to \$163,615,977.



Item 11.1 continued

Cash Flow Statement (pg 10 of 65)

The overall impact on the cash position at the end of the 2015/2016 financial year is an increase of \$11,733,481 to \$86,120,828 from the previous corresponding period (2014/2015) of \$74,387,347.

Net Cash provided by Operating Activities of \$19,206,670 in the 2015/2016 financial year reflects a increase of \$4,128,202 from the cash generated in 2014/2015 of \$15,078,468.

The cash flows utilised in investing activities for 2015/2016 reflects capital expenditure totalling \$7,807,962 compared to capital expenditure totalling \$12,442,702 during 2014/2015.

Significant items of capital expenditure during the year included:

- Purchase/Replace Plant - Red Hill Landfill Facility - \$1,645,423;
- Purchase/Replace Plant - Hazelmere - \$1,225,982;
- Construct & Commission RRP - C & I Building - \$1,190,234;
- Construct & Commission RRP - Site Infrastructure - \$720,501;
- Construct & Commission RRP - WWTE Plant & Equipment - \$574,776;
- Construct & Commission RRP - WWTE Building - \$568,264;
- Purchase RRP C & I Building - Plant & Equipment - \$431,415;
- WWTE Utilities/Infrastructure - RRP - \$347,962;
- Purchase Vehicles - Ascot Place - \$196,958; and
- Construct Drainage Diversion and Earthworks Infrastructure - Red Hill Landfill Facility - \$151,142.

Significant capital items that were budgeted but not purchased, constructed below budget or construction not completed during the year included:

- Leachate Project - Red Hill Landfill Facility - \$3,300,000;
- Purchase Resource Recovery Park C & I Building Plant & Equipment - \$2,985,000;
- Construct Class III Cell - Stage 15 - Red Hill Landfill Facility - \$1,700,000;
- Purchase Resource Recovery Park WWTE Plant & Equipment - \$1,642,000;
- Construct Class III Cell - Farm Stage 3 - Red Hill Landfill Facility - \$1,240,000;
- Construct and Commission RRP Site Infrastructure - \$1,217,000;
- Construct and Commission RRP C & I Building - \$1,050,000;
- Resource Recovery Park WWTE Utilities/Infrastructure - \$1,000,000;
- Construct Class III Leachate Pond - Red Hill Landfill Facility - \$600,000;
- Design & Construct Class IV Cell - Stage 2 - Red Hill Landfill Facility - \$500,000;
- Construct Access Road to Lots 8, 9 & 10 - Red Hill Landfill Facility - \$475,000;
- Construct Roads / Carparks - Red Hill Landfill Facility - \$370,000;
- Purchase Plant & Equipment - RRP MRF - \$300,000;
- Relocate Greenwaste Processing Area - Red Hill Landfill Facility - \$200,000;
- Construct Class III Cell - Stage 14 - Red Hill Landfill Facility - \$160,000;
- Construct and Commission RRP Weighbridges (x2) - \$150,000;
- Purchase/Replace Security System - Red Hill Landfill Facility - \$130,000; and
- Purchase Vehicles - Ascot Place - \$99,941.

Footnote:

C & I = Commercial and Industrial.
RRP = Resource Recovery Facility.

MRF = Material Recovery Facility.
WWTE = Wood Waste to Energy.



Item 11.1 continued

This was offset by an increase in the following Capital Expenditure budget provision following a review of the capital expenditure program:

- Purchase / Replace Plant - Hazelmere - \$406,000.

This item was previously reported at the half year budget review and was adopted by Council at the 24 March 2016 Ordinary Meeting of Council (Ref: D2016/03758).

Funding for the majority of the capital items budgeted but not purchased in 2015/2016 has been carried forward into the 2016/2017 financial year.

Reserves (pg 44 - 47 of 65)

At the end of the 2015/2016 financial year the amount held in Reserves (page 46 of 65, Note 17) increased by \$4,067,499 to a balance of \$62,674,377. This compares favourably to the 2015/2016 budget of \$48,147,431 by \$14,526,946.

The Auditor will be represented and in attendance at the Audit Committee meeting, as required by Clause 5.5 of the Audit Committee Terms of Reference, when the Committee is reviewing the Annual Financial Report.

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 4 - Good Governance

- 4.3 To provide responsible and accountable governance and management of the EMRC
- 4.4 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

As outlined within the report and attachments.

SUSTAINABILITY IMPLICATIONS

Nil

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} Proportional share in the total equity of the EMRC.
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	



Item 11.1 continued

ATTACHMENT(S)

1. Annual Financial Report for the Year Ended 30 June 2016 (Ref: D2016/12269)
2. Audit Completion Report to the Audit Committee for the Year Ended 30 June 2016 (Ref: D2016//12258)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2016 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2016 forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2015/2016 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

The CEO provided a brief overview of the results of the Annual Financial Report and Audit Report for year ended 30 June 2016 and discussion ensued.

Mr Tony Macri of Macri Partners responded to AC member queries.

AC RECOMMENDATION(S)

MOVED CR BRIDGES

SECONDED CR SUTHERLAND

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2016 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2016 forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2015/2016 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

CARRIED UNANIMOUSLY

**ANNUAL
FINANCIAL
REPORT**

**For the Year Ended
30 June 2016**

EASTERN METROPOLITAN REGIONAL COUNCIL

2015/2016 ANNUAL FINANCIAL REPORT

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STATEMENT BY CHIEF EXECUTIVE OFFICER



**For the Year Ended
30 June 2016**

**EASTERN 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 Eastern Metropolitan Regional Council being the annual financial report and supporting notes 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 Eastern Metropolitan Regional Council 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 the regulations under that Act.

Signed as authorisation for issue on the 22nd day of August 2016



PETER B. SCHNEIDER
Chief Executive Officer

FINANCIAL REPORT



**For the Year Ended
30 June 2016**

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

BY PROGRAM	NOTE	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
REVENUE				
Governance		122,634	208,606	147,661
General Purpose Funding		6,278,136	1,672,703	2,557,709
Community Amenities		35,899,323	44,314,860	36,677,874
Other Property and Services		1,275,742	1,388,424	1,643,220
TOTAL REVENUE		43,575,835	47,584,593	41,026,464
EXPENSES				
Governance		785,858	1,251,102	811,025
Community Amenities		27,663,522	34,251,556	26,309,451
Other Property and Services		3,992,572	4,165,048	4,110,322
TOTAL EXPENSES		32,441,952	39,667,706	31,230,798
INCREASE / (DECREASE)		11,133,883	7,916,887	9,795,666
DISPOSAL OF ASSETS				
Profit on Sale		206,809	5,773	553,328
Loss on Sale		(34,902)	0	(7,646)
PROFIT / (LOSS) ON DISPOSALS	22	171,907	5,773	545,682
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
General Purpose Funding	7(c)	0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		11,305,790	7,922,660	10,341,348
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in Revaluation of Non-Current Assets	12,13	4,693,856	0	4,212,233
TOTAL OTHER COMPREHENSIVE INCOME		4,693,856	0	4,212,233
TOTAL COMPREHENSIVE INCOME		15,999,646	7,922,660	14,553,581

This statement is to be read in accordance with the attached
notes to the financial report.

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

BY NATURE AND TYPE	NOTE	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
REVENUE				
Fees and Charges	4	32,751,046	40,533,871	32,738,714
Grants, Subsidies and Contributions	5	2,273,132	2,027,659	3,182,940
Interest Earnings	2	2,376,572	1,672,703	2,557,709
Other Revenue		6,175,085	3,350,360	2,547,101
TOTAL REVENUE		43,575,835	47,584,593	41,026,464
EXPENSES				
Employee Costs		8,313,054	9,915,821	8,433,189
Materials and Contracts		5,561,169	8,437,286	6,146,789
Utility Expenses		318,702	342,706	238,167
Insurance Expenses		249,779	377,477	1,239,197
Interest Expenses		21,603	22,068	23,126
Other Expenditure		11,902,243	13,987,718	10,350,892
Depreciation Expenses on Non-Current Assets	2	6,075,402	6,584,630	4,799,438
TOTAL EXPENSES		32,441,952	39,667,706	31,230,798
INCREASE / (DECREASE)		11,133,883	7,916,887	9,795,666
DISPOSAL OF ASSETS				
Profit on Sale		206,809	5,773	553,328
Loss on Sale		(34,902)	0	(7,646)
PROFIT / (LOSS) ON DISPOSALS	22	171,907	5,773	545,682
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
Gain/(Loss)		0	0	0
GAIN / (LOSS)	7(c)	0	0	0
NET RESULT		11,305,790	7,922,660	10,341,348
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in Revaluation of Non-Current Assets	12,13	4,693,856	0	4,212,233
TOTAL OTHER COMPREHENSIVE INCOME		4,693,856	0	4,212,233
TOTAL COMPREHENSIVE INCOME		15,999,646	7,922,660	14,553,581

This statement is to be read in accordance with the attached
notes to the financial report

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	NOTE	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
CURRENT ASSETS			
Cash and Cash Equivalents	7(a)	86,120,828	74,387,347
Investments	7(b)	0	0
Trade and Other Receivables	9	4,281,658	4,653,943
Inventories	10	27,842	67,598
Other Assets	11	85,059	41,930
TOTAL CURRENT ASSETS	21	<u>90,515,387</u>	<u>79,150,818</u>
NON CURRENT ASSETS			
Property, Plant and Equipment	12	71,688,104	63,311,756
Infrastructure	13	16,080,829	18,193,626
TOTAL NON CURRENT ASSETS	21	<u>87,768,933</u>	<u>81,505,382</u>
TOTAL ASSETS	21	<u>178,284,320</u>	<u>160,656,200</u>
CURRENT LIABILITIES			
Trade and Other Payables	15	5,889,919	4,651,861
Provisions	16	1,371,378	1,334,359
TOTAL CURRENT LIABILITIES		<u>7,261,297</u>	<u>5,986,220</u>
NON CURRENT LIABILITIES			
Provisions	16	7,407,046	7,053,649
TOTAL NON CURRENT LIABILITIES		<u>7,407,046</u>	<u>7,053,649</u>
TOTAL LIABILITIES		<u>14,668,343</u>	<u>13,039,869</u>
NET ASSETS		<u>163,615,977</u>	<u>147,616,331</u>
EQUITY			
Retained Surplus		60,214,225	52,975,934
Reserves	17	62,674,377	58,606,878
Revaluation Surplus	14	40,727,375	36,033,519
TOTAL EQUITY		<u>163,615,977</u>	<u>147,616,331</u>

This statement is to be read in accordance with the attached
notes to the financial report

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	RETAINED SURPLUS \$	RESERVES \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2014		48,612,233	51,139,296	33,311,221	133,062,750
Net Result		10,341,348	0	0	10,341,348
Total Other Comprehensive Income		0	0	4,212,233	4,212,233
Revaluation Surplus Reversal	14	1,489,935	0	(1,489,935)	0
Transfer (from) / to Reserves		(7,467,582)	7,467,582	0	0
Balance as at 30 June 2015		52,975,934	58,606,878	36,033,519	147,616,331
Net Result		11,305,790	0	0	11,305,790
Total Other Comprehensive Income		0	0	4,693,856	4,693,856
Revaluation Surplus Reversal	14	0	0	0	0
Transfer (from) / to Reserves		(4,067,499)	4,067,499	0	0
Balance as at 30 June 2016		60,214,225	62,674,377	40,727,375	163,615,977

This statement is to be read in accordance with the attached
notes to the financial report

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Fees and Charges		35,362,810	40,533,871	37,338,999
Grants, Subsidies and Contributions		2,273,132	2,027,659	3,182,940
Interest Earnings		2,619,602	1,672,703	2,565,312
Other Revenue		6,175,085	3,350,362	2,547,101
Total Receipts		46,430,629	47,584,595	45,634,352
Payments				
Employee Costs		(8,181,723)	(9,888,450)	(8,461,443)
Materials and Contracts		(5,291,591)	(8,437,286)	(7,497,127)
Utility Expenses		(318,702)	(342,706)	(238,167)
Insurance Expenses		(249,331)	(377,477)	(1,238,748)
Interest Expenses		(21,603)	(22,068)	(23,126)
Other Expenditure		(11,592,681)	(13,915,494)	(10,266,092)
Goods and Services Tax paid		(1,568,328)	0	(2,831,181)
Total Payments		(27,223,959)	(32,983,481)	(30,555,884)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18(ii)	19,206,670	14,601,114	15,078,468
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment		334,773	306,500	3,727,883
Payments for purchase of property, plant and equipment		(7,807,962)	(34,487,814)	(12,442,702)
NET CASH USED IN INVESTING ACTIVITIES		(7,473,189)	(34,181,314)	(8,714,819)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from sale of investments		0	0	0
NET CASH PROVIDED BY FINANCING ACTIVITIES		0	0	0
SUMMARY OF CASH FLOWS				
Cash and cash equivalents at the beginning of the year		74,387,347	71,382,950	68,023,698
Net Increase/(Decrease) in Cash Held		11,733,481	(19,580,200)	6,363,649
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18(i)	86,120,828	51,802,750	74,387,347

This statement is to be read in accordance with the attached
notes to the financial report

**NOTES TO AND FORMING PART OF THE
FINANCIAL REPORT**



**For the Year Ended
30 June 2016**

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report which has 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 the Australian Accounting Standards Board, the *Local Government Act 1995* and accompanying regulations.

Except for cash flow information, the report has also 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.

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.

The significant accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise:

(a) Trust Funds

Any monies held in the Trust Fund, which Council may hold in a custodian role, are excluded from the Financial Statements.

The EMRC currently does not hold any trust fund monies for the year ended 30 June 2016.

(b) Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts, where applicable, are included as short-term borrowings in current liabilities on the Statement of Financial Position.

The EMRC does not have any bank overdrafts for the year ended 30 June 2016.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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 Requirements to Revalue Non-Current Assets

Effective from 1 July 2012, the *Local Government (Financial Management) Regulations 1996* were amended and the measurement of non-current assets at Fair Value became mandatory.

During the year ended 30 June 2013, the EMRC 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 EMRC revalues 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.

Land Under Control

In accordance with *Local Government (Financial Management) Regulations 1996, Reg.16(a)*, the Council is required to include as an asset (by 30 June 2013), Crown Land operated by the local government such as a golf course, showground, racecourse or other sporting or recreational facility of State or regional significance.

The Council does not have any Crown land which comes under this Regulation.

Land Under Roads

In Western Australia, all land under roads is Crown land, the responsibility for managing which, is vested in the local government.

Effective from 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in *Australian Accounting Standard AASB 1051 Land Under Roads and the fact Local Government (Financial Management) Regulations 1996, Reg. 16 (a)(i)* prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, *Local Government (Financial Management) Regulations 1996, Reg.16(a)(i)* prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of *AASB 1051, Local Government (Financial Management) Regulations 1996, Reg.4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations 1996* prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Council.

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.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Fixed Assets (continued)

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 believed 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.

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 the Statement of Comprehensive Income.

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 rates used for each class of depreciable asset are:

• Buildings	0.48 - 6.67% (based on components)
• Structures	
General	1.10 - 18.10% (based on components)
Class III and IV Waste Cells	% of actual usage
• Plant	15.00 - 40.00%
• Furniture and fittings	10.00 - 40.00%
• Equipment	10.00 - 40.00%

The asset 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.

When revalued assets are disposed of, amounts included in the revaluation surplus relating to that asset are transferred to retained surplus.

Capitalisation Threshold

Expenditure on items of major equipment under \$5,000 and minor equipment under \$1,000 are not capitalised. Rather, they are recorded on an asset inventory listing.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fair Value of Assets and Liabilities

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

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

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. 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.

Where possible, market information is extracted from either the principal market for the asset (i.e. the market with the greatest volume and level of activity for the asset) 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 value 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.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fair Value of Assets and Liabilities (continued)

Income Approach

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

Cost Approach

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

Each valuation technique requires inputs which 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 are 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 1996* requires, as a minimum, all assets carried at a revalued amount to be revalued in accordance with the regulatory framework.

(e) Intangible Assets

Easements

Regulation 16 of the *Local Government (Financial Management) Regulations 1996* requires easements to be recognised as assets. The EMRC does not have any easements.

(f) Rates

The EMRC does not levy rates. Accordingly rating information as required under the *Local Government (Financial Management) Regulations 1996* has not been presented in this financial report.

(g) 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.

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 6. 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 operation for the current reporting period.

(h) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the local government prior to the end of the financial year that are unpaid and arise when the Local Government becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 estimate of the recoverable amount of the asset is made in accordance with *AASB 136 Impairment of Assets* and appropriate adjustments are made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. *AASB 116 Property, Plant and Equipment*) whereby an impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other standard.

(j) Revenue Recognition

Waste Services

Revenue from waste services is recognised when the waste is received.

Generation of Gas Services

Revenue from the generation of gas services is recognised on an accrual basis. Proceeds from the sale of Renewable Energy Certificates are only recognised when the certificates are sold.

Interest Income

Interest income is recognised on an accrual basis.

Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the Council has passed control of the goods or other assets to the buyer.

Rendering of Services

Revenue from the provision of services is recognised on an accrual basis.

Royalties

Royalty revenue is recognised on an accrual basis.

(k) Inventories

General

Inventories are valued 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.

Land Held for Resale

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses.

(l) Goods and Services Tax

In accordance with recommended practice, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Statement of Financial Position are stated inclusive of applicable GST. 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 included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions

Provisions are recognised when: The Council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

(n) Provision for Site Rehabilitation

A provision for the future costs associated with closing and restoring the landfill is recognised as liabilities within the financial accounts. The nature of work planned by Council includes cell capping, landform reconstruction, dismantling of site operating facilities and implementation of a revegetation plan to suit the final land use. The cost is based on estimated current costs, determined on a discounted basis.

The obligation for the EMRC to recognise the provision for site rehabilitation arises at the time the landfill cell is first put into use. Increments in the provision are calculated on the basis of the volumetric usage of the landfill cell air space during the year, present value of the costs for site rehabilitation and remaining capacity of the landfill site.

From June 2016, the present value for the rehabilitation of the site has been calculated to be \$6,920,000 and has been deemed sufficient for post closure management purposes.

The provision is measured using the best estimate of the amounts required and is reassessed internally on an annual basis with an independent review being undertaken on a three year cycle in line with the revaluation of infrastructure assets.

In addition, Council has also adopted an incremental charge based on volumetric usage of landfill airspace for ongoing site rehabilitation during the in-use operations of the landfill.

(o) Provision for Environmental Monitoring

A provision for the future costs associated with closing and restoring the landfill is recognised as liabilities within the financial accounts. The nature of work planned by Council includes monitoring of groundwater, surface water, leachate and landfill gas generation. The cost is based on estimated current costs, determined on a discounted basis.

The obligation for the EMRC to recognise the provision for environmental monitoring arises at the time the landfill cell is first put into use. Increments in the provision are calculated on the basis of the volumetric usage of the landfill cell air space during the year, present value of the costs for environmental monitoring and remaining capacity of the landfill site.

From June 2016, the present value for the environmental monitoring of the site has been calculated to be \$3,760,000 and has been deemed sufficient for post closure management purposes.

The provision is measured using the best estimate of the amounts required and is reassessed internally on an annual basis with an independent review being undertaken on a three year cycle in line with the revaluation of infrastructure assets.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provision for Carbon Pricing

The EMRC is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007. The National Greenhouse and Energy Reporting Act 2007 requires the EMRC to report its annual greenhouse gas emissions and energy use. The EMRC has implemented systems and processes for the collection and calculation of the data required.

As an operator of the landfill site at Red Hill, the EMRC is a net emitter of CO²e over the life of the waste it receives. While the payment of the carbon pricing was based on the CO²e emitted in the respective years and under the liability method of accounting, a corresponding recognition of future years' CO²e emitted was recognised in the year the liability was incurred.

Following the end of the 2013/2014 financial year, the Australian Parliament passed retrospective legislation to repeal the carbon price on 17 July 2014. This repeal received Royal assent and has been gazetted.

The consequence of the repeal of the carbon pricing mechanism for the EMRC is that no new carbon tax liability applied effect from 1 July 2014.

The EMRC intends using the excess carbon tax revenue collected for its proposed Resource Recovery project which will deliver a reduction in greenhouse gas emissions and provide renewable energy generation as well as for establishing and maintaining an offsetting programme relating to current operations at its Red Hill Waste Management facility.

(q) 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.

(r) 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 this experience and other factors combine to form the basis of making judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

(s) Trade and Other Receivables

Trade and other receivables include amounts due from member Councils and non-members for unpaid fees and 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 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.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee Entitlements

The provisions for employee benefits relate to amounts expected to be paid for long service leave, annual leave, wages and salaries and are calculated as follows:

(i) 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.

(ii) 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 of 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. 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.

(iii) Superannuation Fund

The Council contributes to the WA Local Government Superannuation Plan (LGSP) and other choice funds for qualifying employees as per statutory requirements (9.50% for 2015/2016). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2015/2016). Contributions to defined contribution plans are recognised as an expense as they become payable.

(u) Rounding Off Amounts

All amounts shown in this annual financial report, other than the Schedule of Fees and Charges, are rounded to the nearest dollar. As a result of rounding, some minor reconciliation discrepancies may be present in the disclosures to the financial report.

(v) Comparative Figures

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

(w) Budget Comparative Figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Leases

Leases of property, plant and equipment, 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 equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The EMRC does not currently have any finance leases and operating leases.

(y) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity 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 transactions 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 assets are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (i) the amount at which the financial asset or financial liability is measured at initial recognition;
- (ii) less principal repayments;
- (iii) plus or minus the cumulative amortisation of the differences, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- (iv) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the related period and is equivalent to the rate that exactly 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 the Statement of Comprehensive Income.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Financial Instruments (continued)

The Council does not designate any interest in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(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 are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Council's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period the Council sold or reclassified more than a significant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be reclassified as available-for-sale.

(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.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

(v) *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Financial Instruments (continued)

(vi) Fair Value

Fair value is determined based on current bid prices of all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Council assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

(z) 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 except for land held for sale where it is held as non-current based on the Council's intentions to release for sale.

(aa) Landfill Cells

There are three general components of cell construction:

- Cell excavation and development costs;
- Cell liner costs; and
- Cell capping costs.

All cell excavation and development costs and cell liner costs are capitalised and depreciated over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year.

Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Australian Accounting Standards Board (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 and topic	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	<p>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.</p> <p>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.</p>

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

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued/ Compiled	Applicable (1)	Impact
(iii) AASB 16 Leases.	February 2016	1 January 2019	<p>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.</p> <p>Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges.</p> <p>Currently this does not have any impact on the Council's financial statements.</p>
(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	<p>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.</p> <p>Currently this does not have any impact on the Council's financial statements.</p>

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

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued/ Compiled	Applicable (1)	Impact
(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	<p>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.</p> <p>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.</p>
(vi) AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.	December 2014	1 January 2018	<p>Consequential changes to various Standards arising from the issuance of AASB 15.</p> <p>It will require changes to reflect the impact of AASB 15 associated with Council's revenue from contracts with customers.</p>

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

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	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.
(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.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(cc) 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.

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

2. REVENUE AND EXPENSES

	ACTUAL 2015/2016		ACTUAL 2014/2015
	\$		\$
Net Result			
The Net Result includes:			
(i) Charging as an Expense:			
Auditors Remuneration			
- Audit of the Financial Report	19,780		19,780
- Audit and assurance of grant acquittals	2,800		2,400
	22,580		22,180
	22,580		22,180
Depreciation and Amortisation Expense			
Buildings	123,503		123,376
Structures	3,531,793		2,593,022
Plant	2,120,998		1,830,939
Equipment	287,708		240,678
Furniture and Fittings	11,400		11,423
	6,075,402		4,799,438
	6,075,402		4,799,438
	ACTUAL 2015/2016	BUDGET 2015/2016	ACTUAL 2014/2015
(ii) Crediting as Revenue:	\$	\$	\$
Interest Earnings			
Interest on funds held in Reserves	1,838,586	1,477,403	2,003,954
Interest on Municipal Cash and Investments	537,986	195,300	553,755
	2,376,572	1,672,703	2,557,709
	2,376,572	1,672,703	2,557,709
	ACTUAL 2015/2016		ACTUAL 2014/2015
	\$		\$
Significant Revenue			
General Purpose Funding	0		0
	0		0
	0		0

The Significant Revenue relates to the recognition of gains on investments during the year.
(Refer Note 7(c) for details).

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

3. COMPONENT FUNCTIONS/ACTIVITIES

The activities relating to the Eastern Metropolitan Regional Council's components reported on in the Statement of Comprehensive Income are as follows:

EMRC MISSION STATEMENT

The Eastern Metropolitan Regional Council, by partnering with member Councils (and other stakeholders), facilitates strategies and actions for the benefit and sustainability of Perth's Eastern Region.

Governance

Objective:

To provide responsible and accountable governance and management of the EMRC.

Activities:

Includes the activities of members of council and the administration and operation of facilities and services to members of Council together with other administrative governance costs.

General Purpose Funding

Objective:

To provide responsible and accountable financial management practices.

Activities:

Includes the activities relating to the management of the EMRC's investment portfolio, records interest revenue as well as other general purpose revenue.

Community Amenities

Objective:

To provide sustainable waste disposal, resource recovery and recycling operations and solutions in partnership with member councils.

Activities:

Includes waste disposal, resource recovery and recycling operations undertaken at the Red Hill Waste Disposal Facility, the Hazelmere Resource Recovery Facility, Coppin and Mathieson Road transfer stations.

Other Property and Services

Objective:

To facilitate the sustainable economic development of the region together with the provision of responsible and accountable management of the EMRC.

Activities:

Includes activities and projects of the EMRC's Regional Services directorate, the operations of the Ascot Place activity and records the activities associated with public works overheads, plant operation, materials, salaries and wages.

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

4. FEES AND CHARGES SUMMARY BY PROGRAM	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
Governance	0	5,280	600
Community Amenities	32,750,446	40,528,591	32,721,146
Other Property and Services	600	0	16,968
Total Statutory Fees and Charges	32,751,046	40,533,871	32,738,714

5. GRANT, SUBSIDY AND CONTRIBUTION REVENUE BY PROGRAM	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
Community Amenities	1,124,670	802,659	1,737,988
Other Property and Services	1,148,462	1,225,000	1,444,952
Total Grant, Subsidy and Contribution Revenue	2,273,132	2,027,659	3,182,940

6. CONTROL OVER CONTRIBUTIONS	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Conditions over Contributions		
Grants which were recognised as revenue during the year but have yet to be applied in that manner at the reporting date were:		
• Hazelmere C & I Project	0	56,981
• Priority Tributary Restoration in Perth's Eastern Region	0	32
• Natural Disaster Resilience Program	0	49,489
• Eastern Hill Catchment Management Project	80,502	40,156
• Eastern Hill Catchment Management- NRM Coordinator	52,500	0
• 20 Million Trees Program	22,055	0
	<u>155,057</u>	<u>146,658</u>

Grants which were recognised as revenue in a previous year and have not yet been applied in the manner specified by the grantor were:

• Nil	0	0
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Grants which were recognised as revenue in a previous year and were expended in the current year in the manner specified by the grantor were:

• Hazelmere C & I Project	56,981	0
• Priority Tributary Restoration in Perth's Eastern Region	32	0
• Natural Disaster Resilience Program	49,489	0
• Eastern Hill Catchment Management Project	40,156	0
• Waste Management - Cardboard Recycling Project	0	82,356
	<u>146,658</u>	<u>82,356</u>

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

7(a). CASH AND CASH EQUIVALENTS

	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Cash and Cash Equivalents - Unrestricted	23,294,489	15,445,578
Cash and Cash Equivalents - Restricted	62,826,339	58,941,769
	86,120,828	74,387,347

7(b). INVESTMENTS

Investments - Restricted	0	0
	0	0

Financial Assets at fair value through profit or loss

At the beginning of the year	0	0
Disposals	0	0
Unrealised gain/(loss) from change in fair value of investments	0	0
Value at the end of the year	0	0

Held for Trading

- Financial Instruments	0	0
Value at the end of the year	0	0

The following restrictions have been imposed by regulations or other externally imposed requirements:

Plant and Equipment	510,804	3,635,347
Site Rehabilitation Red Hill - Post Closure	2,132,389	1,930,073
Future Development	6,063,056	3,648,218
Environmental Monitoring Red Hill	788,213	680,965
Environmental Insurance Red Hill	40,514	89,410
Risk Management	13,973	13,507
Class IV Cells Red Hill	544,803	19,474
Regional Development	359,102	99,650
Secondary Waste Processing	46,773,843	44,950,541
Class III Cells	4,554,958	2,710,350
Building Refurbishment (Ascot Place)	70,552	68,200
Long Service Leave	822,170	761,143
	62,674,377	58,606,878
Add movement in accrued interest	151,962	334,891
Less unrealised gain/(loss) from changes in fair value of Investments	0	0
	62,826,339	58,941,769

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

7(c). REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS

	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
General Purpose Funding	<u>0</u>	<u>0</u>

The unrealised gains/(losses) from the change in fair value of the investments of Council funds in financial instruments each year is taken up in the relevant Statement of Comprehensive Income for those years.

The realised/unrealised gains/(losses), of the investments existing as at 30 June 2016, reflected in the Statement of Comprehensive Income are summarised as follows:

Year	\$
2007/2008	(4,180,201)
2008/2009	(3,250,474)
2009/2010	621,457
2010/2011	2,614,794
2011/2012	1,587,035
2012/2013	2,005,904
2013/2014	0
2014/2015	<u>601,485</u>
Opening Balance as at 1 July 2015	0
Add: Realised/Unrealised gains on disposal of Investments for 2014/2015	0
Add: Write back of accumulated unrealised losses on disposals	<u>0</u>
Balance as at 30 June 2016	<u>0</u>

Unrealised gains/(losses) represent a fair value measurement of the financial instruments during the period in which they are held, i.e. marked to market. It should be noted that actual gains/(losses) on financial instruments will not be realised until such time as the individual investments are sold.

8. NET CURRENT ASSET POSITION

The net current asset position balance carried forward from the previous financial year after adjustment for Restricted Assets for the purpose of the 2015/2016 budget was \$11,450,419.

The actual net current asset position balance shown in the audited financial report as at 30 June 2015 and after adjustment for Restricted Assets was \$14,222,829.

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

9. TRADE AND OTHER RECEIVABLES	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Current		
Sundry Debtors	3,253,247	2,755,342
Other Debtors	20,789	18,662
GST Receivable	0	630,322
Accrued Interest Earnings	1,014,647	1,257,677
Provision for Impairment of Receivables	(7,025)	(8,060)
	<u>4,281,658</u>	<u>4,653,943</u>

10. INVENTORIES	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Current		
Distillate	21,926	20,603
Oils	5,916	2,900
Unleaded Fuel	0	259
Jumbobags	0	43,836
	<u>27,842</u>	<u>67,598</u>

11. OTHER ASSETS	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Current		
Prepayment - Contract Expenses	13,887	0
Prepayment - General	45,584	13,657
Prepayment - Insurance	12,375	18,548
Prepayment - Miscellaneous	13,213	9,725
	<u>85,059</u>	<u>41,930</u>

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

12. PROPERTY, PLANT AND EQUIPMENT	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Land - Independent Valuation 2014	47,327,000	47,327,000
Additions after Valuation - Cost	4,138,960	4,103,510
Less Disposals after Valuation	<u>(2,961,048)</u>	<u>(2,961,048)</u>
Total Land	48,504,912	48,469,462
Buildings - Independent Valuation 2014	5,751,122	5,751,122
Additions after Valuation - Cost	8,438	7,175
Less Disposals after Valuation	(34,762)	0
Less Accumulated depreciation	<u>(246,879)</u>	<u>(123,376)</u>
Total Buildings	5,477,919	5,634,921
Total Land and Buildings	53,982,831	54,104,383
Plant - Independent Valuation 2016	10,776,173	9,825,700
Additions after Valuation - Cost	0	1,704,353
Less Disposals after Valuation	0	(403,480)
Less Accumulated depreciation	0	(5,581,682)
	<u>10,776,173</u>	<u>5,544,891</u>
Equipment - Independent Valuation 2016	658,759	291,050
Additions after Valuation - Cost	0	805,374
Less Disposals after Valuation	0	(3,746)
Less Accumulated depreciation	0	(497,909)
	<u>658,759</u>	<u>594,769</u>
Furniture and Fittings - Independent Valuation 2016	16,806	37,100
Additions after Valuation - Cost	0	3,515
Less Accumulated depreciation	0	(23,453)
Total Furniture and Fittings	16,806	17,162
Artworks - Independent Valuation 2015	145,040	145,040
Additions after Valuation - Cost	0	0
Total Furniture and Fittings	145,040	145,040

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

12. PROPERTY, PLANT AND EQUIPMENT (Continued)	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Work in Progress - At Cost		
- Buildings	1,789,762	31,265
- Plant	4,317,139	2,864,402
- Equipment	1,594	9,844
Total Work in Progress	<u>6,108,495</u>	<u>2,905,511</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u><u>71,688,104</u></u>	<u><u>63,311,756</u></u>

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

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements in Carrying Amounts

Movements in the carrying amount of each class of property, plant and equipment between the beginning and the end of the current financial year are reflected as follows:

	Land \$	Buildings \$	Total Land & Buildings \$	Plant \$	Equipment \$	Furniture & Fittings \$	Artworks \$	Work in Progress \$	Total \$
Balance at the beginning of the year	48,469,462	5,634,921	54,104,383	5,544,891	594,769	17,162	145,040	2,905,511	63,311,756
Additions	35,450	1,263	36,713	3,014,095	125,331	0	0	3,212,828	6,388,967
WIP - Transfers in/(out)	0	0	0	0	9,844	0	0	(9,844)	0
(Disposals)	0	(34,762)	(34,762)	(127,964)	(140)	0	0	0	(162,866)
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation increments/(decrements)	0	0	0	4,466,149	216,663	11,044	0	0	4,693,856
Impairment (losses)/reversals	0	0	0	0	0	0	0	0	0
Depreciation expense	0	(123,503)	(123,503)	(2,120,998)	(287,708)	(11,400)	0	0	(2,543,609)
Carrying amount at the end of year	48,504,912	5,477,919	53,982,831	10,776,173	658,759	16,806	145,040	6,108,495	71,688,104

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Furniture and Fittings, Plant and Equipment:

Furniture and fittings and plant and equipment assets were revalued at 30 June 2016 by independent valuers.

The revaluation resulted in an overall increase of \$4,693,856 in the net value of the EMRC's furniture and fittings and plant and equipment. All of the increase was credited to the revaluation surplus in the Council's equity and was recognised as changes on Revaluation of non-current assets in the Statement of Comprehensive Income.

Refer to Note 30 for detailed disclosures regarding fair value measurement of the EMRC's furniture and fittings and plant and equipment.

They will next be revalued during the year ended 30 June 2019 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

Artworks:

The EMRC's Artworks were revalued in 2015 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg.17A*.

They will be revalued during the year ended 30 June 2018 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

Land and Buildings:

Both land and buildings were revalued in 2014 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg.17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg.17A (2)* which requires these assets to be shown at fair value.

They will be revalued during the year ended 30 June 2017 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

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

13. INFRASTRUCTURE	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Landfill Cells - Independent Valuation 2015	11,473,806	11,473,806
Additions after Valuation - Cost	4,102,402	0
Less Accumulated depreciation	(7,705,701)	(4,407,090)
	7,870,507	7,066,716
Other Structures - Independent Valuation 2015	6,582,782	6,582,782
Additions after Valuation - Cost	108,794	0
Less Accumulated depreciation	(233,182)	0
	6,458,394	6,582,782
Work in Progress - At Cost		
Work in Progress - At Cost		
- Landfill Cells	214,920	4,107,797
- Other Structures	1,537,008	436,331
	1,751,929	4,544,128
Total Work in Progress	1,751,929	4,544,128
TOTAL INFRASTRUCTURE	16,080,829	18,193,626

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

13. INFRASTRUCTURE (Continued)

Movements in Carrying Amounts

Movements in the carrying amount of infrastructure between the beginning and the end of the current financial year are reflected as follows:

	<u>Landfill Cells</u> \$	<u>Other Structures</u> \$	<u>Work in Progress</u> \$	<u>Total</u> \$
Balance at the beginning of the year	7,066,716	6,582,782	4,544,128	18,193,626
Additions	125,497	108,794	1,184,705	1,418,996
WIP - Transfers in/(out)	3,976,905	0	(3,976,905)	0
(Disposals)	0	0	0	0
Reclassification	0	0	0	0
Revaluation increments/(decrements)	0	0	0	0
Impairment (losses)/reversals	0	0	0	0
Depreciation expense	(3,298,611)	(233,182)	0	(3,531,793)
Carrying amount at the end of year	7,870,507	6,458,394	1,751,928	16,080,829

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

13. INFRASTRUCTURE (Continued)

Infrastructure:

Infrastructure assets were revalued in 2015 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg.17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg.17A (2)* which requires these assets to be shown at fair value.

They will be revalued during the year ended 30 June 2018 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

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

14. REVALUATION SURPLUS

	ACTUAL	ACTUAL
	2015/2016	2014/2015
	\$	\$
Revaluation surpluses have arisen as a result of the revaluation of the following classes of non-current assets:		
Plant and Equipment		
Opening balance	1,140,349	1,140,349
Revaluation Increment	4,693,856	0
Closing Balance	<u>5,834,205</u>	<u>1,140,349</u>
Land		
Opening balance	29,475,609	30,965,544
Revaluation Increment	0	0
Revaluation writeback on disposals	0	(1,489,935)
Closing Balance	<u>29,475,609</u>	<u>29,475,609</u>
Buildings		
Opening balance	1,205,328	1,205,328
Revaluation Increment	0	0
Closing Balance	<u>1,205,328</u>	<u>1,205,328</u>
Artworks		
Opening balance	25,807	0
Revaluation Increment	0	25,807
Closing Balance	<u>25,807</u>	<u>25,807</u>
Infrastructure - Other Structures		
Opening balance	4,186,426	0
Revaluation Increment	0	4,186,426
Closing Balance	<u>4,186,426</u>	<u>4,186,426</u>
Total Revaluation Surplus	<u><u>40,727,375</u></u>	<u><u>36,033,519</u></u>
Revaluation Surplus Summary		
Opening balance	36,033,519	33,311,221
Revaluation Increment	4,693,856	4,212,233
Revaluation writeback on disposals	0	(1,489,935)
Total Revaluation Surplus	<u><u>40,727,375</u></u>	<u><u>36,033,519</u></u>

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

15. TRADE AND OTHER PAYABLES	ACTUAL	ACTUAL
	2015/2016	2014/2015
	\$	\$
Current		
Payroll Accruals	50,478	46,734
GST Liability	96,979	0
Sundry Creditors	5,742,462	4,605,127
	<u>5,889,919</u>	<u>4,651,861</u>

16. PROVISIONS

Current

Employees Annual Leave	769,189	812,214
Employees Long Service Leave	602,189	522,145
Carbon Pricing	0	0
	<u>1,371,378</u>	<u>1,334,359</u>

Non-current

Employees Long Service Leave	250,799	206,966
Red Hill Landfill Site Post Closure Rehabilitation	2,132,389	1,930,073
Red Hill Landfill Environmental Monitoring	788,213	680,965
Carbon Pricing	4,235,645	4,235,645
	<u>7,407,046</u>	<u>7,053,649</u>

Analysis of total provisions:

Current	1,371,378	1,334,359
Non-current	7,407,046	7,053,649
	<u>8,778,424</u>	<u>8,388,008</u>

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Provision for Carbon Pricing \$	Provision for Site Rehabilitation \$	Provision for Environmental Monitoring \$	Total \$
Opening balance as at 1 July 2015	812,214	729,111	4,235,645	1,930,073	680,965	8,388,008
Net Movement in Provisions	(43,025)	123,877	0	202,316	107,248	390,416
Balance as 30 June 2016	<u>769,189</u>	<u>852,988</u>	<u>4,235,645</u>	<u>2,132,389</u>	<u>788,213</u>	<u>8,778,424</u>

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

17. RESERVES	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
(a) Plant and Equipment Reserve			
Opening balance as at 1 July	3,635,347	2,510,369	3,061,317
Transfer from retained surplus	4,147,148	5,319,958	657,727
Transfer to retained surplus	(7,397,085)	(7,085,000)	(197,484)
Interest	125,394	45,737	113,787
Closing Balance as at 30 June	510,804	791,064	3,635,347
(b) Site Rehabilitation Reserve - Post Closure			
Opening balance as at 1 July	1,930,073	1,772,264	1,717,656
Transfer from retained surplus	135,742	0	148,572
Transfer to retained surplus	0	0	0
Interest	66,574	50,156	63,845
Closing Balance as at 30 June	2,132,389	1,822,420	1,930,073
(c) Future Development Reserve			
Opening balance as at 1 July	3,648,218	3,646,916	242,215
Transfer from retained surplus	2,289,000	2,289,000	3,397,000
Transfer to retained surplus	0	(3,650,000)	0
Interest	125,838	83,494	9,003
Closing Balance as at 30 June	6,063,056	2,369,410	3,648,218
(d) Environmental Monitoring Reserve			
Opening balance as at 1 July	680,965	586,328	568,262
Transfer from retained surplus	83,760	0	91,581
Transfer to retained surplus	0	0	0
Interest	23,488	16,593	21,122
Closing Balance as at 30 June	788,213	602,921	680,965
(e) Environmental Insurance Reserve			
Opening balance as at 1 July	89,410	88,691	133,486
Transfer from retained surplus	0	0	0
Transfer to retained surplus	(51,980)	(51,980)	(49,038)
Interest	3,084	1,774	4,962
Closing Balance as at 30 June	40,514	38,485	89,410

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

17. RESERVES (Continued)	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
(f) Risk Management Reserve			
Opening balance as at 1 July	13,507	13,437	13,023
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	466	380	484
Closing Balance as at 30 June	13,973	13,817	13,507
(g) Class IV Reserve			
Opening balance as at 1 July	19,474	18,873	111,812
Transfer from retained surplus	524,657	535,057	103,506
Transfer to retained surplus	0	(500,000)	(200,000)
Interest	672	1,020	4,156
Closing Balance as at 30 June	544,803	54,950	19,474
(h) Regional Development Reserve			
Opening balance as at 1 July	99,650	99,570	14,747
Transfer from retained surplus	845,000	845,000	895,000
Transfer to retained surplus	(588,986)	(928,385)	(810,645)
Interest	3,438	1,629	548
Closing Balance as at 30 June	359,102	17,814	99,650
(i) Secondary Waste Reserve			
Opening balance as at 1 July	44,950,541	45,586,858	43,581,696
Transfer from retained surplus	4,921,036	4,822,149	4,841,500
Transfer to retained surplus	(4,648,203)	(14,477,797)	(5,092,569)
Interest	1,550,469	1,152,955	1,619,914
Closing Balance as at 30 June	46,773,843	37,084,165	44,950,541
(j) Class III Reserve			
Opening balance as at 1 July	2,710,350	2,705,432	914,509
Transfer from retained surplus	2,612,297	5,637,795	5,851,849
Transfer to retained surplus	(861,176)	(3,960,000)	(4,090,000)
Interest	93,487	100,025	33,992
Closing Balance as at 30 June	4,554,958	4,483,252	2,710,350

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

17. RESERVES (Continued)	ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
(k) Building Refurbishment Reserve			
Opening balance as at 1 July	68,200	67,847	65,756
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	2,352	1,920	2,444
Closing Balance as at 30 June	70,552	69,767	68,200
(l) Site Rehabilitation Reserve - Ongoing			
Opening balance as at 1 July	0	0	0
Transfer from retained surplus	0	0	72,306
Transfer to retained surplus	0	0	(72,306)
Interest	0	0	0
Closing Balance as at 30 June	0	0	0
(m) Long Service Leave Reserve			
Opening balance as at 1 July	761,143	757,299	714,817
Transfer from retained surplus	34,774	20,347	19,756
Transfer to retained surplus	0	0	0
Interest	26,253	21,720	26,570
Closing Balance as at 30 June	822,170	799,366	761,143
TOTAL RESERVES	62,674,377	48,147,431	58,606,878

All of the reserve accounts are supported by money and investments held in financial institutions and match the amount shown as restricted cash in Note 7 to this financial report.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

17. RESERVES (Continued)

The purpose for which the Reserve funds are set aside are as follows and will be utilised in accordance with annual budgeted expenditure: -

Plant and Equipment Reserve (Ongoing Reserve)

This reserve was established to finance the replacement of major items of plant and equipment.

Site Rehabilitation Reserve - Post Closure (Ongoing Reserve)

This reserve was established to finance the rehabilitation of the Red Hill waste disposal site at time of decommissioning.

Future Development Reserve (Ongoing Reserve)

This reserve was established to finance future developments being undertaken by the EMRC. The reserve is also utilised to provide funds for projects that the EMRC is investigating and undertaking for the purpose of the long term future direction in the area of waste management for the benefit of the region

Class IV Reserve (Ongoing Reserve)

This reserve was established to finance the capping of the existing Class IV cells and the construction of future Class IV cells and associated works at the Red Hill waste disposal site.

Class III Reserve (Ongoing Reserve)

This reserve was established to finance the capping of the existing Class III cells and the construction of future Class III cells and associated works at the Red Hill waste disposal site.

Environmental Monitoring Reserve (Ongoing Reserve)

This reserve was established to provide funds for environmental monitoring after decommissioning of the Red Hill Waste disposal site.

Environmental Insurance Reserve (Ongoing Reserve)

This reserve was established to provide funds to enable the EMRC to immediately respond to the need for repairs to, or rectification of damage to the environment surrounding the Red Hill waste disposal site as a result of any incident not covered by the EMRC's existing insurance policies.

Risk Management Reserve (Ongoing Reserve)

This reserve has been established to receive surpluses from the Risk Management Service. This reserve is to be utilised in funding the future requirements of the service in subsequent financial years.

Secondary Waste Reserve (Anticipated date of Use - 2018/19 to 2019/20 financial years)

This reserve was established to accumulate and to make provision for Secondary Waste Treatment Technology in the future.

Regional Development Reserve (Ongoing Reserve)

This reserve was established to accumulate and provide funds to enable the EMRC to fund Regional Development activities.

Building Refurbishment Reserve (Ongoing Reserve)

This reserve was established to accumulate and provide funds for the refurbishment of the Ascot Place administration building.

Site Rehabilitation Reserve - Ongoing (Ongoing Reserve)

This reserve was established to finance the ongoing rehabilitation of the completed cells at the Red Hill waste disposal site.

Long Service Leave Reserve (Ongoing Reserve)

This reserve was established to accumulate and provide funds to enable the EMRC to fund staff long service leave.

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

18. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, the EMRC considers cash to include cash on hand, cash at bank and term deposits. Cash at the end of the reporting period as shown in the Statement of Cash Flows is as follows:

	ACTUAL	BUDGET	ACTUAL
	2015/2016	2015/2016	2014/2015
	\$	\$	\$
Cash and Cash Equivalents - Unrestricted	23,294,489	3,862,037	15,445,578
Cash and Cash Equivalents - Restricted	62,826,339	47,940,713	58,941,769
Total Cash	86,120,828	51,802,750	74,387,347

(ii) Reconciliation of net cash provided by operating activities to Net Result

Net Result	15,999,646	7,922,660	14,553,581
Depreciation	6,075,402	6,584,630	4,799,438
(Profit)/Loss on sale of assets	(171,907)	(5,773)	(545,682)
Increase/(Decrease) in provisions - Other	309,564	72,226	325,119
Increase/(Decrease) in provisions - Employee	80,852	27,371	198,240
Increase/(Decrease) in provisions - Carbon price	0	0	(240,317)
Increase/(Decrease) in Sundry Creditors	1,771,400	0	458,980
Increase/(Decrease) in GST	727,301	0	(1,134,865)
(Increase)/Decrease in accrued interest earnings	243,030	0	7,603
(Increase)/Decrease in Receivables	(1,131,389)	0	838,573
(Increase)/Decrease in Inventory	39,756	0	11,297
(Increase)/Decrease in Prepayments	(43,129)	0	18,734
(Increase)/Decrease in Revaluation on non-current assets	(4,693,856)	0	(4,212,233)
Net cash from operating activities	19,206,670	14,601,114	15,078,468

(iii) Undrawn Borrowing Facilities

Credit Standby Arrangements

There were no bank overdraft facilities in place for the EMRC at balance date.

Credit Card Limits	43,000	43,000
Credit Utilised at Balance Date	(2,698)	(7,230)
Net cash from operating activities	40,302	35,770

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

19. EMPLOYEE ENTITLEMENTS

The aggregate employee entitlements liability recognised and included in the financial report is as follows:

Provision for Employee Entitlements (Refer to Note 16)	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
- Current	1,371,378	1,334,359
- Non-current	250,799	206,966
Total Employee Entitlements	<u>1,622,177</u>	<u>1,541,325</u>
	ACTUAL FTE's 2015/2016	ACTUAL FTE's 2014/2015
Total number of (FTE) employees at end of financial year	<u>90</u>	<u>99</u>

20. COUNCILLORS FEES AND ALLOWANCES

ACTUAL 2015/2016 \$	BUDGET 2015/2016 \$	ACTUAL 2014/2015 \$
--	--	--

The following fees, expenses and allowances were paid to council members and the Chairman:

Councillors' meeting fees	113,300	115,000	113,300
Chairman's meeting fees	15,450	15,682	15,450
Deputy Councillors' meeting fees	2,552	2,856	1,856
Chairman's Local Government fee	19,570	20,046	19,570
Deputy Chairman's Local Government fee	4,893	4,966	4,893
	<u>155,765</u>	<u>158,550</u>	<u>155,069</u>

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

21. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
CURRENT ASSETS		
General Purpose Funding	28,199,852	23,844,397
Governance	1,058,657	1,177,741
Community Amenities	60,897,776	54,029,030
Economic Services	359,102	99,650
TOTAL CURRENT ASSETS	<u>90,515,387</u>	<u>79,150,818</u>
NON-CURRENT ASSETS		
Land		
Governance	5,400,000	5,400,000
Community Amenities	43,104,912	43,069,462
Buildings		
Governance	3,897,719	3,965,737
Community Amenities	1,580,200	1,669,184
Structures		
Community Amenities	14,328,901	13,649,499
Plant		
Governance	363,430	295,216
Community Amenities	10,412,743	5,249,675
Equipment		
Governance	418,949	313,730
Community Amenities	239,811	281,039
Furniture and Fittings		
Governance	161,845	162,201
Work In Progress		
Unclassified	7,860,423	7,449,639
TOTAL NON CURRENT ASSETS	<u>87,768,933</u>	<u>81,505,382</u>
TOTAL ASSETS	<u>178,284,320</u>	<u>160,656,200</u>

22. DISPOSAL OF ASSETS	ACTUAL 2015/2016			BUDGET 2015/2016		
	Net Book Value \$	Sale Price \$	Gain (Loss) \$	Net Book Value \$	Sale Price \$	Gain (Loss) \$
Buildings	34,762	0	(34,762)	0	0	0
Plant	127,964	334,773	206,809	300,727	306,500	5,773
Equipment	140	0	(140)	0	0	0
Total Assets Disposed	<u>162,866</u>	<u>334,773</u>	<u>171,907</u>	<u>300,727</u>	<u>306,500</u>	<u>5,773</u>

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

23. INFORMATION ON BORROWINGS

(a) Borrowings

The EMRC do not have any loans or borrowings.

(b) New Borrowings

There were no new borrowings during the 2015/16 financial year.

(c) Unspent Loans

There were no unspent loans during the 2015/16 financial year.

24. INTEREST IN THE EMRC

The following table shows the total interest in the EMRC as at year end:

Member Council	2015/2016		2014/2015	
	%	\$	%	\$
Town of Bassendean	4.45	7,275,989	4.54	6,702,763
City of Bayswater	19.46	31,846,064	19.70	29,076,031
City of Belmont	11.42	18,683,217	11.42	16,858,963
Shire of Kalamunda	16.80	27,488,876	16.93	24,996,679
Shire of Mundaring	11.05	18,082,646	11.17	16,479,545
City of Swan	36.82	60,239,185	36.24	53,502,350
Total Equity	100.00	163,615,977	100.00	147,616,331

The EMRC participating Member Councils' interest distributions have been calculated in accordance with clause 9.4 of the Eastern Metropolitan Regional Council Establishment Agreement.

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

25. 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 engages in transactions expressed in foreign currencies with respect to equipment purchases or for legal representation on a minor scale only and 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	
	2015/2016	2014/2015	2015/2016	2014/2015
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	86,120,828	74,387,347	86,120,828	74,387,347
Receivables	4,281,658	4,023,621	4,281,658	4,023,621
Financial Assets at fair value through profit and loss	0	0	0	0
	<u><u>90,402,486</u></u>	<u><u>78,410,968</u></u>	<u><u>90,402,486</u></u>	<u><u>78,410,968</u></u>
Financial Liabilities				
Payables	5,889,919	4,021,539	5,889,919	4,021,539
	<u><u>5,889,919</u></u>	<u><u>4,021,539</u></u>	<u><u>5,889,919</u></u>	<u><u>4,021,539</u></u>

Fair value is determined as follows:

Cash and Cash Equivalents, Receivables, Payables - estimated to the carrying value which approximates net market value.

Financial Assets at Fair Value through profit and loss - based on market valuations and verified by independent financial advisors.

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

25. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents

Financial assets at fair value through profit or loss

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance area manages the cash and investments portfolio with the assistance of independent advisers. Council has an investment policy and the policy is subject to review by Council.

The major risk associated with investments is price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments of their issuers or factors affecting similar instruments traded in a market.

Cash and investments are also subject to interest rate risk - the risk that movements in interest rates could affect returns.

Another risk associated with cash and investments 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 seeks advice from an independent adviser before placing any cash and investments.

	2015/2016	2014/2015
	\$	\$
Impact of a 10% movement in price of investments:		
- Equity	0	0
- Statement of Comprehensive Income	0	0
Impact of a 1% movement in interest rates on cash and investments:		
- Equity	861,208	743,873
- Statement of Comprehensive Income	861,208	743,873

(b) Receivables

Council's major receivables comprise user charges and fees. 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.

Council makes suitable provision for impairment of receivables as required and carries out credit checks on all debtors.

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:

	2015/2016	2014/2015
Percentage of Other Receivables		
- Current	76.6%	94.1%
- Overdue	23.4%	5.9%
	<u>100.0%</u>	<u>100.0%</u>

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

25. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

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>2015/2016</u>					
Payables	5,889,919	0	0	5,889,919	5,889,919
	<u>5,889,919</u>	<u>0</u>	<u>0</u>	<u>5,889,919</u>	<u>5,889,919</u>
<u>2014/2015</u>					
Payables	4,021,539	0	0	4,021,539	4,021,539
	<u>4,021,539</u>	<u>0</u>	<u>0</u>	<u>4,021,539</u>	<u>4,021,539</u>

(d) Borrowings

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.

Council do not have any borrowings or loans.

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

26. COMMITMENTS FOR CAPITAL EXPENDITURE	ACTUAL 2015/2016 \$	ACTUAL 2014/2015 \$
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities:		
- Payable not longer than one year	3,828,948	927,527
Total Capital Commitments	<u>3,828,948</u>	<u>927,527</u>

27. CONTINGENT LIABILITIES

Contingent liabilities at balance date, not otherwise provided for in the financial statements, relate to an action by Lehman Brothers in the United States Bankruptcy Court.

On 9 May 2007 EMRC invested \$450,000 into Federation notes.

On 30 Oct 2008, in common with hundreds of other investors in the Federation notes, this investment of \$450,000 was fully repaid to the EMRC.

Subsequently Lehman Brothers Special Financing Inc. commenced an action in the United States Bankruptcy Court, Southern District of New York, No. 10 - 803547 applying for an order for all investors to repay the amounts paid.

It is the opinion of the attorney representing the EMRC in this action that the claim will not be decided until about 2018.

28. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period required to be included in the 2015/2016 Annual Financial Report.

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

29. FINANCIAL RATIOS	ACTUAL 2015/2016	ACTUAL 2014/2015	ACTUAL 2013/2014
<i>Liquidity Ratio</i>			
Current Ratio ⁽¹⁾	4.16	3.7	4.41
<u>Current Assets less Restricted Current Assets</u>			
Current Liabilities less Liabilities Associated with Restricted Assets			
<i>Debt Ratio</i>			
Debt Service Cover Ratio ⁽²⁾	Not Applicable	Not Applicable	Not Applicable
<u>Operating Surplus before Interest and Depreciation Expenses</u>			
Principal and Interest Repayments			
<i>Coverage Ratio</i>			
Own Source Revenue Coverage Ratio ⁽³⁾	1.28	1.23	1.19
<u>Own Source Operating Revenue</u>			
Operating Expense			
<i>Financial Performance Ratio</i>			
Operating Surplus Ratio ⁽⁴⁾	0.27	0.27	0.22
<u>Operating Revenue less Operating Expense</u>			
Own Source Operating Revenue			
<i>Asset Management Ratio</i>			
Asset Sustainability Ratio * ⁽⁵⁾	0.49	0.24	0.06
<u>Capital Renewal and Replacement Expenditure</u>			
Depreciation Expense			
<i>The following information relates to those ratios which only require attestation. They have been checked and are supported by verifiable information.</i>			
Asset Consumption Ratio ⁽⁶⁾	0.82	0.68	0.57
<u>Depreciated Replacement Cost of Depreciable Assets</u>			
Current Replacement Cost of Depreciable Assets			
Asset Renewal Funding Ratio ⁽⁷⁾	1.00	1.00	1.00
<u>Depreciated Replacement Cost of Depreciable Assets</u>			
Current Replacement Cost of Depreciable Assets			

Notes

- (1) This is a modified commercial ratio designed to focus on the liquidity position of the Council that has arisen from past year's transactions.
- (2) This ratio is the measurement of Council's ability to repay its debt including lease payments.
- (3) This ratio is the measurement of Council's ability to cover its costs through its own revenue efforts.
- (4) This ratio is a measure of Council's ability to cover its operational costs and have revenues available for capital funding or other purposes.
- (5) This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
- (6) This ratio indicates whether Council is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
- (7) This ratio is a measure of the ability of Council to fund its projected asset renewal / replacements in the future.

* The EMRC as a Regional Local Government has a high and diverse level of new capital expenditure for which the depreciation expense is also based on, resulting in a low ratio.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

30. FAIR VALUE MEASUREMENT

The EMRC measures the following assets at fair value on a recurring basis after initial recognition:

- Financial Assets at fair value through profit or loss
- Land and buildings
- Plant
- Equipment
- Furniture and Fittings
- Artworks
- Infrastructure

The following table provides the fair values of the EMRC's assets measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy [refer to Note 1(d)]:

Recurring Fair Value Measurements

		30 June 2016			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	7(b)	0	0	0	0
<hr/>					
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
<hr/>					
Non-Financial Assets					
Land	12	0	48,504,912	0	48,504,912
Buildings	12	0	0	5,477,919	5,477,919
Plant	12	0	4,092,762	6,683,411	10,776,173
Equipment	12	0	658,759	0	658,759
Furniture and Fittings	12	0	16,806	0	16,806
Artworks	12	0	145,040	0	145,040
Infrastructure	13	0	0	14,328,901	14,328,901
<hr/>					
Total non-financial assets recognised at fair value on a recurring basis		0	53,418,279	26,490,231	79,908,510
<hr/>					

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

30. FAIR VALUE MEASUREMENT (Continued)

		30 June 2015			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	7(b)	0	0	0	0
<hr/>					
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
<hr/>					
Non-Financial Assets					
Land	12	0	48,469,462	0	48,469,462
Buildings	12	0	0	5,634,921	5,634,921
Plant	12	0	5,544,891	0	5,544,891
Equipment	12	0	594,769	0	594,769
Furniture and Fittings	12	0	17,162	0	17,162
Artworks	12	0	145,040	0	145,040
Infrastructure	13	0	0	13,649,498	13,649,498
<hr/>					
Total non-financial assets recognised at fair value on a recurring basis		0	54,771,324	19,284,419	74,055,743
<hr/> <hr/>					

(a) Transfers Policy

The policy of the EMRC is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

(b) Highest and Best Use

There were no assets valued where it was assumed that the highest and best use was other than their current use.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

30. FAIR VALUE MEASUREMENT (Continued)

(c) Valuation techniques and Inputs used to derive fair values

The following table summarises valuation inputs and techniques used to determine the Fair value for each asset class.

Asset	Level of Valuation Input	Fair Value at 30 June 2016 \$	Valuation Technique(s)	Inputs Used
Financial Assets				
Financial Assets at Fair Value through profit or loss – CDOs	2	0	Market approach	Similar priced securities in a more active market.
TOTAL		0		
Non-Financial Assets				
Land	2	31,270,127	Market approach	Price per square metre.
	2	17,234,785	Cost Approach	Price per square metre.
Buildings	3	1,580,200	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
	3	3,897,719	Market and income approach	Rental yields and price per square metre.
Plant	2	4,092,762	Market approach	Make, size, year of manufacture and condition.
	3	6,683,411	Cost approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
Equipment	2	658,759	Market approach	Make, size, year of manufacture and condition.
Furniture and Fittings	2	16,806	Market approach	Make, size, year of manufacture and condition.
Artworks	2	145,040	Market approach	Estimated value expected to be realised.
Infrastructure	3	14,328,901	Cost approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
TOTAL		79,908,510		

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

30. FAIR VALUE MEASUREMENT (Continued)

(c) Valuation techniques and Inputs used to derive fair values (Continued)

Recurring fair value measurements

Land

Where there is directly comparable market evidence Level 2 valuation inputs were used to value land held in freehold title (investment and non-investment) as well as land used for special purposes which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Where there was no observable market evidence for a land asset due to its configuration, council zoning restrictions, contamination or similar factors that result in there being no directly comparable market evidence Level 3 valuation inputs were used. For these assets significant assumptions needed to be made to determine the fair value. These were subsequently valued at the level 3 valuation input hierarchy by using the professional judgment of a Registered Valuer who adjusted the price per square metre of sales from sites not in close proximity which provided only a low level of comparability.

Level 2 valuation inputs were used to value land held in freehold title (investment and noninvestment) as well as land used for special purposes which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

The land purchased in December 2012, Lot 8, 9 & 10 land parcels at Red Hill land fill facility, was a strategically planned and prolonged acquisition over a period of several years. It was a closed negotiation and was not open to market participants. Market research and analysis was undertaken by the Valuers who have acknowledged that the cost of this land area equates to a land rate per hectare greater than analysis of nearby market evidence. The difference is a premium rate which Council paid to obtain the asset. AASB13 requires Fair Value of this land to be calibrated to the transactional cost. The Valuers have therefore adopted the Fair Value of this land at the purchase price as it provides calibration with actual price required for purchasing a land fill site.

Buildings

Level 2 valuation inputs

These were used to determine the fair value of a range of properties. This included the bulk of residential and commercial properties. The residential properties fair value has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Commercial buildings have been generally derived using a combination of sales direct comparison approach and capitalisation of income approach. Fair value has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are rental yields and price per square metre.

Level 3 valuation inputs

The level of evidence used to support the critical assumptions of some commercial buildings was considered to be highly variable due to high levels of variability in the market for rental yields and future demand. As such the level of valuation input for these properties was considered level 3

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

30. FAIR VALUE MEASUREMENT (Continued)

(c) Valuation techniques and Inputs used to derive fair values (Continued)

Recurring fair value measurements

Artworks

Valuation inputs and techniques used to determine the fair value for all Art work Assets have been based on Level 2 inputs - Market Based.

It has been determined that there is an active market for the Art Work Assets and hence the 'market approach' has been adopted.

Level 2 valuation inputs

Market (Direct Comparison) - This has been applied and fair value assessed on the basis of the estimated amount which the interest in each item of Art Work valued might reasonably be expected to realise on the date of valuation in an exchange between market participants given highest and best use or highest and best alternative use. This was determined by comparison to recent sales of Art work with similar characteristics. This was then adjusted to reflect conditions and comparability. As this was based on observable evidence they have been classified as Level 2.

Infrastructure

Road, Equipment and Civil Assets

All road, equipment and civil assets were valued using the cost approach.

The approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres or similar capacity could be supported from market evidence (level 2) other inputs (such as estimates of residual value, useful life, pattern of consumption and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

The consumption rating scales were based initially on the past experience of the valuation firm and industry guides and were then updated to take into account the experience and understanding of Eastern Metropolitan Regional Council's own engineers, asset management and finance staff. The results of the valuation were further evaluated by confirmation against Eastern Metropolitan Regional Council's own understanding of the assets and the level of remaining service potential.

Plant

Plant assets have generally been derived from comparable sales and relevant industry market price reference guides and have been classified as being valued at level 2. The most significant inputs into this valuation approach are the make, size, year of manufacture and condition.

Some items of plant and contents however are unique in design or there was insufficient observable market evidence to support the valuation. As a result these assets have been valued using the cost approach. The approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and determining the Fair Value for each component based on the Remaining Useful Life (RUL) in proportion to the Useful Life after adjusting for any Residual Value.

Furniture and Fittings

The Council acquires its furniture and equipment at arm's length from approved suppliers. These acquisitions are recorded at cost and any accumulated depreciation reflects the usage of service potential. It is considered that the recorded written down values approximate the fair value of furniture and fittings.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

30. FAIR VALUE MEASUREMENT (Continued)

(d) Valuation processes

The EMRC engages external, independent and qualified valuers to determine the fair value of the Council's land, buildings, plant, equipment, infrastructure, artworks and furniture and fittings on a regular basis in line with Regulation 17A(4) of the *Local Government (Financial Management) Regulations 1996*.

As at 30 June 2016, a comprehensive revaluation was undertaken for all asset classes subject to revaluation by external valuers, APV Valuers and Asset Management.

Management carried out an assessment of the revaluation work performed by the external valuers, which included review of the valuer's methodology, limitations, algorithms, key assumptions and inputs used in applying the valuation methodology to ensure they were appropriate prior to their application. Changes in fair values were analysed at the end of the reporting period. Consequently, management is satisfied with the results of the valuations undertaken and confirm that the movement in the asset values are reasonable.

INDEPENDENT AUDITOR'S REPORT



**For the Year Ended
30 June 2016**

INDEPENDENT AUDITOR'S REPORT

TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL

Report on the Financial Report

We have audited the financial report of the Eastern Metropolitan Regional Council, which comprises the Statement of Financial Position as at 30 June 2016 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

Management's Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal controls as management 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. Our audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with the 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 management's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 Accounting Professional and Ethical Standards Board.



INDEPENDENT AUDITOR'S REPORT (Cont'd)

Auditor's Opinion

In our opinion, the financial report of the Eastern Metropolitan Regional Council:

- (a) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2016 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.


Report on Other Legal and Regulatory Requirements

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

- (a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Council.
- (b) No matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at Note 29 of the annual financial report) we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
 - (i) reasonably calculated; and
 - (ii) based on verifiable information.
- (d) All necessary information and explanations were obtained by us.
- (e) All audit procedures were satisfactorily completed in conducting our audit.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Eastern Metropolitan Regional Council for the year ended 30 June 2016 included on the Eastern Metropolitan Regional Council's website. Management is responsible for the integrity of the Eastern Metropolitan Regional Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



**MACRI PARTNERS
CERTIFIED PRACTISING ACCOUNTANTS
SUITE 2, 137 BURSWOOD ROAD
BURSWOOD WA 6100**



**A MACRI
PARTNER**

**PERTH
DATED THIS 9TH DAY OF SEPTEMBER 2016.**





Certified Practising Accountants

Eastern Metropolitan Regional Council



Audit Completion Report to the
Audit Committee
For the Year Ended 30 June 2016

29 August 2016

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1. Executive Summary

Under the requirements of Australian Auditing Standard ASA 260: “*Communication with Those Charged with Governance*”, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Completion Report together with our previous External Audit Plan discharges the requirements of the Auditing Standard.

This report has been prepared for the Council via its Audit Committee to summarise the significant matters that have arisen from our year-end audit of the EMRC for the year ended 30 June 2016.

1.1 Status of Audit

Our audit field work at the EMRC for the financial year ended 30 June 2016 has been completed.

Before our Independent Auditor's Report is signed off and issued to the Council, the following outstanding matter is required to be attended to:

- Completion of audit procedures relating to Auditing Standard ASA 560 *Subsequent Events* to be performed up to the date of signing the Independent Auditor's Report.

1.2 Deliverables

Output	Timing
External Audit Plan	10 February 2016
Interim Audit Management Letter	20 April 2016
Present the Audit Completion Report to the Audit Committee	8 September 2016
Provide Independent Auditor's Report on the Financial Report	After recommendation of Financial Report by the Audit Committee

2. Financial Statements and Audit Opinion

Audit Opinion

We have completed the audit of the EMRC's accounts in line with current Australian Auditing Standards and will give an **Unqualified Opinion** [subject to subsequent events procedures] that the financial report of the Eastern Metropolitan Regional Council

- (a) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2016 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.

Refer to **Appendix 1** for our Proposed Draft Independent Auditor's Report

3. Current Year Areas of Audit Focus

Our audit procedures were focused on those areas of Eastern Metropolitan Regional Council's activities that are considered to represent the key audit risks identified in our external audit plan and through discussions with management during the course of our audit.

	Risk Area	Audit Response
1	Revaluation of Plant and Equipment	<p>Regulation 17A(4) of the LG (Financial Management) Regulations 1996 requires Plant and Equipment assets to be measured at fair value for the year ending 30 June 2016. The EMRC'S Plant and Equipment asset classes were revalued at fair value by external valuers, APV Valuers and Asset Management at 30 June 2016.</p> <p>Audit evaluated the professional competence and objectivity of the expert and the adequacy of the scope of the expert's work. We are satisfied that the expert is suitably independent of the Council, objective and experienced in undertaking this work.</p> <p>Audit procedures tested capital asset additions on a sample basis for accuracy to supporting documentation. Audit also reviewed the basis of the asset valuations (at fair value) undertaken and considered the judgements, assumptions and data used together with the reasonableness of any estimation techniques applied. Asset reconciliation schedules were verified against trial balance reported amounts.</p> <p>We have relied upon the values adopted by the external valuers.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the plant and equipment asset classes.</p>

2	<p>Infrastructure – Landfill Cells</p>	<p>EMRC's Infrastructure Assets were internally revalued at fair value at 30 June 2016. Infrastructure Assets consist of primarily landfill cells and Other Structures.</p> <p>The accounting treatment adopted by management for landfill cells was consistent to prior year with respect to capitalising the cell excavation and development costs and cell liner costs and amortising these over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year. Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.</p> <p>Audit procedures tested on a sample basis:</p> <ul style="list-style-type: none"> • Capital asset additions on a sample basis for accuracy to supporting documentation. • the judgements, assumptions and data used; and • review of depreciation/amortisation charge for reasonableness (i.e. estimation techniques applied). <p>Asset reconciliation schedules were verified against trial balance reported amounts.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the Landfill Cells - infrastructure asset class.</p>
3	<p>Provisions for Site Rehabilitation and Environmental Monitoring</p>	<p>Landfill at the red hill facility comprises a number of cells that are constructed at different times throughout the lifecycle of the facility. The methodology applied by the EMRC with regard to its cell waste management is: As one cell is filled and capped, another cell is prepared and opened. At any given time, EMRC has between 1 to 3 cells in operation.</p> <p>The obligation for EMRC to recognise the provision for site rehabilitation and environmental monitoring arises at the time the landfill is first put into use. Increments in the provision are calculated on the basis of actual tonnages filled in the cells during the year, present value of the costs for site rehabilitation and environmental monitoring and remaining capacity of the landfill site.</p> <p>We reviewed the estimates and assumptions in the model developed by the EMRC for estimating total future rehabilitation expenditures over the landfill discounted to net present value as at 30 June 2016.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the Provisions for Site Rehabilitation and Environmental Monitoring.</p>

4	Contingent Liabilities	<p>Contingent liabilities at the reporting relate to an action by Lehman Brothers in the United States Bankruptcy Court for Federation notes which was also disclosed in the financial report for the year ended 30 June 2015.</p> <p>Audit procedures included discussions with management and reviewing the representation letter by the EMRC's solicitor (Haydn Robinson) to clarify the current position on the matter. The legal advice provided to the EMRC about this claim is, in substance, the claim will not be decided until about 2018.</p> <p>We have also obtained a management representation letter to confirm that there are no further contingent liabilities required to be disclosed, other than those currently disclosed in the financial report.</p> <p>At this date, we are satisfied with management's disclosure of the contingent liability in the financial report.</p>
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We are satisfied that these key areas of focus have been addressed appropriately based on our audit procedures and are properly reflected in the EMRC's financial report.

4. Assessment of Internal Controls

Our interim phase of the audit indicated that the current internal control systems and processes are reasonable. They are designed adequately for EMRC's current business operations.

However, a separate Interim Audit Management Letter has been provided to management following our interim audit which provides details of the internal control and compliance matters raised.

Our follow up indicates that the management comments for the interim audit visit conducted during the financial year ended 30 June 2016 have been fully implemented.

5. Key Findings During Final Phase of Audit

During our audit planning procedures and risk identification process, we identified a number of key focus areas as outlined in Section 3 above. In addition, during the course of our year-end fieldwork, other accounting and audit issues were noted. Our consideration of these matters is set out below.

We request that the Audit Committee review the matters below and satisfy themselves that:

- there are no other matters of which you are aware that would impact these issues;
- there are no other significant issues that ought to be considered before recommending the adoption of the financial statements to the Council; and
- you concur with the resolution of the issues as described below.

1	Area: Landfill Cells – Cell Capacity Estimations
	Key Findings
	<p>During the audit, it was noted that the Provisions for Site rehabilitation and Environmental Monitoring had been calculated based on the following assumptions</p> <ul style="list-style-type: none"> • The total tonnage capacity of the landfill is 20 million tonnes. • The remaining tonnage capacity of the landfill is 7.8 million tonnes. <p>These estimates were provided by the engineering officers of EMRC during the year ended 30 June 2015 and remaining tonnage capacity was updated with respect to tonnages received at the landfill during the 2016 financial year.</p> <p>It is noted that landfill capacity values undergo revisions during the operation of the landfill when waste quantities delivered at the site vary from the rates estimated prior to the start of landfill operations.</p>
	Recommendation
	<p>Whilst we accept the estimates provided internally by the engineering officers of EMRC, we recommend that the estimates for the total and remaining tonnage capacity of the landfill be reviewed by the year ending 30 June 2017 in detail in order to confirm that the estimates are reasonable.</p>

6. Significant Changes for the 2016/17 Year

AASB 2015–6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities was released in March 2015.

The effective date is annual reporting periods beginning on or after 1 July 2016 (i.e. 30 June 2017) financial statements for Councils, comparatives are not required.

AASB 2015-6 removes the scope exemption currently within AASB 124 *Related Party Disclosures* for not-for-profit public sector entities which means that they will need to comply with all paragraphs in AASB 124. The AASB did not include any not-for-profit public sector specific paragraphs in AASB 124 however Australian Implementation Guidance has been added as an Appendix.

The impact of this standard will be disclosure in nature only – there is no impact to reported financial position or performance. The implementation guidance reminds Councils that materiality still exists in this context and provides the following information:

“as is often the case with related party transactions, judgement would be required as to when transactions are material, especially when qualitative assessments are made about the nature of transactions.”

“entity would also need to apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure.”

When Councils are considering whether a disclosure of a related party transaction is material they should consider not just the financial amount but whether the user of the financial statements would be impacted by the information in making decisions, i.e. in their vote for Councillors, etc. An alternative way of thinking about whether a disclosure should be included is whether omitted information would make newspaper headlines if it were to be discovered.

Key Management Personnel will include all Councillors, Directors and all Senior Staff as determined by the Local Government Act 1995.

The additional disclosures are not onerous; however the time-consuming part of this standard is in identifying the transactions. The Council is encouraged to refer to the Accounting Standard AASB 124 *Related Party Disclosures* and liaise with the Department of Local Government and Communities (DLGC) for further clarification or guidance on the types of disclosures for Not-for-profit public entities.

7. Specific Required Communications

The Australian Auditing Standard ASA 260: “*Communication with Those Charged with Governance*” requires the auditor to communicate certain matters to the Audit Committee that may assist them in overseeing management’s financial reporting and disclosure process. Below we summarise these required communications as they apply to your organisation.

Reporting Requirement	Detailed Comments
Changes to Audit Approach Outlined in External Audit Plan	<ul style="list-style-type: none"> ➤ There were no changes to the audit approach outlined in the External Audit Plan.
Significant accounting policies	<ul style="list-style-type: none"> ➤ Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the EMRC including new pronouncements adopted during the year, are described in Note 1 to the financial statements. ➤ There were no significant changes in the application of existing policies during the year ended 30 June 2016. The accounting policies adopted in the financial statements are appropriately disclosed.
Sensitive Accounting Estimates and Disclosures	Refer to “Current Year of Audit Focus” section
Misstatements and significant audit adjustments	<ul style="list-style-type: none"> ➤ We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. In the context of the EMRC, we consider that amounts of a value less than \$62,500 should be considered trivial. This represents 5% of materiality. ➤ A number of disclosure adjustments to the financial statements have been discussed and amended during the course of our audit. ➤ No financial adjustments have been raised through our audit work meaning there are no unadjusted misstatements to report.
Significant Weaknesses in Internal Controls	<ul style="list-style-type: none"> ➤ No significant weaknesses in internal control were identified. Refer to our Interim Audit Management Letter.
Disagreements with management	<ul style="list-style-type: none"> ➤ There have been no significant disagreements with management during the course of the audit.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit such	<ul style="list-style-type: none"> ➤ There were no serious difficulties encountered in dealing with management when performing the audit.

<p>as:</p> <ul style="list-style-type: none"> • Significant delays in management providing required information • An unnecessarily brief time within which to complete the audit • Extensive unexpected effort required to obtain sufficient appropriate audit evidence • The unavailability of expected information • Restrictions imposed on the auditor by management 	
<p>Fraud and Illegal Acts</p>	<ul style="list-style-type: none"> ➤ We are not aware of any matters that require communication. ➤ We would request that the Audit Committee members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.
<p>Compliance with laws and regulations</p>	<ul style="list-style-type: none"> ➤ In performing our audit procedures, we have not become aware of any non-compliance with applicable laws or regulations that would have an impact on the determination of material amounts and disclosures in the financial report. ➤ We have also received representations from management confirming that the Council is in compliance with all laws and regulations that impact the Council.
<p>Books and records and conduct of the audit</p>	<ul style="list-style-type: none"> ➤ We have been presented with all the necessary books and explanations requested of management to support the amounts and disclosures contained in the financial statements in a timely and efficient manner.
<p>Other Information in Documents Containing Audited Financial Statements</p>	<ul style="list-style-type: none"> ➤ Our financial statement audit opinion relates only to the financial statements and accompanying notes. ➤ However, we also review other information in the Annual Report, such as Management’s Discussion and Analysis, for consistency with the audited financial statements. Once the annual report is prepared and provided to us, we will review the Annual Report for consistency between the audited financial statements and other sections of that document.
<p>Related Party Transactions</p>	<ul style="list-style-type: none"> ➤ None of which we are aware.
<p>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</p>	<ul style="list-style-type: none"> ➤ None.

Going concern	<ul style="list-style-type: none"> ➤ As part of our audit, we have assessed and agreed with the conclusions reached by the management concerning the application of the going concern concept.
Independence	<ul style="list-style-type: none"> ➤ We confirm that, as the date of this report, we are independent having regard to Macri Partners' policies, professional rules and relevant statutory requirements regarding auditor independence. ➤ During the year ended 30 June 2016, Macri Partners has not provided any non-audit services to the EMRC.

8. Disclaimer

This report has been prepared for the Audit Committee and management of Eastern Metropolitan Regional Council only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than the Eastern Metropolitan Regional Council.

9. Appendix 1 - Proposed Audit Opinion

INDEPENDENT AUDITOR'S REPORT

TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL

Report on the Financial Report

We have audited the financial report of the Eastern Metropolitan Regional Council, which comprises the Statement of Financial Position as at 30 June 2016 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

Management's Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal controls as management 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. Our audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with the 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 management's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 Accounting Professional and Ethical Standards Board.

INDEPENDENT AUDITOR'S REPORT

TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL (Cont'd)

Auditor's Opinion

In our opinion, the financial report of the Eastern Metropolitan Regional Council:

- (c) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2016 and of its financial performance for the year ended on that date; and
- (d) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- (a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Council.
- (b) No matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at Note 29 of the annual financial report) we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
 - (i) reasonably calculated; and
 - (ii) based on verifiable information.
- (d) All necessary information and explanations were obtained by us.
- (e) All audit procedures were satisfactorily completed in conducting our audit.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Eastern Metropolitan Regional Council for the year ended 30 June 2016 included on the Council's website. Management is responsible for the integrity of the Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

**MACRI PARTNERS
CERTIFIED PRACTISING ACCOUNTANTS
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BURSWOOD WA 6100**

**A MACRI
PARTNER**

**PERTH
DATED THIS DAY OF 2016.**



11.2 CEO REVIEW OF RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE

REFERENCE: D2016/11564

PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee the Chief Executive Officer's report on the appropriateness and effectiveness of the EMRC's systems in regard to risk management, internal control and legislative compliance for its consideration and referral to Council.

KEY ISSUES AND RECOMMENDATION(S)

- The *Local Government (Audit) Regulations 1996* (the Audit Regulations) were amended in February 2013 to extend the functions of local government Audit Committees.
- Regulation 17 now requires the Chief Executive Officer to review and report on the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance
- The report and review process is to occur at least once every two calendar years.
- The review has determined that the EMRC has in place appropriate and effective systems, policies and procedures, as well as sound internal controls and audits by external parties to ensure the EMRC meets its obligations with regards to risk management, internal control and legislative compliance obligations.

Recommendation(s)

That the report be received.

SOURCE OF REPORT

Chief Executive Officer

BACKGROUND

The *Local Government (Audit) Regulations 1996* were amended in February 2013 to extend the functions of local government Audit Committees. Regulation 17 was introduced requiring the Chief Executive Officer to review the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance.

The review process is to occur at least once every two calendar years, with the first review to be completed by the Chief Executive Officer, and to be reported to the Audit Committee by 31 December 2014.

The first review was reported to the Audit Committee on 4 September 2014 (D2014/10145). The review determined that the EMRC has in place appropriate and effective systems, policies and procedures, as well as sound internal controls and audits by external parties to ensure the EMRC meets its obligations with regards to risk management, internal control and legislative compliance obligations.

At the Audit Committee (AC) meeting held on 10 March 2016 (Ref: D2016/03760), the Committee endorsed a Strategic Internal Audit Plan 2016-2019 (SAIP), which was subsequently adopted by Council at its meeting of 24 March 2016. As part of the SAIP, the Internal Auditor is to assist and support the CEO with the review to meet the requirement of the r.17 of the Audit Regulations.



Item 11.2 continued

REPORT

In accordance with the requirements of r.17 of the Audit Regulations, a review of the appropriateness and effectiveness of the systems and procedures relating to risk management, internal control and legislative requirements was undertaken.

The outcome of the review, forming an attachment to this report, was conducted by the EMRC's Auditors, Paxon Group. It was concluded that "... the EMRC has the appropriate and effective local government systems and procedures in place to comply with Regulation 17."

It is thus considered that the systems and procedures related to risk management, internal control and legislative compliance are both appropriate and effective.

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 4 – Good Governance

4.3 To provide responsible and accountable governance and management of the EMRC

FINANCIAL IMPLICATIONS

Nil

SUSTAINABILITY IMPLICATIONS

Nil

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} Nil
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

Review of Risk Management Internal Control and Legislative Compliance (Ref: D2016/12263)

VOTING REQUIREMENT

Simple Majority



Item 11.2 continued

RECOMMENDATION(S)

That the report be received.

AC RECOMMENDATION(S)

MOVED CR BRIDGES

SECONDED CR SUTHERLAND

That the report be received.

CARRIED UNANIMOUSLY

Eastern Metropolitan Regional
Council
Review of Risk Management, Internal
Control and Legislative Compliance

PAXON GROUP

Private Client Services
Audit and Assurance
Taxation

Perth • Melbourne • Sydney | August 2016 – Final Version
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Executive Summary

Paxon has undertaken a review of the Risk Management, Internal Controls and Legislative compliance of the East Metropolitan Regional Council (“EMRC”), as per Regulation 17 of the Local Government (Audit) Regulations 1996.

Paxon can confirm that EMRC has the appropriate and effective local government systems and procedures in place to comply with Regulation 17.

1 Introduction

1.1 Background

Regulation 17 of the Local Government (Audit) Regulations 1996 require the Chief Executive Officer (CEO) to review risk management, internal control and legislative compliance and to report the results of that review to the Audit and Risk Committee. Each of these matters is to be reviewed at least once every two calendar years.

An extract from the Local Government (Audit) Regulations 1996 is as follows:

The CEO is to review certain systems and procedures

1. The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:
 - a. Risk Management;
 - b. Internal Control;
 - c. Legislative Compliance.
2. The review may relate to any or all of the matters referred to in sub regulation 1(a), (b) and (c), but each of those matters is to be the subject of a review at least once every two (2) calendar years.
3. The CEO is to report to the audit committee the results of that review.

For this review, Paxon has undertaken a review on all three areas.

2 Review Findings

Area of Compliance	Systems and Procedures
<p>Risk Management</p>	<p>The EMRC’s Risk Management Framework includes the following cyclical steps:</p> <ul style="list-style-type: none"> • Identification of risk management objectives (Policy); • Compilation of a risk management plan and implementation of a risk management program; • Updating of risk registers and risk treatment action plans and documentation on an annual basis; • Monitoring and reporting of risks; and • Reviewing of risk management objectives. <p>The framework for the development of the risk management program includes the following cyclical steps:</p> <ul style="list-style-type: none"> • Holding annual risk identification workshops (per individual business Units and the Management Group). These workshops present and review incidents, claims, litigation etc. and identify new risks; • Evaluating risks which involves: <ul style="list-style-type: none"> ○ Prioritising risks; ○ Considering risk treatments; and ○ Allocating ownerships. • Updating system documentation which includes plans and procedures; • Holding meetings by the Risk Management Steering Group to review and monitor progress and consider emerging issues; • Updating system documentation based upon the results of the Risk Management Steering Group reviews; • Commissioning external audit performance reviews (External and Internal); and • Reporting to the Audit Committee. <p>The outcome of the framework work is an endorsed Risk Management Plan and Strategic Internal Audit Plan.</p>
<p>Internal Controls</p>	<p>The control framework within EMRC, which is reviewed through the Risk Management Plan and via External and Internal Audits includes the following features:</p>

Area of Compliance	Systems and Procedures
	<ul style="list-style-type: none"> • Delegation of authority; • Documented policies and procedures, reviewed and maintained regularly; • Trained and qualified employees; • System controls, via sophisticated electronic systems; • Effective policy and process review; • Mitigate against frauds and misstatements; • Documentation of risk identification and assessment; and • Regular liaison with auditors and legal advisors.
<p>Legislative Compliance</p>	<p>The audit objectives as included in the “EMRC – Strategic Internal Audit Plan – 2016 – 2019” include “Compliance” as a primary objective. The sub focus of this primary objective is:</p> <ul style="list-style-type: none"> • Policies; • Plans; • Procedures; • Laws; and • Regulations. <p>This primary (audit) objective is included for all the auditable areas across 2016 to 2019. Compliance with legislative instruments is also disclosed as a risk for the majority of the auditable areas across 2016 to 2019. As such this risk is reviewed and monitored through the various internal audit and external audits that are conducted on an annual basis, which is reported through to management, Audit Committee and Council.</p> <p>As such there have been no reports of any legislative non-compliance for the period for the past two years.</p>

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12 REPORTS OF DELEGATES

Nil

13 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PRESIDING MEMBER OR BY DECISION OF MEETING

Nil

14 CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

Nil

15 FUTURE MEETINGS OF THE AUDIT COMMITTEE

Meetings of the Audit Committee are covered under the Audit Committee Terms of Reference as follows.

“2.3 Meetings

The Committee meet as required at the discretion of the Chairman of the Committee at least three (3) times per year to coincide with approval of strategic and annual plans, the annual budget and the auditor’s report on the annual financial report.

Additional meetings shall be convened at the discretion of the Chairman or at the written request of any member of the Committee or external auditor.”

Future Meetings 2016

Thursday	6	October (if required)	at	EMRC Administration Office
Thursday	17	November (if required)	at	EMRC Administration Office

16 DECLARATION OF CLOSURE OF MEETING

There being no further business the meeting was closed at 5:45pm.